# Arrow Global Group PLC

## Results for the three months ended 31 March 2014

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Arrow Global Group PLC is registered in England and Wales with company number 08649661 and has its registered office at Belvedere, 12 Booth Street, Manchester M2 4AW.

# Arrow Global Group PLC

## ("Arrow Global" or "the Group" or "the Company")

## Results for the three months ended 31 March 2014

Arrow Global, one of Europe's largest and fastest growing providers of debt purchase and receivables management solutions, is pleased to announce its results for the three months ended 31 March 2014.

## Highlights

- Core collections[1] up 16.1% to £31.8 million (3 months ended 31 March 2013: £27.4 million)
- Adjusted EBITDA up 17.6% to £22.3 million (3 months ended 31 March 2013: £19.0 million); adjusted EBITDA ratio 70.1% (3 months ended 31 March 2013: 69.4%)
- Underlying net income £5.2 million with no portfolio write up (3 months ended 31 March 2013: £5.6 million including £2.6 million of portfolio write up)
- Acquired debt portfolios with face value of £246 million for an aggregate purchase price of £33.2 million, with 67.8% of purchase price underpinned by paying accounts
- 120-month ERC[2] up 15.4% to £681.3 million (31 March 2013: £590.6 million)
- Net debt of £201.4 million and Net Debt to LTM Adjusted EBITDA ratio 2.2
- Face value of total assets under management increased to £9.7 billion (31 December 2013: £9.6 billion), including purchased portfolios of £7.5 billion (31 December 2013: £7.2 billion)
- Owned customer accounts increased to 5.3 million (31 December 2013: 5.1 million)
- FCA interim permissions granted, transition to FCA regime well progressed
- Further enhancements to our servicer management and oversight framework including the appointment of BDO as internal auditors
- Resolution of historical tax issue resulting in a non-recurring charge of £2.4 million

**Tom Drury, Chief Executive of Arrow Global, commented:**

***"Arrow Global had a strong first quarter with the acquisition of £33.2 million of good quality loan portfolios, all of which were in our core UK market. Core collections grew by 16% and alongside further reductions in the cost to collect led to adjusted EBITDA growing by 18% and adjusted EBITDA margins exceeding 70%. The business is highly cash generative and the board confirms its intent to announce a maiden dividend with our half year results.***

***"Our transition to the FCA regime is well progressed. We have further enhanced our servicer management and oversight framework, including the appointment of BDO as internal auditor.***

***"We see a strong pipeline ahead in the UK and Europe, and while segments of the market remain competitive, our ability to access deals from multiple sources will allow us to continue to invest in attractive loan portfolios. We continue to anticipate a normal weighting of portfolio purchases to the second half of the year and overall we remain on track to deliver results in line with our expectations."***

***22 May 2014***

Notes:

1. Core collections is collections on Arrow Global's purchased loan portfolios.
2. Estimated remaining collections

**For further information:**
**Arrow Global** **+44 (0)161 242 5896**

Tom Drury
Robert Memmott

**Instinctif Partners** **+44 (0)20 7457 2020**

Mike Davies
Catherine Wickman
Tom Drummond

**There will be a conference call for investors today at 2pm (UK time). Dial in details below:**

| | |
|---|---|
| Participant Dial-In Number: | 0808 238 0673 |
| Participant Dial-in International: | +44 (0) 1452 569335 |
| Conference ID: | 47480673 |

**About Arrow Global (for further information please visit the company website: www.arrowglobalir.net)**

## Notes to Editors

Arrow Global is one of Europe's largest and fastest growing providers of debt purchase and receivables management solutions, with £9.7 billion assets under management, including £7.5 billion of purchased assets. Our data driven, compliance focused and customer-centric business model offers a tailored approach for creditors and customers alike.

We use our data capability to acquire portfolios underpinned by paying accounts, with the opportunity to convert non-paying accounts. Our intensive data analysis and account segmentation help to ensure that each customer is offered the most suitable solution for their individual circumstances. We have developed data analytical tools which provide an optimised understanding of individual customers' circumstances and help us adhere to regulatory and compliance requirements, for which Arrow Global has an established track record.

## Forward looking statements

This document contains statements that constitute forward-looking statements relating to the business, financial performance and results of the Company and its subsidiaries (the "Group") and the industry in which the Group operates. These statements may be identified by words such as "expectation", "belief", "estimate", "plan", "target", or "forecast" and similar expressions or the negative thereof; or by forward-looking nature of discussions of strategy, plans or intentions; or by their context. All statements regarding the future are subject to inherent risks and uncertainties and various factors could cause actual future results, performance or events to differ materially from those described or implied in these statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Further, certain forward looking statements are based upon assumptions of future events which may not prove to be accurate and neither the Company nor any other person accepts any responsibility for the accuracy of the opinions expressed in this document or the underlying assumptions. The forward-looking statements in this document speak only as at the date of this presentation and the Company assumes no obligation to update or provide any additional information in relation to such forward-looking statements.

# Business & Financial review

## Business Review

| | As of and year to 31-Dec-13 £m | As of and 3 months to 31-Mar-14 £m | As of and 3 months to 31-Mar-13 £m |
|---|---|---|---|
| Purchases of loan portfolios | 101.3 | 33.2 | 33.4 |
| Face value of portfolios acquired (billion) | 7.2 | 7.5 | 6.6 |
| Number of accounts ('000) | 5,109 | 5,275 | 4,737 |
| Core collections | 127.8 | 31.8 | 27.4 |
| Collection cost ratio (%) | 21.9% | 21.7% | 22.4% |
| Adjusted EBITDA | 89.6 | 22.3 | 19.0 |
| Adjusted EBITDA ratio | 70.1% | 70.1% | 69.4% |
| Underlying net income | 25.2 | 5.2 | 5.6 |
| 84-month ERC | 564.3 | 587.8 | 507.2 |
| 120-month ERC | 650.3 | 681.3 | 590.6 |
| Net debt | 178.3 | 201.4 | 200.8 |
| Net assets | 105.2 | 107.8 | 12.6 |

*ERC and portfolio acquisitions*

At 31 March 2014, 84-Month ERC and 120-Month ERC have increased to £587.8 million and £681.3 million respectively (31 December 2013: £564.3 million and £650.3 million respectively). Of the 84-month ERC of £587.8 million, 90% was in the UK consisting of 113 loan portfolios and 10% was in Portugal consisting of 15 loan portfolios. 88% was in financial services assets, which have a higher average balance and have a longer tail than assets in other sectors.

For the three months ended 31 March 2014 ('Q1 2014'), we acquired debt portfolios with a face value of £246 million for a purchase price of £33.2 million. Of these portfolios, £67.1 million comprises paying accounts, representing 67.8% of the purchase price. This mitigates our downside risk on these portfolios, whilst we use our data assets to seek to penetrate the £179.3 million of non-paying accounts.

| | Face Value | Purchase Price | % of Investment |
|---|---|---|---|
| Paying Accounts | £67.1m | 33.5p | 67.8% |
| Non-paying accounts | £179.3m | 6.0p | 32.2% |
| **Total** | **£246.4m** | **13.5p** | **100.0%** |

These acquisitions, net of amortisation, have increased the balance sheet value of our purchased loan portfolios to £296.0 million at 31 March 2014 (31 December 2013: £273.9million).

## Collections

Core collections for Q1 2014 increased to £31.8 million (31 March 2013 ('Q1 2013'): £27.4 million), reflecting the increased size of our loan portfolios. At the end of the quarter core collections are cumulatively 102% of our original underwriting forecast.

## Revenue

During the Q1 2014, total revenue increased by £1.1 million to £23.1 million (Q1 2013: £22.0 million), due mainly to a rise in income from purchased loan portfolios to £21.8 million offset by a portfolio write up in Q1 2013 (Q1 2013: £19.0 million with a portfolio write up of £2.6 million). Amortisation and revaluation were consistent with guidance at 31.5% of core collections for the 3 month period to 31 March 2014 (Q1 2013: 20.9%). Going forward, we will consider portfolio adustments as part of the half and full year accounts and audit process.

## Operating profit

Operating profit pre-exceptional items in the quarter decreased to £11.9 million (Q1 2013: £13.1 million), largely due to no portfolio write up in Q1 2014. Our collection activity cost ratio improved slightly to 21.7%, driving the increase in Adjusted EBITDA to £22.3 million (Q1 2013: £19.0 million) with an Adjusted EBITDA ratio for the quarter at 70.1% YTD (Q1 2013: 69.4%). Including in operating profit in the current period was £0.3 million of one off restructuring costs.

## Finance costs

Finance costs pre-exceptional items increased slightly by £0.2m to £5.2 million (Q1 2013: £5.1 million). Our cash cover ratio (Adjusted EBITDA/ interest) was 4.3 times for the quarter ended 31 March 2014.

## Taxation

The taxation charge on ordinary activities increased by £1.0 million to £1.3 million (Q1 2013: £0.3 million) due to the improved statement of comprehensive income position.

## Underlying net income

Underlying net income decreased 6.7% to £5.2 million (Q1 2013: £5.6 million). The main difference being a portfolio write up in Q1 2013 which was not made in 2014, as discussed in the revenue section above, net of a strong performance on collections. The breakdown of underlying net income can be seen in note 5.

## Total comprehensive income for the period attributable to equity shareholders

Our profit for the period attributable to equity shareholders was £2.2 million (Q1 2013: £1.1 million loss).

## Cash flow and net debt

Net cash flow from operating activities before purchases of loan portfolios and loan notes increased to £17.4 million (Q1 2013: £8.9 million). This was largely due to an increase in collections during the period to £31.8 million (Q1 2013: £27.4 million). Our leverage ratio (Net Debt/84-month ERC) was 34.3%.

## Recent Developments and Outlook

*Recent Developments*

The Group appointed BDO in April 2014 to provide its internal audit services, as it continues to invest in strong governance procedures.

The group has been involved with ongoing discussions with HMRC with respect to the business activities in Guernsey prior to 2013 when the group was restructured. HMRC has concluded its review and disagree with our technical analysis. HMRC have raised an assessment for VAT but confirmed no penalties will be levied as they have confirmed that the group acted reasonably. Given the time, costs and uncertainties associated with appealing the HMRC decision at a tax tribunal and the fact that this is a historic issue with no impact on future profitability the board have decided commercially to settle the assessment. Including advisors costs for the current period, this has resulted in a non-recurring charge of £2.4 million.

We have continued to invest in building our Data Analysis, Risk and Compliance teams to position us to remain at the forefront of the industry, and during the quarter we increased our head count from 119 to 122 full time employees.

*Outlook*

The business is highly cash generative and the board confirms its intent to announce a maiden dividend with our half year results.

We see a strong pipeline ahead in the UK and Europe, and while segments of the market remain competitive, our ability to access deals from multiple sources will allow us to continue to invest in attractive loan portfolios. We continue to anticipate a normal weighting of purchasing to the second half of the year, we remain on track to deliver results in line with our expectations.

## Unaudited Consolidated Statement of Comprehensive Income

For the period ended 31 March 2014

| | *Note* | 3 months ended 31 March 2014 | 3 months ended 31 March 2013 |
|---|---|---|---|
| | | **£000** | **£000** |
| **Continuing operations** | | | |
| **Revenue** | | | |
| Income from purchased loan portfolios | *4* | 21,787 | 19,029 |
| Portfolio write up | | - | 2,610 |
| Profit on portfolio and loan note sales | | 504 | - |
| | | 22,291 | 21,639 |
| Income from asset management | | 798 | 375 |
| **Total revenue** | | **23,089** | **22,014** |
| **Operating expenses** | | | |
| Collection activity costs | | (6,896) | (6,115) |
| Professional fees and services | | (312) | (783) |
| Other expenses | | (4,017) | (2,065) |
| **Total operating expenses** | | **(11,225)** | **(8,963)** |
| **Operating profit (pre-exceptional costs)** | *4* | **11,864** | **13,051** |
| Exceptional items | *4* | (2,994) | (8,795) |
| **Operating profit (post-exceptional costs)** | | **8,870** | **4,256** |
| Finance costs | *6* | (5,206) | (5,052) |
| Exceptional finance costs | *6* | (144) | |
| **Profit before tax** | | **3,520** | **(796)** |
| Taxation charge on ordinary activities | | (1,310) | (337) |
| **Profit for the period attributable to equity shareholders** | | **2,210** | **(1,133)** |
| Foreign exchange translation difference arising on revaluation of foreign operations | | (2) | 42 |
| **Total comprehensive income for the period attributable to equity shareholders** | | **2,208** | **(1,091)** |

# Unaudited Consolidated Balance Sheet

As at 31 March 2014

| | | 31 March 2014 | 31 December 2013 |
|---|---|---|---|
| ***Assets*** | ***Note*** | **£000** | **£000** |
| ***Non-current assets*** | | | |
| Purchased loan portfolios | *8* | 229,179 | 211,787 |
| Other non-current assets[1] | | 5,089 | 5,383 |
| **Total non-current assets** | | **234,268** | **217,170** |
| ***Current assets*** | | | |
| Cash and cash equivalents | | 32,625 | 47,520 |
| Purchased loan portfolios | *8* | 66,794 | 62,145 |
| Other current assets[2] | | 10,762 | 11,701 |
| **Total current assets** | | **110,181** | **121,366** |
| **Total assets** | | **344,449** | **338,536** |
| *Total purchased loan portfolios* | *8* | *295,973* | *273,932* |
| | | | |
| **Total equity attributable to shareholders** | | **107,816** | **105,173** |
| **Liabilities** | | | |
| ***Non-current liabilities*** | | | |
| Senior secured notes | | 210,335 | 211,920 |
| Other non-current liabilities[3] | | 2,485 | 2,646 |
| **Total non-current liabilities** | | **212,820** | **214,566** |
| ***Current liabilities*** | | | |
| Trade and other payables | *7* | 22,429 | 13,022 |
| Senior secured notes | | 1,384 | 5,775 |
| **Total current liabilities** | | **23,813** | **18,797** |
| **Total liabilities** | | **236,633** | **233,363** |
| **Total equity and liabilities** | | **344,449** | **338,536** |

1. Other non-current assets consist of goodwill, other intangible assets, property, plant and equipment, loan notes and deferred tax assets, as applicable
2. Other current assets consist of other receivables, derivative asset and current tax asset, as applicable
3. Other non current liabilities consists of non-controlling interest loan and deferred tax liability, as applicable

## Unaudited Consolidated Statement of Changes in Equity

For the year ended 31 December 2013:

| | Ordinary shares £000 | Share premium £000 | Retained earnings £000 | Own share reserve £000 | Translation reserve £000 | Merger reserve £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2013** | **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** |

For the 3 month period ended 31 March 2014:

| | Ordinary shares £000 | Share premium £000 | Retained earnings £000 | Own share reserve £000 | Translation reserve £000 | Merger reserve £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | **1,744** | **347,436** | **33,841** | **(562)** | **(325)** | **(276,961)** | **105,173** |
| Profit for the year | - | - | 2,210 | - | - | - | 2,210 |
| Exchange differences | - | - | - | - | (2) | - | (2) |
| **Total comprehensive income for the year** | **-** | **-** | **2,210** | **-** | **(2)** | **-** | **2,208** |
| Share based payments | - | - | 435 | - | - | - | 435 |
| **Balance at 31 March 2014** | **1,744** | **347,436** | **36,486** | **(562)** | **(327)** | **(276,961)** | **107,816** |

## Unaudited Consolidation Statement of Cash Flows

For the 3 month periods ended 31 March 2014:

| | *Note* | 3 months ended 31 March 2014 £000 | 3 months ended 31 March 2013 £000 |
|---|---|---|---|
| Net cash flow from operating activities before purchases of purchased loan portfolios and loan notes | | 17,442 | 8,864 |
| Purchases of purchased loan portfolios | | (23,385) | (33,585) |
| Net cash used in operating activities | *4* | (5,943) | (24,721) |
| Net cash used in investing activities | | (30) | (168) |
| Net cash flow generated by financing activities | | (8,991) | 34,525 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(14,964)** | **9,636** |
| **Cash and cash equivalents at beginning of period** | | **47,520** | **9,610** |
| Effect of exchange rates on cash and cash equivalents | | 69 | (53) |
| **Cash and cash equivalents at end of period** | | **32,625** | **19,193** |

# Notes to the Unaudited Consolidated Financial Statements

## 1. Basis of Preparation

The annual financial statements of Arrow Global Group PLC are considered statements prepared in accordance with IFRSs as adopted by the European Union. The Group's interim results for the 3 months ended 31 March 2014 were approved by the board of directors of the Group (the 'directors') on 22 May 2014, and have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those disclosed in the annual report for the year ended 31 December 2013.

The financial information for the year ended 31 December 2013 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of those accounts has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

## 2. Going Concern

The financial statements have been prepared under the going concern basis, which the directors believe to be appropriate. The directors are satisfied that the Group has adequate resources to continue to trade for the foreseeable future and the going concern basis continues to be appropriate for preparing the financial statements. In making this assessment, detailed trading forecasts have been prepared which support the going concern assumptions being applied. The decline in the economic climate has seen increased amounts of charged-off, unsecured debt being placed into the marketplace by large financial institutions and this trend looks set to continue for the foreseeable future. This presents an opportunity for the Group to acquire portfolios of debt during this time for purchase considerations significantly lower than the debt's face value.

The current revolving credit facility is £55 million, which remained undrawn for the period to 31 March 2014.

## 3. Critical Accounting Policies and Estimates

The Group's significant accounting policies are described below. The application of these accounting policies requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for turnover and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates. On an ongoing basis, we evaluate our estimates, which are based on historical experience and market and other conditions, and on assumptions that we believe to be reasonable. We have chosen to highlight certain policies that we consider critical to the operations of our business and understanding our consolidated financial information. The following areas are considered to involve a significant degree of judgment or estimation.

## a) Revenue recognition

Purchased loan portfolios are financial instruments that are accounted for under IAS 39 and are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized 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 recognize 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 recognized as revenue. Subsequent reversals of such uplifts are recorded in the revenue line. If such reversals exceed cumulative revenue recognized to date, a provision for impairment is recognized 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 effective interest rate 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 estimated remaining collections ('ERC') at the revaluation date. This ERC is updated with the Core Collections experience to date on a monthly basis using a proprietary model. ERC represents an estimate of the undiscounted cash value of our purchased loan portfolios at a point in time.

## 4. Reconciliations to Adjusted EBITDA

### Reconciliation of Net Cash Flow to EBITDA

| | 3 months ended 31 Mar 2014 £000 | 3 months ended 31 Mar 2013 £000 |
|---|---|---|
| Net cash flow used in operating activities | (5,943) | (24,721) |
| Purchases of loan portfolios | 23,385 | 33,585 |
| Proceeds from disposal of loan portfolios | (1,494) | - |
| Income taxes paid | 1,443 | 1,087 |
| Working capital adjustments | 1,713 | (361) |
| Profit on disposal of purchased loan portfolios | 504 | - |
| Foreign exchange | 69 | (205) |
| Amortisation of acquisition and bank facility fees | 69 | 231 |
| Interest payable | - | 720 |
| Other | - | (160) |
| Exceptional items | 2,559 | 8,795 |
| **Adjusted EBITDA** | **22,305** | **18,971** |

### Reconciliation of Core Collections to EBITDA

| | 3 months ended 31 Mar 2014 £000 | 3 months ended 31 Mar 2013 £000 |
|---|---|---|
| Income from loan portfolios | 21,787 | 19,029 |
| Portfolio amortisation | 10,018 | 8,324 |
| **Core collections** | **31,805** | **27,353** |
| Profit on portfolios | 504 | - |
| Other income | 798 | 375 |
| Operating expenses | (14,219) | (17,758) |
| Depreciation and amortisation | 196 | 180 |
| Foreign exchange | 158 | (205) |
| Amortisation of acquisition and bank facility fees | 69 | 231 |
| Exceptional costs | 2,994 | 8,795 |
| **Adjusted EBITDA** | **22,305** | **18,971** |

## 4. Reconciliations to Adjusted EBITDA *(continued)*

**Reconciliation of Operating Profit to EBITDA**

| | 3 months ended 31 Mar 2014 £000 | 3 months ended 31 Mar 2013 £000 |
|---|---|---|
| Profit for the period attributable to equity shareholders | 2,210 | (1,133) |
| Interest expense | 5,206 | 5,052 |
| Taxation charge on ordinary activities | 1,310 | 337 |
| Exceptional items | 3,138 | 8,795 |
| **Operating profit (pre-exceptionals)** | **11,864** | **13,051** |
| Portfolio amortisation | 10,018 | 8,324 |
| Portfolio write-up | - | (2,610) |
| Depreciation and amortisation | 196 | 180 |
| Foreign exchange | 158 | (205) |
| Amortisation of acquisition and bank facility fees | 69 | 231 |
| **Adjusted EBITDA** | **22,305** | **18,971** |

**Exceptional items:**

| | £000 | £000 |
|---|---|---|
| Operating exceptionals (excluding share based payments) | 2,559 | 8,795 |
| Share based payments | 435 | - |
| Operating exceptionals | **2,994** | **8,795** |
| Finance cost exceptionals | 144 | - |
| | **3,138** | **8,795** |

## 5. Underlying net income[1]

| | 3 months ended 31 Mar 2014 £000 | 3 months ended 31 Mar 2013 £000 |
|---|---|---|
| Profit after tax | 2,210 | (1,133) |
| Exceptional items | 3,138 | 8,795 |
| Tax impact of exceptional items | (126) | (2,045) |
| | **5,222** | **5,617** |

[1] *See page 6 for understanding*

## 6. Finance costs

| | 3 months ended 31 Mar 2014 £000 | 3 months ended 31 Mar 2013 £000 |
|---|---|---|
| Interest on minority interest loans | - | 31 |
| Interest on bank loans | (7) | 701 |
| Interest on senior secured notes | 4,272 | 2,962 |
| Other interest | 144 | 19 |
| Shareholder interest expense | - | 1,291 |
| **Total interest expense** | **4,409** | **5,004** |
| Fair value losses on interest rate swaps | 155 | 48 |
| Amortisation of financing costs | 786 | - |
| **Finance costs (including exceptional items)** | **5,350** | **5,052** |
| Exceptional items | (144) | - |
| **Finance costs (excluding exceptional items)** | **5,206** | **5,052** |

## 7. Trade and other payables

| | At 31 March 2014 £000 | At 31 December 2013 £000 |
|---|---|---|
| Trade payables | 2,889 | 4,375 |
| Current tax liability | 2,927 | 2,894 |
| Deferred consideration | 12,620 | 2,979 |
| Other liabilities and accruals | 3,993 | 2,774 |
| | **22,429** | **13,022** |

## 8. Purchased loan portfolios

| | 3 months ended 31 Mar 2014 £000 | Year ended 31 December 2013 £000 |
|---|---|---|
| As at the start of the period | 273,932 | 208,171 |
| Portfolios acquired during the period [1] | 33,319 | 84,308 |
| Portfolios acquired through acquisition of a subsidiary | - | 18,301 |
| Collections in the period | (31,805) | (127,840) |
| Income from purchased loan portfolios | 21,787 | 87,330 |
| Exchange gain on purchased loan portfolios | (270) | 161 |
| Disposal of purchased loan portfolios | (990) | (1,342) |
| Portfolio write up | - | 4,843 |
| As at the end of the period | **295,973** | **273,932** |

[1] March 2014 portfolio acquisitions includes portfolio costs capitalisation of £157,000 (2013: £1,759,000).

## 9. Senior secured notes and revolving credit facility

In January 2013, Arrow Global Finance plc, a public limited company was incorporated and issued £220,000,000 of senior secured notes with a coupon of 7.875% and a maturity date of 2020.

The senior secured 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 secured notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus and applicable "make-whole" premium. The senior secured notes are secured by substantially all of the assets of the Group. Interest is paid bi-annually.

In 2013, the Group renegotiated a revolving credit facility ("RCF") with The Royal Bank of Scotland plc, as security agent for a consortium of participating financial institutions. The 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 "LTV" ratio at each quarter end. The RCF remains undrawn as at 31 March 2014.

The principal covenants relating to the revolving credit facility are as follows:

| | Covenant | 31 March 2014 |
|---|---|---|
| SSLTV [1] | 25% | 0.0% |
| LTV [2] | 75% | 34.3% |

[1] Net drawn position of revolving credit facility less cash on balance / 84-Month ERC.
[2] Net debt / 84-Month ERC.

The Group is also required to pay a commitment fee on available but not utilised or not cancelled commitements under the RCF at a rate of 40% of the applicable margin per annum on the undrawn portion of each lender's commitment. The RCF 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.