Annual Report 2013

ARROW GLOBAL

This has been a transformational year for Arrow Global, starting with the launch of our £220 million senior secured notes in January, followed by our successful IPO in October and ultimately the achievement of our targets for the year.

FINANCIAL HIGHLIGHTS

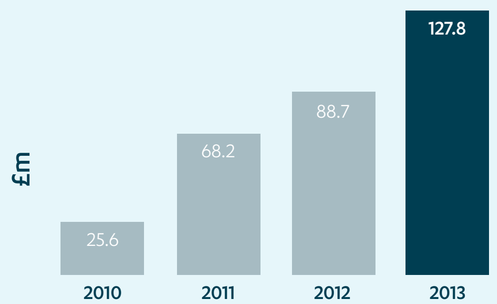
Cash position 2013
(£9.6m 2012)

£47.5m

Net assets 2013
(£12.6m 2012)

£105.2m

Core cash collections (£m)



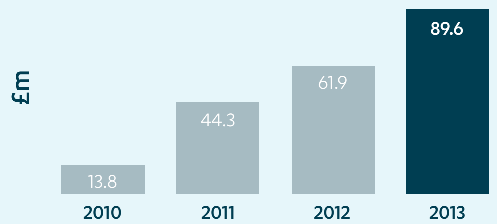
Profit attributable to shareholders 2013
(£9.4m 2012)

£15.1m

Underlying return on equity ("ROE") 2013
(13.9% 2012)

26.5%

Adjusted EBITDA (£m)



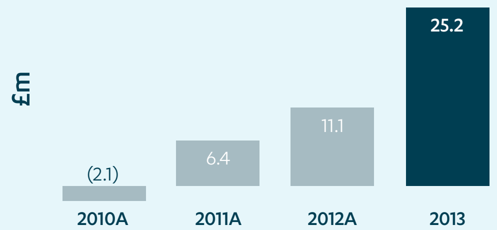
Underlying basic and diluted earnings per share ("EPS") 2013
(8p 2012)

16p

Internal rate of return ("IRR") vintage
(23.2% 2012)

22.2%

Underlying net income (£m)



Successful completion of the IPO in October, raising net proceeds of:

£42m

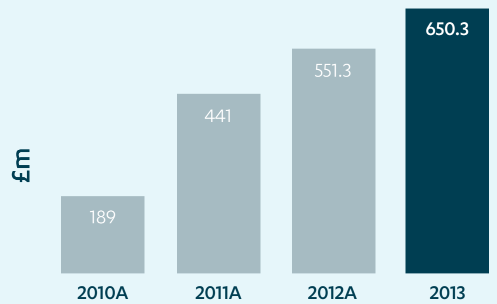
Financial Ombudsman Service ("FOS") complaints remain low per million accounts (13 per 1m 2012)

17 per 1m accounts

Successful placing of senior secured notes to the value of:

£220m

120-month gross ERC (£m)



Portfolio purchases for the year
(in line with £100m 2013 target)

£101.3m

A glossary of terms can be found on pages 100-102.

Chairman's statement

Arrow Global Group PLC had a transformational year in 2013, most clearly illustrated by the launch of our £220 million senior secured notes in January and successful initial public offering on the London Stock Exchange in October. This past year also marked the start of my service as chairman of the Group. I am pleased to be a part of this dynamic and innovative group of people, without whom the achievement of recent major milestones – and more – would not have been possible.

I'd like to thank Sir George Mathewson, who stepped down as chairman of the board in 2013 after four years of guiding the business through its critical growth and development phase, which provided the platform for our future as a publicly traded company. Sir George remains in the service of the Group as a non-executive director and the senior independent director, and we are grateful to him for his continuing commitment and guidance.

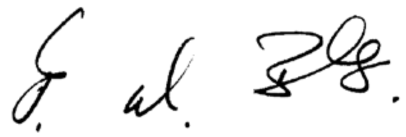
We also welcomed a new board of directors in 2013. Each member brings a unique skillset which strengthens the business' platform and base of expertise. Welcome to Iain Cornish, Ian Gascoigne, Gillian Key-Vice, Lindsey McMurray and Robin Phipps as non-executive directors, who join our executive directors Tom Drury, Zachary Lewy and Rob Memmott.

The team remains committed to consistently delivering against our vision and strategy, and to creating sustainable returns for shareholders while continuing to serve our customers, creditors and other stakeholders in a responsible, market leading manner.

The year ahead will see the regulation of the industry migrate to the Financial Conduct Authority ("FCA"). We welcome this shift and believe it provides the correct framework for the industry. Most importantly, it will result in greater consistency for customers, as buyers join creditors in the same regulatory regime. We are well progressed in our internal readiness programme, and look forward to continuing our fundamental commitment to high conduct standards within the governance of the FCA.

One of my first tasks as chairman has been to ensure we have an appropriate corporate governance structure, as outlined on pages 38-45 of this report, in place for life as a listed company to enable us to successfully deliver our objectives. As part of our initial duties within this framework, my fellow members of the board and I confirm that the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

With that, we look forward to welcoming our shareholders to our first annual general meeting on 28 May 2014 in Manchester.



Jonathan Bloomer
Chairman
4 March 2014

Chief executive officer's review

I am pleased to report that in addition to raising both debt and equity in the public markets in 2013, our business once again posted strong results within what remains a competitive market landscape. We acquired debt portfolios for an aggregate purchase price of £101.3 million, at an overall target net internal rate of return ("IRR") of 22% for the 2013 vintage. Following these acquisitions, the face value of total assets under management increased to £9.6 billion, including purchased portfolios of £7.2 billion, and the expected cumulative unlevered return on our portfolios stood at 26.3%. We maintained an adjusted EBITDA ratio of 70.1%, with underlying profits of £25.2 million. Within the new capital structure, post IPO underlying return on equity ("ROE") was 26.5%.

Looking forward, our strategy remains to grow the business whilst maintaining a strong focus on underwriting discipline and portfolio returns. We will therefore focus principally on earnings per share ("EPS") growth and ROE as the key financial measures by which we will manage the business.

The business' strong performance was a reflection of our focus on executing against our vision, to be the leading data driven debt purchaser, and our strategy, to grow by leveraging our sophisticated data-driven business model and leading position in growing markets, via the following strategic objectives:

1. **Establish Arrow Global as the most respected debt purchaser, with a leading position in compliance, risk management and treating customers fairly.**
   During the year, we made significant progress in implementing a three lines of defence risk framework, and we expect to be in a strong position for entry to the FCA regulatory framework in 2014. Our Financial Ombudsman Service ("FOS") complaints remain amongst the lowest in the industry, at 17 per one million accounts.

2. **Grow the business while maintaining rigorous underwriting discipline.**
   In a competitive UK market, we were able to use the breadth of our origination channels and the flexibility of our business model to purchase the portfolios offering the best returns. This is reflected in the achievement of both our purchasing and returns targets.

3. **Optimise cost to collect while maintaining a flexible cost base.**
   Despite purchasing across a broader range of asset classes, we managed to improve the cost to collect ratio, to 21.9% of collections (2012: 22.1%).

4. **Continue to utilise our data capability to invest in portfolios underpinned by paying accounts, with the opportunity to convert non-paying accounts.**
   Approximately 76% of our investment in 2013 was in paying accounts, with further enhancements to our data assets made during the year, including both the expansion of our Proprietary Collections Bureau ("PCB") and the sourcing of raw data from a second credit bureau.

"Looking forward, our strategy is to grow the business whilst maintaining a strong focus on underwriting discipline and portfolio returns."

5. **Maintain a prudent balance sheet.**
   Net debt to adjusted EBITDA stood at 2.0x at 31 December 2013, with significant facility headroom.

6. **Maintain a leading position in financial services in the UK and Portugal.**
   In October, we were ranked first in the 2013 OC&C Credit Management and Debt Collection Index of all European debt purchase and collections companies.

7. **Pursue a disciplined approach to expanding into new asset classes and geographies.**
   During the year, we extended our presence in the UK student loans and second lien mortgage markets, following successful pilots in previous periods. In addition, we advanced our market research and pipeline development in new geographies.

Underlying this strong performance is our commitment to working with customers to understand their circumstances and establish long term affordable repayment plans that allow them to restore their financial standing at a rate that meets their needs. This approach reflects the principles of the Lending Standards Board and the Office of Fair Trading Guidelines, and is further reinforced by our own research conducted during the year with Bristol University into barriers to engagement. This research highlighted the positive impact that a responsible creditor can play in securing customer engagement, and we are planning significant further enhancements to our customers' experience in 2014 as a result.

As part of our continuing commitment to place the customer at the heart of the business, we launched our new branding in October. I believe our updated and refreshed brand better reflects who we are as a business, and is more approachable for customers. As part of the rebranding exercise, we developed enhanced values for the business, which I think speak volumes about who we are as a team, and what we aspire to: respect, integrity, transparency, energy and innovation.

We turn our attention to 2014 with a solid platform for future growth. We see a strong pipeline of portfolio acquisition opportunities ahead, albeit against continued competition within the UK market. Critical to our continued success is our talented team, all of whom are key to the implementation of our business strategy; with their continued dedication and skills, the coming year promises to be a fruitful one for the business.

T. Drury

Tom Drury
Chief executive officer
4 March 2014

Strategic report

Arrow Global is a regulated business that uses proprietary data and analytics capabilities to acquire and manage defaulted consumer debt portfolios from financial institutions and other credit providers.

A data driven business model

The directors, in preparing the strategic report, have complied with section 414c of the Companies Act 2006.

Arrow Global Group PLC (("the Company") and its subsidiaries, together ("the Group")) is one of the UK's largest and fastest growing providers of debt purchase and receivables management solutions. The Group is a regulated business that uses its proprietary data and analytics capabilities to acquire and manage defaulted consumer debt portfolios from financial institutions and other credit providers. As at 31 December 2013, the Group had purchased loan portfolios with a face value of £7.2 billion across 5.1 million customer accounts (2012: £5.9 billion across 3.6 million customer accounts).

Background and industry context

Credit defaults are a structural part of the consumer credit market, as debt originators tend to design their loan pricing models and underwriting criteria assuming a certain level of default. The resulting rate of default in the UK has been, on average, between 3-6% per annum.

Customers with defaulted debt come from a range of backgrounds and income brackets, but the majority have, at some point, been granted credit by a mainstream lender and subsequently defaulted on that agreement. Customers have an incentive to repay defaulted loans, as it can help them improve their credit profile and regain control of their finances.

Debt sale developed in the UK in the 1990s as a method for creditors to manage defaulted loans. It accelerates capital release for debts that are already fully or heavily provisioned for, and allows creditors to focus on their core specialties. The scale, flexibility and long-term outlook of leading debt purchasers makes them well placed to manage defaulted accounts.

Business overview

At the point of purchase, defaulted consumer accounts typically comprise a high proportion of missing or erroneous data, also known as distressed data. There are a number of contributing factors that lead to distressed data, including the absence of a single national identity system, customers moving frequently, creditor IT system migrations and poor information gathering at the point of account origination. These factors often create out of date contact details and incorrect customer information.

Against this backdrop, following account acquisition, we seek to repair missing and erroneous customer data in order to:

- find customers
- accurately assess their circumstances
- offer a sustainable and affordable repayment solution, often over a long period
- determine an economical servicing strategy for a variety of defaulted debts.

Our focus is on loan balance repayment; we do not charge interest or penalties on defaulted accounts.

We believe that getting the data right is crucial, as it helps to improve the customer experience, reduce underwriting risk and improve pricing, drive stronger cash collections and improve operational efficiency.

We have therefore created the following data driven business model:

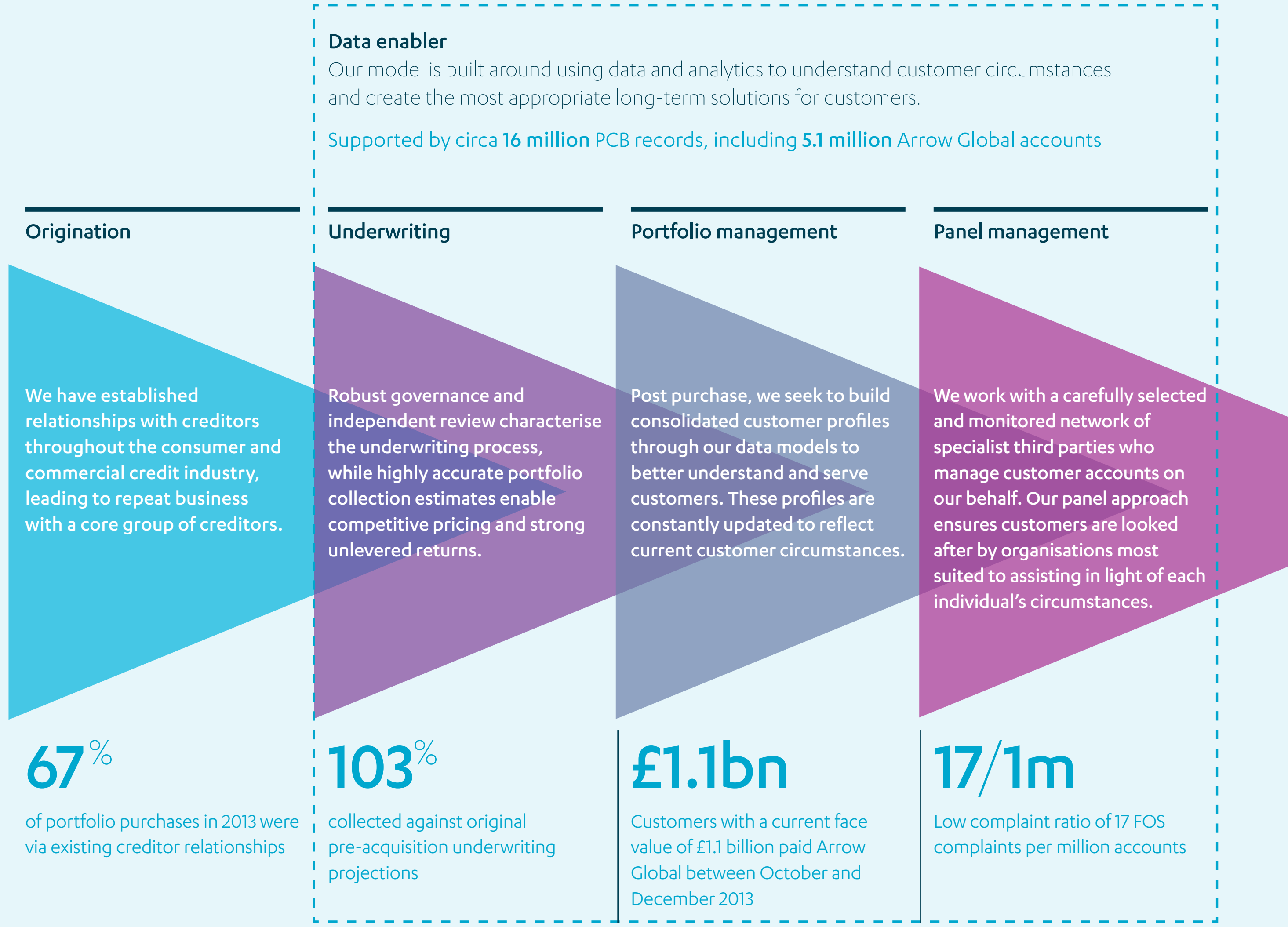


Figure 1

Over a seven year period, we target an unlevered net IRR of 20%. We evaluate potential portfolio purchases over seven and ten year time periods.

Our illustrative seven year economics are as follows:

Illustrative economics (£m)

Face value of purchased balances owed	100	
Price paid for the portfolio	7	We purchase portfolios at a significant discount to face value, typically 7p in the £1
Gross cash collections (84 months)	14	We agree affordable and sustainable payment plans with customers, resulting in long term annuity like cash flows
Gross cash-on-cash multiple (84 months)	2x	Gross collections divided by purchase price
Cost-to-collect ratio	22%	We pay our panel of specialist third party agencies to perform final collection activity - cost is largely variable
Net cash collections (84 months)	10.9	Gross collection net of data and collection costs
Net cash-on-cash multiple (84 months)	1.6x	Net cash collections divided by purchase price
Unlevered net IRR (84 months)	20%	Our target vintage returns on investment

Figure 2

THE GROUP'S KEY STRENGTHS

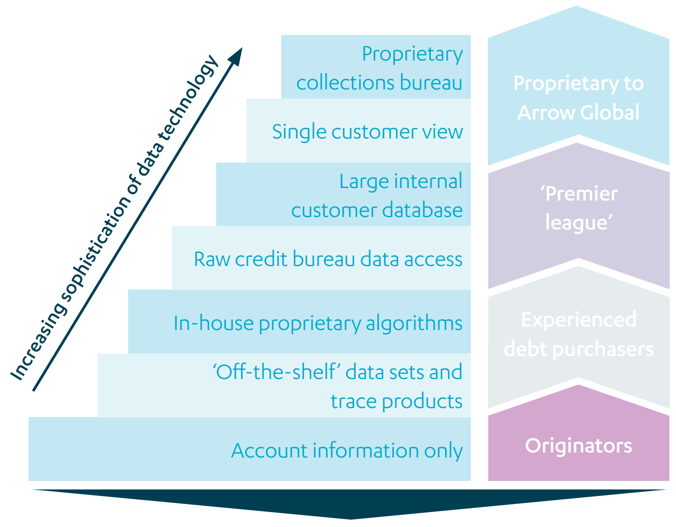
We operate in structurally high growth markets
Debt purchase provides a sustainable solution for creditors facing increasing regulatory capital and liquidity requirements. As a result, creditors are increasingly selling debts earlier in the defaulted lifecycle.

Recently, more than £10 billion of defaulted unsecured consumer debts have been created in the UK each year. This debt is sold at a discount, resulting in a defaulted debt purchase market of £861 million in 2012. This market is forecast to increase at a compounding growth rate of circa 12% per year, from approximately £950 million in 2013 to approximately £1.5 billion in 2017, measured by purchase price (source: OC&C). Many other European markets are also exhibiting strong growth in debt sales.

Well positioned as one of the market leaders
We have established relationships with leading debt sellers, a strong compliance track record and the scale to acquire large portfolios. The business is one of the leading consumer debt purchasers in both the UK and Portugal, with more than £7.2 billion of assets (by face value) purchased since inception (92% by purchase price in the UK).

Our business model is underpinned by leading data and analytics capabilities
Our innovative and sophisticated data analysis tools, in particular the creation of a single customer view reflecting current circumstances and contact details, help us to understand customers' individual circumstances and assist in establishing affordable, sustainable and appropriate repayment plans.

The PCB, developed with Experian, is our latest data innovation. As at 31 December 2013, we had 16 million records in the PCB, which relate to 6.7 million unique individuals. The chart in figure 3 shows the strength of our data assets relative to original creditors and other debt purchasers in the UK.

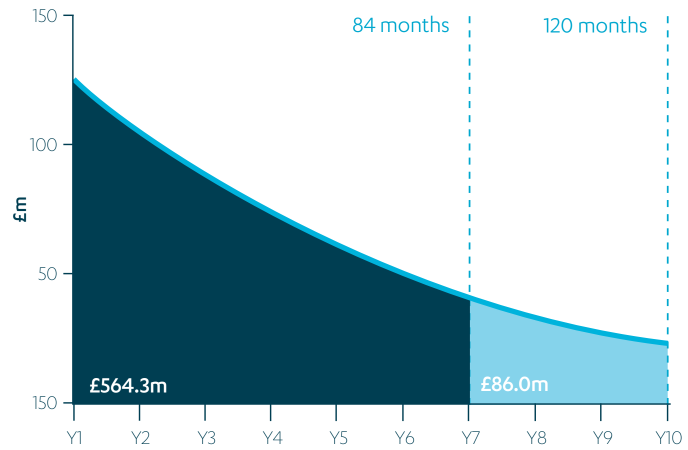


Supported by strong data analytical tools and highly skilled employees

Figure 3

Value embedded in the back book as at December 2013

(£650.3 million over ten years)



Yearly recovery of the ERC (£m)

Figure 4

Established origination
We enjoy strong relationships with leading debt sellers, and consider our reputation, particularly for compliance, to be the foundation of these close relationships. Furthermore, we believe we are well positioned in a debt purchase industry where large debt sellers increasingly seek to sell portfolios to a select few trusted partners with scale.

Highly cash generative business delivering attractive returns
For the year ended 31 December 2013, we generated cash from operations of £83.7 million (£89.5 million underlying). Adjusted earnings before interest, taxation, depreciation and amortisation ("adjusted EBITDA") is our proxy for free cash flow. For the year to 31 December 2013, the ratio between adjusted EBITDA of £89.6 million and underlying cash generated by operations of £89.5 million was 100%. The adjusted EBITDA ratio for the year was 70.1%, meaning for every £1, we converted 70p into free cash flow.

Earnings visibility supported by value embedded in existing assets
The Group has significant value and predictable future cash flows embedded in existing portfolios, with £650.3 million of expected cash flow over the next ten years from existing assets as of 31 December 2013.

The Group's cash flow profile is stable and predictable, with approximately 74% of cash collected from existing portfolios in the year ended 31 December 2013 derived from small, regular, annuity-like payment arrangements.

Prudent balance sheet
Long term funding and capital structure are important parts of our business model. At 31 December 2013, our net debt to adjusted EBITDA ratio was 2.0x. We have implemented long term funding, with maturity of the revolving credit facility in 2018 and the senior secured notes in 2020.

Given the business' low fixed cost base, the discretionary nature of portfolio investments and our long term funding structure, we have significant control over liquidity and leverage.

Inside Arrow Global:

Data and analytics

I joined Arrow Global three years ago and have had direct experience and involvement in the growth and development of the business, specifically in data and analytics. Data is key and we use data from multiple sources. The more data we have, the more we understand the customer. In analytics, we create customer profiles and work out the most appropriate journey for each customer based on their circumstances.

It is a big responsibility, and it is also hugely rewarding. Every decision we make has a direct consequence for both the customer and the business. We need to understand what these consequences mean, and how they're going to affect each person's life. It's important to say that we really do care – what is good for the customer is also good for the business, so we strive to identify the right solution in each instance. This approach is reflected in the analytics team by the fact that we all talk about our customers as individuals, not data sets.

Being positive is very important as it enables us to turn any situation into a good situation, allowing us to be proactive rather than reactive. Understanding the customer is key to this and helps to make balanced decisions which work for both the customer and the Company.

"We strive to identify the right solution in each instance."

A wealth of management experience and highly skilled staff

The directors' biographies on page 31 illustrate the diversity of experience on the board. More broadly, approximately 73% of our workforce has a degree qualification, and approximately 32% has a postgraduate or professional qualification. We also have a rigorous and selective recruitment, training and retention strategy in order to maintain high standards.

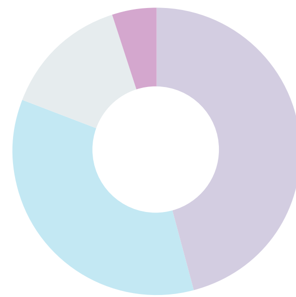
Staff split
(excluding directors)

39% Female
61% Male

Director split*

2 (20%) Female
8 (80%) Male

Staff by age at 31 December 2013
(excluding directors)



47% Up to 30
35% 31-40
14% 41-50
4% 51+

Figure 5

***The board has not identified any additional senior management as defined by the Companies Act 2006**

Approximately 73% of our workforce has a degree qualification and approximately 32% has a postgraduate or professional qualification.

Ability to utilise our flexible business model to deliver growth at attractive returns

We regularly review opportunities arising in the broader debt purchase market, including new jurisdictions and asset classes, and we have demonstrated an ability to expand into different types of consumer credit, such as student loans and second lien mortgages. Our model of outsourcing collections to specialist third parties on a variable cost basis enables us to respond quickly to market conditions, purchasing in the asset classes and from the sources of supply which have the greatest expected returns.

In addition, under our asset management arrangements, we also manage loan portfolios on behalf of creditors. This provides the Group with an additional source of revenue, without the need for capital expenditure, and also provides access to potential additional opportunities for portfolio purchases.

RISK

Principal risks and uncertainties

We have an enterprise-wide risk framework in place, which sits alongside the strategic business plan and is designed to support the identification, assessment, management and control of material risks that threaten the achievement of our business objectives. Risks are categorised as: strategic risk, conduct risk, operational risk, financial risk and investment risk.

Risk	Definition	Effect on the Group	Approach
Strategic risk	Risk to earnings arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment	**Economic risk:** the Group's growth strategy is based on the future purchase of, and collection from, distressed loan portfolios. Changes in economic conditions could impact the ability to collect from portfolios, or the amount of debt portfolios that are sold The Group is exposed to Eurozone economic uncertainty through its Portuguese debt portfolios **Reputational risk:** negative attention and news regarding the debt collection industry and individual debt collectors may have a negative impact on ability to acquire portfolios and a customer's willingness to pay the debt that the Group acquires	Management ensure that all portfolios are purchased at an appropriate price, and we also build strong relationships with our creditor client base in order to mitigate such risks Appropriate currency liquidity management and scenario planning is in place We manage this risk through compliance and industry best practice collection approaches
Conduct risk	Risk of inappropriate strategy, systems, behaviour, or processes leads to poor and/or unfair customer outcomes or customer detriment	Any action which leads to poor and/or unfair customer outcomes or customer detriment goes against our core values and could also lead to regulatory censure, financial loss and reputational/brand damage	Conduct risk and treating customers fairly ("TCF") are at the heart of our third party management framework. All employees and third parties acting on our behalf receive TCF training
Operational risk	Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events **Regulatory risk:** risk of failing to comply with the legal and regulatory requirements applying to business arrangements and activities, for example data protection regulation **Legal risk:** risk of documentation deficiencies within purchased portfolios that are unable to be mitigated through contract and/or warranties	We are reliant on a panel of third party partners to manage customer accounts and collect outstanding debts. Should third party debt servicers experience sustained business interruption or are subject to takeover by an unfriendly competitor firm we could suffer financial loss We are also reliant on IT systems for data management and analysis Failure to comply with relevant regulation could result in the suspension or termination of our ability to conduct business and could lead to regulatory censure and financial loss Exposure to remediation cost and cases pursued by claims management companies	We have an overarching third party management framework focused on compliance, performance, resilience and customer outcomes. All new third party panel members are both rigorously checked to ensure they conform to our compliance and quality standards, and monitored on a regular basis. Our third party panel is diversified to ensure that we do not become reliant on one third party debt servicer IT systems are regularly backed up and are managed through a tight set of quality and security policies, supported by a robust disaster recovery plan We employ industry specialists to monitor the latest regulations and update our internal policies accordingly. Where required we take external specialist advice. We also engage in regular training and assurance activity to ensure compliance with internal policies Due diligence is undertaken on prospective investment purchases to identify potential documentation weaknesses. Legal team involvement in all purchases and external legal advice is taken where required
Financial risk	**Market risk:** the risk of losses in portfolios due to changes in foreign exchange rates and the level of interest rates **Liquidity risk:** the risk that the Group is unable to meet its obligations as they fall due **Credit risk:** risk to earnings or capital arising when a counter party defaults on its contractual obligations, including failure to perform obligations in a timely manner **Tax risk:** tax compliance risks arise from the complex nature of tax legislation and practice	The Group's financial risk management strategy is based upon sound economic objectives and corporate practices. The main financial risks concern the availability of funds to meet obligations as they fall due (liquidity risk) and movements in foreign exchange rates (foreign exchange risk)	Liquidity risk is managed through maintenance of a flexible cost base and establishment of borrowing facilities. We are highly cash generative and portfolio investment is discretionary Foreign exchange risk is managed on a Group level through the use of forward contracts and daily monitoring of currency fluctuations Management mitigate interest rate risk using swap contracts The Group engages tax specialists to advise the Group regarding its tax compliance obligations and the application of tax legislation and practice to the transactions and activities undertaken by the Group The Group's risk management policies on foreign exchange, interest rates, credit risk and market risk is explained in more detail within note 23
Investment risk	The risk of returns adverse to forecast as a result of inadequate portfolio purchase analysis and consequent mispricing	The statistical models and analytics used, including the calculation of estimated remaining collections ("ERC"), may prove to be inaccurate, which could lead to poor decision making and the Group may fail to achieve its anticipated recoveries	Rigorous change controls are in place prior to any new data influencing our decision making model, and due diligence and executive review is carried out prior to investment. Portfolio performance is monitored by senior management

Inside Arrow Global: Underwriting

I joined Arrow Global almost four years ago, evaluating and pricing portfolios. It's been quite a journey. When I started, there were around 30 or 40 people in the company – now it's about 120. We've gone from a start-up to one of the market leaders in what seems like the blink of an eye. But one thing that's stayed the same throughout is our culture – you only have to walk around to sense the entrepreneurial, dynamic atmosphere.

The underwriting team is responsible for analysing and modelling potential portfolio purchase opportunities to determine whether they fit with our business, together with projected performance. We are continually working to evolve the pricing models and techniques that we use. While our track record in forecasting to date is very good, the increasing breadth and depth of our data assets is allowing us to further narrow underwriting variance. We work closely with the operations team throughout this process. It's vital to make sure that all areas of the business are closely aligned from the outset of our involvement in a particular portfolio.

Having grown to become a PLC, we still retain our energy. It's about having fresh ideas and finding ways to actually implement them – right now, we see particularly exciting growth opportunities in new asset classes and new geographies.

"...you only have to walk around to sense the entrepreneurial, dynamic atmosphere."

Three lines of defence model

We have designed a typical financial services three lines of defence model to manage risk in line with the FCA's expectations. Risk is owned by management and integrated within business processes, and there are supporting arrangements to ensure independent risk expertise and assurance is available through a chief risk officer, who reports directly to the audit and risk committee.

Continuous monitoring of risk

We have a continuous process for monitoring risk; the heads of each business unit control individual risk registers, which are reviewed and updated on a monthly basis and are reported to the quarterly audit and risk committee meetings. During the year, the risk structure was further enhanced through the appointment of a chief risk officer.

Risk awareness and management is an integral part of all employees' roles and responsibilities, and employees are supported through briefings, training, testing and surveys. The Group envisages further investment in its risk management framework, such as the implementation of an internal audit function in 2014. In addition, creditors undertake frequent audits of the Group to satisfy their own risk management models.

A CULTURE OF COMPLIANCE AND INNOVATION

We are proud of our track record of leading industry efforts to improve standards by proactively engaging with industry bodies and regulators, with whom we work closely to ensure we meet industry best practice.

Supplier assurance framework	We have developed a customised supplier management framework to manage performance, compliance and interaction with third parties. Assurance oversight is a key part of this process - findings, impacts and recommendations are regulary monitored.
The Continuous Improvement Programme ("CIP")	The CIP accreditation, established by the Debt Buyers and Sellers Group ("DBSG") in partnership with PricewaterhouseCoopers ("PwC"), has been reviewed by the Information Commissioner's Office ("ICO") and Office of Fair Trading ("OFT"). The CIP verifies members' compliance with an extensive set of industry standards and legislation. Our internal compliance policies and procedures helped to provide a blueprint for this first industry-wide audit system. We received a passing level or above in all control parameters, without any recommendation requirements.
Proprietary Collections Bureau ("PCB")	The PCB is a data matching tool designed by Arrow Global and Experian to address key issues in the collections marketplace. A UK industry first, we believe the PCB has helped to improve the way the sector manages relationships between customers and creditors. Without careful coordination during the data matching process, a customer's creditors could appoint multiple third parties to pursue multiple debts from an individual. Data matching helps to avoid such issues, and we therefore consider the PCB to be an important compliance tool.
Customer engagement	We recently piloted the Welcome Programme, which focuses initial interaction with customers on working together to fully understand customer needs and circumstances through their eyes. This approach enables us to continually improve account management and provide an enhanced customer experience, which we believe increases the likelihood of customers choosing to repay their debt. The Welcome Programme will be fully implemented in 2014. We have also implemented a number of pilots to signpost our most vulnerable customers to free third party debt advisors such as Payplan and StepChange Debt Charity.
Research	We commissioned the Personal Finance Research Centre at the University of Bristol, along with the Royal College of Psychiatrists and Plymouth Focus Advice Centre, to research motivations and barriers to engagement in the consumer debt marketplace. The research found that customers want creditors to demonstrate empathy and provide practical help in working towards a solution appropriate for both creditor and customer. This approach encourages customer engagement because it helps promote trust and gives customers the opportunity to regain financial control. We are currently embedding key learnings from this research into our business practices in order to enhance our customer engagement efforts.
Internal staff training	Through our risk and compliance training programme, we ensure every employee has an appropriate awareness and understanding of their compliance responsibilities. This programme uses a range of approaches, including classroom and computer-based training designed to target content appropriately and, where needed, to formally test employee knowledge and award accreditation.
Industry forums	The Group executives are active in trade associations, namely the Finance and Leasing Association and the Credit Services Association ("CSA"). The executives represent the CSA in certain industry forums, including the Nationwide Future of Debt forum, which is dedicated to improving the debt management framework, and the Steering Committee On Reciprocity, which is responsible for developing data sharing rules.

Three lines of defence model

The board

First line of defence | Second line of defence | Third line of defence

First line responsibilities
- Ensure effective risk and control environment and a risk aware culture
- Ongoing assessment and reporting on risk exposures
- Ensure compliance with risk policies and manage risks within appetite

Second line responsibilities
- Oversight and challenge to the first line of defence
- Provision and maintenance of policies, frameworks, training, tools and analysis

Third line responsibilities
- Provision of independent assurance to the executive leadership and the board over first and second lines of defence

Figure 6

CORPORATE SOCIAL RESPONSIBILITY

In 2013, we continued our commitment to supporting our local community through a number of in-house initiatives, including volunteering and fundraising activities. Many of our colleagues are active participants in local community organisations, both in and out of Company time. The Company-sponsored Arrow Global Engage programme, run for and by employees, encourages colleagues to spend Company time volunteering for a charity or community project throughout the year. To date, Arrow Global Engage has supported a number of community-based initiatives, such as a budgeting workshop for young people and assembling Christmas care packages for underprivileged families. We have raised money through our fundraising activities, such as abseiling, the 10K Great Manchester Run, the Cheshire Cat cycling race and the Three Peaks Challenge, with all funds raised by employees for our chosen charities matched by the business.

ENVIRONMENTAL MATTERS

As a provider of debt purchase and receivables management solutions, our environmental impact is considered to be minimal. The impacts have been considered more thoroughly in the report of the directors on pages 35-36.

HUMAN RIGHTS

The Group's activities are carried out in developed countries that have strong legislation governing human rights. The Group complies with applicable legislation in the countries in which it operates.

BUSINESS STRATEGY AND OBJECTIVES

Our vision is to be the leading data-driven debt purchaser. Our strategy is to grow by leveraging our sophisticated data-driven business model and leading position in growing markets via the following:

<table>
<tr><th>Strategy</th><th>Approach</th><th>2013 performance and key performance indicators</th></tr>
<tr><td>Establish Arrow Global as the most respected debt purchaser, with a leading position in compliance, risk management and treating customers fairly</td><td>Compliance, risk management and treating customers fairly are at the core of our business culture and operations. As an important partner to major financial institutions, a reputation for consistency and leadership in these areas is critical to maintaining our position on debt sellers' preferred purchasing panels. Additionally, these same elements play an important role in reinforcing our position as a sustainable business recognised as performing an important role in the broader credit system</td><td>• Low level of complaints, with an average of 17 FOS complaints per 1 million accounts in the year (2012: 13)
• CIP self assessment completed and externally reviewed by PwC; we passed all areas with no recommendations
• Commissioned research with Bristol University into the motivations and barriers to engagement in the consumer debt marketplace</td></tr>
<tr><td>Grow the business while maintaining rigorous underwriting discipline</td><td>In 2013, we aimed to invest approximately £100 million, with future purchases in excess of industry growth, while maintaining net IRR at or better than 20% across each vintage</td><td>• Adjusted EBITDA of £89.6 million, up 44.7% (2012: £61.9 million)
• Core collections of £127.8 million, up 44.1% (2012: £88.7 million)
• Performance relative to underwriting of 103%
• Expected net IRR of 26.3%
• Profit attributable to shareholders growth of 60.6% and net underlying income growth of 126.4% contributing to an underlying EPS of 16p
• Underlying return on equity of 26.5%</td></tr>
<tr><td>Optimise cost to collect while maintaining a flexible cost base</td><td>We use our data and analytical capabilities to help determine the most appropriate long term solution for each customer based on their circumstances. Furthermore, we work with a panel of specialist third parties, which both enables us to provide tailored account management and results in a flexible cost base</td><td>• Cost to collect ratio of 21.9%, a slight improvement on 2012 ratio of 22.1%
• Adjusted EBITDA ratio of 70.1%, a slight improvement on 2012 ratio of 69.8%</td></tr>
<tr><td>Continue to utilise our data capability to invest in portfolios underpinned by paying accounts, with the opportunity to convert non-paying accounts</td><td>We seek to acquire portfolios that include both paying and non-paying accounts. Paying accounts reflect a number of monthly payments that provide a basis from which we can project future cash flows and hence are lower risk. Post-purchase, we use our data capabilities to segment customer accounts and manage them appropriately to encourage long term, sustainable relationships that work for both parties. Analytics also enable us to proactively identify and manage changes in customer circumstances that may influence monthly payments</td><td>Purchases for the year to 31 December 2013:<table><tr><th>Accounts</th><th>Face value</th><th>Purchase price per £</th><th>% of investment</th></tr><tr><td>Paying</td><td>£322m</td><td>23.9p</td><td>76%</td></tr><tr><td>Non-paying</td><td>£1,048m</td><td>2.3p</td><td>24%</td></tr><tr><td>Total</td><td>£1,370m</td><td>7.4p</td><td>100%</td></tr></table></td></tr>
<tr><td>Maintain a prudent balance sheet</td><td>Funding and capital structure are important parts of our business model. We aim to create value for our shareholders by targeting returns on portfolio purchases of approximately 20% net IRR. We also seek to establish the right balance of debt within our capital structure, and target net debt to be less than 2.5 x adjusted EBITDA</td><td>• We have the following resources available as at 31 December 2013:
– a strong cash position of £47.5 million
– an undrawn revolving credit facility ("RCF") of £55 million
• Loan to value ("LTV") ratio of 31.6%
• Net debt to adjusted EBITDA ratio of 2.0x</td></tr>
<tr><td>Maintain a leading position in financial services in the UK and Portugal</td><td>We have established, long term relationships with creditors, many of whom are leading financial services institutions, and we consistently win repeat business with a core group of creditors</td><td>• 50+ creditor client relationships
• Ranked first in the 2013 OC&C Credit Management and Debt Collection Index
• £101.3 million portfolio purchases for the year, with a face value of £1,370 million</td></tr>
<tr><td>Pursue a disciplined approach to expanding into new asset classes and geographies</td><td>The flexibility of our outsourced model – characterised by our engagement with carefully selected and monitored third party partners – allows us to move into new asset classes and geographies with reduced risk and investment requirements compared to debt purchasers operating an in-house collections model</td><td>• Further investment in the student loans market through a consortium portfolio purchase
• Entered the second lien mortgages market
• Having successfully replicated the business model in Portugal, we are currently working towards moving into a new geography in 2014</td></tr>
</table>

REVIEW OF THE YEAR TO 31 DECEMBER 2013

2013 was a landmark year in the history of Arrow Global. January 2013 saw the successful placing of £220 million senior secured notes with a maturity of 2020. This was subsequently followed by the successful completion of the IPO in October 2013, raising net proceeds of £42 million and securing our admission to trading on the London Stock Exchange. The listing process also saw the establishment of a new board with a wealth of diverse business experience that will enhance and strengthen the business going forward.

Key results as of and year to	31-Dec-13 £m	31-Dec-12 £m
Purchases of loan portfolios *	101.3	83.9
Face value of portfolios acquired (billion)	7.2	5.9
Number of accounts ('000)	5,109	3,562
Core collections	127.8	88.7
Collection cost ratio (%)	21.9%	22.1%
Adjusted EBITDA	89.6	61.9
Adjusted EBITDA ratio	70.1%	69.8%
Underlying net income	25.2	11.1
84-month ERC	564.3	464.4
120-month ERC	650.3	551.3
Net debt	178.3	90.4
Underlying basic and diluted EPS (£)	0.16	0.08
Underlying ROE (%)	26.5%	13.9%
Net assets	105.2	12.6

* Includes £0.5 million of student loan investments held as loan notes

Portfolio acquisitions

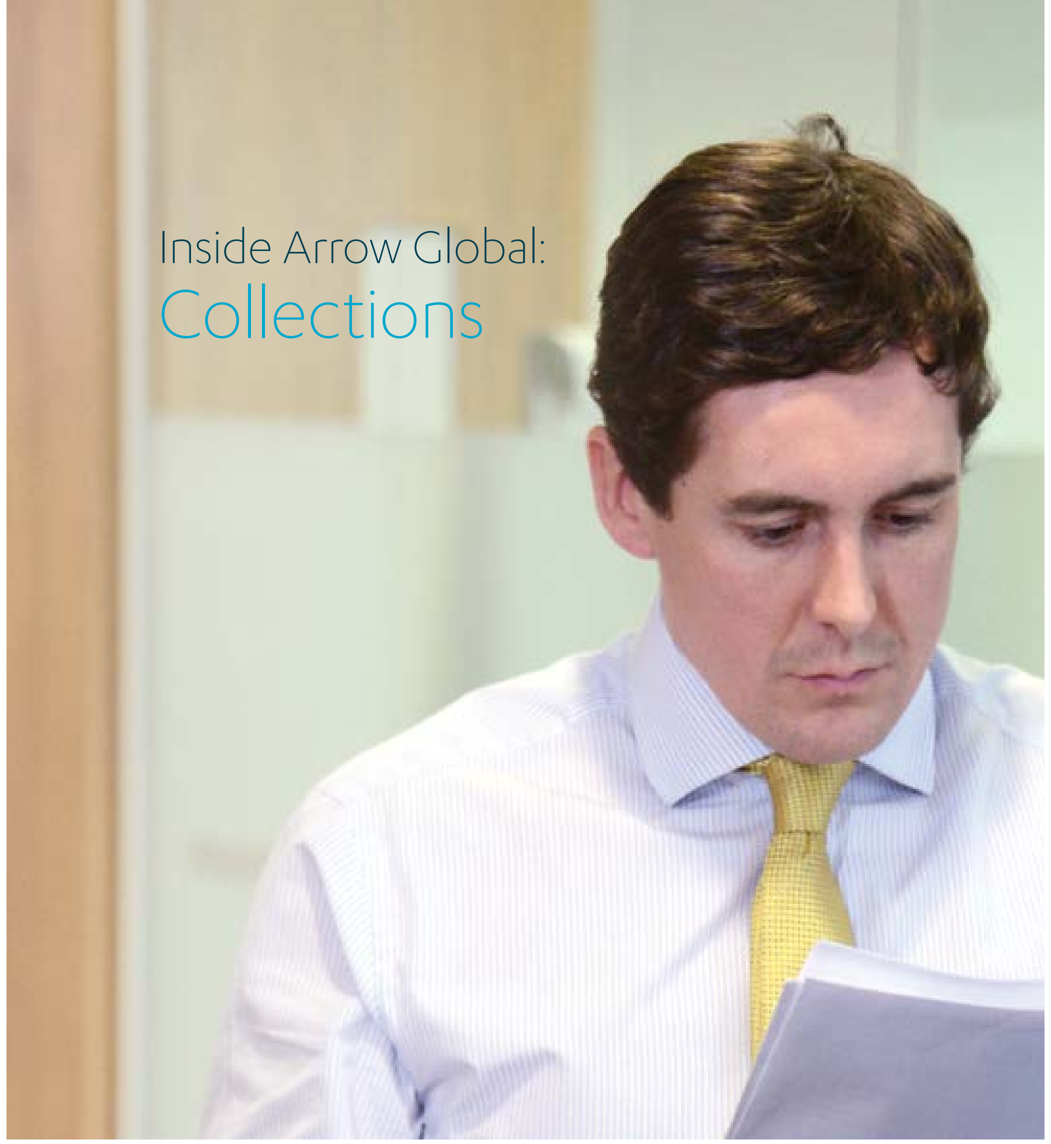
During 2013, we acquired debt portfolios with a face value of £1,370 million for a purchase price of £101.3 million, in line with our target spend for the year of £100 million. This equated to an average purchase price of 7.4p, underpinned by 76% of paying accounts. We target a net IRR of greater than 20% over a seven year period. For the year to 31 December 2013, the expected net IRR for this vintage was 22%. In line with our strategy, following pilot investments in 2012, we further expanded into two new asset classes, student loans and second liens, in 2013.

These acquisitions, net of amortisation, have increased the balance sheet value of our purchased loan portfolios to £273.9 million at 31 December 2013 (2012: £208.2 million). As at 31 December 2013, the total face value of assets under management was £9.6 billion, including purchased portfolios of £7.2 billion across 5.1 million customer accounts.

Collections

Core collections increased to £127.8 million (2012: £88.7 million), reflecting the increase in our portfolio asset base. Collections continue to perform in line with expectations and, at 31 December 2013, were cumulatively 103% of our original underwriting forecast. During the year, 74% of cash collections came from regular small payments, with an average monthly payment of £27, reflecting our focus on working with customers to create long term sustainable payment plans.

Inside Arrow Global: Collections



"It's all about having shared goals, mutual respect and robust processes."

I've been part of Arrow Global for two and a half years now. I believe the key to our business' success is our collaborative approach with our external network, with the common focus of achieving the best outcome for our customers. It's all about having shared goals, mutual respect and robust processes.

Following the work of our analytics team, we partner with a panel of third parties to manage customer accounts. Our team identifies the best third party for each customer, depending on customer circumstances. Then we closely monitor performance to ensure that the relationship puts the customer first and works smoothly.

We have a conduct risk framework in place to ensure respect and fair treatment. However, it's the relationship between us and our partners that is critical. We collaborate closely, sitting down together regularly to review account management plans and agree next steps.

I often do account reviews where I track a customer journey from our first involvement to the final outcome. I get to see every stage and I'm always impressed by everyone's input. That is what is so refreshing and rewarding about working here – we all strive to achieve the best possible outcome for both the customer and the business.

Collection costs

We continue to use our data capabilities and benefits from our outsourced model to maintain collection cost efficiency. During the year, there was an improvement in the collection cost ratio, to 21.9% (2012: 22.1%). In addition, we extended our strategic relationship with Experian to 2023 and invested in a new raw data bureau feed.

Adjusted EBITDA

Adjusted EBITDA is our proxy for free cash flow. During the year, adjusted EBITDA increased by £27.6 million (44.7%) to £89.6 million (2012: £61.9 million). This was mainly driven by an increase in core collections net of collection costs. The adjusted EBITDA ratio improved to 70.1% (2012: 69.8%). The Group had cash generated from operations of £83.7 million in 2013. Excluding operating exceptional items with a cash impact, underlying cash generated from operations was £89.5 million, which is consistent with our adjusted EBITDA.

Underlying net income

Underlying net income increased 127.0% from £11.1 million to £25.2 million for the year ended 31 December 2013. This was largely driven by increased underlying operating profit of £19.6 million, due to a rise in income from purchased portfolios, offset by an increase in the underlying tax charge of £5.4 million.

Portfolio overview

Our 120-month ERC – our expected collections from our back book – has increased by £99.0 million from 2012 to £650.3 million. The ERC is underpinned by paying accounts that have a face value of £1.1 billion, which represents 1.7x 120-month ERC cover. As at 31 December 2013, we estimate the amount we would need to invest over the next year to maintain our current ERC level is circa £47 million.

The below table illustrates the returns on portfolios by vintage:

Vintage	Purchase price £m	Collections to date £m	120-month ERC £m	Total estimated collections £m
Pre-2010	43.3	84.9	53.8	138.7
2010	30.1	53.9	54.0	107.9
2011	110.2	120.0	200.2	320.2
2012	83.8	46.8	150.0	196.8
2013	101.3	32.6	192.3	224.9
Total	**368.7**	**338.2**	**650.3**	**988.5**

Cumulatively, net IRR over all portfolios is expected to be 26.3% on an 84-month basis as shown below. All vintages are expected to perform better than the target rate of 20%, while recent vintages reflect a higher proportion of paying accounts and, therefore, a lower IRR.

Vintage	Purchase price £m	Face value acquired £m	Price per £	84-month net IRR*	120-month net IRR*
Pre-2010	43.3	1,200.7	4p	26.8%	29.3%
2010	30.1	1,375.9	2p	38.9%	40.5%
2011	110.2	2,371.7	5p	28.5%	31.0%
2012	83.8	924.1	9p	23.2%	25.7%
2013	101.3	1,370.4	7p	22.2%	25.0%
Total	**368.7**	**7,242.8**	**5p**	**26.3%**	**28.8%**

* A portfolio's internal rate of return calculated using expected net core collections for the next 84/120-months, subsequent to the date of purchase of the loan portfolio adjusted regularly in line with gross ERC

Funding, net debt and net assets

In January, we issued £220 million senior secured notes with a maturity of 2020, and we raised net proceeds of £42 million as part of the IPO in October 2013. We successfully increased our 2018 RCF to £55 million, which remained undrawn as at 31 December 2013. As at 31 December 2013, we had cash and RCF resources of £102.5 million available.

Net debt at 31 December 2013 was £178.3 million, being 2.0x adjusted EBITDA and a net debt/84-month ERC loan to value ratio of 31.6%, which is significantly below our financial covenants of 75%.

Net assets increased £92.6 million during the year, reflecting the current capital structure and retained profit for the year.

Shareholder returns

Underlying basic and diluted EPS for the year was 16p, and underlying ROE was 26.5%. We expect to pay our first interim dividend in 2014, which will be announced in our half year results.

OUTLOOK

There are a number of external factors which, we believe, will shape the coming year for our business and the industry as a whole:

External factor	Overview	Our approach
Regulation and compliance	The industry is undergoing a number of regulatory changes affecting both our business and our network of third party partners. In particular, the regulation of consumer credit businesses in the UK will transfer from the OFT to the FCA in April 2014. This will make the regulation and supervision of consumer credit-related activities in the UK the responsibility of the FCA. It is likely that the regulatory requirements applicable to the consumer debt purchase and collection industry will increase, reflecting the new regulatory framework and the fact that the FCA's supervisory and enforcement powers are substantially greater than the OFT's previous powers. In addition, it is likely that the compliance framework that will be needed to satisfy the FCA requirements will demand additional investment and resources in our compliance and governance framework.	Our current risk management framework is being further developed to both align with industry best practice and meet the expectations of the FCA. A new committee structure has been formed, which includes the addition of high profile and experienced industry leaders to the board. The risk function has been enhanced by the appointment of a chief risk officer, and further recruitment is underway. The organisational structure and operational model has been redesigned around a three lines of defence model and is currently in transition. Our application for interim permissions has been accepted and we are confident of being able to apply for full FCA authorisation from mid 2014. We expect to be invited by the FCA to apply later in 2014 or early 2015.
Market	External research shows that the UK debt market is expected to grow at circa 12% annually and reach circa £1.5 billion in 2017.	We aim to retain strong relationships with existing creditors, heightened by the expected reduction in panel sizes as noted below. Our outsourced business model allows us to take advantage of new opportunities in new asset classes, deploying capital where risk and return are optimal and enhancing our share of the available market.
Panel sizes	We believe that debt sellers have become more discriminating in their choice of purchaser, illustrated by some larger creditors reducing the size of their purchasing panels. Debt sellers are consolidating their panels around a few trusted debt purchasers with scale, sophisticated data capabilities and a strong track record for compliance.	We have transacted with over 50 creditors, and have repeatedly won business with a core group. Our track record and reputation for data analytics and compliance have enabled us to both maintain strong relationships with existing creditor clients and proactively build new ones, thus securing our position on purchasing panels. Members of our senior team – including the chief executive, chief investment officer, founder and commercial director – are focused on cultivating and maintaining these relationships, and have an extensive contact network and connections resulting from many years of experience in the industry.
Pricing	We expect the supply of debt portfolios to increase. From 2012, the profile of the portfolios being sold has been fresher (i.e. the time elapsed since default is reducing) and include a higher proportion of paying accounts. We expect this trend to continue. For better performing portfolios and those tendered through an auction, we expect increased competition.	Through our diversified origination capabilities – via our extensive network and ability to operate in a range of asset classes – we will continue to seek a high proportion of off market/bilateral negotiated investments (41% of invested capital in 2013 was off market). We expect to invest in a new geography in 2014, further enhancing our capability to deploy capital in assets that meet our vintage return target.

We believe the business has a robust pipeline of portfolio acquisition opportunities, and, whilst the market remains competitive, we believe the outlook remains strong.

Approved by the board of directors on 4 March 2014, signed and authorised for issue on its behalf by:

Tom Drury
Chief executive officer

Inside Arrow Global: Customer focus

Since I joined Arrow Global three and a half years ago, I've worked in a number of roles and been able to see how the company works from different perspectives. Having come from a retail background, I had some customer experience when I started. I've been able to build on that experience to develop the relationships that are so important to the way our business works.

My team bridges the gap between the creditors who sell us portfolios and the third party partners who have direct contact with our customers. We ensure that any customer queries are resolved as quickly and efficiently as possible. We treat all our customers on a case-by-case basis, which is particularly important for our vulnerable and potentially vulnerable customers. We need to make sure that all customers are treated fairly and get a fair resolution.

The stronger the relationship I have with the creditor, the more efficient I can be at addressing a customer's concerns. We always aim for a first time resolution, and focus on ensuring that the customer receives a satisfactory response. This philosophy is at the heart of our work – we all recognise that what is good for the customer is also good for the business.

"We need to make sure that all customers are treated fairly and get a fair resolution."

Directors' and committee reports

Board of directors

1 Jonathan Bloomer
Non-executive chairman, age 59

Appointment: 5 October 2013
Experience: Currently chairman of the Employee Benefit business of Jardine Lloyd Thompson PLC and a member of the code committee of the Takeover Panel. His previous positions include chief executive of Prudential PLC, senior independent director of Hargreaves Lansdown PLC, chairman of the audit committee of Autonomy PLC, chairman of the Practitioner Panel of the FSA and board membership of the Geneva Association.
Committee membership: Remuneration committee, nomination committee (chair)

2 Tom Drury
Chief executive officer, age 52

Appointment: 5 October 2013
Experience: 17 years executive leadership experience. Joined Arrow Global from Shanks Group PLC in 2011, where he served as group chief executive from 2007. Previous roles include managing director of Vertex Data Science Limited for 11 years, on the board of United Utilities from 2005 to 2007 and management consultant at PricewaterhouseCoopers.

3 Rob Memmott
Chief financial officer, age 41

Appointment: 14 August 2013
Experience: 12 years experience as a chief financial officer and 17 years experience in senior financial leadership roles. Previous roles included chief financial officer for Leeds Bradford International Airport Limited and Servisair and finance director for Alfred McAlpine. He qualified as a chartered accountant with KPMG in Manchester.
Committee membership: Disclosure committee

4 Zachary Lewy
Founder and executive director, age 39

Appointment: 5 October 2013
Experience: 15 years of executive experience in debt purchase, debt collections and contact centre management. Prior to founding Arrow Global in 2005, he worked at Vertex Data Science Limited in various roles including corporate development director and president of Vertex North America and was also the co-founder and executive director of 7C Limited, which was sold to Vertex in 2002. He currently serves as a board member of the Credit Services Association, and previously served as chairman of the Debt Buyers and Sellers Group.

5 Sir George Mathewson
Non-executive director and senior independent director, age 73

Appointment: 5 October 2013
Experience: Joined 3i Group PLC in 1972 and served as chief executive officer at the Scottish Development Agency from 1981. He joined The Royal Bank of Scotland Group PLC in 1987, and was subsequently appointed group chief executive officer in 1992, executive deputy chairman in 2000 and chairman in 2001. He also served as the president of the International Monetary Conference. In 1999, he was knighted in the New Year honours list for services to economic development and banking. He holds several other board positions in the UK and US.
Committee membership: Audit and risk committee, remuneration committee

6 Iain Cornish
Non-executive director, age 53

Appointment: 15 October 2013
Experience: 19 years to 2011 at Yorkshire Building Society, including eight years as chief executive officer. Iain is currently an independent non-executive director of the Prudential Regulatory Authority and St James' Place Wealth Management. He was previously non-executive director of Vanquis Bank, chairman of the Practitioner Panel of the FSA and of the Building Societies Association and executive committee member of the Council of Mortgage Lenders.
Committee membership: Audit and risk committee (chair), disclosure committee (chair), nomination committee

7 Ian Gascoigne
Non-executive director, age 32

Appointment: 25 November 2013
Experience: Partner of SOF Investments Limited and has six years of experience in private equity investing with SOF Investments and RBS Equity Finance. He is an economist by background and prior to joining RBS worked at OC&C Strategy Consultants. He is also currently a non-executive director of several other SOF investments.

8 Gillian Key-Vice
Non-executive director, age 60

Appointment: 28 October 2013
Experience: Held a number of roles at Experian between 2001 and 2013, including most recently the head of regulatory developments for EMEA, and was also vice president of the Association of Consumer Credit Information Suppliers, the European trade body for credit reference agencies. Previously worked in senior management at the Royal Bank of Scotland and NatWest. She is a fellow of the Institute of Credit Management and is currently a director of GKV Limited.
Committee membership: Audit and risk committee

9 Lindsey McMurray
Non-executive director, age 43

Appointment: 15 August 2013
Experience: Managing partner of SOF Investments Limited and has 15 years of experience as a private equity investor. At Royal Bank of Scotland (RBS) she led a £1.1 billion private equity fund for seven years. Prior to her time at RBS she was a partner at Cabot Square Capital, Limited. for six years. She is also currently a non-executive director of several other RBS Special Opportunities Fund investments, and is a non-executive director of Intermediate Capital Group PLC.
Committee membership: Remuneration committee, nomination committee

10 Robin Phipps
Non-executive director, age 63

Appointment: 5 October 2013
Experience: 25 years to 2007 at Legal & General PLC, working as group executive director for the UK business and in a wide range of other senior positions, including group director of sales and marketing, group director of retail, managing director of customer services and director of information technology. He is currently a non-executive director of Resolution Limited, Friends Life Group PLC, Partnership Assurance Group PLC and IFG Group PLC.
Committee membership: Remuneration committee (chair)

Report of the directors

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2013. The corporate governance report set out on pages 38-45 forms part of this report. The Company's principal subsidiaries are listed in note 22.

Results and going concern

The Group's results are discussed in the financial highlights, chairman's statement, chief executive officer's review and strategic report on pages 4, 5, 6 and 9 respectively, which are incorporated into this report by reference.

Consideration of going concern can be seen on page 75. After making appropriate enquiries, the directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence for the foreseeable future, owing to the fact that forecasts show sufficient resources are available throughout the period under review. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Fair, balanced and understandable

As required by the UK Corporate Governance Code ("the Code"), the directors confirm that they consider that this annual report and accounts, taken as a whole, is fair, balanced and understandable to enable the assessment of the Company's performance, business model and strategy.

The board came to this view following a rigorous review process throughout the production schedule. The annual report is drafted by appropriate members of the reporting and leadership teams and is co-ordinated by the senior communications and marketing manager to ensure consistency. A series of planned reviews are undertaken by the reporting team, leadership team and directors in advance of final consideration by the board. The annual report is reviewed by the audit and risk committee.

Dividends

In line with the prospectus, associated with the IPO in October, the directors do not recommend the payment of a dividend for the financial year ended 31 December 2013 (2012: £nil).

Share capital

As at 31 December 2013, the Company had 174.4 million ordinary shares in issue, of one class, with a nominal value of 1p each. Details of the Company share capital and changes during the year can be seen in note 19, and details on capital risk management can be seen in note 23. On a show of hands at a general meeting of the Company, each member present in person or by proxy, and entitled to vote, shall have one vote and, on a poll, every member shall have one vote for every ordinary share held. There are no issued shares in the Company with special rights with regard to control of the Company.

Purchase of own shares

During the year and prior to the IPO, the Company re-acquired 155 ordinary shares of 1p each via an employee benefit trust, which represented 0.9% of the shares at the time of repurchase. These converted into 5,060,073 ordinary shares of 1p each on the IPO. The reacquired shares have been consolidated into the results of the Group and deducted from equity in line with IAS 32: Financial Instructions Presentation. These were included within an independent employee benefit trust for future benefit to employees of the Group. Bedell Trustees Limited is the trustee of the Arrow Global Group PLC employee benefit trust. Details of awards made during the year from selling the shares held by the trust can be seen on page 94.

Transfer of securities

There are no restrictions on the transfer of shares, limitations on the holding of shares or requirements to obtain prior approval of the Company, or of other holders of securities in the Company, to a transfer of shares, except as laid out below.

As part of the IPO, certain of the directors agreed not to sell or dispose of any shares in the Company for a period of 24 months from the date of the IPO, save with the written consent of the Global Coordinator, Goldman Sachs.

The board may decline to register a transfer of any share which is not fully paid. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the articles of association) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four. The board may decline to register a transfer of a certificated share unless the instrument of transfer: (i) is duly stamped or certified or otherwise shown to the satisfaction of the board to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the board may reasonably require; (ii) is in respect of only one class of share; and (iii) if joint transferees, is in favour of not more than four such transferees. Further, the board may decline to register a transfer of a certificated share where the transfer is requested by a person with more than a 0.25% interest in the issued share capital of the Company (excluding treasury shares) if such a person has been served with a restriction notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006, unless the transfer is shown to the board to be pursuant to an arm's length sale (as defined in the articles of association).

The articles of association also contain certain restrictions on transfer which are designed to ensure that the assets of the Company are not deemed to constitute 'plan assets' within the meaning of the Plan Asset Regulations (as defined in the articles of association) because the directors have been advised that this could result in the Company becoming subject to certain onerous obligations under US law. Accordingly, the articles of association provide that the board may refuse to register a transfer of shares, or compulsorily require the transfer of shares, where a transfer of shares, or continued holding of shares, would cause, or is likely to cause (i) the assets of the Company to be considered 'plan assets' under the Plan Asset Regulations or (ii) the Company to suffer any pecuniary disadvantage, including any excise tax, penalties or liabilities, under ERISA or the IR Code (each as defined in the articles of association).

No shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights except that a shareholder has no right to vote in respect of a share unless all sums due in respect of that share are fully paid. There are no known agreements between holders of securities that may result in restrictions on the transfer of securities or voting rights and no known arrangements under which financial rights are held by a person other than the holders of the shares.

Substantial shareholdings

As at 25 February 2014, the following interests amounting to 3% or more in the Company's shares had been notified to the Company:

Shareholder	Holding	% of total ordinary shares
RBS Asset Management Limited	41,712,398	23.91%
Schroder Investment Management	18,705,645	10.72%
Tom Drury	8,775,144	5.03%
Zachary Lewy	7,449,733	4.27%
BlackRock	5,617,987	3.22%

Directors

Biographical details of the directors of the Company during the year and to the date of this report can be seen on page 31, except for Malcolm Jackson, who ceased to be a director of the Company with effect from 25 November 2013.

The directors are aware of the retirement by rotation provisions in the Code that apply to FTSE 350 companies, and have adopted these provisions. All directors offer themselves for re-election at the forthcoming first annual general meeting.

Directors' interests

The directors' interests in the share capital of the Company at 31 December 2013 are set out on pages 54-55.

Directors' indemnities

The Company has granted indemnities to all of its directors on terms consistent with the applicable statutory provisions. Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the year, and remain in force at the date of this report.

Interim report

Current regulations permit the Company not to send copies of its interim reports to shareholders. Furthermore, the 2014 interim results will not be sent to shareholders. Interim results and other information about the Company will be available on the Company's website at www.arrowglobalir.net

Electronic and website communication with shareholders

The Company's articles of association permit electronic communication with shareholders as provided in the Companies Act 2006. The Company shall be seeking authority from its shareholders at the 2014 annual general meeting to implement electronic communication with its shareholders. If so authorised, it is intended that the 2014 annual report will be distributed electronically and via the Company's website.

Employee consultation

The Group places considerable value on the involvement of its employees, and uses a number of ways to engage with the team on matters that impact them and the performance of the Group. These include regular Company wide update meetings and email communication, the distribution of a weekly newsletter, focus group meetings,

annual employee surveys and regular Company wide business update meetings and workshops. Our people managers carry out monthly one-to-one meetings with their direct reports, and the senior management team has an open door policy which allows all employees to discuss any concerns or new initiatives. The Group also has a whistleblowing policy available on the employee intranet, and employees are made aware of this through regular training.

Disabled persons

The Company adopts a consistent, non-discriminatory approach to all applicants, with due regard to their skills and abilities. In the event of an employee becoming disabled, every effort is made to ensure that their employment within the Company continues and that appropriate training is arranged where necessary. It is the policy of the Company that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Environmental policy

Due to the nature of business activities, the Group's environmental impact is considered minimal. An environmental policy is in place to increase employee awareness of environmental issues and complies with all relevant regulatory requirements. The Group's environmental impacts are through resource use and business travel. Key areas of the policy addressing the business' environmental impact are as follows:

- Minimising paper usage and the purchase of recycled paper and packaging where possible
- Energy efficient office products
- Recycling office waste
- Increased use of video and conference calls
- Supporting cycling to work through a cycle to work scheme.

Carbon reporting - methodology

We have followed the requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the Carbon Trust conversion factors to measure and report greenhouse gas emissions, as well as the disclosure requirements in Part 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The financial control method, which captures the sources that fall within our consolidated financial statements, has been used. Although we operate an outsourced model working with partners, these partners do not work exclusively for the Group and therefore it is not deemed appropriate to include emissions outside of the Group consolidated financial statements. The reporting period aligns to the financial period (i.e. the year to 31 December 2013) and the Group's carbon reporting falls under three scopes:

Scope	Type	Reportable items
1	Direct emissions from sources owned by the Company	Air conditioning and refrigeration leaks*
2	Indirect energy consumed but not owned by the Company	Electricity usage
3	Other indirect emissions not included in scope two	Business travel

* Considered under the screening method with an estimated 5% leakage

Activities that the Group was responsible for led to 83.5 tonnes of annual CO2 emissions in 2013 as documented below:

Scope	CO_2 emissions (tonnes) per annum
1	0.9
2	54.4
Total scope 1 and 2	**55.3**
3	28.2
Total	**83.5**
Tonne of CO2e per employee (using average number of employees for the year)	**0.77**

Whilst we consider our carbon emissions to be low, the main area we can control is business travel, and we will continue to make employees aware of environmental impacts.

Statement of disclosure of information to the auditor

Each of the persons who is a director at the date of approval of the financial statements confirms that:

1. so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. the director has taken all steps he ought to have taken as a director 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 Section 418 of the Companies Act 2006.

Auditor

Resolutions to reappoint Deloitte LLP as independent auditor to the Company and to authorise the directors to determine their remuneration will be proposed at the forthcoming annual general meeting.

Annual general meeting

The forthcoming annual general meeting of the Company will take place at The Midland Hotel, Peter Street, Manchester M60 2DS on Wednesday, 28 May 2014 at 14:00. Notice of the forthcoming annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appear in the document accompanying this report and accounts.

By order of the board:

Stewart Hamilton
Company secretary
4 March 2014

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements under IFRS as adopted by the EU. Under company law, the directors must not approve the accounts 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the board:

Tom Drury
Chief executive officer
4 March 2014

Rob Memmott
Chief financial officer
4 March 2014

Corporate governance report

Compliance statement

This corporate governance report, together with the reports of the audit and risk committee, nomination committee, disclosure committee and the directors' remuneration report, provide a description of how the main principles of the Code published by the Financial Reporting Council ("FRC") in September 2012, have been applied by the Company in 2013. The Code is available on the FRC website at www.frc.org.uk.

Following the IPO, the Company was in compliance with the relevant provisions of the Code with the exception of Code provision A.4.2, which requires the chairman to hold a meeting with the non-executives without the executives present. This meeting took place in January 2014 as it was not possible, due to time constraints, to hold this meeting earlier. A meeting of the non-executives led by the senior independent director ("SID") to appraise my performance without me being present, will take place in the first half of 2014. I was appointed shortly before the IPO and therefore a meeting in 2013 would have been inappropriate and, in any event, not strictly required by the Code.

Other than above, the Company does and intends to continue to comply with the requirements of the Code, which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

The board comprises ten members, including me, as chairman, three executive directors (Tom Drury, Rob Memmott and Zachary Lewy), four independent non-executive directors (Sir George Mathewson, Iain Cornish, Gillian Key-Vice and Robin Phipps) and two non-executive directors (Lindsey McMurray and Ian Gascoigne) who are not regarded as independent as they are representative directors nominated by RBS Asset Management Limited (acting as manager of the RBS Special Opportunities Fund) (the "major shareholder") (see page 44 for details of the Relationship Agreement). The board regarded me, as chairman, as independent upon my appointment, and considers that I continue to meet the independence criteria.

Sir George Mathewson is the Company's SID. The board is satisfied that Sir George is independent in character and judgement and with skills and experience that make him well suited to the role.

Where a company is outside the FTSE 350, the Code recommends that the board of directors comprises at least two 'independent' non-executive directors. The Company (being outside the FTSE 350) currently has five independent non-executive directors, including me as chairman, and therefore complies with the recommendations of the Code.

Additional remuneration was paid to Gillian Key-Vice, an independent non-executive director, for carrying out services for the Company through her consultancy company. This remuneration was not significant compared with her overall remuneration and the board considers her to be independent within the meaning of the Code.

Biographical details of all the directors are set on page 31. The board has adopted the provision regarding the annual re-election of all directors at the first annual general meeting.

Shareholder, bondholder and revolving credit facility provider engagement

The board considers that active dialogue with its shareholders, bondholders and revolving credit facility providers to be vital to the success of the business. Further details regarding these engagements are set out on page 44.

Jonathan Bloomer
Non-executive chairman
4 March 2014

LEADERSHIP

The board

The board is responsible to the Company's shareholders for the long term success of the Company, its strategy, values and governance. The board maintains a formal schedule of matters for consideration, which include:

- establishing long term strategic objectives
- approving annual operating and capital budgets
- reviewing business performance
- overseeing the Company's risk management and internal control systems
- reviewing corporate governance arrangements
- approving shareholder return policy
- ensuring appropriate resources are in place to enable the Company to meet its objectives
- ensuring appropriate oversight of portfolio investments.

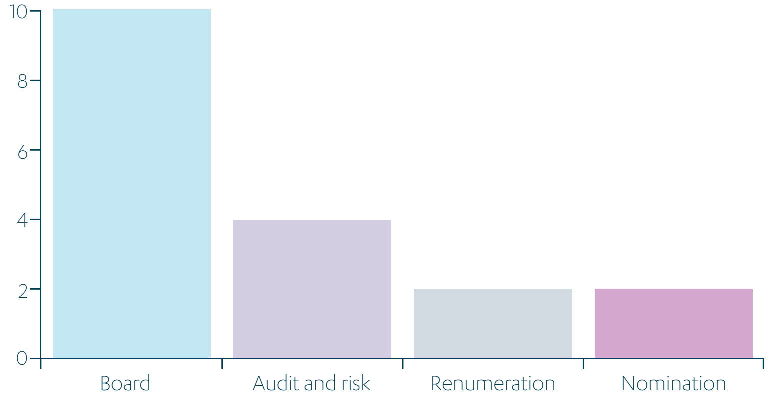
Attendance

The board held two scheduled meetings in 2013 since the IPO. Details of board and committee attendances by all directors who held office during the year are set out below:

Director	Main board (2 meetings)	Audit and risk committee (1 meeting)
Jonathan Bloomer (from 5 October 2013)	2/2	n/a
Tom Drury (from 5 October 2013)	2/2	n/a
Rob Memmott (from 14 August 2013)	2/2	n/a
Zachary Lewy (from 5 October 2013)	2/2	n/a
Sir George Mathewson (from 5 October 2013)	2/2	1/1
Iain Cornish (from 15 October 2013)	2/2	1/1
Ian Gascoigne (from 25 November 2013)	0/0	n/a
Malcolm Jackson (from 15 August until 25 November 2013)	1/2	n/a
Gillian Key Vice (from 28 October 2013)	2/2	n/a
Lindsey McMurray (from 15 August 2013)	2/2	n/a
Robin Phipps (from 5 October 2013)	2/2	n/a

The information set out above relates to the period from 11 October 2013 (the date that the Company was admitted to the premium listing segment of the official list of the UK Listing Authority and, as such, the date from which date the Company was required to comply with the provisions of the Code) until 31 December 2013.

Scheduled attendence



The remuneration, nomination and disclosure committees were established following the IPO. Going forward, the above meetings will be held each calendar year.

The disclosure committee will be held as required.

Diversity

80% Male
20% Female

Chairman and chief executive officer

The positions of the chairman and chief executive officer are held by separate individuals, and the board has clearly defined their responsibilities. The chairman is primarily responsible for the effective working of the board and ensuring that each director, particularly the non executive directors, is able to make an effective contribution. The chief executive officer has responsibility for operational matters, which includes the implementation of the Group strategy and policies approved by the board.

Non-executive directors

Non-executive directors are appointed for periods of three years, subject to shareholder approval. Terms in excess of six years are subject to a more rigorous review. The non-executive directors will meet periodically without the executive directors present.

Recruitment of directors

Executive search firms are appointed on an as needed basis. Heidrick & Struggles were retained in relation to the appointment of the chairman, Jonathan Bloomer, as well as the non-executive directors, Iain Cornish, Gillian Key-Vice and Robin Phipps. This firm has no other connection with the Company.

Diversity

In line with proposals outlined in Lord Davies report 'Women on Boards: February 2011', the Company has a 20% (two female directors out of ten) female representation on the board. This is close to the 25% target for 2015 established by Lord Davies. As and when board appointments arise, we will look to follow the procedures recommended by the Lord Davies report and by the Code.

EFFECTIVENESS

Time commitment

The individual letters of appointment set out the expected time commitment for non-executive directors and are available for inspection at our registered office. Other significant commitments are disclosed to the board on each occasion that these commitments change. Undertakings are given that non-executive directors will have sufficient time to meet requirements of the role. Details of the chairman's and other directors' commitments can be seen in the director biographies on page 31.

Continued professional development undertaken during the year

New appointments to the board generally have previous experience as a director of a listed company. Training is offered to all new directors as necessary. The chairman, together with the chief executive officer and company secretary, ensure new directors receive a full, formal and tailored induction upon joining the board, including full briefing packs. As part of their tailored induction programme, the chairman and new non-executive directors met with key advisors and members of the executive committee team. Mr Bloomer spent time in the London and Manchester offices following his appointment. Ongoing training will be provided during the year.

Major shareholders are offered the opportunity to meet newly appointed non-executive directors should they express a desire to do so.

Access to independent advice

An approved procedure for all directors to take independent professional advice, at the Company's expense, is in place. The committees are provided with sufficient resources, including the ability to appoint external advisors when they deem it appropriate to call upon a particular resource.

All directors have access to the advice and services of the company secretary and are entitled to rely on the impartial and independent nature of such advice and services. The company secretary is responsible to the board for both the proper administration of procedures and arrangements established by the board for the conduct of its own business, and the Company's compliance with internal and external rules and regulations. The board receives agendas and supporting papers well in advance of board meetings.

Evaluation of the board and committees

The board undertook a process of self-evaluation of its performance during the year. A questionnaire was issued to board members for review and completion, and was subsequently submitted to the chairman, who will review the responses with individual directors in early 2014. The process will be expanded later in 2014. The chairman intends to carry out an internal evaluation of the board (including sub-committees and individual board members) early in 2014, which will involve a series of one-to-one discussions between the chairman and board members. This will enable the board to confirm that its performance, as well as the contribution of each of the executive and non-executive directors, demonstrates commitment to their respective roles and that the board members' respective skills complement each other and enhance the overall operation of the board.

ACCOUNTABILITY

Adequacy of risk management and internal control systems

The board complies with this Code provision in line with the guidance published by the FRC, 'Internal Guide: Guidance for Directors' (formerly known as the Turnbull Guidance). In this context, the board undertakes a regular review of the Group's systems of internal control (which includes financial, operational and compliance controls and risk management). The board is responsible for the Group's systems of internal control. Risk management is designed to mitigate risks, but it does not eliminate all risks. The board has approved an appropriate suite of policies on internal control, and seeks regular assurance that it is able to satisfy itself that the systems of internal control are effective in managing risks in the manner in which it has approved. During the year, the board carried out a review of key risks affecting the business, which are documented on page 16 of the strategic report. The following activities are considered to cover the most critical business processes and associated risks:

- A disciplined underwriting process, overseen by the investment committee (which includes the chairman, executive directors and a representative from the major shareholder), whose function is to ensure an objective, rigorous and consistent approach to pricing and due diligence. The processes and controls are documented in an underwriting process manual.
- A strong risk and compliance framework is embedded across the business via the audit and risk committee, executive and management teams, and supported by the risk management framework and maintenance of the Group and departmental risk registers.
- Regular monitoring of portfolio performance, overseen by the portfolio review committee, which considers actual versus forecast results at an individual portfolio level, re-forecasts cash flows on a quarterly basis, reviews the continued appropriateness of the IRR, signs off the latest ERC forecast, assesses the carrying value of the portfolio assets and reviews revenue recognition.
- Internal controls exist over all key processes of the Group that have an impact on the financial results. Full documentation of these processes is well progressed via the Group accounting manual and other departmental manuals, and new processes are documented as business need arises. The committee has not identified or been advised of any material failing or weakness deemed to be significant.

Comprehensive reporting to the board on the above activities takes place throughout the year.

Non-audit services provided by the auditor

The provision of non-audit services by the external auditor (note 8, page 79) is monitored throughout the year and, since the IPO, a specific policy is being developed, which will be adopted in early 2014. The committee recognises that the non-audit fees were significant in 2013. Major contributors to these fees are in relation to one off projects, namely the issuance of senior secured notes in January 2013 and the IPO in October 2013.

In both instances, other providers were considered, however it was felt that Deloitte were best positioned to provide the services required, from their knowledge gained as external auditor, without compromising independence. The committee is mindful that these were one off exceptional items and aim to maintain a lower level of non-audit fees going forward.

The committee has concluded that the provision of non-audit services to date has not compromised auditor independence and objectivity. Future non-audit services will be undertaken in line with the non-audit services policy being approved by the committee, taking into account ethical guidance regarding the provision of non-audit services by the external auditors. This includes the rotation of senior partners and professional staff and the involvement of additional partners and specialists to carry out reviews of the work performed and to advise where necessary. All non-audit services performed for the Group by the external auditors in 2013 have been undertaken by teams independent from the audit team, with confirmation by the audit engagement partner that these services did not impair audit independence.

Internal audit function

The audit and risk committee is responsible for monitoring and reviewing the effectiveness of internal audit activities. There is currently no internal audit function. However, the audit and risk committee approved the proposal to appoint an outsourced internal audit provider. A request for proposal process has commenced; it is anticipated that a firm will be selected in the first half of 2014.

Conflicts of interests

Company policy requires that if a director becomes aware that they have a direct or indirect interest in an existing or proposed transaction with the Company, they should notify the board at the next board meeting or by providing a written declaration. Directors have a continuing duty to update any changes in such interests. Ian Gascoigne recused himself from a meeting of the investment committee on a transaction including one of the major shareholder's portfolio companies. See also the related party transactions note 21.

Approving significant transactions and investment decisions

The business acquires non-performing loan portfolios as part of its ordinary course of business. The Group applies a multi-stage approach to its underwriting and pricing process, with the aim of achieving attractive adjusted returns, based on the Group's underwriting models, analytical processes and servicing strategies.

The origination team reviews approximately 100 transactions per year, with circa 25 completed transactions. Transactions range from repeat transactions with creditors and asset classes familiar to the Group, through to more complex consortium trades with special purpose vehicle structures.

An authority matrix sets out the delegated authority to the investment committee and executive committee. The board retains authority for any new asset classes or geography, complex deals over £10 million and any transaction over £20 million. Based upon recent performance, the board will be asked to consider circa four to five transactions per annum.

Bribery Act compliance

The Company has an anti-bribery policy that is available on the Company's intranet and website and is in line with Ministry of Justice ("MOJ") Guidelines. The policy contains a gifts and hospitality procedure and prohibits facilitation payments. Adequate and regular training on the policy and the principles outlined therein, is provided to staff and directors. The Company considers it to have adequate procedures within the meaning of the MOJ Guidelines. The chief risk officer has primary and day to day responsibility for implementing this policy, while the Company's chief financial officer has ultimate responsibility to the board for compliance with the policy.

REMUNERATION

In line with the Code and the Directors' Remuneration Disclosure Regulations 2013, details on remuneration, including the policy report to be approved at the annual general meeting and the annual report on remuneration, can be seen on pages 46-58.

RELATIONS WITH SHAREHOLDERS

Relationship with the major shareholder
The Company entered into a Relationship Agreement with the major shareholder on 7 October 2013 in order to regulate the relationship between the two companies following the IPO (the "Relationship Agreement"). Under the Relationship Agreement, the major shareholder has the authority to nominate directors for appointment to the board and its committees, with the number of nominees permitted varying in accordance with the size of the major shareholder's shareholding. RBS Asset Management Limited, the manager of the major shareholder, has accordingly nominated Lindsey McMurray and Ian Gascoigne (both of SOF Investments Limited, the advisor to RBS Asset Management Limited) as representative directors of the major shareholder.

Dialogue with shareholders, bondholders and revolving credit facility providers
Following meetings or telephone conversations with brokers, the chairman communicates to the entire board the views of shareholders, bond holders and revolving credit facility providers ("key stakeholders"). The chief executive officer and the chief financial officer regularly speak and meet with key stakeholders. The chairman is available to discuss governance and strategy with key stakeholders. Non-executive directors and the SID have the opportunity to attend meetings with key stakeholders and would attend if requested.

Following the announcement of the preliminary and interim results and the executive directors' presentations to analysts and shareholders, the board will receive a report on institutional feedback, prepared by the Company's advisors. The chief executive officer and the chief financial officer will also verbally report on their meetings with shareholders. Copies of analysts' and brokers' briefings will be circulated to the board.

Annual general meeting
The annual general meeting is an opportunity for all shareholders to both vote on resolutions put forward and ask the board any questions they may have. The notice of meeting and annual report will be sent out at least 20 working days before the meeting. Separate votes will be held for each proposed resolution and a proxy count will be given in each case. The proxy forms will provide a 'vote withheld' option. The chairmen of the audit and risk, remuneration and nomination committees attend and are available to answer questions.

DISCLOSURE COMMITTEE

The disclosure committee was set up shortly after IPO, and is made up of one non-executive director, Iain Cornish, who chairs the committee, and one executive director, Rob Memmott, the chief financial officer. The disclosure committee will meet at such times as may be necessary or appropriate.

The disclosure committee is responsible for monitoring, evaluating and enhancing disclosure controls and procedures of the Group. In particular, responsibilities set out in the terms of reference include identification of inside information and maintenance of insider lists, the design, implementation and evaluation of disclosure procedures and the resolution of any questions concerning the materiality of certain information. The disclosure committee is also required to help the Company and the Group to make timely and accurate disclosure of all information where disclosure is required to meet legal and regulatory obligations.

AUDIT AND RISK COMMITTEE

Details regarding the audit and risk committee and its responsibilities can be seen on pages 59-60.

NOMINATION COMMITTEE

The nomination committee is responsible for considering and making recommendations to the board in respect of appointments to the board, the board committees and the chairmanship of the board committees. It is also responsible for keeping the structure, size and composition of the board under regular review, and for making recommendations to the board with regard to any changes necessary. Furthermore, the nomination committee is required to ensure that the evaluation of the board is externally facilitated at least every three years should the Company become a FTSE 350 member.

Diversity, whether in terms of skill, knowledge, experience or gender, is considered by the nomination committee when reviewing board composition and making recommendations for board appointments.

The Code recommends that a majority of the members of the nomination committee should be independent non-executive directors. The committee should be chaired by the chairman of the board or an independent non-executive director. The nomination committee is chaired by the chairman, Jonathan Bloomer, who was regarded as independent on appointment, and also comprises an independent non-executive director, Iain Cornish, and one representative director, Lindsey McMurray. The chairman will not chair the committee when it is dealing with the matter of succession to the chairmanship. There is compliance with the Code on this committee's composition.

REMUNERATION COMMITTEE

Details on the remuneration committee and its responsibilities can be seen on pages 47 and 57.

The terms of reference for the audit and risk committee, remuneration committee and nomination committee can be found on the Group's website (www.arrowglobalir.net).

By order of the board:

Stewart Hamilton
Company secretary
4 March 2014

Directors' remuneration report

ANNUAL STATEMENT

It is with pleasure that I write to you as the first chair of the remuneration committee of the Group since it became publicly listed through an IPO in October 2013.

The year ended 31 December 2013 has seen the Group make solid progress in a competitive environment.

The following key decisions have been made concerning the executive directors' remuneration:

- Salaries have been increased to reflect market conditions as set out in the annual report on remuneration
- Cash bonuses for the 2013 financial year representing 100% of salary will be paid to each of Mr Drury, Mr Memmott and Mr Lewy. The Group intends to operate a bonus deferral plan for the 2014 financial year. This will deliver 67% of bonus awards as cash and 33% as shares vesting after three years. The bonus objectives for 2014 are detailed further in this report
- Long term incentive awards with a market value of 150% of salary will be awarded to each of Mr Drury, Mr Memmott and Mr Lewy following the announcement of the Group's full year results. These awards are in the form of performance shares vesting after three years subject to the attainment of EPS and relative TSR targets.

Arrow Global always operated a 'pay for performance' remuneration philosophy prior to the IPO, and that philosophy will now continue under public ownership, as outlined further in this report.

This report is prepared in accordance with the new regulations for directors' remuneration reporting. As such, the remainder of the report is split into two sections: a forward looking remuneration policy, and an annual report on remuneration, which describes how the directors were paid in 2013. The remuneration policy will be tabled at the forthcoming annual general meeting for a binding vote, with an advisory vote on the annual report on remuneration.

Robin Phipps
Chairman of the remuneration committee
4 March 2014

The directors' remuneration report has been prepared in accordance with the requirements of the Companies Act 2006, Schedule 8 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI Number 2008/4110), the Listing Rules and Disclosure Rules of the Financial Conduct Authority, the Code and best practice guidelines.

REMUNERATION POLICY

Responsibilities and objectives

The remuneration committee is responsible to the board of directors for determining a remuneration policy for executive directors, together with the specific terms and conditions of employment of each individual director, and for reviewing the overall policy for executive remuneration. In summary, the objective of the remuneration policy is to enable the Group to offer a package of rewards that is aligned with the strategy for the business by:

- being competitive but not excessive by reference to pay levels in comparable groups
- taking into account the individual contribution and performance of each executive
- reflecting the performance of the business against its financial and strategic objectives
- not encouraging excessive risk taking
- aligning the interests of executives with shareholders by ensuring that a significant proportion of remuneration is performance related and delivered in shares. The executive directors are expected to build up and retain legal share ownership equivalent to at least 100% of salary (150% for the chief executive officer).

This remuneration policy is intended to take effect from the date on which the resolution to approve the policy is passed.

Consideration of remuneration of employees generally

When determining the remuneration arrangements for executive directors, the remuneration committee takes into consideration, as a matter of course, the pay and conditions of employees throughout the Group. In particular, the remuneration committee is kept informed of salary increases for the general employee population, the overall spend on annual bonus and participation levels in the annual bonus and share plans.

No consultation with employees takes place in relation to determining the directors' remuneration policy, although the Group has various ways of engaging with its employees collectively as teams and one to one, and the board receives updates and feedback on employee engagement.

Consideration of shareholder views

The remuneration committee is committed to an open and transparent dialogue with shareholders on the issues of executive remuneration. Where appropriate, the committee will actively engage with shareholders and shareholder representative bodies, seeking views which may be taken into account when making any decisions about changes to directors' remuneration policy. The remuneration committee chairman is available to answer questions at the annual general meeting. In view of the recent dialogue with shareholders as part of the IPO, it was not felt necessary to consult further with shareholders in the formulation of this policy.

Remuneration structure – executive directors

The following table sets out the elements which are included in the remuneration package for executive directors from the date the policy is approved by shareholders and explains how each element of the package operates:

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity
Salaries Provides core remuneration for the role at a level to recruit and retain executive directors with the required skills and experience	• Positioned within a broad range around the mid-market level for the role • Paid monthly and reviewed annually • The current salaries of the executive directors are set out in the annual remuneration report	• Base salaries are reviewed annually, though not necessarily increased, having regard to market conditions, benchmark data and other relevant factors such as pay increases for the Group's employees, internal relativities and individual performance • The maximum annual salary increase will not normally exceed the average increase which applies across the wider workforce. Larger increases may be awarded in certain circumstances including, but not limited to: - increase in scope or responsibilities of the role - to apply salary progression for a newly appointed director - where the director's salary has fallen significantly below the market conditions
Benefits Provide a competitive benefits package at a level to recruit and retain executive directors with the required skills and experience	• Typically comprises private medical and dental cover, life insurance and permanent health insurance • Reviewed from time to time to ensure market competitive and meet operational needs of the business. Benefits may be extended in certain circumstances (such as relocation expenses) • Access to flexible benefits on same basis as the wider workforce	• None • The cost of providing benefits is borne by the Group and varies from time to time
Pension Provide a competitive level of long-term retirement saving for executives	• Contribution into self-invested personal pensions or monthly cash allowance in lieu of pension	• Up to 18% contributions or cash allowance provided, but currently set at 15% for 2014 • Only basic salary is pensionable
Annual bonus Reward achievement of annual objectives whilst encouraging a long-term focus through the use of deferred shares via the deferred share bonus plan ("DSBP")	• Performance targets set annually • Pay outs determined by remuneration committee following the financial year end • Up to 50% of net bonus deferred into shares for three years via the DSBP, subject to continued employment during the vesting period • Clawback provisions apply (see page 49)	• Maximum bonus opportunity of 125% of annual base salary • Split between financial and strategic performance measures in support of business strategy • Majority of bonus based on financial measures • Bonus for achieving threshold financial performance target is 20% of the maximum opportunity for that element • Strategic targets are equally weighted and are absolute
Long term incentive plans ("LTIP") Reward the achievement of long term objectives; promotes retention and aligns interests of executives with those of shareholders	• Nil cost share options, conditional awards or restricted shares can be awarded • Three year vesting period subject to performance conditions • LTIP awards normally granted post announcement of preliminary/interim results • Where exceptional circumstances exist, the committee has overriding discretion • Clawback provisions apply (see page 49)	• Maximum award of 200% of annual base salary. First awards anticipated to be 150% of annual base salary • Discretion of remuneration committee to grant in excess of 200% salary in exceptional circumstances • Performance targets based on financial measures, such as EPS growth and TSR • 25% of award vests for threshold performance rising to 100% for maximum performance
Share incentive plan ("SIP") HMRC requires participation on an all-employee basis. Promotes alignment with shareholders across Group's entire employee base	• HMRC approved plan of free, partnership or matching shares • Minimum three year vesting period • Open to all employees generally	• No performance targets • Maximum awards and matching share ratio aligned to HMRC limits

NOTES TO THE POLICY TABLE

Salaries

Salary positioning takes into account the complexity of the role and performance of the individual, overall corporate performance, movements in the employment market and the general economic environment. They should be sufficiently competitive to enable recruitment and reward of executives of a suitable calibre for the role and duties required. Setting salaries within a range provides the remuneration committee with flexibility to take account of experience and performance and to recruit new hires. It also recognises the limitations of market data by not targeting a specific statistical point.

Base salaries are reviewed annually, though not necessarily increased, having regard to market conditions, benchmark data and other relevant factors, such as pay increases for the Group's employees, internal relativities and individual performance. The committee is mindful of institutional investors' concerns on the upward ratchet of base salaries and does not consider benchmark data in isolation.

Annual bonus

A new annual bonus scheme will be operated for the Group's 2014 financial year, split between financial and strategic measures. The precise choice of measures and the weightings between them will be reviewed by the committee year on year. Financial measures are currently related to profit before tax goals, and strategic measures relate to goals concerning the direction of the business. This ensures an appropriate balance between achievement of financial goals and strategic objectives. Performance targets will be set at the beginning of each year, and bonus pay outs are determined by the remuneration committee after the year end, based on performance against targets.

For the 2014 financial year and onwards, up to 50% of any net bonus will be delivered as deferred shares for three years and subject to forfeiture during that period via the DSBP, with the balance paid in cash.

All cash bonuses paid are subject to potential clawback, at the committee's discretion, for a period of three years where there are exceptional circumstances, such as a material misstatement of the published results of the Group, any error in the calculation of any performance condition linked to the calculation of a bonus, or gross misconduct. There are similar clawback provisions relating to the operation of the DSBP.

Long-term incentives

It is currently intended that grants under the LTIP will be made annually to the executive directors. Performance is based on financial performance targets, such as EPS growth and total shareholder return measured over three years.

The committee will review these performance conditions when determining LTIP awards in each year, in order to reflect changes in the outlook of the sector and the Group, and to ensure that the targets remain challenging. There are proposals by the committee to review the overall LTIP scheme and assess the potential of alternative or complementary incentive schemes for the senior management in the future.

Performance measures are set in line with the key drivers of sustainable performance. Targets are set by the committee at the start of the performance period, taking into account external advice on market and best practice. Performance is assessed at the end of the relevant period to determine the extent to which awards may vest. The committee also monitors progress against targets throughout the period.

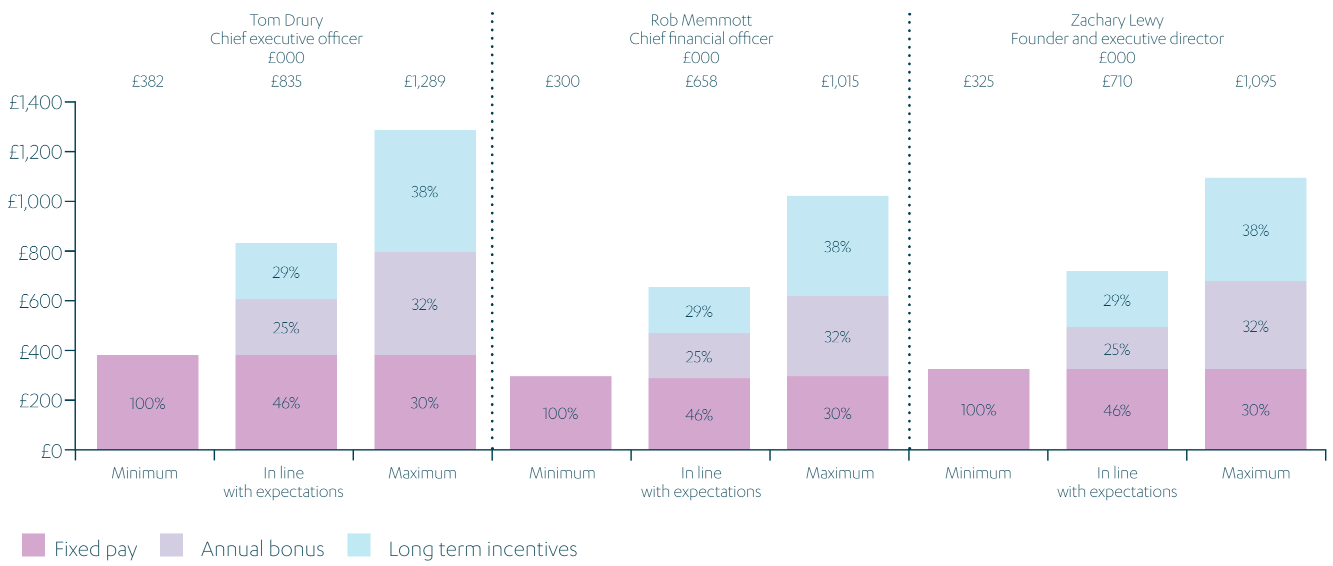
The LTIP includes a clawback facility where, at the discretion of the committee, during a three year period, shares acquired through vesting or where held by the participant can be transferred to the Group or the employee benefit trust where there has been a material inaccuracy or misleading results, or there has been a loss to the Group's business which could have been reasonably risk managed by the participant. In addition, clawback may take place where there is conduct, capability or performance of a participant which would make such transfer appropriate, or where the committee deems there to be exceptional circumstances which appear relevant to such a transfer.

Differences between remuneration policy for executive directors and employees generally

The remuneration policy applied to the most senior executives in the Group is similar to the policy for the executive directors in that a significant element of remuneration is dependant on Group and individual performance. The key principles for the remuneration policy are applied consistently across the Group below executive director level taking into account seniority and local market practice.

Illustration of the application of the remuneration policy

Illustration of the application of the remuneration policy



The chart above illustrates the total remuneration, in line with the remuneration policy, that could arise for each executive director under three different performance levels. The figures are calculated as follows:

- Fixed pay is basic salary and pension benefits as at 1 March 2014, plus the value of benefits based on 2013 figures
- Annual variable remuneration is the annual bonus including any deferred bonus going forward
- Long term variable remuneration represents the potential value of the LTIP going forward
- On target performance is the level required to deliver 50% of the maximum annual bonus (62.5% of salary) and 50% of the maximum LTIP (75% of salary)
- Maximum performance would result in the maximum annual bonus (125% of salary) and full vesting of the LTIP (150% of salary).

Discretion

The committee has discretion in several areas of policy as set out elsewhere in this report. In addition, the committee may exercise operational and administrative discretions under the relevant plan rules approved by shareholders as set out in those rules.

The committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the committee, disproportionate to seek or await shareholder approval.

Emergency discretion

The Group operates in a highly regulated environment. There may be circumstances in which the Group is required to make awards or payments in a different manner than envisaged under the policy (for example in the form of different vehicles or according to a different deferral schedule) in order to comply with changes in regulation or legislation. In such circumstances, and if in the opinion of the committee it is disproportionate or impractical to seek or await prior shareholder approval, then such awards or payments may be made to meet the changes in regulation or legislation.

In genuinely extreme and unforeseen circumstances, or as required to comply with applicable legislation or regulation, it may be necessary for the committee to exercise discretion to make awards or payments that are outside the approved policy.

Any exercise of discretion will be clearly disclosed and explained in the annual report on remuneration and, in significant areas of exercise of discretion, shareholders would normally be consulted and, where considered necessary, separate shareholder approval would be sought.

Executive director service contracts

Each executive director has been appointed under a service contract which is terminable on 12 months' notice by either the Company or the director. Contracts are available for inspection at our registered office. Contracts may be terminated immediately with payments in lieu of notice being paid in phased instalments and reduced by amounts earned from alternative remunerative positions obtained during the notice period.

Termination policy	
Notice period/pay in lieu	• Rolling contracts with 12 month notice periods • Payment in lieu of notice at Group discretion – monthly installments with appropriate reductions for mitigation. Payment calculated by reference to base salary and the cost to Group of providing contractual benefits (including pension contributions/cash in lieu of pension contributions), but excludes bonus
Long-term incentives	• Lapse on cessation of employment, unless 'good leaver' circumstances (ill health, injury, disability, retirement, transfer of employing company or undertaking, redundancy or at the discretion of the remuneration committee) • If good leaver, generally award to vest on normal vesting date following application of performance targets at a pro-rata reduction for proportion of vesting period elapsed unless exceptional circumstances considered
Annual bonus	• No bonus payable (unless special circumstance exists) if under notice at payment date
Deferred share bonus awards	• Lapse on cessation of employment, unless good leaver • If good leaver, generally vest on normal vesting date unless exceptional circumstances considered

Where deemed suitable, the committee reserves the right to agree additional exit payments where they are in the best interests of the Group and shareholders and reflecting the directors' contractual and legal rights. Any discretion exercised by the committee would be reported to shareholders in the subsequent annual report. The Group, in any settlement agreement recording the terms of the termination, may include provisions as to out placement counselling, the payment of the director's reasonable legal costs up to an agreed amount and other reasonable payments of a similar nature.

Non-executive directors receive no payments for loss of office.

Approach to recruitment remuneration

Where a new executive director is appointed, the principles outlined above in relation to the structure, components and maximum opportunities of the existing executive directors' remuneration package and service contract terms will also apply to any newly appointed director. Salaries for new hires will be set to reflect their skills and experience, the Group's intended pay positioning and the market rate for the role. Existing incentive arrangements will be used where possible and guaranteed bonuses will not be offered. The level of pay will be what is necessary but not excessive to recruit the new executive director.

The remuneration committee will have the discretion to determine additional remuneration which constitutes compensation for the forfeiture of awards under variable remuneration arrangements with any previous employer on a like-for-like basis (comparable time horizon, value and subject to performance conditions) and/or any additional remuneration relating to relocation or similar expenses. Similarly, the remuneration committee will have discretion to retain existing contractual arrangements for employees who are internally promoted to board level. In addition, in exceptional circumstances, the remuneration committee reserves the right to grant additional remuneration which it feels is appropriate, taking into account the specific circumstances of the individual in order to facilitate such recruitment, provided that the total variable pay (excluding any buy-out awards) for the first year will not exceed 400% of salary (i.e. 75% above maximum in the policy table).

Fees for newly appointed non-executive directors will be determined in line with the policy set out below.

Components and structure of remuneration - non-executive directors

The board reviews non-executive directors' fees periodically in the light of fees payable in comparable companies and the importance attached to the retention and attraction of high calibre individuals as non-executive directors. This table sets out the elements which are included in the remuneration package for non-executive directors and explains how they operate:

Element and purpose	Operation and link to business strategy	Maximum opportunity
Fees To attract and retain high calibre non-executive directors by offering competitive fees	• Per annum basis • Additional fees may be paid to reflect extra responsibilities such as committee chairman or SID • With the agreement of the chairman of the Group, non-executive directors can carry out specific project work for the Group on fees to be agreed	Reviewed periodically to comparable companys' pay

Non-executive directors' letters of appointment

The terms of appointment of independent non-executive directors (including the chairman) are contained in letters of appointment rather than under service contracts. The duration of the appointment is usually three years, and it is anticipated that the period will be extended for a second term of three years with the agreement of the board and the non-executive director, although a reappointment is not automatic. Either party may terminate on one month's written notice. The appointment of non-executive directors nominated by the major shareholder may be terminated in accordance with the provisions of the Relationship Agreement.

The reappointment of all non-executive directors is subject to election by the Group's shareholders at the first annual general meeting, and re-election at any subsequent annual general meeting where they are due for re-election.

ANNUAL REPORT ON REMUNERATION

Directors' remuneration (audited information)

Details of the executive directors' remuneration since their appointment to the Company (Rob Memmott on 14 August 2013, Tom Drury and Zachary Lewy from the IPO on 11 October 2013) to 31 December 2013 are as follows:

Director	Salary and fees[1] £000	Taxable benefits[2] £000	Performance-related bonus[3] £000	Vesting remuneration[4] £000	Pension-related benefits[5] £000	Total compensation £000
Tom Drury	84	1	69	-	-	**154**
Rob Memmott	87	-	80	1,876	5	**2,094**
Zachary Lewy	63	2	55	-	5	**125**
Total	**234**	**3**	**204**	**1,876**	**10**	**2,327**

1. Mr Drury receives a monthly cash allowance in lieu of participation in a pension arrangement, included as salary
2. Private medical and dental cover through Bupa (Mr Drury and Mr Memmott) and Aetna (Mr Lewy)
3. The bonus in respect of 2013 was paid in cash in March 2014 and was based on a broad assessment of the executive directors' performance by the remuneration committee. The maximum bonus percentages were capped at 125% of salary with actual bonuses paid being 100% of salary in respect of each of the executive directors. As set out in the IPO prospectus, the bonus in respect of 2013 was based on a broad assessment of executive director performance by the committee, when the Group was not listed for the majority of the period. The figures in the table represent the proportion of bonus relating to the time period mentioned above the table. The bonus in respect of 2014 will be based on the new scheme outlined in the remuneration policy
4. On IPO, Initial Share Option Plan ("ISOP") options were granted to and exercised by Mr Memmott over 1,676,562 ordinary shares in the Company. 915,266 vested and were sold immediately to cover his tax liability and national insurance contributions arising on exercise. The balance of 761,296 shares are restricted shares for a period of two years following the IPO conditional on continued employment
5. Mr Memmott and Mr Lewy receive a monthly contribution from the Group into a self-invested pension plan
6. In addition to his duties for the Group, Mr Lewy serves as a non-executive director for English National Ballet School Limited, and as a board member of the Credit Services Association ("CSA"), having previously served as non-executive chairman of the Debt Buyers and Sellers Group of the CSA. No remuneration for these positions was received in 2013 by him or the Group

Non-executive directors' remuneration (audited information)

Details of the non-executive directors' remuneration from the IPO to 31 December 2013 are as follows:

Director	Salary and fees £000	Taxable benefits £000	Performance related bonus £000	Vesting renumeration £000	Pension-related benefits £000	Total compensation £000
Jonathan Bloomer	40	-	-	-	-	40
Sir George Mathewson	13	-	-	-	-	13
Iain Cornish	13	-	-	-	-	13
Gillian Key-Vice	9	-	-	-	-	9
Robin Phipps	13	-	-	-	-	13
Total	**88**	**-**	**-**	**-**	**-**	**88**

Lindsey McMurray, Ian Gascoigne and Malcolm Jackson are not remunerated by the Company, but fees are paid to RBS Asset Management Limited. Gillian Key-Vice's consultancy company charged the Group for consultancy work; see note 21 to the financial statements for further information.

The non-executive directors were paid a standard fee of £45,000 per annum, with further fees of £7,500 per annum being paid for additional responsibilities such as committee chair and SID. The non-executive chairman's fee is £160,000 per annum. These fees were paid pro rata for 2013 following the IPO. Malcolm Jackson resigned as a director on 25 November 2013 and was replaced by Ian Gascoigne.

Payments to past directors for loss of office

There were no payments to past directors or payments for loss of office during 2013.

Directors' shareholdings (audited information)

As set out in the remuneration policy, the remuneration committee encourages share ownership by the executive directors in order to align their interests with those of shareholders. It does this by ensuring that a significant proportion of remuneration is delivered in shares (as well as being subject to performance conditions).

The executive directors are expected to retain legal share ownership equivalent to at least 100% of salary (150% for the chief executive officer). Those guidelines were exceeded at 31 December 2013:

Director	Shareholding[2] (number of shares)
Tom Drury	8,775,144
Rob Memmott	2,989,360[1]
Zachary Lewy	7,449,733

1 Includes holding of restricted shares under ISOP as detailed on page 53
2 None of the executive directors hold, LTIP, SIP or DSBP awards as at 31 December 2013.

Non-executive directors' shareholdings (audited information)

Director	Shareholding as at 31 December 2013 (number of shares)
Jonathan Bloomer	24,391
Sir George Mathewson	2,544,633
Iain Cornish	-
Ian Gascoigne	-
Malcolm Jackson[1]	-
Gillian Key-Vice	6,357
Lindsey McMurray	-
Robin Phipps	24,391

1 Resigned from the board on 25 November 2013

There were no changes in the above interests between 31 December 2013 and 3 March 2014.

Chief executive officer disclosures

The table below shows how the percentage change in the chief executive officer's salary, benefits and bonus between 2012 and 2013 compares with the percentage change in the average of each of those components of pay for the workforce as a whole.

	% change in salary and fees	% change in taxable benifits	% change in performance related bonus
Chief executive officer	3%	-	(1%)
Workforce	4%	-	3%

Relative importance of spend on pay

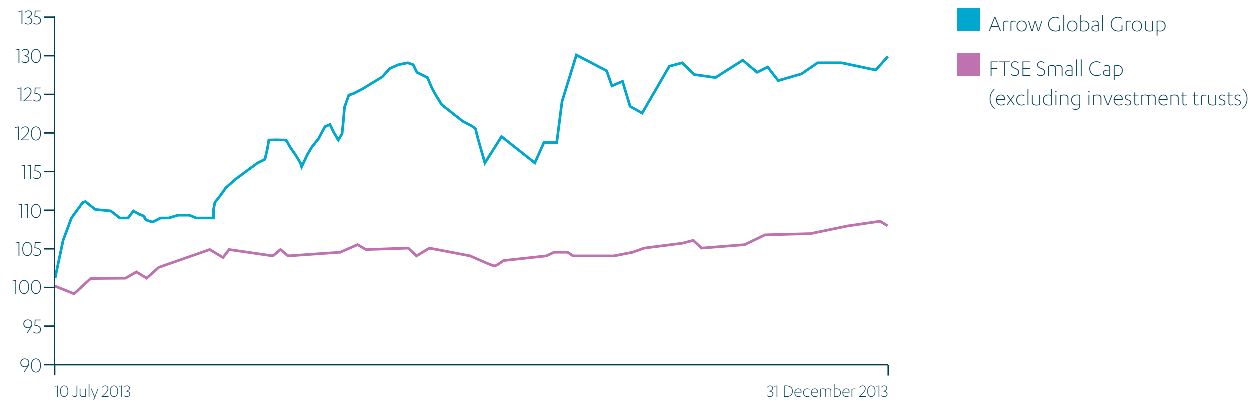
The table below illustrates the relative importance of spend on pay compared with distributions to shareholders.

	Total employee remuneration £000	Shareholder distributions £000
2013	14,118*	-
2012	6,102	-
Difference	**8,016**	**-**

* £6,112,000 of the 2013 balance is in relation to exceptional items as discussed in note 9

TSR performance
The Company has only existed as a publicly traded company since October 2013. The graph below shows TSR performance through the remainder of 2013 versus the FTSE Small Cap Index, as the committee has selected this given that the Company was a member of this group during the period under review:

Total shareholder return from October 2013



The table below sets out the total pay of the chief executive officer since the IPO on 11 October 2013.

Period	Chief executive officer name £000	Chief executive officer pay £000	Chief executive officer bonus* £000	Chief executive officer LTIP* Vesting £000
2013	Tom Drury	84	69	-

*The salary and bonus figures relate to the salary paid and bonus earned from the IPO to 31 December 2013

The Company was only established shortly before the IPO and therefore information for prior years does not exist.

Statement of implementation of remuneration policy in 2014
The remuneration arrangements for 2014 will be implemented in line with the policy section of this report as follows:

Base salaries
Base salaries will be increased by to reflect market conditions. The new salaries will be effective from 1 March 2014 and will be as follows:

Director	Base salary as at 1 January 2014 £000	Base salary from 1 March 2014 £000	% increase £000
Tom Drury	310	330	6%
Rob Memmott	250	260	4%
Zachary Lewy	250	280	12%

In addition, the Group pension contributions to Mr Memmott and Mr Lewy and cash in lieu of pension allowance to Mr Drury were increased to 15% from 1 March 2014 to reflect market conditions.

Annual bonus
The maximum bonus opportunities and the performance measures and weightings for 2014 will be as follows:

Director	Maximum opportunity %	Profit before tax %	Strategic measures %
Tom Drury	125	75	25
Rob Memmott	125	75	25
Zachary Lewy	125	75	25

The above percentages straight line vest between each point for each performance metric.

The directors consider the targets under the annual bonus plan to be commercially sensitive because of the information that this provides to the Group's competitors. Targets will be disclosed after the end of the financial year, in the 2014 annual report on remuneration. 33% of any net bonus for 2014 will be deferred into shares under the DSBP.

LTIP
LTIP awards will be made to executive directors over shares with a market value of 150% of their base salaries. The awards will be subject to the performance conditions set out in the table below.

Measure	Weighting		Vesting level	Performance target
Growth in EPS	75%	Threshold	25	10% per annum
		Maximum	100	20% per annum
TSR relative to FTSE 350	25%	Threshold	25	Median
		Maximum	100	Upper quartile

In each case, performance will be measured over three years with straight line vesting between each point for each performance metric.

In calculating TSR, a three month average is used at both the start and the end of the performance period to ensure that the calculation is not impacted by potential volatility arising from day to day share price fluctuations. The TSR data and relative positioning will be independently verified.

The remuneration committee
The remuneration committee during the year consisted of three non-executive directors, who are each considered independent under the Code, namely Robin Phipps as chair, Sir George Mathewson, Jonathan Bloomer, and one non-independent non-executive, Lindsey McMurray. Although not deemed independent within the meaning of the Code, Ms McMurray's position, representing the major shareholder, provides a strong interest in challenging and scrutinising management. The Company complies with the recommendations of the Code concerning the number of independent non-executive directors that the remuneration committee should have.

Advisors

The remuneration committee and the Group received advice in the run up to the IPO from New Bridge Street ("NBS"), who are independent remuneration consultants. NBS is a trading name of Aon Hewitt Limited (the parent company of NBS and part of AON PLC). NBS were appointed following a tender process involving the Group's major shareholder. Their fees were capped at £40,000 plus VAT. Aon Hewitt Limited does not provide any other services to the Group or the major shareholder. The committee is satisfied that their independence was not compromised in providing these services. In addition, as part of the IPO, the Group instructed Slaughter and May solicitors to provide technical advice and drafting in relation to the various share plans introduced. They do not provide any other services to the Group apart from legal services and their fees in relation to the share plan work were part of the overall IPO advisor budget.

The remuneration committee and the Group received independent advice post 31 December 2013 from PwC, who are independent remuneration consultants and currently are providing no other services to the Group. PwC were appointed by the remuneration committee in order to provide advice in relation to the preparation of this report. The remuneration committee intends to carry out a tender process to appoint independent remuneration consultants in 2014.

Statement of shareholder voting

This is the first remuneration report since the IPO and will be voted upon at the 2014 annual general meeting.

By order of the board:

Robin Phipps
Chairman of the remuneration committee
4 March 2014

Audit and risk committee report

The committee has responsibility for the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's external auditor in that process. It focuses in particular on compliance with accounting policies and ensuring the maintenance of an effective system of internal financial control. The ultimate responsibility for reviewing and approving the annual report remains with the board. The committee is also responsible for advising the board on the Company's overall risk appetite and strategy.

The committee reviews the Group's risk assessment processes and methodology and its capability for identifying and managing new risk, alongside advising on proposed transactions and reviewing reports on material breaches of risk limits.

The audit and risk committee will normally meet four times a year at the appropriate times in the financial reporting and audit cycle, and at such other times as required.

The terms of reference of the committee cover issues such as membership and the frequency of meetings, together with the requirements of any quorum for, and the right to attend, meetings. The categories of responsibility of the committee covered in the terms of reference are: external audit, internal audit, financial reporting, narrative reporting, internal controls and risk management. The terms of reference also set out the authority of the committee to carry out its responsibilities.

The Code recommends that, for companies outside the FTSE 350, the audit and risk committee comprises at least two members who are independent non-executive directors and includes one member with recent and relevant financial experience. The committee comprises three members who are independent non-executive directors – Iain Cornish (chair), Sir George Mathewson and Gillian Key-Vice (appointed 31 January 2014) – and therefore satisfies the Code's requirements. Iain Cornish has recent and relevant financial experience, having held senior positions at Yorkshire Building Society until his retirement in 2011, as well as a number of other non-executive directorships as outlined on page 31.

Work of the committee

During the period under review, the following work was carried out:

- monitoring the financial reporting process
- considering the appropriateness of accounting policies
- reviewing interim and annual results and reports to shareholders including significant financial reporting judgments
- following consultation with the board, instigating the appointment of an external professional service firm to carry out an internal audit function, as there was no such function
- reporting to the board on how the external auditor has discharged their responsibilities
- reviewing reports from, and consulting with, the external auditor, monitoring their independence and effectiveness and recommending their re-appointment
- holding private meetings with the external auditor
- reviewing risk management and internal control systems

- developing a policy on the provision of non-audit services by the external auditor
- approval of the whisteblowers' policy
- providing advice to the board on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy
- reviewing restructuring accounting
- reviewing employee benefit trust accounting
- approving the year end audit plan.

Significant areas

Significant areas considered by the committee and discussed with the external auditor during the year were:

Value of portfolio assets:

- The portfolios are reviewed by management for any possible indications of impairment or enhancement at the balance sheet date in accordance with IAS 39 – Financial Instruments: Recognition and Measurement. The committee, together with the external auditor, considered the value of the loan portfolio by reference to a cash flow model. Management's key assumptions were examined carefully by the committee, including the profile of expected future cash collection based on the Group's historical collection experience and changes in collection strategies.

Revenue recognition:

- The effective interest rate ("EIR") is determined as at the time of purchase of the loan portfolio and then reassessed and adjusted up to 12 months after the purchase of the loan portfolio to reflect refinements made to estimates of future cash flows based on enhanced data and analysis considered during that time period. The committee considered the EIR of all portfolios and the judgments made by management relating to the expected life and related cash flows. The committee, together with the external auditor, considered the robustness of the EIRs which were found to be acceptable.

Accounting for material, complex transactions:

- The Group is increasingly purchasing portfolios in different asset classes and geographies, which can lead to new and sometimes complex transactions and accounting. The buying process is a multi-stage approach. The underwriting process includes a four stage approval, or gate, process before presentation of the investment memorandum to the investment committee. The committee then determines whether to recommend the purchase to the board (when material or complex) in advance of submission of a final bid. Other complex accounting in the year was in connection with the restructuring of the Group. Where accounting during the year was complicated, the finance team was brought into the process early and accounting papers were produced and disclosed for discussion and approval by the audit and risk committee and external auditor.

External auditor

The committee carried out the following in relation to the external auditor:

- Considered and approved the proposed materiality and audit plan prepared by the external auditor
- Monitored the independence of the external auditor and the effectiveness of the external audit process.

Having considered Deloitte LLP's independence, compliance with regulatory and ethical standards, and assessed its objectivity, the committee unanimously recommended to the board that a resolution for the re-appointment of Deloitte LLP as the Group's external auditor be proposed to shareholders at the 2014 annual general meeting.

The Committee recognises that for the year under review, the non-audit fees are high for the reasons explained on page 42. The committee aim to maintain non-audit fees at a lower level going forward.

The present external auditor was appointed in 2009. The audit engagement partner responsible for the Group audit is due for rotation after the current year audit in line with ethical standards published by the Auditing Practices Board. Should the Group become a member of the FTSE 350, the external audit contract would be tendered in line with the notes on best practice for audit tendering published by the FRC in July 2013 and also in accordance with the Code.

The committee notes that the length of tenure of auditors has been a topic of much debate recently. It is mindful of the Code requirement that, for FTSE 350 members, the external audit contract should be put out for tender every ten years and that even though the company is not yet a member of the FTSE 350, voluntary compliance with this aspect of the Code represents best practice. FRC arrangements for audit tendering do not discount tendering more frequently especially when aligning the tender with the audit partner rotation. Given the required rotation of the audit partner at Deloitte LLP in the coming year, the recent IPO of the Company, compliance on a voluntary basis with the tender provisions in the Code and the need to review the level of non-audit fees going forward, the committee intends to conduct a tender of the audit contract during the course of 2014.

Iain Cornish
Chairman of the audit and risk committee
4 March 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARROW GLOBAL GROUP PLC

Opinion on financial statements of Arrow Global Group PLC

In our opinion:

- **The financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;**
- **The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **The parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006;**
- **The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

The financial statements comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows, and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

As required by the Listing Rules we have reviewed the directors' statement contained within the report of the directors and on page 32 that the Group is a going concern. We confirm that:

- We have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described overleaf are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Loan portfolio impairment reviews The assessment of the carrying value of a purchased loan portfolio is complex and requires management to make significant judgments regarding expectations of future cash flows. The carrying value of the asset is material, as can be seen in note 14 to the financial statements.	The carrying value of the loan portfolio is calculated by reference to an ERC cash flow model. We considered the appropriateness of management's key assumptions used in the impairment calculations for loans and receivables, in particular the profile of expected future cash collection. This involved analysis of the Group's historical collection experience and the Group's historical accuracy of forecasting cash flows, the predicted impact of changes in collection strategies including, where relevant, the past track record of those changes, taking into account the age and composition of the underlying portfolio. We evaluated management's model for mechanical accuracy, involving a Deloitte credit risk specialist to assist in our benchmarking of the effectiveness of the model and key assumptions upon which the model depends, notably the length of time over which cash flows are expected and the treatment of early settlements.
Revenue recognition including setting the EIR The application of the requirement in IAS 39 'Financial Instruments' ("IAS 39") to recognise income on loans and receivables using an EIR method leads to complexity in the valuation of revenue recognised. Setting the EIR requires management to make significant judgements relating to the expected life and related cash flows for each loan as set out in the critical judgements and uncertainties section of the accounting policies on page 76.	We tested the determination of new EIRs by comparing the discount rates set at the acquisition of a portfolio to those used in the initial pricing of the transaction established by the Group's investment committee and we independently recalculate the discount rate based on the expected cash flows established. For established portfolios, we recalculated the revenue based on the EIR set at acquisition date. We recalculated the amortisation of the portfolio assets by evaluating whether cash collections were allocated to specific portfolios accurately. Total cash receipts were compared to the bank statements as a proof in total.
Accounting for material, complex transactions The Group's portfolio acquisition strategy results in significant transactions being entered into through the year. The commercial arrangements may give rise to accounting complexities when determining the flow of risks and rewards and the timing of changes in control.	For each material one-off transaction, we obtained and evaluated management's accounting papers and the related key legal documentation. We independently evaluated, based on the facts available, whether the recognition (or de-recognition) criteria were met and when revenue should accrue to the Group. We considered the presence of contingent clauses and through corroborative enquiry we determined the probability of such contingencies arising.
Accounting for the restructuring of the Group As a result of the IPO, a number of restructuring steps were undertaken, primarily to establish a new PLC parent company domiciled in the UK. The accounting entries established are material and are not in the normal course of business and as a result we consider there to be an increased risk of material misstatement. This is outlined further in the discussion of significant issues considered by the audit and risk committee on page 60.	We have considered the accounting paper which sets out the entries recorded and the rationale to support such entries. We have obtained the documentation which sets out the key terms of the new shareholdings established through the restructuring. We have held discussions directly with the Group's legal advisors to understand the legal steps. We considered the impact on the accounting, for example whether the acquisition is accounted for at book value or fair value under company law and the impact on the associated tax reliefs taken. We also involved Deloitte tax specialists in the review of the documentation and the accounting papers to establish the appropriateness of the tax reliefs applied.

The audit and risk committee's consideration of these risks is set out on page 60.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £1.3 million, calculated as 5% of adjusted profit before taxation. The statutory profit before tax balance has been adjusted to add back the cancellation fee of the revolving credit facility and the costs associated with the issuance of senior secured notes, both of which are for one off, non-recurring items.

We agreed with the audit and risk committee that we would report to the committee all audit differences in excess of £25,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit and risk committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit scope focused primarily on the audit work at the principal location from which all of the Group's operations are directed. Our Group audit scope includes the audit of the consolidation and the main operating components which cover 100% of the Group's principal trading activities in the UK and in Portugal. Statutory audits were performed for subsidiaries and the statutory audits were executed at levels of materiality applicable to each individual entity which were lower than group materiality.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the strategic report and the report to the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006, we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules, we are required to review certain elements of the directors' remuneration report. We have nothing to report arising from these matters or our review.

Corporate governance report

Under the Listing Rules we are also required to review the part of the corporate governance report relating to the Company's compliance with nine provisions of the UK Corporate governance code. We have nothing to report arising from our review.

Our duty to read other information in the annual report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- Otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit and risk committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

David Heaton (senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
4 March 2014

Financial statements

Consolidated statement of comprehensive income
For the year ended 31 December 2013

	Note	Year ended 31 December 2013 underlying £000	Exceptional items 2013 £000	Year ended 31 December 2013 including exceptionals £000	Year ended 31 December 2012 underlying £000	Exceptional items 2012 £000	Year ended 31 December 2012 including exceptionals £000
Continuing operations							
Revenue							
Income from purchased loan portfolios	14	87,330	-	87,330	62,261	-	62,261
Portfolio write up	6, 14	4,843	-	4,843	1,241	-	1,241
Profit on portfolio and loan note sales		1,132	-	1,132	520	-	520
		93,305	-	93,305	64,022	-	64,022
Income from asset management		1,392	-	1,392	1,818	-	1,818
Total revenue		**94,697**	**-**	**94,697**	**65,840**	**-**	**65,840**
Operating expenses							
Collection activity costs		(27,994)	-	(27,994)	(19,645)	-	(19,645)
Professional fees and services	10	(1,733)	-	(1,733)	(3,162)	(1,386)	(4,548)
Other operating expenses	9	(12,159)	(8,600)	(20,759)	(9,817)	(493)	(10,310)
Total operating expenses		**(41,886)**	**(8,600)**	**(50,486)**	**(32,624)**	**(1,879)**	**(34,503)**
Operating profit		**52,811**	**(8,600)**	**44,211**	**33,216**	**(1,879)**	**31,337**
Finance income and costs	7	(19,302)	(3,916)	(23,218)	(19,189)	-	(19,189)
Profit before tax		**33,509**	**(12,516)**	**(20,993)**	**14,027**	**(1,879)**	**12,148**
Taxation charge on ordinary activities	11	(8,350)	2,468	(5,882)	(2,913)	177	(2,736)
Profit for the year attributable to equity shareholders		**25,159**	**(10,048)**	**15,111**	**11,114**	**(1,702)**	**9,412**
Other comprehensive income: foreign exchange translation difference arising on revaluation of foreign operations (which may be reclassified subsequently to profit or loss)		1	-	1	133	-	133
Total comprehensive income for the year attributable to equity shareholders		**25,160**	**(10,048)**	**15,112**	**11,247**	**(1,702)**	**9,545**
Basic and diluted EPS (£)	26	**0.16**		**0.10**	**0.08**		**0.07**
Adjusted EPS (£)	26	**0.17**		**0.11**	**0.19**		**0.18**

Consolidated and parent Company balance sheets
As at 31 December 2013

Assets	Note	Group 31 December 2013 £000	Group 31 December 2012 £000	Company 31 December 2013 £000
Non-current assets				
Intangible assets	12	3,444	3,723	-
Property, plant & equipment	13	259	252	-
Purchased loan portfolios	14	211,787	163,079	-
Investment in subsidiary undertakings	22	-	-	307,500
Loan notes	14	1,668	-	-
Deferred tax asset		12	9	-
Total non-current assets		**217,170**	**167,063**	**307,500**
Current assets				
Cash and cash equivalents		47,520	9,610	77
Other receivables	15	11,701	7,187	49,456
Purchased loan portfolios	14	62,145	45,092	-
Total current assets		**121,366**	**61,889**	**49,533**
Total purchased loan portfolios		*273,932*	*208,171*	-
Total assets		**338,536**	**228,952**	**357,033**
Equity				
Share capital	19	1,744	1,351	1,744
Share premium	19	347,436	275,623	347,436
Retained earnings		33,841	12,868	6,373
Other reserves		(277,848)	(277,287)	(562)
Total equity attributable to shareholders		**105,173**	**12,555**	**354,991**
Liabilities				
Non-current liabilities				
Loans	25	-	206,585	-
Senior secured notes	25	211,920	-	-
Deferred tax liability	11,17	2,646	-	-
Total non-current liabilities		**214,566**	**206,585**	-
Current liabilities				
Trade and other payables	16	13,022	9,812	2,042
Senior secured notes	25	5,775	-	-
Total current liabilities		**18,797**	**9,812**	**2,042**
Total liabilities		**233,363**	**216,397**	**2,042**
Total equity and liabilities		**338,536**	**228,952**	**357,033**

The Company was incorporated as a private limited company on 14 August 2013, and subsequently re-registered as a public limited company on 26 September 2013. Accordingly there is no 2012 comparative Company balance sheet.

See the statement of changes in equity for additional impact to the Group 2012 balance sheet.

Approved by the board of directors on 4 March 2014, signed and authorised for issue on its behalf by:

Rob Memmott
Chief financial officer
Company number: 08649661

Consolidated and parent Company statement of changes in equity

For the year ended 31 December 2013

Group	Ordinary shares* £000	Share premium £000	Retained earnings £000	Own share reserve** £000	Translation reserve ** £000	Merger reserve ** £000	Total £000
Balance at 31 December 2011	**1,351**	**275,623**	**3,456**	**-**	**(459)**	**(276,961)**	**3,010**
Profit for the year	-	-	9,412	-	-	-	9,412
Exchange differences	-	-	-	-	133	-	133
Total comprehensive income for the year	-	-	9,412	-	133	-	9,545
Balance at 31 December 2012	**1,351**	**275,623**	**12,868**	**-**	**(326)**	**(276,961)**	**12,555**
Profit for the year	-	-	15,111	-	-	-	15,111
Exchange differences	-	-	-	-	1	-	1
Total comprehensive income for the year	-	-	15,111	-	1	-	15,112
Issue of shares on debt conversion	149	30,377	-	-	-	-	30,526
Issue of shares at IPO (net of costs)	244	41,436	-	-	-	-	41,680
Repurchase of own shares	-	-	-	(1,430)	-	-	(1,430)
Sale of own shares	-	-	1,501	868	-	-	2,369
Share-based payments	-	-	4,361	-	-	-	4,361
Balance at 31 December 2013	**1,744**	**347,436**	**33,841**	**(562)**	**(325)**	**(276,961)**	**105,173**

Any exchange differences are recycled to the statement of comprehensive income.

The numbers have been prepared on the basis of being continuation accounts as described in the general information on page 70. The shares in place as at the IPO were converted into new shares of 1p each. The transactions occurring during the year have been calculated based on the new share value, which accordingly back dates the values to 31 December 2011.

Company	Ordinary shares* £000	Share premium £000	Retained earnings £000	Own share reserve £000	Total £000
Profit for the year	-	-	511	-	511
Total comprehensive income for the year	-	-	511	-	511
Issue of shares	1,744	347,436	-	-	349,180
Repurchase of own shares	-	-	-	(1,430)	(1,430)
Sale of own shares	-	-	1,501	868	2,369
Share-based payments	-	-	4,361	-	4,361
Balance at 31 December 2013	**1,744**	**347,436**	**6,373**	**(562)**	**354,991**

* See note 19 for details on the composition of ordinary shares

** Other reserves total £277,848 deficit (2012: £277,287 deficit)

Own share reserve

The own share reserve comprises the cost of the Company's ordinary shares held by the Group. At 31 December 2013, the Group held 251,572 ordinary shares of 1p each, held in an employee benefit trust. This represents 0.1% of the Company share capital at 31 December 2013.

Consolidated and parent Company statement of cash flows

For the year ended 31 December 2013

Cash flows from operating activities	Group year ended 31 December 2013 £000	Group year ended 31 December 2012 £000	Company year ended 31 December 2013 £000
Adjusted for:			
Profit before tax	20,993	12,148	705
Collections in the year	127,840	88,720	-
Income from purchased loan portfolios	(87,330)	(62,261)	-
Portfolio write up	(4,843)	(1,241)	-
Proceeds from disposal of purchased loan portfolios	2,474	1,137	-
Profit on disposal of purchased loan portfolios	(1,132)	(520)	-
Amortisation of legal acquisition fees on portfolios and financing costs	4,554	230	-
Depreciation and amortisation	752	835	-
Goodwill impairment (exceptional non cash item)	2,309	-	-
Increase in rolled up interest on shareholders' loans	1,291	14,882	-
Increase in rolled up interest on non-controlling interest loans	30	349	-
Increase in interest on secured loan notes	15,978	-	-
Foreign exchange (gains)/losses	(23)	348	-
(Gain)/loss on fair values on derivatives	(815)	424	-
Equity settled share-based payment expenses	4,361	-	4,361
Cash from secured loan notes from third party	100	-	-
Operating cash flows before movement in working capital	**86,539**	**55,051**	**5,066**
Increase in other receivables	(4,701)	(1,602)	-
Increase in amounts due from subsidiary undertakings	-	-	(48,128)
Increase in trade and other payables	1,820	31	520
Payment of deferred consideration	-	(1,065)	-
Cash generated by/(used in) operations	**83,658**	**52,415**	**(42,542)**
Income taxes and overseas taxation paid	(4,269)	(3,173)	-
Net cash flow from operating activities before purchases of loan portfolios and loan notes	**79,389**	**49,242**	**(42,542)**
Purchases of purchased loan portfolios	(84,308)	(84,431)	-
Purchases of loan notes	(1,798)	-	-
Net cash used in operating activities	**(6,717)**	**(35,189)**	**(42,542)**
Investing activities			
Purchase of property, plant and equipment	(143)	(40)	-
Purchase of intangible assets	(341)	(679)	-
Repurchase of own shares	(1,430)	-	(1,430)
Sale of own shares	2,369	-	2,369
Acquisition of subsidiary, net of cash acquired	(17,826)	-	-
Net cash (used in)/generated by investing activities	**(17,371)**	**(719)**	**939**
Financing activities			
Proceeds of issued share capital	41,680	-	41,680
Proceeds from additional loans	6,884	92,921	-
Proceeds from senior notes (net of fees)	210,626	-	-
Repayment of interest on senior notes	(10,202)	-	-
Repayment of bank loan	(106,859)	(53,814)	-
Repayment of shareholders' loans	(77,350)	-	-
Repayment of non-controlling interest loans	(2,650)	-	-
Net cash flow generated by financing activities	**62,129**	**39,107**	**41,680**
Net increase in cash and cash equivalents	**38,041**	**3,199**	**77**
Cash and cash equivalents at beginning of year	9,610	6,440	-
Effect of exchange rates on cash and cash equivalents	(131)	(29)	-
Cash and cash equivalents at end of year	**47,520**	**9,610**	**77**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Arrow Global Group PLC is a company incorporated in England and Wales and is the ultimate parent company of the Group. The address of the registered office is presented on page 98. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

The Company was incorporated as a private limited company on 14 August 2013. On 26 September 2013, the Company was re-registered as a public limited company and its name changed from Arrow Global Group Limited to Arrow Global Group PLC.

The Company acquired by way of share for share exchange the entire issued share capital of Arrow Global One Limited, which in turn had acquired by way of share for share exchange the entire issued share capital of Arrow Global Guernsey Holdings Limited (the previous ultimate holding company of the Group) on 7 October 2013 as part of a restructure of the Group. The terms of the restructure required the principles of merger accounting for group reconstructions to be applied to the accounts.

The adoption of merger accounting presents the Company as if it had always been the parent undertaking of the Group. As the Company was not incorporated until 14 August 2013, the consolidated results and details of the financial position prior to this date reflect those presented previously as the results and financial position of Arrow Global Guernsey Holdings Limited, the former parent of the Group, except that they have been restated in that the share capital of Arrow Global Guernsey Holdings Limited has been reclassified and a merger reserve recognised as if the share capital for the prior years reflected the Company's shares issued as part of the reconstruction.

Under IFRS, the Group reconstruction is treated as a common control transaction, for which there is no specific accounting guidance. Consequently the board of directors have had regard to the guidance in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the selection of accounting policies and have adopted merger accounting in accordance with the provisions of Financial Reporting Standard 6 in the United Kingdom.

The Company became listed on the London Stock Exchange on 11 October 2013 as part of an IPO. The Company's subsidiaries, both direct and indirect, at this date (the Group) are listed in note 22.

Through its subsidiary companies, the Group acquires certain pools of semi-performing and/or charged-off consumer loans pursuant to the terms of each specific purchase agreement. The Group enters into contractual servicing agreements with other third parties to collect the receivables, to administer and disburse the proceeds of the receivables.

The Group's financial statements for the year ended 31 December 2013 have been prepared in accordance with IFRS as adopted for use in the EU, and therefore comply with Article 4 of the EU IFRS Regulation. The accounting policies have been applied consistently in the current and prior periods.

2. ADOPTION OF NEW AND REVISED STANDARDS

The following new standards, amendments to standards and interpretations are mandatory for the first time for the year beginning 1 January 2013.

IFRS 7 (amendment) 'Disclosures – Offsetting Financial Assets and Financial Liabilities' amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment does not have a significant impact on profit or loss, financial position, or cash flows.

IFRS 13 'Fair Value Measurements' defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price), sets out a single IFRS framework for measuring fair value, and requires disclosures about fair value measurements. The Group's financial statements include appropriate disclosure. The quantitative impact is not material.

IAS 19 (revised) 'Employee Benefits' revises several areas of IAS 19 to improve the transparency of financial reporting for employee benefits, particularly in respect of defined benefit schemes. The changes have no impact on the financial statements.

Improvements 2011 'Annual Improvements to IFRS: 2009-2011 Cycle' sets out amendments to IFRSs and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. The amendments did not impact the financial statements.

The following standards, interpretations and amendments to existing standards are not yet effective and have not been early adopted by the Group:

NOTES TO THE FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED STANDARDS CONTINUED

IFRS 9 'Financial Instruments' is the first step in the process to replace IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. This IFRS is to be applied by the Group when it has EU endorsement. The Group is in the process of assessing the potential impact of this Standard on its consolidated financial statements but it is not expected to have a material impact on the financial statements.

IAS 32 (amendment) 'Offsetting Financial Assets and Financial Liabilities' added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. These amendments are to be applied for annual periods beginning on or after 1 January 2014.

The following standards are not expected to have a material impact on the Group's financial statements:

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IAS 27 (revised) 'Separate Financial Statements'
- IAS 28 (revised) 'Investments in Associates and Joint Ventures'

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with IFR. The financial statements have also been prepared in accordance with IFR adopted by the European Union and therefore the Group financial statements comply with EU IAS Regulation.

The financial statements of the Group have been prepared under the historical cost convention other than the fair value of derivative contracts and the amortised cost value of portfolio assets.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the ompany and entities controlled by the Company (its subsidiaries) made up to 31 December 2013 and comparative period. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, 'Non Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill

Goodwill represents the excess of the total consideration transferred for an acquired entity and the Group's interest in the fair value of the identifiable assets acquired and liabilities assumed of that entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from the synergies of the combination. CGU to which goodwill has been allocated are tested for impairment annually or more frequently whenever there is an indication that the unit may be impaired by comparing the carrying amount of the CGU, including goodwill, with the recoverable amount of the CGU.

The Group calculates the recoverable amount of this CGU by determining the higher of fair value less cost to sell and its value in use. The key assumptions for the value in use calculation are those regarding the forecast cash flows during the forecast period and the long-term growth rate in revenue utilised to value the cash flows into perpetuity.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU to which goodwill has been allocated, the goodwill associated with that operation is included in the carrying amount of the operation when determining the profit or loss on disposal.

Revenue recognition

Purchased loan portfolios are financial instruments that are accounted for under IAS 39 and are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a purchased loan portfolio and of allocating interest income over the expressed life of the portfolio; the allocated interest income is recorded as income from purchased loan portfolios in the Financial Statements. The EIR is the rate that exactly discounts estimated future purchased portfolio cash receipts through the expected life of the purchased portfolio asset. The EIR is determined as at the time of purchase of the loan portfolio and then reassessed and adjusted up to 12 months after the purchase of the loan portfolio to reflect refinements made to our estimates of future cash flows based on enhanced data and analysis considered during that time period. This adjustment has historically not resulted in any material impact on income from purchased loan portfolios. When an individual portfolio's carrying value is completely recovered, we recognise any subsequent collections as revenue as it is received.

Upward revaluations ('uplifts') are recognised as revenue. Subsequent reversals of such uplifts are recorded in the revenue line. If such reversals exceed cumulative revenue recognised to date, a provision for impairment is recognised which is reflected as a separate income statement line item.

The portfolio asset is analysed between current and non-current in the balance sheet. The current asset is determined using the expected cash flows arising in the next 12 months after the balance sheet date. The residual amount is classified as non-current.

Revenue on assets under management

In accordance with IAS 18, the Company recognises revenue on its managed services contracts when the right to receive such revenue is reasonably assured and can be measured reliably. The right to receive such revenue is measured in reference to services rendered based on the stage of completion, regardless of milestone payments received.

Impairment of purchased loan portfolios

The portfolios are reviewed for any possible indications of impairment at the balance sheet date in accordance with IAS 39. Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio. If the forecast portfolio collections exceed initial estimates, a portfolio basis adjustment is recorded as an increase to the carrying value of the portfolio and is included in income from purchased loan portfolios. Where portfolios have been newly acquired, the Company identifies an incubation period, during which time the portfolio is reviewed for signs of impairment but for which the EIR is not formally set. The incubation period lasts for no more than 12 months subsequent to the acquisition date of the portfolio. If the forecast portfolio collections are lower than previous forecasts, the cumulative revenue recognised is considered as described in the revenue recognition accounting policy.

Exceptional items

Exceptional items are those which are separately identified by virtue of their size and incidence to allow a full understanding of the underlying performance of the Group.

Interest income from secured loan notes

The Group has entered into lending arrangements with third parties to provide capital to purchase non-performing consumer debt portfolios (see note 14). Interest income is recognised throughout the year using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life.

Retirement benefit costs

Payments to defined contribution retirement schemes are charged as an expense as they fall due.

The Group has, for the period covered by these financial statements, only made contributions to defined contribution plans to provide pension benefits for employees upon retirement and, otherwise, has no residual obligation or commitments in respect of any defined benefit scheme.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in the other-comprehensive income.

Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current taxation, including UK corporation tax and foreign tax, is based on the taxable profit for the year and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at each reporting date. Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current taxation is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the corporation taxation is also dealt with in equity.

Deferred tax

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at each reporting date.

Such assets and liabilities are not recognised if the temporary difference arises from 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 taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, 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.

Deferred taxation is measured at the average tax rates that are expected to apply in the years in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at each reporting date. The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred taxation is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred taxation is also dealt with in equity.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Share based payments transactions
Share based payments transactions in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share based payments.

The grant date fair value of the share based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employee become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model were required, taking into accounts the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share based payments with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. Where the Company grants rights to its equity instruments to employees of its subsidiaries, the costs are recharged to the subsidiary in line with the requirements of IFRS 2 'Share based payments'.

Shares held in an employee benefit trust ("EBT")
Transactions of the Group sponsored EBT are treated as being those of the Group and are therefore reflected in these financial statements.

Property, plant and equipment and other intangibles
Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method on the following basis:

Furniture	- five years
Computer equipment	- three years
Leasehold improvements	- five years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Acquired licences are capitalised at cost and amortised over the shorter of contractual life and useful economic life.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Purchased loan portfolios and secured loan notes
The Group's purchased loan portfolios and secured loan notes are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Under IAS 39, such assets are classified as 'loans and receivables' and are measured at amortised cost using the effective interest method less any impairment.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity instruments
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRS. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

Financial liabilities are held at amortised cost using the effective interest method. The EIR is calculated by estimating the cash flows arising from the contractual terms of the instrument over its expected life. Transaction costs are included within the EIR and deducted from the initial carrying value of the debt instrument.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Derivative financial instruments
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Cash and cash equivalents
Cash and cash equivalents comprise demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Capitalisation of legal transaction fees
Legal transaction fees associated with the purchase of portfolios are allocated to the purchase price of the portfolio and included within the EIR applied against the asset value.

Operating expenses
Operating expenses relate to administration and costs associated with collection activities. All operating costs are accounted for on an accruals basis.

Fair value measurements
The fair value of financial instruments is determined in accordance with IFRS 13 in the manner described in note 23.

Going concern
The directors are required to make an assessment of the Group's ability to continue to trade as a going concern for the foreseeable future. The directors have given this matter due consideration through a review of forecast cash flow models and scenarios and current cash availability and have concluded that it is appropriate to prepare the Group financial statements on a going concern basis. The main considerations were as follows:

The Group is highly cash generative receiving weekly cash flows and has a low fixed cost base. As at 31 December 2013, the Group had an available £55 million overdraft facility, which was undrawn. The Group also had £47.5 million cash balance as at 31 December 2013. The directors have reviewed the available headroom of the Group, and confirmed that the Group has sufficient resources to meet future obligations as they fall due.

The principal covenants of the revolving credit facility that the Group currently has in place are loan to value ("LTV") ratio of no more than 75% and a super senior loan to value ("SSLTV") ratio of no more than 25%, both tested quarterly.

The SSLTV ratio as at 31 December 2013 was 0% and the LTV ratio 31.6%. Both covenants were comfortably met throughout the year to 31 December 2013. The directors have reviewed the Group's financial projections covering a minimum period of at least 12 months from the date of signing of these financial statements and the projections show covenant compliance.

The Company had a profit for the period from incorporation to 31 December 2013 of £511,000. With net current assets of £47,491,000, the directors deem this sufficient to cover a minimum period of at least 12 months from the date of signing these financial statements.

The Group is able to generate strong cash flows even in difficult general market conditions. The Group's cash flow projections confirm that the Group will remain well within its facilities for a minimum period of at least 12 months from the data of signing these financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

Critical judgements in applying accounting policies
The following are the critical judgements that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

a) Revenue recognition

Purchased loan portfolios are financial instruments that are accounted for under IAS 39 and are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a purchased loan portfolio and of allocating interest income over the expressed life of the portfolio; the allocated interest income is recorded as income from purchased loan portfolios in the financial statements. The EIR is the rate that exactly discounts estimated future purchased portfolio cash receipts through the expected life of the purchased portfolio asset. The EIR is determined as at the time of purchase of the loan portfolio and then reassessed and adjusted up to 12 months after the purchase of the loan portfolio to reflect refinements made to our estimates of future cash flows based on enhanced data and analysis considered during that time period. This adjustment has historically not resulted in any material impact on income from purchased loan portfolios. When an individual portfolio's carrying value is completely recovered, we recognise any subsequent collections as revenue as it is received. The estimation of cash flow forecasts is a key estimation uncertainty fundamental within this critical accounting policy. Further explanation is given in c) below.

Upward revaluations ('uplifts') are recognised as revenue. Subsequent reversals of such uplifts are recorded in the revenue line. If such reversals exceed cumulative revenue recognised to date, a provision for impairment is recognised which is reflected as a separate income statement line item.

b) Impairment of purchased loan portfolios

The portfolios are reviewed for any possible indications of impairment at the balance sheet date in accordance with IAS 39. Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio. If the forecast portfolio collections exceed initial estimates, a portfolio basis adjustment is recorded as an increase to the carrying value of the portfolio and is included in income from purchased loan portfolios. Where portfolios have been newly acquired, the Company identifies an incubation period, during which time the portfolio is reviewed for signs of impairment but for which the EIR is not formally set. The incubation period lasts for no more than 12 months subsequent to the acquisition date of the portfolio. If the forecast portfolio collections are lower than previous forecasts, the cumulative revenue recognised is considered as described in the revenue recognition accounting policy. The estimation of cash flow forecasts is a key estimation uncertainty fundamental within this critical accounting policy. Further explanation is given in c) below.

c) Estimation of cash flow forecasts

Estimates of cash flows that determine the EIR are established for each purchased portfolio over 12 months old and are based on our collection history with respect to portfolios comprising similar attributes and characteristics such as date of purchase, original credit grantor, type of receivable, customer payment histories, customer location, and the time since the original charge-off. Revaluations of portfolios are based on the rolling 84-month ERC at the revaluation date. This ERC is updated quarterly using a proprietary model. ERC represents an estimate of the undiscounted cash value of our purchased loan portfolios at a point in time.

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENTAL REPORTING

The Group represents a single reportable segment. The majority of its operations derive revenue from the UK.

Collections information is available for the UK and Portugal operations. Such information does not constitute sufficient information upon which to base resource allocation decisions. This is the only information analysed between the UK and Portugal received on a regular basis by the chief operating decision maker ("CODM") and consequently one segment was identified. The CODM is considered to be the board of directors collectively.

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Total revenue	**94,697**	**65,840**
Adjusted EBITDA	89,566	61,940
Portfolio amortisation	(40,510)	(26,459)
Portfolio write up	4,843	1,241
Depreciation and amortisation	(752)	(835)
Foreign exchange gains/(losses)	23	(348)
Amortisation of acquisition and bank facility fees	(359)	(2,323)
Exceptional items	(8,600)	(1,879)
Operating profit	**44,211**	**31,337**
Interest income and costs	(19,558)	(18,738)
Fair value gains/(losses) on interest rate swaps	894	(451)
Amortisation of financing costs	(4,554)	-
Profit before tax	**20,993**	**12,148**
Taxation	(5,882)	(2,736)
Profit for the year attributable to equity shareholders	**15,111**	**9,412**

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Purchased loan portfolios	273,932	208,171
Balance sheet		
Total segment assets	338,524	228,943
Total segment liabilities	(227,823)	(214,764)
Segment net assets	**110,701**	**14,179**
Unallocated assets which is represented by deferred tax balances	9	9
Unallocated liabilities which is represented by deferred and current tax balances	(5,537)	(1,633)
Consolidated net assets	**105,173**	**12,555**

Additions to non-current assets are disclosed in notes 12, 13 and 14.

NOTES TO THE FINANCIAL STATEMENTS

6. PROFIT FOR THE YEAR

Profit for the year has been arrived at after crediting/(charging):	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Net foreign exchange gains/(losses)	23	(348)
Operating leases – properties	(249)	(180)
Portfolio write up (note 14)	4,843	1,241
Depreciation and amortisation (note 12 and 13)	(752)	(835)
Goodwill impairment (note 12)	(2,309)	-

7. FINANCE INCOME AND COSTS

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Finance income		
Bank interest	57	-
Finance costs		
Interest on minority interest loans	(30)	(349)
Interest and similar charges on bank loans	(1,970)	(3,507)
Interest on senior secured notes	(15,978)	-
Other interest	(346)	-
Shareholder interest expense (note 21)	(1,291)	(14,882)
Total interest costs	**(19,615)**	**(18,738)**
Fair value gains/(losses) on interest rate swaps	894	(451)
Amortisation of financing costs	(4,554)	-
Total finance costs including exceptional items	**(23,275)**	**(19,189)**
Total finance income and costs including exceptional items	**(23,218)**	**(19,189)**
Exceptional finance costs	3,916	-
Total finance income and costs	**(19,302)**	**(19,189)**

During the year, the Group has issued £220 million of 7.875% senior secured notes. See note 25 for further information. The proceeds were used to settle existing loans and facilities and accordingly accelerated amortisation and settlement fees were incurred, which can be seen in exceptional finance costs above.

NOTES TO THE FINANCIAL STATEMENTS

8. AUDITOR'S REMUNERATION

The analysis of auditor remuneration is as follows:	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Fees payable for audit services - Company	40	25
Fees payable for audit services - subsidiaries	94	89
Total fees payable for audit services	134	114
Fees payable for tax compliance	93	53
Fees payable for tax advisory services	605	238
Total fees payable for taxation services	698	291
Fees payable for corporate finance services - advisory	108	-
Fees payable for corporate finance services - other	631	200
Total fees payable for corporate finance services	739	200
Fees payable for other assurance services	110	196
Total fees payable for non-audit services	1,547	687
Total fees payable	**1,681**	**801**

9. STAFF COSTS AND OTHER OPERATING EXPENSES

a) Other operating expenses

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Staff costs (9. b)	14,118	6,102
Other staff related costs	1,142	967
Premises	574	529
IT	913	677
Depreciation and amortisation	752	835
Net foreign exchange (gains)/losses	(23)	348
Goodwill impairment	2,309	-
Other operating expenses	974	852
Total operating expenses including exceptional items	**20,759**	**10,310**
Exceptional items:		
Goodwill impairment (note 12)	(2,309)	-
Staff costs	(6,112)	(323)
Other	(179)	(170)
Total exceptional items	(8,600)	(493)
Total operating expenses excluding exceptional items	**12,159**	**9,817**

Exceptional items include items that, by virtue of their size and incidence, are not considered to be representative of the on-going performance of the Group.

In the year to 31 December 2013, goodwill arose upon the acquisition of Arrow Global Accounts Management Limited. As the goodwill was not supportable, this was fully impaired (see note 27). The remaining exceptional items in the year were exceptional restructuring costs associated with the senior secured notes issuance of £1,005,000 and IPO related staff and other costs of £5,286,000, the main item being £4,361,000 of share option charges. In the year to 31 December 2012, the exceptional items represented costs associated with the senior secured notes issuance and restructuring costs.

NOTES TO THE FINANCIAL STATEMENTS

9. STAFF COSTS AND OTHER OPERATING EXPENSES CONTINUED

b) Staff costs

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Wages, bonuses and salaries	13,019	5,179
Payments for termination of employment of key management	-	158
Payments for termination of employment of employees	-	7
Pension costs	227	157
Social security costs	872	601
	14,118	**6,102**

The total directors' personnel remuneration (including non-executive directors) during the year was £3,876,000, including £2,126,000 of exceptional costs (2012: £1,185,000) and included £31,000 in relation to pension costs (2012: £39,000).

The remuneration of the highest paid director during the year was £2,171,000 (2012: £395,000) including pension costs of £11,000 (2012: £15,000).

At 31 December 2013, there was an accrual in respect of pension costs of £nil (2012: £22,000).

The average monthly number of employees (including executive directors) are analysed below:

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Data and systems	44	31
Business support	50	46
Management	7	6
Finance	8	7
	109	**90**

10. PROFESSIONAL FEES AND SERVICES

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Professional fees and services	**1,733**	**4,548**
Exceptional items:		
Project and legal-related expenses	-	(1,386)
Professional fees and services excluding exceptional items	**1,733**	**3,162**

Exceptional project and legal-related expenses relate to corporate restructuring and transaction advisory fees.

NOTES TO THE FINANCIAL STATEMENTS

11. TAX

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax. The effective tax rate for the year ended 31 December 2013 is higher than the standard rate of corporation tax in the UK at 23.25%. The differences are as follows:

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Profit before tax	20,993	12,148
Tax charge at standard UK corporation tax rate	4,881	2,976
Adjustment in respect of prior years	33	81
Expenses not deductible for tax purposes	922	35
Differences on share based payments	(15)	-
Differences in tax rates	(410)	-
Differences on hedging arrangements	85	-
Other	-	6
Differing overseas tax rates	386	(362)
Tax charge	**5,882**	**2,736**
Effective tax rate relating to continuing operations	**28.0%**	**22.5%**
Standard UK corporation rate for the year	**23.25%**	**24.5%**
Effective tax rate higher/lower than standard UK corporation rate for the year	**Higher**	**Lower**

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Tax charge for the year consists of:		
Current tax charge:		
UK and foreign corporation tax based on profit for the year	5,471	2,426
Adjustment in respect of prior years	78	181
Total current tax charge	**5,549**	**2,607**
Deferred tax charge/(credit):		
Origination and reversal of temporary differences	788	229
Adjustment in respect of prior years	(45)	(100)
Differences in tax rates	(410)	-
Total tax charge	**5,882**	**2,736**

The Group has been involved in on-going discussions with HMRC with respect to the VAT implications of the business activities performed in Guernsey prior to January 2013, when the Group was restructured. To date these discussions have related exclusively to requests for and provision of factual information. HMRC have not yet confirmed to the Group whether they agree that Arrow Global Guernsey Limited's business activities were such that it did not have a fixed place of business in the UK. Accordingly, no provision has been made in these financial statements in respect of this matter. HMRC have indicated that they expect to be able to confirm their position in the near future.

NOTES TO THE FINANCIAL STATEMENTS

11. TAX CONTINUED

Deferred tax

The Group has not recognised a deferred tax asset in respect of £249,000 (2012: £249,000) of tax losses carried forward. These losses are available for offset against future non-trading profits and have no expiry date.

The Finance Act 2013, which was substantively enacted in July 2013, included provisions to reduce the rate of UK corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. Deferred taxation is measured at the tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly, deferred tax balances have been revalued to the lower rate of 20% in these accounts.

A deferred tax liability of £2,309,000 was recognised on acquisition of Arrow Global Accounts Management Limited as described in note 27. The liability will unwind over the next ten years. Over the life of the portfolio asset, the Group considers the recognition of the deferred tax liability does not increase the level of tax payments expected to be made.

Exceptional tax

We have identified exceptional items in the year amounting to £12,516,000 (2012: £1,879,000). All exceptional items are taxable with the exception of the £2,309,000 goodwill impairment in the year.

12. INTANGIBLE ASSETS

Cost	Software licences £000	Goodwill £000	Total £000
At 1 January 2013	2,632	1,968	4,600
Goodwill on acquisition of subsidiary	-	2,309	2,309
Removal of fully depreciated assets	(180)	-	(180)
Additions	341	-	341
At 31 December 2013	**2,793**	**4,277**	**7,070**
Amortisation and impairment			
At 1 January 2013	877	-	877
Goodwill Impairment	-	2,309	2,309
Removal of fully depreciated assets	(176)	-	(176)
Amortisation charge for the year	616	-	616
At 31 December 2013	**1,317**	**2,309**	**3,626**
Net book value			
At 31 December 2013	**1,476**	**1,968**	**3,444**
At 31 December 2012	1,755	1,968	3,723

On the 28 February 2013, the Group acquired Arrow Global Accounts Management Limited for cash consideration of £18,909,000 (see note 27). The consideration was allocated to the fair value of net assets, which primarily related to portfolio assets recognised at fair value. Following the restatement of the portfolio assets from UK GAAP to IFRS a deferred tax liability has been recognised reducing net assets by £2,309,000. The corresponding increase in goodwill was then subject to an impairment assessment and was immediately impaired, as the cash consideration was primarily supported by the portfolio assets, and did not support the increased level of goodwill. The fair value of the assets less costs to dispose was also considered to be insufficient to support the increased level of goodwill. Over the life of the portfolio asset, we consider the recognition of the deferred tax liability does not increase the level of tax payments expected to be made.

NOTES TO THE FINANCIAL STATEMENTS

12. INTANGIBLE ASSETS CONTINUED

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Except for the goodwill generated in relation to the acquisition in the year, the remaining goodwill is attributable to Arrow Global Receivables Management Limited which is considered to be the only CGU to which the remaining purchased goodwill relates. The recoverable amount of this CGU is determined from value in use calculations and no impairment has been identified. The key assumptions for the value in use calculations are those regarding the discount rate and forecast cash collections net of direct collection costs. Management estimates discount rates using pre-tax rates that reflect weighted average cost of capital of the CGU. The discount rate was revised in June 2013 in light of the economic environment and to risks specific to the CGU. The rate used to discount the forecast cash flows from this CGU is 20% (2012:15%). Had the 20% rate been applied consistently throughout the historical period, no impairment would have been identified.

The Group has conducted a sensitivity analysis on the impairment test of the CGU's carrying value. An increase in the discount rate of 1% would produce a £60,000 decrease in fair value.

The Group's cash flow forecasts are those used in the assessment of the portfolio valuation and have been approved by key management personnel. There is no concentration within any particular portfolio and at the beginning and end of the financial year the recoverable amount of the CGU was substantially in excess of its book value and therefore management deem it reasonable not to impair the carrying amount of goodwill.

13. PROPERTY, PLANT AND EQUIPMENT

Cost	Leasehold improvements £000	Computer equipment £000	Furniture £000	Total property, plant and equipment £000
At 1 January 2013	346	323	163	832
Additions	-	19	124	143
At 31 December 2013	**346**	**342**	**287**	**975**
Accumulated depreciation				
At 1 January 2013	242	251	87	580
Charge for the year	50	45	41	136
At 31 December 2013	**292**	**296**	**128**	**716**
Carrying amount				
At 31 December 2013	**54**	**46**	**159**	**259**
At 31 December 2012	104	72	76	252

NOTES TO THE FINANCIAL STATEMENTS

14. FINANCIAL ASSETS

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Non current:		
Purchased loan portfolios	208,042	162,125
Portfolio write up	3,745	954
	211,787	**163,079**
Loan notes	1,668	-
	213,455	**163,079**
Current:		
Purchased loan portfolios	61,047	44,805
Portfolio write up	1,098	287
	62,145	**45,092**
Total	**275,600**	**208,171**

At 31 December 2013, the directors calculated the fair value of portfolios and loan notes under IFRS 13 to be £281,386,000, which is £7,454,000 higher than the carrying value. The directors applied a discount rate of 20% net of cash flows, which was calculated using a consistent methodology as at 31 December 2012.

The directors consider that there was no material difference between the carrying value and fair value of the assets for the comparative year.

Purchased loan portfolios
The Group recognises income from purchased loan portfolios in accordance with IAS 39. At 31 December 2013, the carrying amount of the purchased loan portfolio asset was £273,932,000 (2012: £208,171,000).

The movements in purchased loan portfolio assets were as follows:

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
As at the year brought forward	208,171	150,005
Portfolios acquired during the year *	84,308	84,431
Portfolios acquired through acquisition of a subsidiary	18,301	-
Collections in the year	(127,840)	(88,720)
Income from purchased loan portfolios	87,330	62,261
Exchange gain/(loss) on purchased loan portfolios	161	(200)
Amortisation of legal acquisition fees on portfolios	-	(230)
Disposal of purchased loan portfolios	(1,342)	(617)
Portfolio write up	4,843	1,241
As at the year end	**273,932**	**208,171**

* Inclusive of capitalised portfolio expenditure of £1,759,000 (2012: £453,000)

NOTES TO THE FINANCIAL STATEMENTS

15. OTHER RECEIVABLES AND PREPAYMENTS

	Group year ended 31 December 2013 £000	Group year ended 31 December 2012 £000	Company year ended 31 December 2013 £000
Prepayments	9,033	5,742	-
Due from subsidiary undertakings (note 21)	-	-	49,456
Other receivables	2,116	1,219	-
Derivative asset (note 23)	507	143	-
Current tax asset	-	38	-
Deposits	45	45	-
	11,701	**7,187**	**49,456**

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

16. TRADE AND OTHER PAYABLES

	Group year ended 31 December 2013 £000	Group year ended 31 December 2012 £000	Company year ended 31 December 2013 £000
Trade payables	4,375	3,146	-
Current tax liability	2,894	1,633	193
Derivative liability	-	451	-
Taxation and social security	-	69	-
Due from subsidiary undertakings (note 21)	-	-	1,329
Other liabilities and accruals	5,753	4,513	520
	13,022	**9,812**	**2,042**

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

17. DEFERRED TAX LIABILITY

	Group year ended 31 December 2013 £000	Group year ended 31 December 2012 £000
Fair value adjustment on acquired debt portfolio within a subsidiary*	1,841	-
Share schemes	598	-
Other	207	-
	2,646	**-**

* A deferred tax liability of £2,309,000 was recognised on acquisition of Arrow Global Accounts Management Limited as described in note 27, with the liability being unwound over the next ten years. See note 11 for more information.

NOTES TO THE FINANCIAL STATEMENTS

18. SHAREHOLDERS' LOANS

Up to 29 January 2013, the Group has a nominal amount of £66,625,000 of £1 loan stock accruing interest at 15% per annum in issue. The loan stock and accrued interest were repayable at the earliest of the sale of the business or 31 December 2015.

The Group issued £220 million senior secured notes on 29 January 2013. At this date, there were shareholders' loan notes of £107.9 million, which included accrued and unpaid interest owing. As part of the process of issuing the senior secured notes, the shareholders' loan notes were settled through a cash repayment of £77.4 million, with the remaining £30.5 million being converted into equity in Arrow Global Guernsey Holdings Limited.

	Group year ended 31 December 2013 £000	Group year ended 31 December 2012 £000	Company year ended 31 December 2013 £000
Loan received from shareholders	-	66,625	-
Interest accruing at 15% per annum	-	39,960	-
	-	**106,585**	**-**

19. SHARE CAPITAL

Issued and fully paid	**£000**
174,439,026 ordinary shares of 1p each	1,744
	1,744

Between 14 August 2013 and 7 October 2013, the Group undertook a reorganisation of its corporate structure that resulted in the Company becoming the ultimate holding company of the Group and Arrow Global One Limited becoming the Company's direct subsidiary. This reorganisation involved the following principal steps:

- the Company was incorporated as a private limited company and subsequently re-registered as a public limited company;
- all of the shares in Arrow Global Group Holdings Limited ("AGGHL") were transferred from its then existing shareholders (the "Original Shareholders") to Arrow Global One Limited;
- Arrow Global One Limited issued ordinary shares to the Original Shareholders in consideration for the transfer of shares in AGGHL to Arrow Global One Limited (following which it became the sole shareholder of AGGHL);
- all of the shares in Arrow Global One Limited were then transferred by the Original Shareholders to the Company; and
- the Company issued ordinary shares to the Original Shareholders in consideration for the transfer of shares in Arrow Global One Limited to the Company (following which the Company became the sole shareholder of Arrow Global One Limited).

The consideration made by Arrow Global One Limited and the Company, was accounted for at fair value as per IAS 27 (2011) 'Separate Financial Statements'. This lead to the creation of a merger reserve on consolidation. See note 1, general information on page 70, for further details.

Total consideration for the shares was £349,180,000, giving rise to a share premium of £347,436,000. £41,680,000 was raised as part of the IPO, net of £8,420,000 of IPO costs, which were netted against the share premium account in accordance with the Companies Act 2006, section 610. The Company's ordinary shares carry the right to receive dividends and distributions paid by the Company. The shareholders have the right to receive notice of and to attend and vote at all general meetings of the Company.

NOTES TO THE FINANCIAL STATEMENTS

20. LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group year ended 31 December 2013 £000	Group year ended 31 December 2012 £000
Less than 1 year	105	189
1-5 years	198	173
5+ years	655	-
	958	**362**

Operating lease payments represent rentals payable by the Group for certain of its office properties.

21. RELATED PARTY TRANSACTIONS

Group
Related party balances as at each year end were as follows:

As at 31 December 2013:	RB Investments limited £000	Key management personnel £000	Other minority shareholders £000	Total £000
Trade	-	2	-	2
	-	**2**	**-**	**2**
As at 31 December 2012:	**£000**	**£000**	**£000**	**£000**
Non-controlling interest loan	-	-	(2,619)	(2,619)
Shareholders' loans	(106,585)	-	-	(106,585)
	(106,585)	**-**	**(2,619)**	**(109,204)**

Remuneration for directors and key management personnel have been disclosed in note 9 along with the P&L charges in the year and in the remuneration report. The P&L charges for other balances are disclosed in note 7.

Summary of transactions
A loan for £11,000,000 was received by Arrow Global Guernsey Holdings Limited from RBS Asset Management Limited on 29 October 2012 and repaid on 2 November 2012. The loan was advanced to facilitate the acquisition of a portfolio while in the process of drawing under the existing revolving credit facility. Interest on the loan was repayable at 18%.

£1,388,027 in relation to a loan note instrument was repaid in full in January 2013 to Lewylang LP, a party related to Zachary Lewy.

All remaining balances on loans were repaid on 29 January 2013 as part of the refinancing and issuance of senior secured notes described in note 25.

On 6 September 2013, Shawbrook Bank Limited (which is an investment of RBS Special Opportunities Fund) committed £10 million as lender under the revolving credit facility. Shawbrook Bank Limited was paid customary fees by the Group in connection with this commitment (on the same basis as the other lenders under the revolving credit facility).

During the year GKV Limited, owned by non-executive director Gillian Key-Vice, charged the Group £5,061 in relation to consultancy services provided on Group projects.

NOTES TO THE FINANCIAL STATEMENTS

21. RELATED PARTY TRANSACTIONS CONTINUED

Company

Related party balances as at each year end were as follows:

As at 31 December 2013	Arrow Global Group Holdings Limited £000	Arrow Global Limited £000	Total £000
Intercompany receivables	-	49,456	49,456
Intercompany payables	(1,329)	-	(1,329)
	(1,329)	**49,456**	**48,127**

At the year end, the Company owed Arrow Global Group Holdings Limited £1,329,000 and was due £49,456,000 from Arrow Global Limited. These balances relate to intercompany loans that are repayable on demand and are therefore held as current liabilities or assets. No other transactions occurred between the related parties, excluding those disclosed above.

22. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Details of the Company's subsidiaries at 31 December 2013 are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest (%)	Current status	Parent company
Arrow Global One Limited (AGOL)	UK – England and Wales	100	Trading	AGGP
Arrow Global Guernsey Holdings Limited	Guernsey	100	Trading	AGOL
Arrow Global Investment (Holdings) Limited (AGI(H)L)	UK – England and Wales	100	Trading	AGGHL
Arrow Global (Holdings) Limited (AG(H)L)	UK – England and Wales	100	Trading	AGI(H)L
Arrow Global Finance PLC	UK – England and Wales	100	Trading	AGI(H)L
Arrow Global Limited (AGL)	UK – England and Wales	100	Trading	AG(H)L
Arrow Global Receivables Management Limited	UK – England and Wales	100	Trading	AG(H)L
Arrow Global Management Limited	UK – England and Wales	100	Trading	AG(H)L
Arrow Global Portugal Limited (AGPL)	UK – England and Wales	100	Trading	AG(H)L
Arrow Global Accounts Management Limited	UK – England and Wales	100	Trading	AGL
Arrow Global Guernsey Limited	Guernsey	100	Non-Trading	AGI(H)L
Arrow Global Debt Limited (AGDL)	Guernsey	100	Dormant	AGGHL
Arrow Global Massey Limited	UK – England and Wales	100	Dormant	AG(H)L
Arrow Global Legh Limited	UK – England and Wales	100	Dormant	AG(H)L
Arrow Global Egerton Limited	UK – England and Wales	100	Dormant	AG(H)L
Arrow Global Guernsey Management Limited	Guernsey	100	Dormant	AGDL
Strzala Sp. z o.o.	Poland	100	Dormant	AG(H)L/AGL

	Arrow Global One Limited £000	Total £000
At 31 December 2013	**307,500**	**307,500**

The investments in subsidiaries are all stated at cost. See note 1 for further information on the Group restructure.

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS

The key risks and uncertainties faced by the Group are managed within an established risk management framework. The Group's day to day working capital is funded by its cash and cash equivalents. The key risks identified for the Group are discussed below.

The Group has exposure to credit risk, market risk and liquidity risk that arises throughout the normal course of the Group's business.

Fair values

The directors consider that there are no material differences between the financial asset values in the consolidated balance sheet and their fair value, except in relation to those disclosed in note 14. Borrowings are considered to be reported at fair value as these were arm's length transactions at prevailing market rates. The Group has not identified a significant change in the availability of such market rates.

Assets and liabilities measured at fair value on a non-recurring basis include goodwill, property, plant and equipment, and other intangible assets. Such assets are reviewed for impairment indicators. If a triggering event has occurred, the assets are re-measured when the estimated fair value of the corresponding asset or asset group is less than the carrying value. The fair value measurements, in such instances, are based on significant unobservable inputs (Level 3). Key inputs into the impairment review process are outlined in note 12. There were no significant impairments recorded during the year ended 31 December 2013, except in relation to the goodwill outlined in note 12.

Credit risk

Credit risk is considered upon the acquisition of a financial asset by assessing the expected return. The Group manages this risk by monitoring the performance of the financial asset throughout its economic life. Cash collections are continually monitored and the carrying value of the asset is impaired where it is deemed that, based on collections profiles, the asset is underperforming compared to the initial expected return determined at the acquisition date. The financial assets subjected to credit risk are portfolio assets, loan notes and derivative assets.

The maximum credit risk exposure in relation to the financial assets is disclosed below:

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Purchased loan portfolio	273,932	208,171
Cash and cash equivalents	(47,520)	(9,610)
Loan notes	1,668	-
Derivative asset	507	143
	228,587	**198,704**

The Group's principal activity is the acquisition and management of underperforming portfolios of loans. All purchased portfolios are, by their nature, significantly past due and impaired upon acquisition. No additional collateral is held in respect of the portfolios. The Group performs impairment reviews periodically.

All purchased loan portfolios are measured at amortised cost. Impairment is assessed on a regular basis by management and is identified on a portfolio basis following evidence that the financial asset is impaired. All loan notes are measured at amortised cost. Impairment is assessed on a regular basis by management and is identified on a portfolio basis following evidence that the financial asset is impaired.

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS CONTINUED

Liquidity risk

The Group actively monitors its liquidity and cash flow position to ensure it has sufficient cash and purchased loan portfolio financing in order to fund its activities. The management team monitors cash through daily reporting, the management accounts and periodic review meetings. Management has well established models used to predict collectability of cash receipts and this represents a key performance indicator of the business. The Group has a low fixed cost base, is highly cash generative with weekly cash receipts and portfolio purchases are discretionary, which helps to mitigate liquidity risk.

The table below includes both interest and principal cash flows, payable over the contractual life of the non-derivative financial liabilities.

As at 31 December 2013 Amounts due to:	within 1 year £000	1-2 years £000	2-5 years £000	5 years and over £000	Total £000
Non Interest bearing					
Trade and other payables	8,128	-	-	-	8,128
Interest bearing					
Secured senior note	17,325	17,325	51,975	244,448	331,073
Total	**25,453**	**17,325**	**51,975**	**244,448**	**339,201**

As at 31 December 2012 Amounts due to:	within 1 year £000	1-2 years £000	2-5 years £000	Total £000
Non-interest bearing				
Trade and other payables	7,728	-	-	7,728
Interest bearing				
Non-controlling interest loan	-	-	3,797	3,797
Bank loan	-	114,679	-	114,679
Shareholder loan note	-	-	167,143	167,143
Total	**7,728**	**114,679**	**170,940**	**293,347**

Market risk

Market risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk principally comprises currency risk and interest rate risk considered further below.

Interest rate risk

The Group is exposed to interest rate risk during the year on the purchased loan portfolio financing, related party loans and cash and cash equivalents. The recoverability of debts may be influenced by movements in the interest rate environment. The Group has interest rate swaps in place for a notional amount of £66,667,000 (2012: £90,000,000).

Interest rate sensitivity analysis

If interest base rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit and equity for the year ended 31 December 2013 would decrease/increase by £121,000 (2012: £53,000). This is attributable to the Group's exposure to interest on its cash and cash equivalents.

If LIBOR rates had been 0.25% higher/lower and all other variables were held constant, the Group's profit and equity for the year ended 31 December 2013 would decrease/increase by £1,000 (2012: £210,000). This is attributable to the Group's exposure to interest on its revolving credit facility and incorporates the effects of the economic hedge from the interest rate swaps outstanding during the periods noted above.

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS CONTINUED

Foreign currency risk

The Group is exposed to foreign exchange currency risk on purchased loan portfolios, secured loan notes, cash and cash equivalents and its transactions with other related parties. The risk of this exposure is reduced using forward foreign exchange contracts.

Foreign currency sensitivity analysis

If foreign exchange rates had been 10% higher than those at the balance sheet date and all other variables were held constant, the Group's net assets and net profit for each denomination of currency would increase/(decrease) as follows:

Equity and net assets	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Currency		
Euro (EUR)	(395)	(1,620)
US Dollar (USD)	2	-
Polish Zloty (PLN)	(7)	(64)
	(400)	**(1,684)**

Net profit	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Currency		
Euro (EUR)	(1,445)	(980)
US Dollar (USD)	(1)	(1)
Polish Zloty (PLN)	1	-
	(1,445)	**(981)**

If foreign exchange rates had been 10% lower than those at the balance sheet date and all other variables were held constant, the Group's net assets and net profit for each denomination of currency would increase/(decrease) as follows:

Equity and net assets	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Currency		
Euro (EUR)	483	1,980
US Dollar (USD)	(2)	-
Polish Zloty (PLN)	8	78
	489	**2,058**

Net Profit	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Currency		
Euro (EUR)	1,766	1,197
US Dollar (USD)	1	1
Polish Zloty (PLN)	(2)	-
	1,765	**1,198**

10% is considered to be a reasonable expectation of possible fluctuations in rates.

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS CONTINUED

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts and exposure to currency rate fluctuations.

In the current year, the Group has created certain forward contracts to mitigate its portfolio future cash flows in Portugal. The collection remittances are received in Euros. The Group has entered into the forward foreign exchange contracts (for terms provided in the table below) to mitigate the exchange rate risk arising from these anticipated future cash flows.

As at 31 December 2013, the aggregate amount of net gain/loss under forward foreign exchange contracts that have been recognised within profit and loss in the consolidated statement of comprehensive income relating to the exposure on these anticipated future transactions is £79,000 loss (2012: £27,000 profit).

Outstanding contracts at December	Exchange rate (£/Euro) £000	Notional value 2013 £000	Maturity date	Fair value 2013 £000
Exchange rate hedges sell Euro				
Window forward extra	1.1899	1,681	13 February 2014	19
Window forward extra	1.1899	1,681	15 May 2014	19
Knock out ratio forward	1.1899	1,681	15 August 2014	(24)
Forward	1.1005	454	31 January 2014	38
Structured FXO	1.2090	248	29 January 2014	14
Structured FXO	1.1525	400	29 January 2014	(2)
Derivative asset				**64**
Total loss recognised in consolidated statement of comprehensive income				**79**

Interest rate hedges at December	Notional value 2013 £000	Maturity date	Fair value 2013 £000
Interest rate swap	40,000	10-Oct-14	(104)
Interest rate swap	26,667	10-Feb-18	547
Derivative asset			**443**
Total gain recognised in consolidated statement of comprehensive income			**894**

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS CONTINUED

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, cash and cash equivalents and equity. The Group is not subject to any externally imposed capital requirements.

Management reviews the capital structure on an ongoing basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group's position as at the 31 December 2013 was:

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Ordinary share capital and premium	349,600	276,974
Secured senior notes (net of transaction fees of £8,080,000, December 2012: £nil)	211,920	-
Bank loans (net of transaction fees of £nil, December 2012: £2,594,000)	-	97,381
Shareholder loan notes (15% interest)	-	106,585
Cash and cash equivalents	**561,520**	**480,940**

Fair value hierarchy

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. Level 1 fair value measurements are those where the value has been derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Of the above derivative contracts, the net fair value asset of £507,000 (2012: liability of £308,000) has been determined as a Level 2 measurement. There have been no transfers in or out of Level 2.

There are no Level 3 financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE BASED PAYMENTS – GROUP AND COMPANY

Share incentive plan scheme ("SIP")
Upon listing, the Group provided eligible employees with a one off award of free shares worth up to £3,000, with a grant price of £2.425, as part of the Arrow Global Group SIP. The value of SIP shares awarded was dependent on a linear scale of length of service. The free shares will vest in three years' time, with employees required to stay in employment to receive the shares.

Initial share option plan ("ISOP")
On 7 October 2013, and 21 October 2013, 3,566,000 ISOP options were granted to employees of the Group. These ISOP options became exercisable conditional upon, and with effect from IPO for those granted on 7 October 2013 and from the grant date for those granted on 21 October 2013. 1,934,000 vested immediately with the remaining to vest in two years from the date they take effect, with employees required to stay in employment to receive the shares.

The terms and conditions of the grant are as follows:

	Method of settlement accounting	Number of instruments	Vesting period	Contractual life of options
Grant date/employees entitled				
Equity settled SIP award - SIP	Equity	81,298	3 years	31 October 2016
Equity settled award - ISOP	Equity	3,391,228	2 years	1,851,335 vested immediately*, 1,539,893 – 7 October 2015
Equity settled award - ISOP	Equity	175,000	2 years	82,665 vested immediately*, 92,335 – 20 October 2015

* The options which vested immediately in the period were used to cover taxation and other withholdings, deducted at source

	Weighted average exercise price 2013	Number of options 2013
Outstanding at the beginning of the year *	-	-
Granted during the year	£nil	3,566,228
Forfeited during the year	-	-
Vested during the year	-	(1,934,000)
Expired during the year	-	-
Outstanding at the end of the year	**£nil**	**1,632,228**

* There were no options prior to 2013

The weighted average share price at the date of exercise of share options exercised during the year was £2.06 (2012: £nil).

The ISOP nil cost options outstanding at the year end have a weighted average contractual life of 1.8 years.

The total expenses recognised for the year arising from share-based payments are as follows:

	2013 £000	2012 £000
Equity settled share based payment expense recognised immediately	3,979	-
Equity settled share based payment expense spread across vesting period	382	
Total equity settled share based payment expense recognised in the statement of comprehensive income	**4,361**	**-**

The share price at the date of grant has been used as a proxy for fair value of the share options as this amount is not deemed to be materially different to the fair value calculated by an option pricing model.

NOTES TO THE FINANCIAL STATEMENTS

25. BORROWINGS

Secured borrowing at amortised cost	Group year ended 31 December 2013 £000	Group year ended 31 December 2012 £000
Senior secured notes (net of transaction fees of £8,080,000, December 2012: £nil)	211,920	-
Bank loans (net of transaction fees of £nil, December 2012: £2,594,000: £nil)	-	97,381
Shareholder loans (note 18)	-	106,585
Non-controlling interest loan	-	2,619
Senior secured notes interest	5,775	-
	217,695	**206,585**
Total borrowings:		
Amount due for settlement within 12 months	**5,775**	**-**
Amount due for settlement after 12 months	**211,920**	**206,585**

All amounts are denominated in GBP.

Senior secured notes
On 29 January 2013, the Group issued £220 million of 7.875% senior secured notes due 2020 (the "senior notes"). Net proceeds of £211.2 million included senior secured notes issuance costs that were capitalised within the financial instrument. The proceeds from this issuance were used to repay the bank loans, shareholder loans, and the non-controlling interest loan in full resulting in recognition of a £3,036,000 amortisation of previously capitalised transaction costs. In addition, there was a cancellation fee of £880,000 for early settlement of revolving credit facility in place at that time. The senior notes can be redeemed in full or in part on or after 1 March 2016 at the Group's option. Prior to 1 March 2016, the Group may redeem, at its option, some or all of the senior notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable "make-whole" premium. The senior notes are secured by substantially all of the assets of the Group. Interest is paid bi-annually.

Revolving credit facility
On 29 January 2013, the Group entered into a revolving credit facility (the "new revolving credit facility") with The Royal Bank of Scotland PLC ("RBS"), as security agent for a consortium of participating financial institutions. The new revolving credit facility terminates on 28 January 2018 and bears interest at a rate per annum equal to LIBOR or EURIBOR (as applicable) plus certain mandatory costs and a margin of 4.25% per annum, subject to a margin ratchet based on the loan-to-value ratio at each quarter end. The new revolving credit facility was increased to £55 million on 22 October 2013.

The Group is also required to pay a commitment fee on available but not utilised or not cancelled commitments under the new revolving credit facility at a rate of 40% of the applicable margin per annum on the undrawn portion of each lender's commitment. The new revolving credit facility is secured by the same assets as the senior notes. Interest is paid based on agreement when the facility is drawn down, either payable every one, three or six months.

Prior to 2013, the Group entered into a £40 million revolving credit facility on 4 October 2011 (the "old revolving credit facility"), which subsequently increased to £110 million, with a term out date of September 2013 and a termination date of September 2014. This old revolving credit facility was repaid in full and terminated on January 2013 upon issuance of the senior notes described above. Interest on the facility was repayable at 4% plus LIBOR up to the term out date and at 5% plus LIBOR after the term out date up until the termination date. The facility was repayable by the termination date and was secured against the portfolio assets of the Group. Monthly loan repayments were based on a percentage of the monthly collections that the facility is secured against. There were no fixed contractual repayment dates prior to the above dates.

Shareholder loan notes
See note 18 for detail.

NOTES TO THE FINANCIAL STATEMENTS

25. BORROWINGS CONTINUED

Non controlling interest loan notes

Non controlling interest loan notes were issued from 10 February 2010 to 7 February 2012. Amounts shown within the borrowings table include accrued interest. On 29 January 2013, capital amounting to £2,067,000 and accrued interest amounting to £552,000, totalling £2,619,000, were repaid in full. The Group is subject to certain financial and non financial covenants under the terms of the debt described above. The Group was in compliance with all such covenants during and as of all years presented herein.

26. EARNINGS PER SHARE ("EPS")

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Basic/diluted EPS		
Underlying profit for the year attributable to equity shareholders	25,159	11,114
Profit for the year attributable to equity shareholders including exceptionals	15,111	9,412
Number of ordinary shares	**154,427**	**135,109**
Underlying basic and diluted earnings per share (£)	**0.16**	**0.08**
Basic and diluted earnings per share including exceptionals (£)	**0.10**	**0.07**

Adjusted earnings per share	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Underlying profit for the year attributable to equity shareholders	25,159	11,114
Profit for the year attributable to equity shareholders including exceptionals	15,111	9,412
Add back: shareholder interest expense	1,291	14,882
Underlying	**26,450**	**25,996**
Including exceptionals	**16,402**	**24,294**
Number of ordinary shares	**154,427**	**135,109**
Underlying adjusted earnings per share (£)	**0.17**	**0.19**
Adjusted earnings per share including exceptionals (£)	**0.11**	**0.18**

The reduction in adjusted EPS arose as a result of the reduction in shareholder interest expense following the Group's issue of the senior secured notes and its subsequent repayment of shareholder loans.

NOTES TO THE FINANCIAL STATEMENTS

27. ACQUISITIONS

On 28 February 2013, the Group acquired 100% of the ordinary share capital of Arrow Global Accounts Management Limited for £18,909,000, satisfied with cash. Goodwill of £2,309,000 was created as part of this acquisition and subsequently impaired as described in note 12. Arrow Global Accounts Management Limited has a similar principal activity as the Group being the acquisition and management of an underperforming portfolio of loans and servicing of debt in relation to third party contracts. In the ten months to 31 December 2013, the subsidiary contributed revenue of £2,881,000 and operating profit of £2,257,000 to the consolidated results for the year. If the acquisition had occurred on the first day of 1 January 2013, Group total revenue would have been an estimated £95,513,000 and operating profit would have been an estimated £44,911,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2013.

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Arrow Global Accounts Management Limited book value £000	Fair value adjustment £000	Total £000
Portfolio assets	8,262	10,039	**18,301**
Cash and cash equivalents	1,083	-	**1,083**
Payables	(50)	-	**(50)**
Corporation tax liability	(425)	-	**(425)**
Deferred tax liability	-	(2,309)	**(2,309)**
	8,870	**7,730**	**16,600**
Goodwill on acquisition (see note 11)			2,309
			18,909
Consideration:			
Cash			**18,909**

Goodwill of £2,309,000 arises on acquisition and has been immediately written off.

The fair value adjustment on the portfolio asset acquired arises from the alignment of the measurement of fair value using a methodology consistent with the Group's IFRS accounting policies.

The fair value adjustment creating a deferred tax liability represents the tax payable due to the fair value adjustment to the portfolio asset.

Shareholder information

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Company secretary
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Auditor
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Legal advisors
Slaughter and May
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EC1Y 8YY

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4ZF

Annual general meeting
The forthcoming annual general meeting of the Company will take place at The Midland Hotel, Peter Street, Manchester, M60 2DS on Wednesday, 28 May 2014 at 14:00. Notice of the annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appear in the document accompanying this annual report and accounts.

Shareholder information and website
Capita Asset Services is our registrar, and they offer many services to make managing your shareholding easier and more efficient. You can find out further information about the Group and view this annual report and accounts, results, other announcements and presentations, together with the latest share price information on the Company's investor relations website (http://www.arrowglobalir.net/).

Share portal
To register for the share portal, visit www.capitashareportal.com. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.

Customer support centre
You can contact Capita's customer support centre, which is available to answer any queries you have in relation to your shareholding:

By phone:
UK: 0871 664 0300 (UK calls cost 10p per minute plus network extras)

From overseas: +44 20 8639 3399

Lines are open from 09.00 to 17.30, Monday to Friday, excluding public holidays.

By email: shareholderenquiries@capita.co.uk

By post: Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF

Dividends
If you have a UK bank account, you can sign up for this service on the share portal (by clicking on 'your dividend options' and following the on screen instructions) or by contacting the customer support centre.

Share dealing service
A share dealing service is provided by Capita Asset Services. For further information on this service, or to buy and sell shares, visit www.capitadeal.com or call 0871 664 0454 (calls cost 10p per minute plus network extras; lines are open from 08.00 to 16.30, Monday to Friday. From outside the UK dial + 44 20 3367 2699).

Please note the directors of the Company are not seeking to encourage shareholders to either buy or sell shares. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial advisor authorised by the Financial Services Markets Act 2000.

Financial calendar for 2014

Annual general meeting	28 May 2014
Announcement of 2014 half yearly results	28 August 2014

Glossary

"Adjusted EBITDA" means profit for the year attributable to equity shareholders before interest, tax, depreciation, amortisation, portfolio write up, foreign exchange gains or losses and exceptional items. The adjusted EBITDA reconciliations for the year to 31 December 2013 are shown below:

Reconciliation of net cash flow to EBITDA	**£000**
Net cash flow used in operating activities	(6,717)
Purchases of loan portfolios	84,308
Purchases of loan notes	1,798
Proceeds from disposal of loan portfolios	(2,474)
Income taxes paid	4,269
Working capital adjustments	(814)
Profit on disposal of purchased loan portfolios	1,132
Gain on fair value derivatives	815
Amortisation of acquisition and bank facility fees	916
Fair value (gains)/losses on interest rate swaps	(894)
Interest payable/receivable	1,381
Exceptional costs	5,846
Adjusted EBITDA	**89,566**
Reconciliation of core collections to EBITDA	**£000**
Income from loan portfolios	87,330
Portfolio amortisation	40,510
Core collections	**127,840**
Profit on portfolios	1,132
Other income	1,392
Operating expenses	(50,486)
Depreciation and amortisation	752
Foreign exchange gains	(23)
Amortisation of acquisition and bank facility fees	359
Exceptional costs	8,600
Adjusted EBITDA	**89,566**
Reconciliation of operating profit to EBITDA	**£000**
Profit for the period attributable to equity shareholders	15,111
Interest expense	19,302
Taxation charge on ordinary activities	5,882
Exceptional costs	3,916
Operating profit	**44,211**
Portfolio amortisation	40,510
Portfolio write up	(4,843)
Depreciation and amortisation	752
Foreign exchange gains	(23)
Amortisation of acquisition and bank facility fees	359
Exceptional costs	8,600
Adjusted EBITDA	**89,566**

"Adjusted EBITDA ratio" represents the ratio of adjusted EBITDA to core collections

"CGU" means cash generating unit

"Collection activity costs" represent the direct costs of external collections related to the Group's purchased loan portfolios, such as commissions paid to third party outsourced providers, credit bureau data costs and legal costs associated with collections

"Core collections" or "core cash collections" mean collections on the Group's existing portfolios

"Cost-to-collect ratio" is the ratio of collection activity costs to core collections

"Creditors" means financial institutions or other initial credit providers to consumers, certain of which entities choose to sell paying accounts or non-paying accounts receivables related thereto to debt purchasers (such as the Group)

"CSA" means Credit Services Association

"Customers" means consumers whose unsecured loan obligation is owed to the Group as a result of a portfolio purchase made by the Group

"DBSG" means the Debt Buyers and Sellers Group

"Defaulted debt" means a debt where a customer has breached the repayment terms governing that debt such that it is unlikely to be paid. Under the Consumer Credit Act 1974 there are specific legal obligations which require a customer to be sent the relevant statutory default notice(s) after which the customer's agreement may ultimately be terminated. Other types of debts may also be defined as defaulted in the event that they remain unpaid for a period of 90 days or more, if there is not an acceptable arrangement in place to bring the account back up to date, in which case the creditor or lender may reasonably believe that the relationship has broken down. Under the Data Protection Act 1990 it is a requirement that any organisation seeking to register a default with a credit reference agency must also send a notice of intention to file a default, this notice is very similar in nature to that required under the Consumer Credit Act both of which give the debtor 28 days to bring the account back up to date before action is taken

"DSBP" means the Arrow Global deferred share bonus plan

"EBITDA" means earnings before interest, taxation, depreciation and amortisation

"EBT" means employee benefit trust

"EIR" means effective interest rate (which is based on the loan portfolio's gross internal rate of return) calculated using the loan portfolio purchase price and forecast 84-month gross ERC at the date of purchase. EIR is reassessed to take account of actual performance and may be adjusted up to 12 months after the purchase of each loan portfolio

"84-month ERC" and **"120-month ERC"** (together **"gross ERC"**), mean the Group's estimated remaining collections on purchased loan portfolios over an 84-month or 120-month period, respectively, representing the expected future core collections on purchased loan portfolios over an 84-month or 120-month period (calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time)

"EPS" means earnings per share

"Existing portfolios" or **"purchased loan portfolios"** are on the Group's balance sheet and represent all debt portfolios that the Group owns at the relevant point in time

"FCA" means the Financial Conduct Authority

"FOS" means the UK Financial Ombudsman Service

"FRC" means the Financial Reporting Council

"Free cash flow" means adjusted EBITDA after the effect of capital expenditure and working capital movements

"Gross cash-on-cash multiple" means collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, all divided by the purchase price for each portfolio

"ICO" means the Information Commissioner's Office

"IFRS" means international financial reporting standards

"IPO" means initial public offering

"IRR" means internal rate of return

"ISOP" means the initial share option plan

"Loan to value" or **"LTV ratio"** represents the ratio of 84-month ERC to net debt

"LTIP" means the Arrow Global long-term incentive plan

"MOJ" means Ministry of Justice

"NBS" means New Bridge Street remuneration consultants

"Net cash-on-cash multiple" means collections to date plus the 84-month ERC or 120-month ERC, as applicable, net of collection activity costs, all divided by the purchase price for each portfolio

"Net core collections" are core collections less collection activity costs. The Group presents net core collections in order to calculate its net IRR

"Net debt" means the sum of the senior secured notes, interest thereon, and amounts outstanding under the revolving credit facility, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after taking out of the Group's assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt for the year ended 31 December 2013 is as follows:

	£000
Cash and cash equivalents	47,520
Senior secured notes (pre transaction fees net off)	(220,000)
Senior secured notes interest	(5,775)
Net debt	**(178,255)**

"Net IRR" or **"unlevered net IRR"** means a loan portfolio's internal rate of return calculated using expected net core collections for the next 84 months or 120 months, as applicable, subsequent to the date of purchase of the loan portfolio adjusted regularly in line with ERC

"OFT" means the Office of Fair Trading

"Paying account" means an account that has shown at least one payment over the last three months or at least two payments over the last six months

"PCB" means the Proprietary Collections Bureau, a data matching tool designed by Arrow Global and Experian

"Purchased loan portfolios" see **"existing portfolios"**

"PwC" means PricewaterhouseCoopers

"RCF" means revolving credit facility

"ROE" means the return on equity

"SID" means the senior independent director of the Group

"SIP" means the Arrow Global all-employee share incentive plan

"TCF" means the treating customers fairly FCA initiative

"TSR" means total shareholder return

"Underlying net income" means profit for the year attributable to equity shareholders adjusted for the post-tax effect of exceptional items. The Group presents underlying net income because it excludes the effect of exceptional items (and the related tax on such items) on the Group's profit or loss for a year and forms the basis of its dividend policy

"Underlying return on equity" represents the ratio of underlying profit for the year attributable to equity shareholders to average shareholder equity post restructure

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