Arrow Global Group PLC

Results for the six months ended
30 June 2019

8 August 2019

Arrow Global Group PLC
Results for the six months ended 30 June 2019

Continued strong cashflow, further cost savings identified and continued focus on fund management business strategy to accelerate move to capital-light model

Arrow Global Group PLC (the "Company", and together with its subsidiaries the "Group"), a leading European investor and asset manager in secured and unsecured defaulted and non-core loan portfolios and real estate, announces its results for the six months ended 30 June 2019**.**

Key Highlights

- £165.6 million of portfolio purchases in Investment Business (IB) (H1 2018: £146.3 million)
- Further strengthening in IB returns – net IRRs increased to 18.0% (H1 2018: 16%) and 10- year gross money multiple (GMM) increased to 1.9x (H1 2018: 1.8x)
- Gross Asset Management and Servicing (AMS) income increased 14.4% to £68.3 million – 34.1% of gross Group income (H1 2018: 32.2%), with current AUM of £52.0 billion
- Free cashflow grew 28.1% to £115.3 million (H1 2018: £90.0 million)
- Cost review completed – minimum £20 million of cost run-rate savings expected to be delivered by the end of 2020 with an estimated cost to achieve of £20 million, supporting simplification, enhanced efficiency and flexibility in AMS operations
- Development of fund management business capabilities to further enhance growth and margins in AMS gathering pace with the formation of AGG Capital Management Limited and hiring of Andrew Grimditch as its CFO
- Leverage reduced to 3.6x (H1 2018: 4.0x) – continue to target 3.0x-3.5x range by year-end

Group financial highlights	**30 June 2019**	**30 June 2018**	**Change %**
Core collections (£m)	202.1	178.0	13.5
Total income (£m)	177.7	166.9	6.5
Third party AMS income (£m)	45.6	41.4	10.1
Profit before tax (£m)	32.5	10.7	203.7
Underlying profit before tax (£m)	35.6	35.3	0.8
Basic EPS (p)	12.6	4.9	157.1
Leverage (x)	3.6	4.0	(0.4x)
84-month ERC (£m)	1,746.0	1,624.8	7.5
120-month ERC (£m)	2,076.8	1,947.9	6.6

Commenting on today's results, Lee Rochford, Group chief executive officer of Arrow Global, said:

"These are a strong set of results reflecting the strength, breadth and quality of the Group's business. All key financial metrics have improved on last year. We have continued to generate asset purchases across our markets at attractive expected returns.

Our AMS business continues to gather momentum, with further margin expansion enhancing our capital generation. We are now moving to establish broader third-party fund management business capabilities through the formation of AGG Capital Management Limited, which we believe has the potential to transform our business model.

In order to ensure maximum efficiency and flexibility within our operations, we have undertaken a group-wide cost review, which is now being implemented. This will support the delivery of our strategic objectives and improve operating leverage over time.

Strong cash generation remains an important characteristic of our business allowing us to invest for future growth, pay dividends and de-lever. We remain confident in our ability to finish the year within our target leverage range of 3.0x-3.5x and to deliver on our broader medium-term financial objectives."

A presentation for analysts will be held at 0930 (UK time) at the offices of FTI Consulting.

Webcast Details:

Webcast link: https://bit.ly/2NVRYKJ

Conference call details:

Number: +44 131 460 1196
Meeting ID: 541 590 432
(Global numbers: https://bit.ly/31lllmf)

Notes:
A glossary of terms can be found on pages 37 to 41. More details explaining the business can be found in the Annual Report & Accounts 2018 which is available on the Company's website at www.arrowglobalir.net

For further information:

Arrow Global Group PLC	
Duncan Browne, Head of Investor Relations	**+44 (0) 7925 643 385**
	Dbrowne@arrowglobal.net
FTI Consulting	
Neil Doyle	**+44 (0)20 3727 1141**
Tom Blackwell	**arrowglobal@fticonsulting.com**
Laura Ewart	

Interim management report
for the six months to 30 June 2019

Important note:

Both IFRS and cash metrics, alongside alternative performance measures are important in understanding the key drivers of the business and are part of target measures used in the calculation of senior management's variable remuneration. Full reconciliations between these positions have been presented in the 'Additional Information' section of this report. The commentary on the following pages refers to a combination of these measures to aid understanding of the business performance for the period.

All of the following statements relate to the underlying performance of the business unless otherwise stated.

Asset Management and Servicing (AMS) – accelerating specialist fund management business capabilities

The Company began as a principal investor in impaired credit, using powerful data assets and underwriting skills to achieve returns above its cost of capital. Over the last five years, the Company has established market-leading positions in five European countries, with platforms covering the full range of target asset classes, including high-margin niches with limited alternative service providers. This now enables us to access around half of a two trillion-euro market across Europe.

The establishment of this platform has created the opportunity to earn fee revenue from the provision of services to third-party capital providers. As we noted at our Capital Markets Day in November 2018, we will now look to expand our AMS business through establishing specialist fund management business capabilities and widening the range of capital managed on a discretionary basis. Our success at co-investing into deals and servicing the assets on behalf of ourselves and our third-party capital partners provides a track record which is attractive to investment managers looking to access our specialist and high-return asset classes.

Continued AMS Revenue Growth from the existing business

Gross AMS revenues from our current servicing activities and fund management business grew 14.4% to £68.3m and accounts for 34.1% of gross Group revenue supported by contributions from our Norfin, Europa Investimenti and Parr Credit acquisitions. As noted at Q1, we have taken a proactive approach to assessing which contracts from some of these newer businesses we wish to maintain and those we will seek to exit.

In addition, we had previously planned to raise new funds locally through our Portuguese and Italian platforms that would have been accretive to revenue in 2019. However, due to the accelerated focus on our fund management business strategy at a Group level, we have delayed this process. This has resulted in a short term in year drag to our anticipated AMS revenues. We remain optimistic about the future third-party capital volumes we can push through the fund management business strategy.

Nevertheless, margins in the AMS business have increased to 23% at H1 2019 compared to 19% in H1 2018, partly driven by the contribution from Norfin's higher margin fund management business revenue. Margin expansion is a long-term trend we anticipate will continue as we succeed in executing on our fund management business strategy. H1 2019 saw particularly strong revenues including certain items such as due diligence fees that are not expected to repeat in H2 2019. Therefore, we expect the AMS margin to moderate slightly across the remainder of 2019. We remain firmly on track to hit, if not exceed, our medium-term AMS margin guidance.

Investment business – returns continuing to strengthen

Portfolio investments – higher returns

In line with our strategy to only invest when attractive returns are available, we deliberately scaled back purchases in Q1 as we predicted pricing would improve and investment returns would increase as the year progressed.

This approach was successful, with H1 IRRs achieved of 18% (H1 2018: 16%). A key driver of this increase has been the particularly attractive investment opportunities arising from our recent acquisitions. Norfin, in Portugal, and Europa Investimenti, in Italy, have given us the ability to value and service attractive asset classes in the real estate and corporate bankruptcy sectors. They require specific forensic expertise to underwrite, making them harder for statistical investors to price accurately. They are therefore subject to less auction competition and exhibit higher returns – making them extremely long-term accretive to the Company's shareholders. These assets are frequently secured, resulting in ultimate returns that are more predictable but that can exhibit less front-loaded cashflow profiles when compared to an unsecured credit card book in the UK. As such, whilst the profile of these investments will have some in-year earnings impact, they are wholly consistent with our strategy to maximise long-term value for shareholders. Over time, we would also expect the majority of these assets to be highly attractive to our capital partners, rather than necessarily sitting on the Group's balance sheet.

Core collections – cash generation continuing to improve

Collections performance was strong in the period, with core collections increasing by 13.5% to £202.1 million (H1 2018: £178.0 million). This reflected the increase in our portfolio asset base and good performance of the back book, especially in Portugal. At 104%, collections remain ahead of the underwriting ERC forecast and reflect our continued cumulative collections outperformance across geographies and asset classes.

The increase in collections drove an increase in adjusted EBITDA of 21.2% to £144.1 million (H1 2018: £118.9 million). The reconciliation for the period of profit after tax to the cash result, including a reconciliation to adjusted EBITDA, is provided in the 'Additional Information' section of this report. Adjusted EBITDA is a key driver of the cash result and allows us to monitor the operating performance and cash flow generation of the Group.

Cash generated by core collections is subsequently accounted as revenue under IFRS, where a proportion is allocated to amortising the asset on the balance sheet and the rest recognised as revenue. Amortisation has increased by a greater amount than collections period on period. This is primarily driven by two factors; a decrease in revaluation gains period on period meaning total income from portfolios grew at a slower pace than cash collections, and also due to the collections on a portfolio restructure completed in Q1 2019 being 100% offset in amortisation.

Investment business income increased

Total income from portfolio investments increased by 5.1% to £131.9 million (H1 2018: £125.5 million), following continued strong collections performance. This is after impairment gains of £15.7m (H1 2018: £23.3m) and fair value gains of £21.1m (H1 2018: £6.1m) – both driven by the normal process of including expected cash flows that have moved from beyond the 84-month ERC balance sheet recognition period to within it, as well as revaluations upwards of portfolio assets due to expected future collections outperformance. Impairment gains were lower than the prior year comparative, which included the benefit of strong revaluation gains driven by the initial impact of rolling out our decision science expertise across the Group at this time.

Cost to collect improving

Cost to collect has reduced to £54.0m from £59.9m in the prior period, due to the continued effect of secured assets, which have a greater upfront cost to collect but a lower lifetime cost to collect, and the increased efficiencies driven by the One Arrow investment programme. This is despite an increase in overall collections and the flow through impact of purchasing servicing platforms that have a higher proportional cost to collect. Collection costs often rise commensurately with the greater collections activity frequently seen in the second half of the year, meaning collections costs in the second half will be higher than in the first half. However, in line with the medium-term guidance provided at our capital markets day, we expect the collections activity cost ratio to reduce over time.

Overheads and results of cost review

M&A activity, investment in Italy and the build-out of central functions has resulted in an increase in statutory overhead costs to £64.7 million (H1 2018: £54.7 million).

As we set out at our full year results in February, with the build out of our servicing platform largely complete, we believed there was an opportunity for us to realise significant cost savings. This arises from our ability to simplify, remove duplication, streamline support functions, harness the benefits of our efficiency investments and improve the procurement process across the Group. Our cost review is now complete and we have commenced execution of the programme that is expected to result in over £20 million of run-rate cost savings by the end of 2020. We estimate that this will entail a cost to achieve of approximately £20 million, the majority of which we anticipate incurring in H2 2019.

The benefits of this programme will largely accrue in our AMS businesses and will support an acceleration of our guidance of mid-20s EBITDA margins. This is an essential component of pivoting our business model to a more capital-light strategy and will support earnings as this occurs. In addition, investment in our central functions is now largely complete.

Alongside the expected cost saving, this stronger alignment of costs with capital allocation will see us create significant operating leverage in our platform. In particular, this will enhance our ability to generate efficient scale through the deployment of third-party capital, thereby driving a positive 'JAWS' between revenues and costs.

Finance costs

Finance costs, which include charges relating to deferred payments on business acquisitions, were £26.5 million (H1 2018: £22.8 million). The increase was primarily driven by deferred consideration treatment and lease accounting treatment under IFRS.

Underlying profit before tax

Underlying profit before tax marginally increased in the period, principally driven by lower levels of revaluations than those experienced in H1 2018. In addition, overheads increased following M&A activity but were largely offset by increased AMS and IB revenues. Statutory profit before tax increased 203.7% to £32.5 million (H1 2018: £10.7 million), primarily as a result of lower financing costs in H1 2019, with the H1 2018 result impacted by the costs of bond refinancing.

Underlying Tax

The underlying tax charge of £8.5 million represents an effective tax rate of 24.0% (H1 2018: 19.5%) on underlying profit before tax. The effective tax rate has increased period on period as increasingly more profits are generated in European tax jurisdictions where tax rates are higher than the UK. The statutory tax charge of £8.2 million has increased from £2.2 million, representing a 25.1% effective tax rate, in line with the increase in statutory profit, and also the same European tax jurisdiction mix impact.

Strong returns and dividends

The underlying LTM ROE is 32.7%, little changed from 33.5% at H1 2018 and remains well above our target of mid-20s underlying ROE.

Basic EPS is 12.6p compared to 4.9p in H1 2018, with the increase largely due to the growth in statutory net income, while underlying basic EPS has decreased 13.5% to 14.1p (H1 2018: 16.3p) on higher tax charges in the period, along with NCI participation in underlying profit after tax for the period.

The Group will pay a 4.4p interim dividend, an increase of 10% from the H1 2018 interim dividend of 4.0p. This is in line with the Group's policy to pay 50% of the previous year's final dividend.

Strengthened balance sheet

Funding and net debt

On 26 February 2019, the Group extended the maturity date of its £285m revolving credit facility to 4 January 2024 with no change in margin. In addition, on 30 April 2019, the Group completed a securitisation of loan portfolios under which a £100 million commitment has been made available to the Group, with an asset backed securitisation structure at LIBOR + 3.1% per annum. The initial drawdown under the facility was £75.0 million and, as at 30 June 2019, the outstanding borrowing was £74.3 million. The facility has a revolving commitment period for two years until May 2021 with an option to extend for a further year, after which there is an amortisation period of three years.

The Group’s secured net debt position at the period end was £1,148.4 million (FY 2018: £1,089.2 million). Secured net debt to adjusted EBITDA was 3.6 times (FY 2018: 3.7 times). The Group is committed to reducing the leverage ratio by year end to 3.5 times or below and operating thereafter within our target range of 3.0 times to 3.5 times.

As at 30 June 2019, the Group had headroom of £170.0 million, comprising £77.7 million cash at bank, £66.6 million headroom under the Group’s revolving credit facility and £25.7 million under the Group’s asset backed securitisation facility. Apart from the amortisation under the asset backed securitisation facility, the Group has no maturities until 4 January 2024.

The Group’s weighted average cost of debt is 3.7% and the average debt facility maturity is 5.5 years. This means that since its IPO, the Group has more than halved its cost of debt while focusing on long duration debt for added balance sheet stability.

Continuing to move towards a self-funded model

Alongside continued growth in the AMS business and our cost reduction programme, our aim is that within the five-year guidance period, the business will generate enough cash to support our portfolio purchases, fund the dividend and reduce net debt. Under this scenario, while earnings growth will not be as high as recent years, we are optimistic we can transform the operating model to increase the quality of those earnings and believe that our fund management business strategy will be a key contributing factor.

Summary and outlook

Performance in the first half is in line with our expectations and plans. Delivery against our strategic goals of increasing revenues from our capital-light Asset Management and Servicing business, reducing leverage and growing dividends is on track, while the development of the fund management business is running ahead of plan. We have announced our simplification programme today, which is already underway. Detailed plans are in place that we believe mitigate the risks involved in execution.

We have strong visibility on our Investment Business pipeline in the second half of the year and continue to view the asset pricing environment as increasingly attractive; evidenced by the two-percentage point increase in underwriting net IRRs over the last twelve months. We remain fully committed to the medium-term targets we laid out in 2018.

Principal risks and uncertainties

In our annual report we provided a summary of the principal key risk areas that could impact on the Group. We provide the following update against a number of these.

Successful agreement of the asset backed securitisation facility has improved the Group's liquidity whilst increases in capital-light asset management income, has served to enhance the Group's overall funding position. Risks associated with ongoing diversification of assets, including greater volumes of secured debt and real estate, are well-balanced via geographic diversification and the associated AMS income opportunities. Overall, the volume and quality of the debt purchase market remains strong, with focus on maximising opportunities in Italy and Portugal, whilst operating within the overall capital allocation structure set out to support the Group's strategy. Whilst pricing pressure is evident in certain parts of the market, the portfolio diversification and our ability to transact off-market enables these risks to be managed effectively.

Whilst Brexit uncertainty is ongoing, broader macro-economic factors and potential impact on the investment attractiveness of the UK remain under watch. However, we do not anticipate material adverse consequences solely due to Brexit. Ongoing dialogue with our regulators and relevant trade bodies enables a close watch in all of our markets and enables us to be better prepared for any regulatory or legislative changes. As expected, the degree of regulatory engagement and oversight is increasing across the markets in which we operate, with many following the UK's lead in terms of fair customer treatment. In line with our purpose to build better financial futures, we wholly support these measures and are able to leverage existing internal expertise and good practice to support each of our businesses in building positive and proactive approaches to customer treatments. Progress continues across our Operational Resilience agenda, including Cyber Risk and Data Governance, further embedding operating standards in a consistent manner across the Group to mitigate and react effectively to these industry-wide themes. Our cost review has highlighted opportunities for further operational efficiency and improved technology infrastructure, and we continue to monitor the risk of business disruption by ensuring governance and oversight support these initiatives.

Also supporting our strategic plan, the Group continues to embed the One Arrow risk framework including appropriate levels of investment in people and infrastructure to support this on an ongoing basis across all three lines of defence. The accompanying governance processes ensure risk management oversight from both the executive management team and the Board.

The establishment of specialist fund management business capabilities by the Group marks an important development in our fund management business strategy. As with any initiative of this kind, the process of full implementation involves a series of component steps and requires significant transaction management and coordination, including the coordination of legal, regulatory and other resources relevant to the establishment of a regulated activity. Whilst we believe this process is progressing well, it is necessarily dependent on a range of factors, and subject to a range of risks, such as those emanating from change within the legal and regulatory framework that applies to capital partnering structures.

Related party transactions

Related party transactions are disclosed in note 13 to the condensed consolidated financial statements.

Going concern

As stated in note 2 to the condensed consolidated financial statements, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Directors' responsibilities statement in respect of the interim results

We confirm that to the best of our knowledge:

The condensed set of consolidated financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The interim management report includes a fair review of the information required by:

DTR 4.2.7R of the *Disclosure Guidance and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

DTR 4.2.8R of the *Disclosure Guidance and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Name	**Function**
Jonathan Bloomer	Non-executive Chairman
Lee Rochford	Group chief executive officer
Paul Cooper	Group chief financial officer
Lan Tu	Non-executive director
Maria Luís Albuquerque	Non-executive director
Andrew Fisher	Non-executive director and senior independent director
Ian Cornish (resigned 30 April 2019)	Non-executive director and senior independent director

The interim results were approved on 8 August 2019 by the board of directors and are signed on its behalf by:

Paul Cooper
Group chief financial officer

Independent Review Report to Arrow Global Group PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Independent Review Report to Arrow Global Group PLC

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Alexander Simpson

for and on behalf of KPMG LLP

Chartered Accountants
One St Peter's Square
Manchester
M2 3AE
8 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 June 2019

	Note	Unaudited period ended 30 June 2019 £000	Unaudited period ended 30 June 2018 £000
Continuing operations			
Income from portfolio investments		95,007	96,143
Fair value gains on portfolio investments at FVTPL		21,124	6,108
Impairment gains on portfolio investments at amortised cost		15,721	23,281
Total income from portfolio investments	11	**131,852**	**125,532**
Income from asset management and servicing		45,639	41,352
Other Income		202	-
Total income		**177,693**	**166,884**
Operating expenses:			
Collection activity costs		(54,017)	(59,940)
Other operating expenses	9	(64,653)	(54,745)
Total operating expenses		**(118,670)**	**(114,685)**
Operating profit		**59,023**	**52,199**
Net finance costs		(26,510)	(22,794)
Refinancing costs		-	(18,658)
Profit before tax		**32,513**	**10,747**
Taxation charge	8	(8,169)	(2,234)
Profit after tax		**24,344**	**8,513**
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange translation difference arising on revaluation of foreign operations		(633)	(451)
Movement on the hedging reserve		(57)	(375)
Total comprehensive income for the period		**23,654**	**7,687**
Profit attributable to:			
Owners of the Company		22,104	8,481
Non-controlling interest		2,240	32
		24,344	**8,513**
Basic EPS (p)	6	**12.6**	**4.9**
Diluted EPS (p)	6	**12.2**	**4.7**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Note	Unaudited 30 June 2019 £000	Audited 31 December 2018 £000	Unaudited 30 June 2018 £000
Assets				
Cash and cash equivalents		77,748	92,001	34,741
Trade and other receivables		105,251	94,206	68,177
Portfolio investments – amortised cost	11	954,583	869,056	853,149
Portfolio investments – FVTPL	11	164,441	217,974	173,363
Portfolio investments – real estate inventories	11	47,925	-	-
Property, plant and equipment		29,150	7,761	9,248
Other intangible assets		41,904	44,264	42,865
Deferred tax asset		8,092	8,113	7,338
Goodwill	10	276,948	262,679	173,589
Total assets		**1,706,042**	**1,596,054**	**1,362,470**
Liabilities				
Bank overdrafts	14	2,284	2,696	1,329
Revolving credit facility	14	214,338	242,121	108,239
Derivative liability		810	502	2,273
Trade and other payables	12	253,589	197,657	124,290
Current tax liability		10,901	7,915	3,466
Other borrowings	14	3,575	11,635	17,163
Asset-backed loans	14	72,651	-	-
Senior secured notes	14	925,016	926,340	915,669
Deferred tax liability		16,115	14,930	16,365
Total liabilities		**1,499,279**	**1,403,796**	**1,188,794**
Equity				
Share capital		1,763	1,763	1,763
Share premium		347,436	347,436	347,436
Retained earnings		124,116	116,589	100,393
Hedging reserve		(641)	(584)	(718)
Other reserves		(274,180)	(273,547)	(275,360)
Total equity attributable to shareholders		**198,494**	**191,657**	**173,514**
Non-controlling interest		8,269	601	162
Total equity		**206,763**	**192,258**	**173,676**
Total equity and liabilities		**1,706,042**	**1,596,054**	**1,362,470**

Note – the balance sheet has been presented on a reducing liquidity basis, and prior periods have been represented accordingly on this basis.

The interim results were approved on 8 August 2019 by the board of directors and are signed on its behalf by:

Paul Cooper Group chief financial officer

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2019

	Ordinary shares £000	Share Premium £000	Retained Earnings £000	Hedging Reserve £000	Own share reserve £000	Translation Reserve £000	Merger Reserve £000	Total £000	Non-controlling interest £000	Total £000
Balance at 1 January 2018	1,753	347,436	118,710	(343)	(3,291)	7,844	(276,961)	195,148	173	195,321
Impact of adopting IFRS 15		-	(231)	-	-	-	-	(231)		(231)
Impact of adopting IFRS 9	-	-	(14,000)	-	-	-	-	(14,000)	-	(14,000)
Balance post IFRS adjustments at 1 January 2018	1,753	347,436	104,479	(343)	(3,291)	7,844	(276,961)	180,917	173	181,090
Profit for the period	-	-	8,481	-	-	-	-	8,481	32	8,513
Exchange differences	-	-	-	-	-	(451)	-	(451)	-	(451)
Net fair value gains on cash flow hedges	-	-	-	(473)	-	-	-	(473)	-	(473)
Tax on hedged items	-	-	-	98	-	-	-	98	-	98
Total comprehensive income for the period	-	-	8,481	(375)	-	(451)	-	7,655	32	7,687
Shares issued in the period	10	-	-	-	-	-	-	10	-	10
Repurchase of own shares	-	-	-	-	(2,501)	-	-	(2,501)	-	(2,501)
Share-based payments	-	-	1,589	-	-	-	-	1,589	-	1,589
Dividend paid	-	-	(14,156)	-	-	-	-	(14,156)	-	(14,156)
Dividend paid by NCI	-	-	-	-	-	-	-	-	(43)	(43)
Balance at 30 June 2018 (unaudited)	1,763	347,436	100,393	(718)	(5,792)	7,393	(276,961)	173,514	162	173,676
IFRS 15 opening adjustment	-	-	32	-	-	-	-	32	-	32
Profit/(loss) for the period	-	-	21,488	-	-	-	-	21,488	(32)	21,456
Exchange differences	-	-	-	-	-	3,023	-	3,023	-	3,023
Recycled to profit after tax	-	-	-	-	-	(1,202)	-	(1,202)	-	(1,202)
Net fair value losses on cash flow hedges	-	-	-	182	-	-	-	182	-	182
Tax on hedged items	-	-	-	(48)	-	-	-	(48)	-	(48)
Total comprehensive income/(loss) for the period	-	-	21,488	134	-	1,821	-	23,443	(32)	23,411
Repurchase of own shares	-	-	-	-	(8)	-	-	(8)	-	(8)
Share-based payments	-	-	1,678	-	-	-	-	1,678	-	1,678
Dividend paid	-	-	(7,002)	-	-	-	-	(7,002)	-	(7,002)
Non-controlling interest on acquisition	-	-	-	-	-	-	-	-	471	471
Balance at 31 December 2018	1,763	347,436	116,589	(584)	(5,800)	9,214	(276,961)	191,657	601	192,258
Impact of adopting IFRS 16	-	-	(947)	-	-	-	-	(947)	-	(947)
Balance post IFRS adjustments at 1 January 2019	1,763	347,436	115,642	(584)	(5,800)	9,214	(276,961)	190,710	601	191,311
Profit for the period	-	-	22,104	-	-	-	-	22,104	2,240	24,344
Exchange differences	-	-	-	-	-	(633)	-	(633)	-	(633)
Net fair value gains on cash flow hedges	-	-	-	(74)	-	-	-	(74)	-	(74)
Tax on hedged items	-	-	-	17	-	-	-	17	-	17
Total comprehensive income for the period	-	-	22,104	(57)	-	(633)	-	21,414	2,240	23,654
Non-controlling interest at acquisition	-	-	-	-	-	-	-	-	5,428	5,428
Share-based payments	-	-	1,528	-	-	-	-	1,528	-	1,528
Dividend paid	-	-	(15,158)	-	-	-	-	(15,158)	-	(15,158)
Balance at 30 June 2019 (unaudited)	1,763	347,436	124,116	(641)	(5,800)	8,581	(276,961)	198,494	8,269	206,763

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended 30 June 2019

	Note	Unaudited period ended 30 June 2019 £000	Unaudited period ended 30 June 2018 £000
Net cash used in operating activities	16	**(21,939)**	**(39,331)**
Investing activities			
Purchase of property, plant and equipment		(35)	(472)
Purchase of intangible assets		(3,146)	(4,881)
Proceeds from disposal of intangible assets		4	-
Acquisition of subsidiary, net of cash acquired	15	(2,850)	(12,995)
Acquisition of subsidiary, deferred consideration		(7,689)	(10,712)
Net cash used in investing activities		**(13,716)**	**(29,060)**
Financing activities			
Repayment of RCF and other borrowings		(35,229)	(37,858)
Proceeds from ABS issuance		74,312	-
Proceeds from senior notes (net of fees)		(173)	345,847
Redemption of senior notes		-	(203,467)
Early redemption of senior notes costs		-	(13,623)
Repayment of interest on senior notes		(17,938)	(18,142)
Other interest paid		(4,226)	(2,682)
Bank interest received		14	6
Increase in non-controlling interest		5,428	-
Repurchase of own shares		-	(2,501)
Issued share capital		-	10
Settlement of deferred consideration interest		-	(257)
Net cash flow generated by financing activities		**22,188**	**67,333**
Net increase in cash and cash equivalents		**(13,467)**	**(1,058)**
Cash and cash equivalents at beginning of period		92,001	35,943
Effect of exchange rates on cash and cash equivalents		(786)	(144)
Cash and cash equivalents at end of period		**77,748**	**34,741**

Notes to the condensed consolidated interim financial statements

1. General Information

The Company is incorporated in England and Wales. These condensed consolidated interim financial statements (interim financial statements) of the Company as at and for the six months ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as "the Group"). The Group's principal activity is to identify, acquire and manage secured and unsecured defaulted and non-core loan portfolios and real estate assets from financial institutions, such as banks and credit card companies, as well as retail chains, student loans, motor credit, telecommunications firms and utility companies. In addition, the Group enters into contractual servicing agreements with other third parties to collect upon the receivables, to administer and disburse the proceeds of the receivables.

2. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. They do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2018.

The annual financial statements of the Group are prepared in accordance with IFRS as adopted for use in the EU, and therefore comply with Article 4 of the EU IFRS Regulation. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the interim financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated annual report for the year ended 31 December 2018, other than that this is the first set of the Group's financial statements where IFRS 16 has been applied. Changes to significant accounting policies are described in note 3.

The comparative figures for the financial year ended 31 December 2018 are not the complete version of the Company's statutory accounts for that financial year. The consolidated financial statements of the Group as at and for the year ended 31 December 2018 are available upon request from the Company's registered office at Belvedere, 12 Booth Street, Manchester, M2 4AW or online at www.arrowglobalir.net. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor:

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

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

These interim financial statements were approved by the board of directors on 8 August 2019.

Going concern

The directors have undertaken a thorough review of forecast cash flow models and scenarios for a period in excess of twelve months from the date of approval of these accounts. Following this review, and in the light of current cash headroom of £170.0 million (comprising current cash balances plus total facility headroom), no bond maturities until 2024 and information available about future risks and uncertainties, they have concluded that it is appropriate to prepare the Group interim financial statements on a going concern basis.

Notes to the condensed consolidated interim financial statements (*continued*)

3. Adoption of new standards

On the 1 January 2019 the Group adopted IFRS 16. This resulted in some changes to key accounting policies that are described in detail below.

3.1 IFRS 16 '*Leases*'

IFRS 16 replaces the previous standard IAS 17 'Leases', bringing a number of leases on balance sheet, which were previously off-balance sheet and accounted for as operating leases under IAS 17.

As lessee, under IFRS 16, in respect of leased properties previously accounted for as operating leases the Group now recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. Lease payments are allocated between the liability and finance cost.

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with leases with a lease term of twelve months or less and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis.

The Group is not required to restate comparatives on the initial adoption of IFRS 16, and has applied the modified retrospective approach. The Group has applied exemptions where appropriate for short-term leases of twelve months or less and low value assets to be expensed and has also applied 'grandfathering' to all IAS 17 judgements previously made. The incremental borrowing rates used to measure lease liabilities at initial application ranged between 4.2% and 7.2%.

The standard transition has led to a one-off opening 2019 reserves reduction of £0.9 million, a right-of-use asset disclosed in property, plant equipment of £23.8 million and a lease liability of £27.3 million and a release of lease accruals of £2.6 million, both disclosed in trade and other payables.

3.2 Standards not yet effective

A number of other new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted them in preparing these condensed consolidated financial statements.

4. Accounting policies, critical accounting judgements and estimates

In applying the Group's accounting policies, 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.

In preparing the interim financial statements, the accounting policies, areas of judgement, estimation and assumption were the same as those applied in the consolidated financial statements of the Group as at and for the year ended 31 December 2018, other than for those mentioned in note 3 above. In particular, significant judgement is required in the use of estimates and assumptions in the valuation of the portfolio assets.

4.1 Portfolio investments – real estate

The Group now holds a number of material real estate portfolio investments, which are being held for either immediate sale, or being developed with a view to sell immediately once such development work is completed. As such, the Group has assessed it should account for such investments under 'IAS 2 – Inventories'.

Under IAS 2, these investments are held at their original cost, plus any subsequent capital expenditure, and are not subject to revaluations on a periodic basis. Such assets will be assessed for impairment at each reporting date, but any gain on these investments will not be recognised until they are sold and derecognised from the balance sheet.

Notes to the condensed consolidated interim financial statements (*continued*)

5. Segmental reporting

Period ended 30 June 2019

	Investment Business £000	**Asset management and servicing Business £000**	**Group Functions £000**	**Intra segment elimination £000**	**Adjusting items**	**Total period ended 30 June 2019 £000**
Total income	131,852	68,338	202	(22,699)	-	177,693
Collection activity costs	(45,030)	(31,686)	-	22,699	-	(54,017)
Gross margin	86,822	36,652	202	-	-	123,676
Gross margin %	*66%*	*54%*				70%
Other operating expenses excluding depreciation, amortisation and forex	(12,694)	(21,263)	(17,481)	-	(3,076)	(54,514)
EBITDA	**74,128**	**15,389**	**(17,279)**	**-**	**(3,076)**	**69,162**
EBITDA margin %	*56%*	*23%*	-	-	-	-
Depreciation, amortisation and forex	-	-	(10,139)	-	-	(10,139)
Operating profit	**74,128**	**15,389**	**(27,418)**	**-**	**(3,076)**	**59,023**
Net finance costs	-	-	(26,510)	-	-	(26,510)
Profit before tax	**74,128**	**15,389**	**(53,928)**	**-**	**(3,076)**	**32,513**

Period ended 30 June 2018

	Investment Business £000	**Asset management and servicing Business £000**	**Group Functions £000**	**Intra segment elimination £000**	**Adjusting items**	**Total period ended 30 June 2018 £000**
Total income	125,532	59,693	-	(18,341)	-	166,884
Collection activity costs	(47,834)	(29,759)	-	18,341	(688)	(59,940)
Gross margin	77,698	29,934	-	-	(688)	106,944
Gross margin %	*62%*	*50%*				64%
Other operating expenses excluding depreciation, amortisation and forex	(7,960)	(18,720)	(16,242)	-	(5,224)	(48,146)
EBITDA	**69,738**	**11,214**	**(16,242)**	**-**	**(5,912)**	**58,798**
EBITDA margin %	*56%*	*19%*				
Depreciation, amortisation and forex	-	-	(6,599)	-	-	(6,599)
Operating profit	**69,738**	**11,214**	**(22,841)**	**-**	**(5,912)**	**52,199**
Net finance costs	-	-	(22,794)	-	-	(22,794)
Refinancing costs	-	-	-	-	(18,658)	(18,658)
Profit before tax	**69,738**	**11,214**	**(45,635)**	**-**	**(24,570)**	**10,747**

Other operating expense inclusive of depreciation, amortisation and forex totals £64,653,000 (H1 2018: £54,745,000). See page 33 for further detail of adjusting items as part of the reconciliation of reported to underlying results.

Notes to the condensed consolidated interim financial statements (*continued*)

6. Earnings per share

	Period ended 30 June 2019 £000	Period ended 30 June 2018 £000
Basic and diluted earnings per share		
Profit for the period attributable to equity shareholders	22,104	8,481
Weighted average ordinary shares	**175,545**	**174,811**
Potential exercise of share options	5,684	4,015
Weighted average ordinary shares (diluted)	**181,229**	**178,826**
Basic earnings per share (p)	**12.6**	**4.9**
Diluted earnings per share (p)	**12.2**	**4.7**

7. Dividend

A dividend of £15,157,809.11 has been paid on 12 July 2019, being the 2018 final dividend of 8.7p per share approved by the shareholders at the 2019 annual general meeting. This amount was included as a liability on the balance sheet in these interim results.

The 2019 interim dividend will be 4.4p per share (H1 2018: 4.0p), being 50% of the 2018 final dividend, in accordance with our policy. The dividend is payable on 11 October 2019 to shareholders who are on the register as at 6 September 2019. The ex-dividend date is 5 September 2019. Shareholders will again have the opportunity to elect to reinvest their cash dividend and purchase existing shares in the Company through a dividend reinvestment plan, with an election date of 20 September 2019. The interim dividend has not been recognised as a liability in these financial statements.

8. Tax

The Group's effective consolidated tax rate for the six months ended 30 June 2019 was 25.1% (30 June 2018: 20.8%). The current period effective tax rate is reflective of the applicable corporate tax rate for the full financial year.

Notes to the condensed consolidated interim financial statements (*continued*)

9. Other operating expenses

	Period ended 30 June 2019 £000	Period ended 30 June 2018 £000
Staff costs	29,161	24,064
Other staff related costs	4,917	3,385
Premises	2,050	3,644
IT	6,733	5,452
Depreciation and amortisation	9,753	6,625
Net foreign exchange losses/(gains)	386	(26)
Other operating expenses	11,653	11,601
	64,653	54,745

10. Goodwill

Cost	**£000**
At 30 June 2018	**175,898**
Goodwill on acquisition of subsidiary	86,940
Exchange rate differences	2,150
At 31 December 2018	**264,988**
Goodwill on acquisition of subsidiaries	15,001
Exchange rate differences	(732)
At 30 June 2019	**279,257**
Impairment:	
At 30 June 2018, 31 December 2018 and 30 June 2019	**2,309**
Net book value:	
At 30 June 2019	**276,948**
At 31 December 2018	**262,679**
At 30 June 2018	**173,589**

The goodwill on acquisition of subsidiaries in the current period relates to £14,519,000 from the acquisition of Drydens Limited ("Drydens"). For more details on the Drydens acquisition see note 15. The remaining movement relates to prior period acquisitions.

Notes to the condensed consolidated interim financial statements (*continued*)

11. Portfolio investments

The movements in portfolios investments were as follows:

Period ended 30 June 2019

	Amortised cost	FVTPL	Real Estate Inventories	Total
	£000	**£000**	**£000**	**£000**
As at the period brought forward	869,056	217,974	-	1,087,030
Portfolios purchased during the period	129,527	11,139	24,918	165,584
Transfer between categories	22,897	(44,021)	21,124	-
Collections in the period	(161,800)	(40,339)	-	(202,139)
Income from portfolio investments at amortised cost	95,007	-	-	95,007
Fair value gain on portfolios at FVTPL	-	21,124	-	21,124
Net impairment gain	15,721	-	-	15,721
Exchange and other movements	(2,664)	(1,436)	1,883	(2,217)
Portfolio restructure	(13,161)	-	-	(13,161)
As at the period end	**954,583**	**164,441**	**47,925**	**1,166,949**

Transfer between categories represents positions where the Group has originally held one type of instrument relating to a portfolio, and subsequently increased or changed its interest in the portfolio, leading to the requirement to consolidate the underlying structure onto the Group's balance sheet. This leads to a change in the classification of the portfolio investment held. The 'portfolio restructure' represents the restructure of a leveraged structured deal to move to a delevered position, and hence change the nature of the holding whist extinguishing related liabilities.

Year ended 31 December 2018

	Amortised cost	FVTPL	Real Estate Inventories	Total
	£000	**£000**	**£000**	**£000**
As at the period brought forward	920,578	30,889	-	951,467
Impact of adopting IFRS 9 at 1 January 2018	(93,734)	76,734	-	(17,000)
Brought forward after impact of IFRS 9 opening adjustment	826,844	107,623	-	934,467
Portfolios purchased during the period	169,514	93,836	-	263,350
Portfolio additions from acquired entities	3,339	8,514	-	11,853
Collections in the period	(387,699)	(23,889)	-	(411,588)
Income from portfolio investments	188,862	5,070	-	193,932
Fair value gain on portfolios at FVTPL	-	24,745	-	24,745
Net impairment gain	50,727	-	-	50,727
Exchange and other movements	17,469	2,075	-	19,544
As at the period end	**869,056**	**217,974**	**-**	**1,087,030**

Period ended 30 June 2018

	Amortised cost	FVTPL	Real Estate Inventories	Total
	£000	**£000**	**£000**	**£000**
As at the period brought forward	920,578	30,889	-	951,467
Impact of adopting IFRS 9 at 1 January 2018	(93,734)	76,734	-	(17,000)
Brought forward after impact of IFRS 9 opening adjustment	826,844	107,623	-	934,467
Portfolios purchased during the period	81,628	64,678	-	146,306
Collections in the period	(172,944)	(5,066)	-	(178,010)
Income from portfolio investments at amortised cost	96,143	-	-	96,143
Fair value gain on portfolios at FVTPL	-	6,108	-	6,108
Net impairment gain	23,281	-	-	23,281
Exchange and other movements	(1,803)	20	-	(1,783)
As at the period end	**853,149**	**173,363**	**-**	**1,026,512**

The estimated future cash flows generated by portfolio investments are the key estimates/judgements in these financial statements. Flexing the expected future gross cash flows by -1/+1% would impact the closing carrying value of the portfolio investments as at 30 June 2019 by £11,208,000 (31 December 2018: £10,870,000, 30 June 2018: £9,407,000). Note that this sensitivity applies only to 'Amortised Cost' and 'FVTPL' portfolio investments, as this is not a critical estimate for Real Estate portfolio assets.

12. Trade and other payables

	30 June 2019	31 December 2018	30 June 2018
	£000	**£000**	**£000**
Trade payables	17,683	27,806	16,943
Deferred consideration on acquisition of subsidiaries	57,461	59,922	16,508
Deferred consideration on portfolio investments	40,092	12,031	37,179
Taxation and social security	219	163	239
Dividends payable	15,158	-	14,156
Other liabilities and accruals	96,972	97,735	39,265
Lease Liability	26,004	-	-
	253,589	**197,657**	**124,290**
Total payables			
Amount due for payment within 12 months	**176,713**	**145,181**	**101,906**
Amount due for payment after 12 months	**76,876**	**52,476**	**22,384**
	253,589	**197,657**	**124,290**

The directors consider that the carrying amounts of the current trade and other payables approximate to their fair value on the basis that the balances are short term in nature. The non-current deferred consideration has also been calculated at fair value.

Notes to the condensed consolidated interim financial statements (*continued*)

13. Related party transactions

Key management are defined as permanent members of the executive committee. Compensation paid in relation to the financial period was as follows:

Remuneration	30 June 2019 £000	31 December 2018 £000	30 June 2018 £000
Salaries and performance related bonus	1,199	3,836	1,152
Pension-related benefits	108	214	103
	1,307	**4,050**	**1,255**

Executive committee members in the period 7 members (2018: 7 members).

During the period there were no related party transactions, with the exception of those eliminated on consolidation, other than discussed above.

14. Borrowings and facilities

Secured borrowing at amortised cost	30 June 2019 £000	31 December 2018 £000	30 June 2018 £000
Senior secured notes (net of transaction fees of £13.9m, 31 December 2018: £14.8m, 30 June 2018: £15.8m)	919,530	920,798	910,140
Revolving credit facility (net of transaction fees of £4.1m, 31 December 2018: £3.5m, 30 June 2018: £3.5m)	214,338	242,121	108,239
Asset backed loan (net of transaction fees of £1.7m)	72,651	-	-
Senior secured notes interest	5,486	5,542	5,529
Bank overdrafts	2,284	2,696	1,329
Finance lease	-	-	1,753
Other borrowings	3,575	11,635	15,410
	1,217,864	**1,182,792**	**1,042,400**
Total borrowings			
Amount due for settlement within 12 months	232,586	259,045	132,260
Amount due for settlement after 12 months	985,278	923,747	910,140
	1,217,864	**1,182,792**	**1,042,400**

Asset Backed Securitisation

On 30 April 2019 the Group entered into a £100m non-recourse committed asset backed securitisation facility with an advance rate of 55% of 84-month ERC. On the same date, the Group sold £137m of ERC into AGL Fleetwood Limited, a wholly owned Arrow Global Group subsidiary, and borrowed an initial amount of £75m non-recourse funding at L+3.1%, under the facility. The facility has a five year term comprised of an initial two year revolving period followed by a three year amortising period with an option to extend the revolving period by one year subject to lender consent.

Revolving credit facility

On 26 February 2019, the maturity of the facility was extended by one year to 4 January 2024 with no change in margin.

Notes to the condensed consolidated interim financial statements (*continued*)

15. Acquisitions of subsidiary undertakings

On 8 April 2019, the Group acquired 100% of the share capital of Drydens. Drydens is a provider of legal services, the acquisition of which will broaden the Group's UK range of servicing capabilities and skills across consumer and commercial litigation, probate and insolvency. The total undiscounted consideration for the acquisition is £11,115,000 including deferred and contingent consideration.

Contingent consideration is payable at various times within two years from completion of the transaction upon the satisfaction of three mutually exclusive conditions which are based upon the business achieving certain targets around future volumes and the successful migration of Group account.

Effect of the acquisition

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	Total £000
Property, plant and equipment	954
Customer intangible	688
Deferred tax asset	146
Cash and cash equivalents	15
Trade and other receivables	1,983
Trade and other payables	(723)
Deferred tax liability	(131)
Current tax liability	(277)
Provisions	(59)
Lease liability	(760)
Loan liability	(6,122)
Total identifiable net liabilities	**(4,286)**
Goodwill on acquisition	14,519
	10,233
Consideration:	
Cash	2,865
Deferred consideration	3,106
Contingent consideration	4,262
	10,233
Cash impact of acquisition in the period:	
Cash consideration	2,865
Cash and cash equivalents acquired	(15)
	2,850

An intangible asset of £688,000 has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from existing customer relationships.

Goodwill of £14,519,000 was created as a result of this acquisition. The primary reason for the acquisition was to broaden the Group's range of servicing capabilities in the UK.

15. Acquisitions of subsidiary undertakings *(continued)*

In the period from acquisition to 30 June 2019, Drydens contributed income of £1,343,000 and profit after tax contribution of £400,000 to the consolidated results for the period. If the acquisition had occurred on 1 January 2019, Group total income would have been higher by an estimated £1,167,000 and profit after tax would have been lower by an estimated £24,381.

16. Notes to the cash flow statement

	Period ended 30 June 2019	Period ended 30 June 2018
Cash flows from operating activities	**£000**	**£000**
Profit before tax	32,513	10,747
Adjusted for:		
Collections in the period	202,139	178,010
Income from portfolio investments	(95,007)	(96,143)
Fair value gain on portfolios	(21,124)	(6,108)
Net impairment gain	(15,721)	(23,281)
Depreciation and amortisation	9,753	6,625
Interest payable	26,510	41,452
Foreign exchange losses/(gains)	386	(26)
Equity settled share-based payment expenses	1,528	1,589
Operating cash flows before movement in working capital	**140,977**	**112,865**
Increase in other receivables	(10,515)	(8,893)
Increase in trade and other payables	16,711	8,210
Cash generated by operations	**147,173**	**112,182**
Income taxes and overseas taxation payable	(3,528)	(5,207)
Net cash flow from operating activities before purchases of loan portfolios	**143,645**	**106,975**
Purchases of portfolio investments	(165,584)	(146,306)
Net cash used in operating activities	**(21,939)**	**(39,331)**

17. Share based payments

The following awards were made in 2019.

Share incentive plan scheme (SIP)

In 2019, the Company offered to all UK employees the opportunity to participate in the SIP, where the Company gives the participating employees one matching share for each partnership share acquired on behalf of the employee using the participating employees' gross salaries. The shares vest at the end of three years on a rolling basis as they are purchased, with employees required to stay in employment for the vesting period to receive the shares.

Notes to the condensed consolidated interim financial statements (*continued*)

Long-term incentive plan (LTIP)

In 2019, nil-cost share options and conditional awards were granted to eligible employees based on a maximum of 200% of base salary. The LTIP awards vest at the end of three years, subject to the achievement of performance conditions. On the same date, tax qualifying options were granted as part of the LTIP awards ("CSOP options") to eligible UK employees.

Each CSOP option is subject to the same performance targets as apply to the nil-cost option part of the awards. If a CSOP option is exercised at a gain, the number of shares that may be delivered under the above associated nil-cost option under the LTIP will be reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award delivered to the participant is not increased by the grant of the CSOP option.

The 2019 awards do not include the right to receive a dividend equivalent.

2019 LTIP criteria

For each eligible employee, 50% of the LTIP awards are subject to ROE criteria and vests as follows:

Performance condition	Percentage vesting
Less than 24% average ROE over the three performance years	0%
24% average ROE over the three performance years (threshold performance)	25%
30% average ROE over the three performance years (maximum performance)	100%
Between 24% and 30% average ROE over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

For each eligible employee, 25% of the LTIP awards are subject to shareholder return criteria, being share price growth plus the value of dividend. The Group is compared against the FTSE 350 index, with the LTIP awards vesting as follows:

Performance condition	Percentage vesting
Below median ranking	0%
Median ranking (top 50%) (threshold performance)	25%
Upper quartile ranking (top 25%) (maximum performance)	100%
Between top 50% and top 25% ranking	Between the threshold performance and maximum performance on a straight-line basis

For each eligible employee, 25% of the LTIP awards are subject to FCF performance conditions and vests as follows:

Performance condition	Percentage vesting
Below £715 million cumulative FCF over the three performance years	0%
£715 million cumulative FCF over the three performance years (threshold performance)	25%
£757 million cumulative FCF over the three performance years (maximum performance)	100%
Between £715 million and £757 million cumulative FCF over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

Notes to the condensed consolidated interim financial statements (*continued*)

17. Share based payments (*continued*)

Restricted share award and deferred bonus share awards

A restricted share award was made in May 2019, which vests on 10 May 2021. Deferred share bonus awards were made in March 2019 to current directors and non-executive directors, which vest on 26 March 2022. All are subject to continuity of employment.

Grant information for the period

The terms and conditions of the grants during the period are as follows:

	Method of settlement accounting	Number of instruments	Vesting period	Contractual life of options
Grant date/employees entitled				
Equity settled award – LTIP	Equity	2,107,612	3 years	20 June 2022
Equity settled award – restricted	Equity	359,934	2 years	10 May 2021
Equity settled award – SIP	Equity	55,255	3 years rolling	May – June 2022
Equity settled award – Deferred	Equity	132,737	3 years	26 March 2022

The weighted average fair value of options granted during the period was £2.15. The majority of options granted to date are nil cost options.

Grant information for the period (*continued*)

The fair value of equity settled share-based payments has been estimated as at date of grant using the Monte Carlo model.

The inputs to the models used to determine the valuations fell within the following ranges:

Grant date	**20 June 2019**	**10 May 2019**	**May 2019**	**26 March 2019**
Expected life of options (years)	3	2	3	3
Share prices at date of grant	£2.31	£1.94	£2.04	£2.17
Expected share price volatility (%)	43.1%	43.9%	n/a	42.8%
Risk free interest rate (%)	0.5%	0.7%	n/a	0.7%

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

	30 June 2019 £000
Equity settled share-based payment expense spread across vesting period	1,528
Total equity settled share-based payment expense recognised in the statement of comprehensive income	**1,528**

The basis of measures used to measure executive remuneration can be seen in the Annual Report & Accounts 2018 on the Company website at www.arrowglobalir.net.

Notes to the condensed consolidated interim financial statements (*continued*)

18. Financial instruments

Fair value estimation

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Financial instruments measured at fair value – fair value hierarchy

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

Level 2	**30 June 2019 £000**	**31 December 2018 £000**	**30 June 2018 £000**
Derivative assets:			
Foreign currency contracts	-	294	9
Derivative liabilities:			
Foreign currency contracts	(49)	-	(1,552)
Interest rate swaps	(761)	(796)	(730)
	(810)	**(502)**	**(2,273)**
Level 3			
Assets:			
Portfolio investments	164,441	217,974	173,363
	164,441	**217,974**	**173,363**

The fair value of derivative financial instruments has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at 30 June 2019.

The fair value of portfolio investments has been calculated using a discounted cash flow model. The three main influencing factors in calculating this are:

(i) estimated future cash flows, derived from management forecasts
(ii) the application of an appropriate exit multiple
(iii) discounting using a rate appropriate to the investment and the anticipated rate of return

Notes to the condensed consolidated interim financial statements (*continued*)

18. Financial instruments (*continued*)

Financial instruments not measured at fair value – fair value hierarchy not measured at fair value

The following table analyses financial instruments not measured at fair value at the reporting date, by the level in the fair value hierarchy into which the measurement is categorised. The amounts are based on the values recognised in the balance sheet. All of the Group's financial instruments not measured at fair value fall into hierarchy level 3.

Level 3	30 June 2019 £000	31 December 2018 £000	30 June 2018 £000
Assets:			
Portfolio investments	954,583	869,056	853,149
	954,583	**869,056**	**853,149**

There have been no transfers in or out of any hierarchy level in the period. A reconciliation of the opening to closing balances for the period of the portfolio investments can be seen in note 11.

	Book value 30 June 2019 £000	Fair Value 30 June 2019 £000	Book value 31 December 2018 £000	Fair Value 31 December 2018 £000	Book value 30 June 2018 £000	Fair Value 30 June 2018 £000
Financial Assets:						
Portfolio investments (excluding inventories)	1,119,024	1,132,377	1,087,030	1,100,001	1,026,512	1,038,761
Cash and cash equivalents	77,748	77,748	92,001	92,001	34,741	34,741
Other receivables	105,251	105,251	94,206	94,206	68,177	68,177
	1,302,023	**1,315,376**	**1,273,237**	**1,286,208**	**1,129,430**	**1,141,679**

	Book value 30 June 2019 £000	Fair Value 30 June 2019 £000	Book value 31 December 2018 £000	Fair Value 31 December 2018 £000	Book value 30 June 2018 £000	Fair Value 30 June 2018 £000
Financial Liabilities:						
Bank overdrafts	2,284	2,284	2,696	2,696	1,329	1,329
Revolving credit facility	214,338	214,338	242,121	242,121	108,239	108,239
Derivative liability	810	810	502	502	2,273	2,273
Trade and other payables	253,589	253,589	197,657	197,657	124,290	124,290
Current tax liability	10,901	10,901	7,915	7,915	3,466	3,466
Other borrowings	3,575	3,575	11,635	11,635	17,163	17,163
Asset-backed loans	72,651	74,312	-	-	-	-
Senior secured notes	925,016	909,483	926,340	864,835	915,669	879,596
	1,483,164	**1,469,292**	**1,388,866**	**1,327,361**	**1,172,429**	**1,136,356**

Additional Information (Unaudited)

'Underlying profit' is considered a key measure in understanding the Group's ongoing financial performance.

Adjusting items are those items that management deem by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered to be representative of the ongoing performance of the Group and these items are excluded from underlying profit.

Reconciliation of reported to underlying costs

	Period ended 30 June 2019			Period ended 30 June 2018		
	Reported £000	Adjustments £000	Underlying £000	Reported £000	Adjustments £000	Underlying £000
Continuing operations						
Income	**177,693**	**-**	**177,693**	**166,884**	**-**	**166,884**
Operating expenses						
Collection activity costs	(54,017)	-	(54,017)	(59,940)	688	(59,252)
Other operating expenses	(64,653)	3,076	(61,577)	(54,745)	5,224	(49,521)
Total operating expenses	**(118,670)**	**3,076**	**(115,594)**	**(114,685)**	**5,912**	**(108,773)**
Operating profit	**59,023**	**3,076**	**62,099**	**52,199**	**5,912**	**58,111**
Net finance costs	(26,510)	-	(26,510)	(41,452)	18,658	(22,794)
Underlying profit before tax	**32,513**	**3,076**	**35,589**	**10,747**	**24,570**	**35,317**
Taxation charge on underlying activities	(8,169)	(373)	(8,542)	(2,234)	(4,642)	(6,876)
Underlying profit after tax	**24,344**	**2,703**	**27,047**	**8,513**	**19,928**	**28,441**
Non-controlling interest	(2,240)	-	(2,240)	(32)	-	(32)
Underlying profit attributable to owners of the Company	**22,104**	**2,703**	**24,807**	**8,481**	**19,928**	**28,409**
Underlying Basic EPS (p)			**14.1**			**16.3**
Underlying effective tax rate			**24.0%**			**19.5%**

Adjusting items in the period relate to business acquisition related costs of £1.5m, costs related to the expansion of the Group fund management business of £0.4m and other costs of £1.1 million related to the Group's simplification programme.

Prior period adjusting items relate to 'One Arrow' costs of £3.6 million and business acquisition and other costs of £2.3 million. Financing costs adjusting items in the prior period relate to costs associated with restructuring the Group's long-term financing.

Additional Information (Unaudited)

Portfolio investments

We provide a reconciliation between IFRS and cash measures. The table below looks at the movement in our purchased portfolio investments compared to the movements in the ERC, the gross cash value of the portfolio before it is discounted to present value for inclusion in the IFRS results.

Further detail of how we assess performance through IFRS and cash measures can be seen in the strategic report of the Annual Report & Accounts 2018 on the Company website at www.arrowglobalir.net.

Movement in purchased portfolios under IFRS reconciled to cash ERC

	IFRS	ERC 84-month	ERC 120-month	
	£000	£000	£000	
Brought forward	1,087,030	1,634,786	1,972,130	ERC brought forward
Portfolios acquired during the period [1]	165,584	293,747	318,146	ERC acquired during the period
Collections in the period [2]	(202,139)	(202,139)	(202,139)	Collections in the period
Income from portfolio investments at amortised cost [3]	95,007	-	-	
Fair value gain on portfolio investments at FVTPL [4]	21,124	-	-	
Net impairment gain [5]	15,721	-	-	
Exchange and other movements	(2,217)	-	-	
Restructure	(13,161)	-	-	
		19,607	(11,316)	ERC roll forward and reforecast [6]
		1,746,001	**2,076,821**	ERC carried forward
Effect of discounting [7]		(579,052)		
Total	**1,166,949**	**1,166,949**		

[1] *Portfolios acquired in the period are added to the statement of financial position carrying value of portfolio investments at their initial purchase price. The undiscounted forecast of estimated remaining collections is included in the ERC*

[2] *Collections made in the period are deducted from both the IFRS carrying value of portfolio investments and ERC*

[3] *Income on portfolio investments at amortised cost is calculated with reference to the effective interest rate (EIR) of the portfolio. This income is recognised after taking account of new portfolios, collections, updated ERC forecast, disposals and any FX impacts. See 8 in the reconciliation of profit after tax to the cash result on page 35 for more detail on total income*

[4] *Fair value gain on portfolio investments at FVTPL represents net increases to carrying values, discounted at the market EIR rate, of portfolio investments held at FVTPL as a result of reassessments to their estimated future cash flows*

[5] *Net impairment gain represents net increases to carrying values, discounted at the credit-adjusted EIR rate, of portfolio investments held at amortised cost as a result of reassessments to their estimated future cash flows*

[6] *The ERC roll forward and reforecast reflects management's updated estimation of future collections. It takes account of updated information on specific portfolios, the latest exchange rate and rolls forward the 84-month forecast collection period*

[7] *Under IFRS, the carrying value of portfolio investments includes 84-months of discounted cash flows, however we expect to see cash flows beyond this period and report a 120-month ERC also, as is customary for the industry*

Additional Information (Unaudited)

The table below reconciles the reported profit for the period to the cash result. For completeness we also separate out other adjusting items.

Reconciliation of profit after tax to the cash result

Income	Reported profit £000	Adjusting items [11] £000	Underlying profit £000	Other items £000	Cash Result £000	
Income from portfolio investments	95,007	-	95,007	107,132	202,139	Collections in the period [2]
Fair value gains portfolio investments at FVTPL	21,124	-	21,124	(21,124)	-	
Impairment gains on portfolio investments at amortised cost	15,721	-	15,721	(15,721)	-	
Income from asset management and servicing	45,639	-	45,639	-	45,639	Income from asset managemen and servicing
Other income	202	-	202	-	202	
Total income [8]	**177,693**	**-**	**177,693**	**70,287**	**247,980**	
Total operating expenses	(118,670)	3,076	(115,594)	11,740[9]	(103,854)	Cash operating expenses
Operating profit	**59,023**	**3,076**	**62,099**	**82,027**	**144,126**[12]	
Net financing costs	(26,510)	-	(26,510)	4,359[10]	(22,151)	
Profit before tax	**32,513**	**3,076**	**35,589**	**86,386**	**121,975**	
Taxation charge on ordinary activities	(8,169)	(373)	(8,542)	5,013	(3,529)	
Profit after tax	**24,344**	**2,703**	**27,047**	**91,399**	**118,446**	
					(3,181)	Capital expenditure
					(85,455)	Replacement rate [13]
					29,810	**Cash result**

[8] Total income is largely derived from Income from portfolio investments as explained in [3] plus income from asset management and servicing being commission on collections for third parties and fee income received. The other items add back loan portfolio amortisation to get to core collections. Amortisation reflects a reduction in the statement of financial position carrying value of the purchase loan portfolios arising from collections which are not allocated to income. Amortisation plus income from purchase loan portfolios equates to core collections

[9] Includes non-cash items including depreciation and amortisation, share-based payment charges and FX

[10] Non-cash amortisation of fees and interest

[11] The cash result is viewed on an underlying basis which excludes certain items. See reconciliation of underlying costs on page 33. These items have been excluded to provide a more comparable basis for assessing the Group's performance between financial periods

[12] This is the adjusted EBITDA for the business, which is a key driver to the cash result. This measure allows us to monitor the operating performance of the Group. See page 36 for detailed reconciliations of adjusted EBITDA

[13] Replacement rate is the rate of portfolio investments purchases, at our target portfolio returns, required over the next 12 months to maintain the 84-month ERC as at 30 June 2019

Additional Information (Unaudited)

Adjusted EBITDA

Reconciliation of net cash flow to adjusted EBITDA	30 June 2019 £000	30 June 2018 £000
Net cash flow used in operating activities	(21,939)	(39,331)
Purchases of loan portfolios	165,584	146,306
Income taxes paid	3,528	5,207
Working capital adjustments	(6,196)	683
Amortisation of acquisition and bank facility fees	73	137
Adjusting items	3,076	5,912
Adjusted EBITDA	**144,126**	**118,914**
Reconciliation of core collections to adjusted EBITDA		
Income from loan portfolios including revaluations	131,852	125,532
Portfolio amortisation	70,287	52,478
Core collections (includes proceeds from disposal of portfolio investments)	**202,139**	**178,010**
Other income	45,841	41,352
Operating expenses	(118,670)	(114,685)
Depreciation and amortisation	9,753	6,625
Foreign exchange losses/(gains)	386	(26)
Amortisation of acquisition and bank facility fees	73	137
Share based payments	1,528	1,589
Adjusting operating expenses	3,076	5,912
Adjusted EBITDA	**144,126**	**118,914**
Reconciliation of operating profit to adjusted EBITDA		
Profit after tax	24,344	8,513
Underlying net finance costs	26,510	22,794
Taxation charge on ordinary activities	8,169	2,234
Adjusting finance costs	-	18,658
Operating profit	**59,023**	**52,199**
Portfolio amortisation	70,287	52,478
Depreciation and amortisation	9,753	6,625
Foreign exchange losses/(gains)	386	(26)
Amortisation of acquisition and bank facility fees	73	137
Share-based payments	1,528	1,589
Adjusting operating expenses	3,076	5,912
Adjusted EBITDA	**144,126**	**118,914**

Glossary

'Adjusted EBITDA' means profit for the period attributable to equity shareholders before interest, tax, depreciation, amortisation, foreign exchange gains or losses and adjusting items.

'Adjusting items' are those items that by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered by the Board to be representative of the ongoing performance of the Group and are therefore excluded from underlying profit after tax.

'Average net assets' is calculated as the average quarterly net assets from H1 2018 to H1 2019 as shown in the quarterly and half yearly statements.

'AMS' means asset management and servicing.

'Carried interest' is a share of the profits realised from a managed fund's investments after the hurdle rate has been reached.

'Cash interest cover' represents interest on senior secured notes, utilisation and non-utilisation revolving credit facility fees to adjusted EBITDA.

'Cash result' represents current cash generation on a sustainable (keeping balance sheet size constant) basis and is calculated as adjusted EBITDA less cash interest, income taxes and overseas taxation paid, purchase of property, plant and equipment, purchase of intangible assets and average replacement rate.

'Collection activity costs' represents the direct costs of collections related to the Group's portfolio investments, such as internal staff costs, commissions paid to third party outsourced providers, credit bureau data costs and legal costs associated with collections.

'Core collections' or 'core cash collections' mean cash collections on the Group's existing portfolios including ordinary course portfolio sales and put backs.

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

'Diluted EPS' means the earnings per share whereby the number of shares is adjusted for the effects of potential dilutive ordinary shares, options and LTIP's.

'DSBP' means the Arrow Global deferred share bonus plan.

'EBITDA' means earnings before interest, taxation, depreciation and amortisation.

'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. On acquisition, there is a short period that is required to determine the EIR, due to the complexity of the portfolios acquired.

'EPS' means earning per share.

'84-Month ERC' and **'120-Month ERC'** (together **'Gross ERC'**), mean the Group's estimated remaining collections on portfolio investments over an 84-month or 120-month period, respectively, representing the expected future core collections on portfolio investments 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).

'ERC Rollover' relates to additional cash flows from rolling the asset life on all portfolios to seven years from the date of ERC, including the impact of any foreign exchange movement and the impact of reforecast in the period.

Glossary *(continued)*

'Existing Portfolios' or **'purchased loan portfolios'** or **'portfolio investments'** are on the Group's balance sheet and represent all debt and real estate portfolios that the Group owns at the relevant point in time. A portfolio comprises a group of customer accounts or other assets purchased in a single transaction.

'Free cashflow' means Adjusted EBITDA after the effects of capital expenditure, financing and tax cash impacts and before the replacement rate.

'FVTPL' means Financial instruments designated at fair value with all gains or losses being recognised in the profit or loss.

'FY' means full year being the 12 months to 31 December 2018.

'Grandfathering' allows the application of IFRS 16 only to those contracts in which a lease was previously identified in accordance with IAS 17.

'Gross AMS income' includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-group income for these services.

	30 June 2019 £000
Third party AMS income	45,639
Intra-Group AMS income	22,699
Gross AMS income	**68,338**

'Gross income' includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-group income for Asset Management and Servicing, total income for the Investment Business and other income.

	30 June 2019 £000
Third party AMS income	45,639
Intra-Group AMS income	22,699
Gross AMS income	**68,338**
Investment Business income	131,852
Other income	202
Gross income	**200,392**

'**Gross money multiple'** means core 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, excluding REO purchases and purchase price adjustments relating to asset management fees.

'Headroom' is the undrawn amount of a borrowing facility

Glossary *(continued)*

'Hedging reserve' comprises the net cumulative fair value adjustments on the derivative contracts used in the Group's hedging activities which are deemed to be effective.

'H1' means half year being the first six months of the year.

'IFRS' means EU adopted international financial reporting standards.

'Income from asset management and servicing' includes commission income, debt collection, due diligence, real estate management and advisory fees.

'Incremental borrowing rate' is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

'IPO' means initial public offering.

'IRR' means internal rate of return.

'JAWS' represents the rate at which income growth has exceeded expenses growth.

'Leverage' is secured net debt to LTM Adjusted EBITDA.

'Loan to Value ratio' or 'LTV ratio' represents the ratio of 84-month ERC to net debt.

'LTIP' means the Arrow Global long-term incentive plan.

'LTM' means last twelve months and is calculated by the addition of the consolidated financial data for the year ended 31 December 2018 and the consolidated interim financial data for H1 2019, and the subtraction of the consolidated interim financial data for H1 2018.

'Merger reserve' represents the reserve generated upon consolidation of the Group following the Group reconstruction as part of the IPO where Arrow Global became the parent Company.

'NCI' means non-controlling interest.

'Non-controlling interest', also known as minority interest, is the portion of equity ownership in a subsidiary which is not attributable to the parent Company, who has a controlling interest of greater than 50% but less than 100%, and consolidates the subsidiary's results with its own.

'Net debt' means the sum of the outstanding principal amount of the senior secured notes, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of loan portfolios, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after removing 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 period ended 30 June 2019 is as follows:

Glossary *(continued)*

	30 June 2019 £000	31 December 2018 £000
Cash and cash equivalents	(77,748)	(92,001)
Senior secured notes (pre-transaction fees net off)	933,399	935,567
Revolving credit facility (pre-transaction fees net off)	218,468	245,587
Asset-backed loans (pre-transaction fees net off)	74,312	-
Secured net debt	**1,148,431**	**1,089,153**
Deferred consideration – portfolio investments	40,092	12,031
Deferred consideration – business acquisitions	57,461	59,922
Senior secured notes interest	5,486	5,542
Bank overdrafts	2,284	2,696
Other borrowings	3,575	11,635
Net debt	**1,257,329**	**1,180,979**

'Off market' means those loan portfolios that were not acquired through a process involving a competitive bid or an auction like process.

'Own share reserve' comprises the cost of the Company's ordinary shares held by the Group. At 30 June 2019 the Group held 874,906 ordinary shares of 1p each (FY 2018: 1,030,766), held in an employee benefit trust. This represents 0.50% of the Company share capital at 30 June 2019 (FY 2018: 0.59%).

'Organic purchases of loan portfolios' means those purchased through the ordinary course of business, not through acquisition.

'Purchased loan portfolios' see **'existing portfolios'**.

'Replacement rate' means the rate of purchases needed during the subsequent year to maintain the current level of ERC.

'ROE' means the return on equity as calculated by taking profit after tax divided by the average equity attributable to shareholders. Average equity attributable is calculated as the average quarterly equity from H1 2018 to H1 2019 as shown in the quarterly and half year and full year statements. In the comparative period this is calculated as the average annual equity attributable.

'Run rate' means the financial performance of the business in the future, if current conditions are prevailing at the time.

'Secured loan to value' or **'secured LTV ratio'** represents the ratio of 84-month ERC to Secured net debt.

'Secured net debt' means the sum of the outstanding principal amount of the senior secured notes, amounts outstanding under the revolving credit facility, less cash and cash equivalents. Secured net debt is presented because it indicates the level of secured debt after removing the Group's assets that can be used to pay down outstanding secured borrowings, and because it is a component of the incurrence tests in the senior secured notes. The breakdown of secured net debt is shown in net debt above.

'SIP' means the Arrow Global all-employee share incentive plan.

Glossary *(continued)*

'Translation reserve' comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

'Underlying basic EPS' represents earnings per share based on underlying profit after tax, excluding any dilution of shares.

'Underlying profit after tax' means profit for the period after tax adjusted for the post-tax effect of certain adjusting items. The Group presents underlying profit after tax because it excludes the effect of items (and the related tax on such items) which are not considered representative of the Group's ongoing performance, on the Group's profit or loss and forms the basis of its dividend policy.

'Underlying profit before tax' means profit for the period before tax adjusted for the effect of certain adjusting items. The Group presents underlying profit before tax because it excludes the effect of items which are not considered representative of the Group's ongoing performance, on the Group's profit or loss and forms the basis of its dividend policy.

'Underlying ROE' represents the ratio of underlying profit for the period attributable to equity shareholders to average shareholder equity.

'WACD' means weighted average cost of debt.