Annual Report & Accounts 2016

Building better financial futures

SHAREHOLDER INFORMATION

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Registrar
Capita Asset Services
The Registry
34 Beckenham Road
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Financial calendar for 2017

- Announcement of 2016 full-year results
  2 March 2017
- Announcement of the 3 months to 31 March 2017 results
  11 May 2017
- Annual general meeting
  24 May 2017
- Ex-dividend date for 2016 final dividend
  8 June 2017
- Record date for 2016 final dividend
  9 June 2017
- Payment date of 2016 final dividend
  6 July 2017
- Announcement of 2017 half-yearly results
  31 August 2017
- Announcement of the 9 months to 30 September 2017 results
  9 November 2017
- Full-year end
  31 December 2017

Annual general meeting
The forthcoming annual general meeting of the Company will take place at the Midland Hotel, Peter Street, Manchester M60 2DS on Wednesday, 24 May 2017 at 2pm. Notice of the annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appear in the document accompanying this annual report and accounts.

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

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

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

- **By phone:**
  UK: 0871 664 0300 (UK calls cost 12p per minute plus network extras)
  From overseas: +44 371 664 0300
  Lines are open from 09.00 to 17.30, Monday to Friday, excluding public holidays.
- **By email:**
  shareholderenquiries@capita.co.uk
- **By post:**
  Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

ABOUT THIS REPORT

"The annual report and accounts are produced to help readers easily assess our performance and future prospects. Having reviewed the information in this report, my fellow directors and I confirm that the annual report and accounts, taken as a whole, are fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy."

Lee Rochford
Group chief executive officer
2 March 2017

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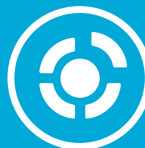

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"2016 was a landmark year for Arrow Global. We ended the year a larger, stronger, more diverse business. Underlying profit before tax was 29% higher and we delivered strong returns, enhanced shareholder value and an increased dividend."

Lee Rochford
Group chief executive officer
2 March 2017

FINANCIAL HIGHLIGHTS

Profit after tax

£26.3m

(2015: £31.7m)

Underlying profit after tax

£45.6m

(2015: £35.4m)

Full-year dividend

9.1p

(2015: 7.1p)

Underlying ROE

29.1%

(2015: 26.5%)

Total purchased loan portfolios and loan notes

£804.1m

(2015: £586.3m*)

*Excluding £23.5 million of portfolios due to be resold.

Adjusted EBITDA

£209.2m

(2015: £153.1m)

Total revenue

£235.9m

(2015: £165.5m)

Underlying basic EPS

26.1p

(2015: 20.3p)

Important notes:

IFRS, cash metrics and underlying results are important to understand the key drivers of the business. The reconciliations and commentary on pages 38 and 39 have been prepared to aid this understanding, which helps to support the commentary of the financial review for the year.

A glossary of terms can be found on pages 147 to 150.

OUR PURPOSE

Arrow Global has a simple but clear purpose – to build better financial futures.

We believe that doing this for all our stakeholders – our colleagues, customers, clients, shareholders and in the communities we work – is the best long-term way for our business to grow and for us to build a sustainable, profitable and customer-focused business.

Our purpose and expertise across our markets, underpinned by strong strategic direction and meaningful Group values, will help realise our aim of being Europe's leading purchaser and manager of debt.

Our purpose and aim are bold, but consistent with the changing attitudes of our customers and clients and societal expectations of our industry.

Our relentless commitment to 'doing the right thing' instils more trust from our people, customers and clients and a strong business for shareholders.

Our purpose

Building better financial futures

Our aim

To be Europe's leading purchaser and manager of debt

Our business model

High growth
Operational excellence
Financial excellence
Strong returns

Our strategic priorities

To be a leading player in our chosen markets
To build a diversified risk weighted investment portfolio
To transform the customer journey within our industry
To be the best operator in our markets
To attract and retain the best talent

Supported by our colleagues

Building the best team, delivering our Group values

ABOUT ARROW GLOBAL

Established in 2005, Arrow Global specialises in the purchase, collection and servicing of non-performing loans. We identify, acquire and manage secured and unsecured defaulted loan portfolios from financial institutions, such as banks and credit card companies, as well as retail chains, student loans, motor credit, telecommunication firms and utility companies.

Debt is a more prominent and open concern in both society and the wider economy than in previous times. Customers and clients are now more empowered and expect a personalised and bespoke debt management service. Companies operating in the sector must be more customer focused by being more transparent, and delivering increasingly innovative solutions using technology and data.

We are committed to making our service more individualised and customer focused. We are a data driven business and we use our insight from over 35 million customer records across six countries to offer affordable and manageable solutions for consumers to reduce their debt in a fair, transparent and structured way.

We also play an active role in helping financial institutions deleverage and recapitalise in order to increase mainstream lending. By purchasing and managing non-performing loans and other core assets, we provide valuable capital and expertise to a growing European market.

By investing in our people, expertise and market intelligence, we gain a better understanding of our customers as individuals and we continually improve the service we offer, helping them to build better financial futures.

In 2016, we helped approximately 600,000 people clear their Arrow Global accounts and we aim to improve on this each year.

A regulated business

We are a regulated business, operating to the highest standards with a commitment to treat customers fairly.

We are regulated by the Financial Conduct Authority (FCA) in the UK and by the Dutch Authority for the Financial Market (AFM) in the Netherlands, and the Financial Services and Markets Authority (FSMA) in Belgium. In Portugal, the Portuguese Securities Market Commission (Comissão do Mercado de Vualores Mobiliários (CMVM)) oversees our business.

We are also registered with the Lending Standards Board in the UK, which works with firms to promote fair lending practices and sets the benchmark for good lending practice.

A larger and diversified business delivering strong financial returns

We are now a financially strong, European regulated business operating in six different geographies, with over 1,500 colleagues*and over 9 million customer accounts, delivering strong financial returns.

*Including contractors.

Our history

In the 11 years since our founding, we have achieved strong and sustained growth.

In 2013, we successfully completed an initial public offering and began trading on the London Stock Exchange. This created the platform to expand the Group and since then, we have grown considerably through a series of carefully considered acquisitions and portfolio purchases.

2013 – 2015:

- In January 2013, we successfully raised £220 million via our debut public bond offering
- In October 2013, we listed on the London Stock Exchange
- In November 2013, and in partnership with CarVal Investors, we were the successful bidder for the Erudio Student Loans portfolio from the Government
- In November 2014, we completed the purchase of Capquest in the UK providing in-house collections capabilities. The acquisition was funded via a €225 million public bond offering
- At the end of December 2014, we made our first investment in the French market, taking a 15% economic interest in the market leader, MCS Groupe
- In April 2015, we acquired Whitestar and Gesphone in Portugal, cementing our position as a leading player in that geography. Our revolving credit facility was increased to £140 million

ARROW GLOBAL AT A GLANCE

€41.3 billion
assets under management

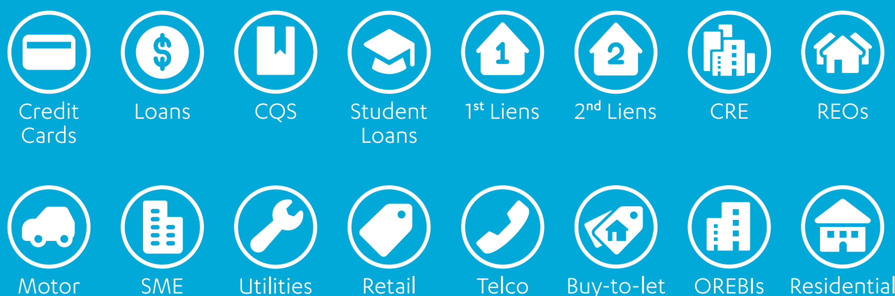
1,500 colleagues
6 different geographies

9.3 million
customer accounts

Diversified revenue streams
80% debt purchase
20% asset management

1)
2005 UK operation with 140 colleagues in Manchester (HO) and London
2)
2007 Entered Portugal, and in 2015 acquired Whitestar, Gesphone and Redrock in 2016, adding three offices and over 500 colleagues
3)
2014 Acquired Capquest adding offices in Farnborough and Glasgow and 350 colleagues
4)
2014 Acquired a 15% economic interest and became a board member of MCS, the French market leader
5)
2016 Acquired InVesting B.V. in the Netherlands and Belgium in May
6)
2016 Announced our intention to acquire Zenith Service S.p.A., which will add a further 72 colleagues

Multiple asset classes



2016: a transformative year
While progress since we listed on the London stock exchange has been rapid, 2016 proved to be a year of transformation for the Group with a number of important milestones being achieved

- In May, we acquired InVesting B.V. in the Netherlands and Belgium, a market leader in consumer credit and secured capabilities, financed via a €230 million public bond offering
- In July, we refinanced our £180 million revolving credit facility, reducing the margin by 100bps and extending the term for five years through to July 2021
- In August, we received our full FCA authorisation in the UK
- In August, our credit rating was upgraded to BB- by Standard and Poor's, reflecting our commitment to maintaining a strong financial profile
- In September, we refinanced our £220 million bond, reducing the cost by 275bps and extending the term for eight years to 2024
- In September, we announced a landmark deal in the Netherlands where we co-invested £21.3 million to purchase and service €1.7 billion of high-quality secured real-estate assets from RNHB Hypotheekbank (a subsidiary of Rabobank). This added specialist servicing expertise to our market leading Dutch offering
- In December, we agreed our intention to purchase Zenith Service S.p.A., a master servicing business in the highly attractive Italian market, we expect to complete in H1 2017
- In February 2017, our credit rating was upgraded to Ba3 by Moody's and we increased our revolving credit facility to £215 million across five banks

OUR PURPOSE, AIM, STRATEGY AND VALUES

Building better financial futures for our stakeholders

Purpose – building better financial futures

We are proud of the role Arrow Global plays in building better financial futures for our stakeholders – colleagues, customers, clients, shareholders and the communities in which we work.

Our people play a key role: our people provide the essential talent and energy to fulfil our purpose and aim. We rely on our people to consistently 'do the right thing' in order to drive great customer service and deliver the most appropriate customer outcomes.

Our staff share in the Company's success through share options/purchase schemes, while our pay and rewards are linked strongly to the Company's performance as well as the quality of the service they deliver to our customers and clients, meaning their financial futures are aligned to ours and that of our other stakeholders.

Our customers benefit from this: we know that our future is aligned with the prospects and rehabilitation of our customers. We are acutely aware that we need to work in partnership with those struggling with debt, helping them repay their debts in a timely and affordable way.

We are constantly looking for ways to improve what we do and how we do it. This benefits not only those customers who have a real desire to reach an agreement to repay what they owe, but for us as a business, as timely and affordable repayments provide us with long-term income.

In doing the right thing for these customers, we can give them confidence and control over their finances, allowing them to build a better financial future.

Our clients put their trust in us: by passing the debt on to us, our clients are able to focus on their core activity of mainstream lending, safe in the knowledge their customers are in good hands.

In doing so, they reduce their risk exposure, release provisions, and strengthen their capital ratios, which helps them to build a better financial future for their stakeholders.

Our shareholders share in our success: we aim to deliver strong returns to our shareholders over the medium-term. The financial performance we produce is built on carefully planned growth that is consistent and underpinned with strong, stable funding.

We invest in the communities where we work: we believe in working with our communities at all times, playing our part as a positive influence by supporting local charities and initiatives.

We have a clear strategy to support charities that focuses on financial education and financial support, and we work closely with the Citizens Advice Bureau (CAB) and a range of debt charities, including StepChange.

In the UK, we undertook a major research project – Debt Britain – to further enhance our knowledge of customers in unmanageable debt. This helps shape our understanding and desire to use this information to help build better financial futures, giving customers more confidence and clarity around their finances. You can read more about Debt Britain on page 48.

Our aim – to be Europe's leading purchaser and manager of debt

We believe that by putting the interests of our customers at the heart of our business, we can also best serve the interests of our clients, our own business and people, our shareholders and society at large.

We do this by ensuring our strategic priorities are firmly aligned to delivering against our aim. In October 2016, we updated our strategic thinking to reflect the size of Arrow Global and the markets we operate in.

"With a long standing relationship with Arrow Global, we have observed (and evidenced) a strong data and analytical focus dovetailed with a robust conduct framework to help deliver appropriate customer outcomes."

Dean Lightwood
Lloyds Banking Group

Our five strategic priorities are:

To be a leading player in our chosen markets: we work with both primary financial institutions and leading credit funds to expand and grow our business.

To build a diversified risk weighted investment portfolio: we are transforming our business by broadening our activities across different geographies, asset classes and businesses. By diversifying our activities and risk, we will deliver dependable financial results and pay regular dividends.

To transform the customer journey within our industry: we want to meet our customers' needs by offering fair and reliable solutions to help them repay their debts by delivering great customer outcomes.

To be the best operator in our markets: we have made a number of acquisitions and continued to strengthen our loan portfolios through carefully considered purchases. Each of these deals highlights our desire to do business with the best operators, and working with the best people, technology and data.

To attract and retain the best talent: we attract and retain talented and committed people, who in turn win our customers' trust through the service they provide.

Arrow Global values

Underpinning all we do is the desire to live and deliver our values.

Although our European markets have different cultural, and regulatory and economic environments, we believe passionately in operating as one team. That is why we have introduced a common set of values. This allows us to actively seek and share best practice and draw on the expertise across our business.

The values guide our behaviours and how we do business. They provide a framework for colleagues to work to, ensuring we always do the right thing.

We succeed together – taking ownership and ensuring a positive outcome for both our customers and our business. We do this by being collaborative and supporting each other, wherever we work or reside.

We do the right thing – we keep our promises. We help customers repay their debts in a timely and affordable way. We do this by empathising with our customers and treating them fairly.

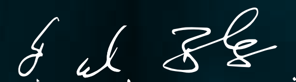
We're trusted and valued – we earn trust from our customers by treating them as individuals. We learn and change based on what our customers tell us. We take our corporate responsibilities seriously, and act as an example to all in our industry.

We're brave and creative – we thrive on positivity, flexibility and challenge. We share ideas and have the courage to lead – we are not afraid to do things differently. We use our insight to lead change and innovation.

Only by collectively doing things the 'Arrow Group Way' will we focus on doing the right thing for our customers, which, in turn, will help us build a sustainable, profitable and customer-focused business.

'Arrow Global – building better financial futures'

“We have transformed the business on multiple fronts; driven our strategic priorities to grow our European presence and our asset management business; and we are embedding a single set of core values for our colleagues across the Group, ensuring we act as one team in every market in which we operate.”



Jonathan Bloomer
Chairman
2 March 2017

CHAIRMAN'S STATEMENT

As I reflect on 2016, I am pleased by the progress that Arrow Global has made.

The Group continues to maintain a focused strategy, designed to help achieve our aim of being Europe's leading purchaser and manager of debt. The result has been another excellent year. We have delivered a strong financial performance, increased our dividend and enhanced shareholder value.

Evolving our strategy

We continue to implement our strategy of building leading positions in our chosen European markets, but have evolved this to include the growth of our asset management business and operating platforms. We place significant emphasis on operational excellence through having outstanding people, technology and data, improving the customer journey and ensuring we attract and retain the best talent, all underpinned with a balanced capital structure. You can read more about how we are delivering against our strategy on page 24.

A transformative year

In 2016, we further diversified our business by geography, asset class and revenue stream. The balance of our investments reflects our expanded geographical group. During the year, 28% of our investment in purchased loan portfolios and loan notes was in the UK, 43% in Portugal and 29% in Benelux.

We also completed the acquisitions of InVesting B.V. ('Vesting') in the Netherlands and Belgium and agreed the proposed acquisition of Zenith Service S.p.A. ('Zenith') in Italy. These transactions, coupled with the acquisition of the servicing capabilities and co-investment in the RNHB Hypotheekbank loan book, have seen us enhance our European mainland capabilities significantly.

We continue to demonstrate our proven track record of securing long-term funding from a diverse investor base. Between July and September, we made significant progress against our debt funding objectives to ensure we have a strong financial base to grow our business. We secured a material reduction in our cost of debt, whilst also extending the average term of our debt facilities through the successful refinancing of our £220 million bond and our £180 million revolving credit facility.

In August, we received authorisation from the UK Financial Conduct Authority (FCA). This was an important milestone following the transfer of our industry regulation from the Office of Fair Trading to the FCA. It confirms our commitment to high operating standards and treating customers fairly.

In July, we were registered with the Lending Standards Board (LSB). The LSB works with registered firms to promote fair lending practices and sets the benchmark for good lending practice in the UK.

CHAIRMAN'S STATEMENT

Group governance

From 2017, the Group will operate on a country basis with country chief executive officers and local leadership teams responsible for profit and loss, with central Group functions responsible for setting strategy, origination, capital allocation and treasury, maintaining the risk framework, monitoring performance and facilitating best practice.

This structure better suits a European group operating in multiple geographies with different regulatory regimes and a mix of international and local clients.

The board

2016 saw a significant change following Tom Drury's decision to step down as Group chief executive officer after five extremely successful years with Arrow.

Tom has made an outstanding contribution to Arrow since he joined the Group as chief executive officer in 2011. He led the successful IPO in 2013 and has overseen a series of strategic acquisitions, which have seen Arrow grow to become one of Europe's leading purchasers and managers of debt, alongside driving a significant increase in shareholder value. On behalf of the board, I would like to thank Tom for his contribution to Arrow and wish him well for the future.

Lee Rochford, formerly chief financial officer of Virgin Money, replaced Tom as Group chief executive officer and executive director from 3 January 2017. Lee brings a tremendous breadth and depth of experience across all of our asset classes and an extensive track record in financial services. I am confident that he is the right person to lead the Group through the next stage of its growth.

A number of other changes also took place:

We welcomed Maria Luís Albuquerque as non-executive director in March and have benefitted from her European banking and Portuguese experience.

In October, Robin Phipps stepped down from the board having completed a three-year term and leaves with the board's gratitude for his contribution to the success of the Company.

To replace Robin, we welcomed Andrew Fisher as a non-executive director in December 2016. Andrew is currently the finance director of FTSE 100 Provident Financial Plc and his broad international financial services experience will complement the existing skills and competencies on the board and be invaluable to the Group.

I believe the board has the calibre, skills and judgment to support the Group in its strategic ambitions.

Lee Rochford and Tom Drury

Embedding the behaviours that underpin our culture

In 2016, we developed an important programme defining the set of values that underpins our culture. We are embedding these values and behaviours in each of the countries we operate. Although our European markets have different cultural, regulatory and economic conditions, we believe passionately in operating as one team. We have more to do, but it is a great example of the collaborative and inclusive leadership of our senior team as they embrace this challenge.

As the Group has expanded, we have refreshed our thinking on our purpose and the role we play in building better financial futures for our stakeholders. We are acutely aware that at the heart of our business is the need to work in partnership with those struggling with debt, helping them repay their debts in a timely and affordable way. Only by focusing on doing the right thing for all our stakeholders can we build a sustainable, profitable and customer-focused business (you can read more about our purpose, aim, strategy and values on page 8).

A progressive dividend policy

The solid foundations we have laid for the Group have seen us prosper and as such, we have proposed a final dividend of 6.4p, bringing the full-year dividend to 9.1p (2015: 7.1p), which is a significant uplift of 28.7% on 2015.

Looking forward

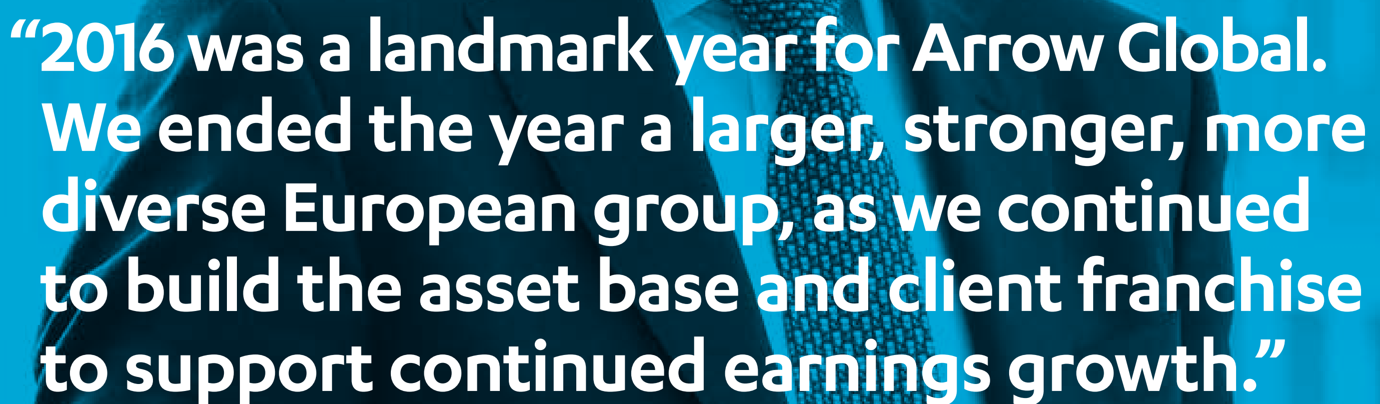
We are pleased with the growth we have achieved and the progress made in transforming the Group in 2016.

We are well positioned for 2017. Our business model, strategy and strong financial profile give us the flexibility to continue to deliver for shareholders in the face of the changing economic and competitive environment. As a board, we have assessed the viability of the business over a three-year period. Based on this assessment, we believe we are very well placed to make the most of the opportunities that exist and we can look to the future with confidence.

I would like to thank my fellow board members, the senior leadership team and all colleagues for their contribution to everything we have achieved together in 2016.

Farnborough

Jonathan Bloomer
Chairman
2 March 2017



"2016 was a landmark year for Arrow Global. We ended the year a larger, stronger, more diverse European group, as we continued to build the asset base and client franchise to support continued earnings growth."

Lee Rochford
Group chief executive officer
2 March 2017

GROUP CHIEF EXECUTIVE OFFICER REVIEW

I am delighted to have been appointed as Group chief executive officer.

In every part of the Group, I have been impressed and inspired by my colleagues and the work that they do for our customers and clients. I would like to thank them for their contribution to the delivery of an outstanding year.

I am excited by the prospect of leading the next phase of Arrow's growth, building on the Group's momentum, high growth prospects, our operational and financial excellence and the strong financial returns we can deliver as we continue to expand in our chosen markets.

2016 review

We have expanded our European footprint and client offering across attractive markets where the Group is targeting leadership positions. This coupled with a high quality and diversified investment portfolio has enabled us to deliver another strong financial performance.

A strong financial performance

Total revenue grew 42.6% to £235.9 million driven by core collections 30.9% higher at £286.0 million. Adjusted EBITDA was up 36.7% to £209.2 million. We continue to see an increase in the income from asset management, with revenues now constituting 20% of total revenues. The growth of these results was partially as a result of the Vesting acquisition in May 2016.

Our diversification across geographies and asset classes enabled us to deliver a strong increase in underlying profit after tax, up 28.7% to £45.6 million (2015: £35.4 million), and underlying return on equity (ROE) now stands at 29.1%. Due to post tax non-recurring items of £19.3 million, arising from restructuring the Group's long-term financing and acquisition costs, profit after tax decreased to £26.3 million (2015: £31.7 million).

Our underlying basic EPS has increased 28.5% to 26.1p (2015: 20.3p). The strong cash result for the year is pleasing and allows us to continue to deliver good returns to our shareholders while allowing for future investment and growth. As such, the full-year dividend for 2016, including the proposed final dividend of 6.4p, will increase to 9.1p, up 28.7% and represents a 35% payout ratio.

A more detailed commentary can be found in the Group chief financial officer's review on pages 34 to 39, including reconciliations between IFRS, cash metrics and underlying results. Definitions of frequently used terms can be found in the glossary.

A landmark year for the Group

2016 was a year of many important milestones for the Group.

We made a number of acquisitions and continued to add to our loan portfolios through carefully considered purchases. Building from our strong UK base, we have made material progress in expanding our capabilities and the range of services we offer to financial institutions in all of our markets. In addition to the UK, we now have leading positions in the Netherlands and Portugal, with a presence in France, and from 2017, on completion of the Zenith acquisition, we will enter the Italian market.

GROUP CHIEF EXECUTIVE OFFICER REVIEW

Acquisitions in the Netherlands and Italy
During 2016, we acquired a market leading business in the Netherlands.

In May, we completed the acquisition of Vesting, which has operations in the Netherlands and Belgium. Our relationship with Vesting commenced in 2015, when they started servicing portfolios on our behalf. As we got to know the management team and came to respect their collections capabilities, including the benefits of access to the Focum credit bureau, it was a natural progression to purchase the business outright.

In September, we strengthened our Dutch offering with a transformative deal. We acquired the servicing capabilities of RNHB Hypotheekbank and co-invested, alongside a credit fund, in loan portfolios with a face value of approximately €1.7 billion; resulting in an investment in loan notes of £21.3 million. The loan book comprises 9,300 high quality real estate loans, with an average loan-to-value of 66%. It builds on the secured asset expertise and real estate capabilities of our Portuguese business, and offers an attractive model for future deals.

For some time we have been evaluating the Italian market, which has the highest non-performing loan volumes in Europe along with a strong securitisation and structured finance market. We were delighted to mark our entry into Italy by agreeing terms to acquire Zenith, a leading master servicing business that has an excellent reputation for securitisation and structuring services. The transaction is subject to regulatory approval by the Bank of Italy, and we expect this to complete in the first half of 2017. On completion, it will offer us a strong and established client base of leading Italian and international banks and funds, increase the weighting of asset management revenues across the Group, and provide a valuable insight into the Italian market and the performance and administration of credit portfolios. We consider Zenith to be a low-risk business, with stable revenues, and is a sensible entry into the Italian market.

Record year for investment and strengthened funding
2016 was a record year for investment. We acquired purchased loan portfolios and loan notes with a face value of £2.2 billion for a purchase price of £258.4 million. Of this, £223 million related to the purchase of organic portfolios and £35.4 million for the Vesting back book. Of the purchase price invested, 52% related to secured portfolios.

During the year, we also took the opportunity to strengthen and secure our long-term funding. In July, we refinanced our revolving credit facility reducing the cost by 100bp and extending its term to July 2021. In September, we successfully refinanced our £220 million bond, securing a coupon reduction of 275bp. Our average debt facility term is now just under six years and our average cost of debt is now less than 5%.

Reshaping our earnings
Our market entry strategy has been to target leading operating platforms in countries that meet our criteria.

Our increased diversification, by both geography and asset class, provides a good platform to diversify our earnings as we balance our strength in debt purchase with that of asset management.

Asset management is attractive as it is capital-light and helps us grow both earnings and return on equity (ROE) through long-term contracted revenues. Our ability to provide servicing on behalf of third parties has strengthened our partnership with credit funds, which has become a key part of our origination strategy.

Over time, we want to increase the percentage of our Group revenues derived from asset management. We made good progress in 2016, ending the year with asset management constituting 20% of total revenues, and we expect this to strengthen further in 2017 to approximately 25%.

Arrow now services 9.3 million customer accounts. The access we have to historic credit performance data in the markets in which we operate, provides us with significant insight into customer behaviours. This, in addition to a number of Group-wide initiatives, such as a new servicing platform in the Netherlands and our UK digital portal, will enable us to improve customer engagement.

Our people

As Arrow has expanded, we have welcomed new colleagues. Our philosophy is to attract and retain the best talent. In 2016, we added considerably to our expertise across the Group. We now have over 1,500 colleagues, and it is their hard work, combined with a strong Group culture, that will continue to drive our success.

As a result of our continued expansion we introduced a new management structure during the year. In addition to creating a small Group function that will have oversight for the whole Group, we appointed new country chief executive officers. Phil Marsland was appointed in the UK, Joost van Rens in the Netherlands and Belgium and John Calvão in Portugal. John will take responsibility for Italy on completion of the Zenith acquisition and will be replaced in Portugal by João Bugalho, who is currently the CEO of Whitestar in Portugal.

From 2017, responsibility for each country profit or loss will sit with each country chief executive officer and their senior management teams, which will ensure that we maintain strong local ownership and delivery of the Group's strategic objectives.

Outlook

Economic and market conditions

With stricter capital adequacy requirements and continued regulatory and government requirements, European banks have a continuing need to divest non-performing and non-core credit portfolios. In doing so, banks can lower their costs, release capital and focus on their core business. This generates opportunities for Arrow to purchase and manage portfolios and increase our asset management business. This will be a strong driver for growth across the markets in which we operate.

Looking ahead, consensus forecasts are for UK and European interest rates to remain low with a continuation of low, but steady economic growth in European economies. As such, whilst we are by no means complacent, it is reasonable to expect a small improvement in consumer and business confidence with a corresponding increase in lending.

Regulation and compliance

We think the regulatory oversight in our European markets will continue to evolve. In the UK, FCA regulation has required investment across the industry in improved risk, governance and compliance frameworks. We believe that this will favour businesses such as Arrow that have scale, strong funding and a focus on the right customer outcomes. Arrow received its full FCA authorisation in August 2016.

We are constantly evaluating and evolving risk and compliance activities across the entire Group, regardless of geography, and wherever possible, share best practice.

Our clients are increasingly looking for respected partners, who meet all regulatory requirements and who have a strong track record of doing the right thing for customers. Our status as a regulated business in all of our markets and our strong purpose and social responsibility, means that we are well positioned to continue to take advantage of the opportunities that this presents.

Hilversum, Netherlands

GROUP CHIEF EXECUTIVE OFFICER REVIEW

Pricing and competition

We maintain a positive outlook in each of our markets where supply has grown in recent years and all the indicators suggest that this trend will continue, especially in financial services.

While competition is evident across all markets, our ability to secure off-market purchases coupled with a disciplined approach to investment, and in particular, to diversification, by both asset class and geography, means we are well placed to continue to grow our business profitably.

We have begun to see portfolios coming to market earlier in the cycle and we expect this trend to continue as financial institutions continue to adopt changes arising from new accountancy standards, such as IFRS 9.

Lisbon

UK economy and Brexit

In the UK, we have used our deep insight into customer payment behaviour under macro-economic stress to simulate the potential impacts of any downturn in macro-economic factors, due to Brexit or otherwise.

During the year, we asked Jaywing Consulting to review and challenge our analysis. The analysis considered the impact on our forecast Estimated Remaining Collections (ERC) of the following drivers:

- Breakage rates: the proportion of customers paying over time
- Payment values: the proportional growth in arrangement value
- Cumulative settlement rate: the cumulative proportion of customers making a one-off settlement
- Settlement liquidation rate: the proportion of current balances made as a settlement

The analysis showed that, whilst increases in payment values observed in non-recessionary times are suppressed, the other three metrics did not exhibit significant shocks within the last recession.

The UK's EU referendum on 23 June 2016 created additional concerns for part of the UK financial services industry. However, these are not expected to impact our ability to operate and purchase portfolios in Europe, since we are licensed in our own right in each of our chosen markets and, as such, are not reliant on the UK's continuing membership of the EU.

Summary

We will continue to enhance our position as a leading partner to primary lenders and credit funds, where our relationships support both additional portfolio purchases and the growth in asset management revenues.

We start 2017 with a strong origination pipeline. We expect to complete the purchase of Zenith in the first half of the year, following which, we intend gradually to expand our Italian operations further.

We are a well-funded business with a strong financial profile, which will support our growth opportunities.

We are confident in maintaining portfolio investments at approximately twice our average annual replacement rate. This, combined with the value we can add from our expanded Group, supports continued earnings growth in 2017.

We are improving our Group capabilities to support the added complexity of a more diversified business and to continue to support its growth in a disciplined and safe way. This includes embedding our Group risk framework, investing in improving systems and processes across the Group and developing our capital allocation and portfolio management capabilities. In the short-term, this will lead to some additional cost, but will help drive sustainable earnings growth into the future.

We remain confident of our ability to deliver a medium-term underlying ROE percentage in the mid-twenties, high-teen EPS growth and a progressive dividend policy.

Lee Rochford
Group chief executive officer
2 March 2017

STRENGTHENED EUROPEAN MANAGEMENT TEAM

Lee Rochford
Group chief executive officer

Lee was latterly Group CFO of Virgin Money, prior to this he held executive roles in RBS's Markets and Investment Division, Wachovia Securities International Ltd and Credit Suisse Securities (Europe) Ltd.

Rob Memmott
Group chief financial officer

Rob has been a corporate CFO for 12 years, and has over 17 years' experience in senior financial leadership roles in private equity backed and listed organisations.

Zachary Lewy
Founder and Group chief investment officer

Zachary is the Founder and Group chief investment officer of Arrow Global. He was the CEO of the business from its inception before changing to his current role. He sits on all country boards and all group committees of Arrow.

Tracy French
Group HR director

Tracy has 25 years' experience in Human Resources with expertise in the area of transformation and change, organisational effectiveness, talent management and employee engagement. Before she joined Arrow Global, Tracy was director and owner of Joint Resolutions Ltd.

Phil Marsland
UK chief executive officer

Phil has over 20 years' experience in senior data and analytics and operational roles. He joined Arrow Global in March 2016 having previously held a number of senior leadership positions and consulted at sector-leading organisations including Capital One, American Express, Vodafone and Virgin Active.

John Calvão
Portugal chief executive officer

John has been the CEO at Whitestar since January 2010 and has more than 18 years of experience in different capital market institutions. Prior to joining Whitestar, John held a number of roles including Chief Operating Officer of MIAC Assurance Corporation and Head of Operations at SCA.

Joost van Rens
Netherlands and Belgium chief executive officer

Joost is the CEO of Vesting Finance and has been working in the financial industry for over 16 years. Prior to joining Arrow Global, Joost worked as operating partner at HAL Investments B.V., chief executive officer at GrandVision's Masvisión (in Spain) and Investment Manager at HAL Investments B.V..

Steven Greenwood
Group chief risk officer

Steve has over 10 years of experience in senior risk roles. He joined Arrow Global from UK Asset Resolution (UKAR), Lloyds Banking Group and HBOS leading risk teams across diverse functions, including front and back office banking, savings and mortgages, collections and recoveries, IT, share dealing and customer relations.

Stewart Hamilton
General counsel and Company secretary

Stewart is a solicitor with over 13 years of corporate law experience. Prior to joining Arrow Global, he worked for Addleshaw Goddard LLP, working principally on private company acquisitions and disposals and public fund raising. He also worked at Clydesdale Bank plc and healthcare company, Assura Group Limited.

João Bugalho
Chief executive officer, Whitestar

Joao has almost 30 years' experience in the financial sector, working for institutions such as Citibank Portugal, Banco Comercial de Macau, Interbanco – Banco Santander Consumer Portugal, Millennium BCP London Branch, Santander Consumer Multirent.

COUNTRY REVIEWS

United Kingdom

Glasgow

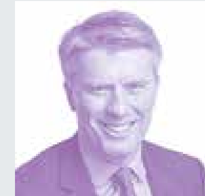
Manchester

Farnborough

London

Key 2016 highlights

- Appointment of Phil Marsland as UK chief executive officer, strengthening the UK leadership team
- Receipt of full FCA authorisation and Lending Standards Board registration
- Building out of key infrastructure, including further development of a digital portal, which has led to increased online customer engagement, and in-house servicing capabilities for student loan accounts
- Cost to collect improvements driven by extensive rationalisation of the external servicing panel
- £72.6 million of purchased loan portfolios acquired



Chief executive officer
Phil Marsland

Assets under management
€14.9 billion

Colleagues
500 across 4 locations

Regulated by
FCA

Asset classes:

Credit Cards

Loans

Student Loans

2nd Liens

Motor

SME

Utilities

Retail

Telco

Market overview

The UK has one of the most mature debt purchase and collection markets in Europe, characterised by a relatively high propensity of financial institutions to sell non-performing debt. This is driven by a large and well established consumer finance sector that continues to grow due to healthy volumes of new lending. Total unsecured consumer non-performing loans of approximately £32 billion are still estimated to be held by financial institutions.

The regulatory environment has continued to tighten and a number of banks have sought to rationalise their panels, both for debt purchase and debt placement. Increasing compliance costs for servicers, together with decreasing funding costs, data driven benefits and efficiencies derived from investment in operational excellence have all favoured larger established players such as Arrow Global. Brand, reputation and track record are all critical considerations for financial institutions considering an outright sale of a portfolio or the choice of a servicing partner, given reputational risk is to an extent retained.

Outlook

We expect the supply of debt sale volumes across unsecured and secured markets to remain strong. The secured retail debt sale market has grown significantly in recent years, driven primarily by asset sales by a number of large financial institutions. This asset class is forecast to remain strong and offers an opportunity for further diversification and growth to the UK business.

Whilst the competitive environment will remain challenging, we have a healthy pipeline entering into 2017. Through the operational improvements, we continue to implement, and through the strength of our client relationships, we believe that we can be competitive in both on and off market opportunities.

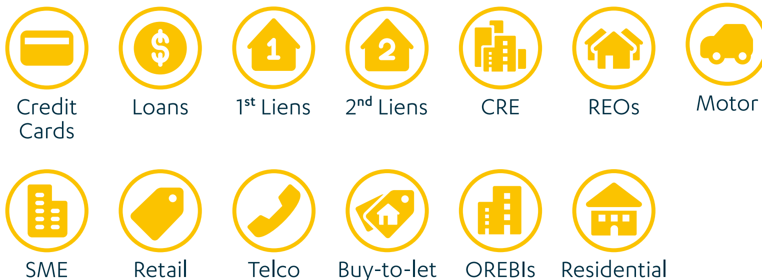
COUNTRY REVIEWS

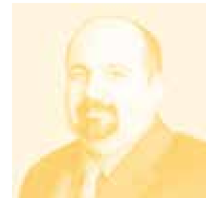
Portugal

Key 2016 highlights

- Appointment of John Calvão as in-country chief executive officer and the appointment of João Bugalho as chief executive of Whitestar
- Integration of Gesphone and Redrock acquisitions into the Whitestar platform strengthening our ability to service secured and unsecured loans
- Maintained our market leading asset management position having on-boarded 16 transactions with a face value above €1.8 billion
- Collections behind expectations, due to delays in accounts migration and processing delays in the courts. Additionally the ERC on one of our portfolios has been adjusted down for our expectation of a historic claim
- £109.8 million of purchased loan portfolios acquired

Asset classes:





Chief executive officer
John Calvão

Assets under management
€7.5 billion

Colleagues
500 across 3 locations

Regulated by
CMVM

Market overview

The Portuguese banking system continues to deleverage in a challenging operating environment. Banks remain liquid, but cost-cutting measures have not offset the drag on profitability from low interest margins and weak asset quality. The deleveraging has helped banks to reduce risk-weighted assets and associated capital requirements, but repairing their financial position remains incomplete. The stock of legacy assets continues to weigh on the banking system, with provisions being insufficient to fully cover non-performing loans.

At the end of 2016, Portugal's private sector continues to be heavily indebted both in household and corporate debt, which as a percentage of GDP stands at around 78% and 143% respectively.

This market context remains favourable for our business. The European Banking Authority estimates that as at Q2 2016 non-performing loans in Portugal totalled around €40 billion.

Outlook

In line with other European markets, the Bank of Portugal is maintaining pressure on banks to reduce the volume of non-performing loans and non-core assets, while the Portuguese Government is also implementing reforms in order to force banks to resolve non-performing loans.

In 2017, we expect the continuation of significant debt portfolio sales as the banks look to further delever. We are well placed to support these divestments given our structuring, due diligence and servicing skills combined with strong relationships with financial institutions and credit funds.

We expect an increase in the number of transactions of SME/corporate portfolios, alongside a steady flow of individual residential and unsecured books.

COUNTRY REVIEWS

Benelux

Amsterdam
Hilversum
Ghent
Heerenveen
Almere

Key 2016 highlights

- Vesting chief executive officer, Joost van Rens, now in-country chief executive officer responsible for all Arrow Global assets in the geography
- Successful integration of Focum credit bureau into Vesting operations, helping optimise collection strategies on owned and third party portfolios
- Commencement of major investment in the servicing platform and IT infrastructure, scheduled to be completed in 2018
- Purchases of loan books from our asset management business, demonstrating the value of these relationships
- Landmark deal to acquire the servicing capability and co-investment in the loan book from RNHB Hypotheekbank, in the form of an investment in loan notes of £21.3 million
- £75.9 million of purchased loan portfolios and loan notes acquired

Chief executive officer
Joost van Rens

Assets under management
€4.1 billion

Colleagues
500 across 2 countries and 5 locations

Regulated by
AFM

Asset classes:

Credit Cards

Loans

1st Liens

2nd Liens

SME

Utilities

Retail

Telco

Market overview

Dutch financial institutions hold approximately €26 billion of non-performing loans outstanding, which generates in the region of €2.7 billion of sales value each year.

The largest five banks hold up to 90% of non-performing loans and we believe that the book value of these stands at 57% of gross value. Financial services dominate non-performing loans, but telecoms, utilities and consumer loans are also being sold in the Dutch market.

While non-performing loans sales historically have been less common than in other geographies, this is increasing and the Group is well placed to acquire these due to our long-standing banking relationships and the Vesting platform.

Outlook

As with most European markets, the pressure on structural reform from both government and regulators is increasing and Dutch banks will need to deleverage.

We expect compliance requirements for those who participate in the market to increase. In the UK, we have seen panel sizes reduce as a result of this. This provides an opportunity for well run and highly compliant businesses such as Arrow Global to take advantage of this as the non-performing loan market continues to accelerate from its current take-off phase.

COUNTRY REVIEWS

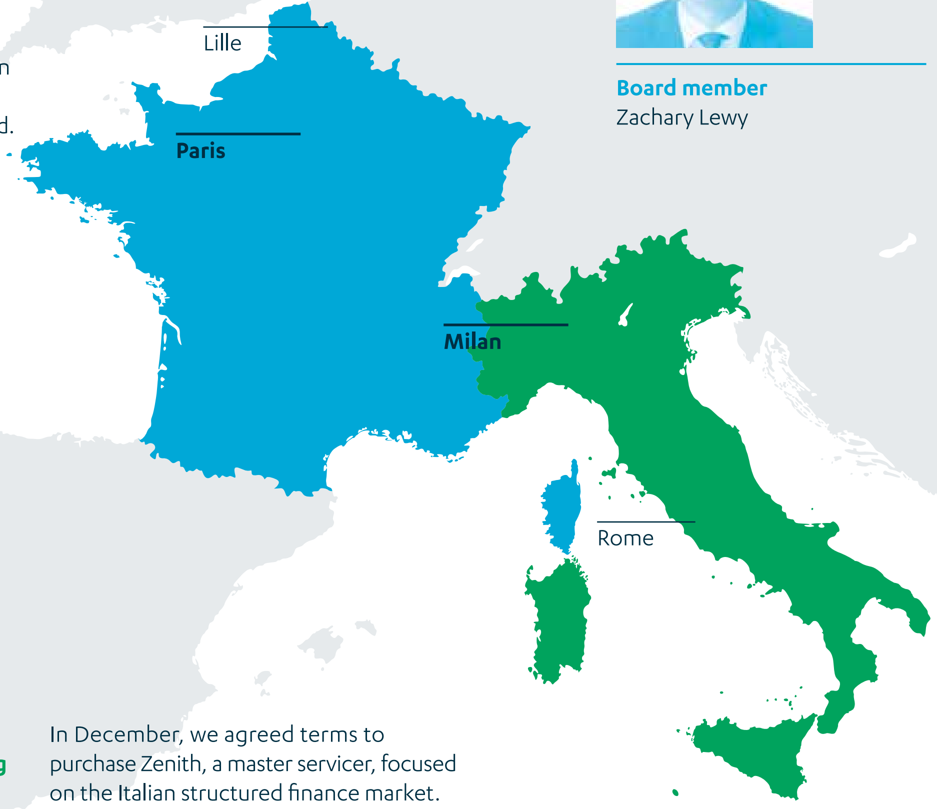
France

The French market is the second largest retail credit market in Europe, with around €1.4 trillion in loans outstanding. It also has the third largest amount of non-performing loans at around €41 billion.

We estimate that the French market is set to grow between €1.8 billion – €2.3 billion in 2018. We believe only around 4% of non-performing loans have so far been sold.

In France we have a 15% economic interest in the French market leader, MCS Groupe. Our relationship with MCS offers a low-risk entry to the growing French non-performing loan market.

Board member
Zachary Lewy



Italy

The Italian banking market continues to experience challenges surrounding asset quality, capital adequacy and profitability. In July 2016, the European Banking Authority stress test results highlighted Italy's banking problems and recent events have confirmed the overall fragility of the system.

The Italian servicing market is continuing to experience solid growth, which is attributable to portfolio sales as well as an increasing number of financial institutions outsourcing their bad loans management.

According to PwC its expectation for 2017 is that there are around €50 billion of transactions that may come to market via securitisations.

In December, we agreed terms to purchase Zenith, a master servicer, focused on the Italian structured finance market. The acquisition is expected to complete in the first half of 2017.

Zenith has developed a reputation for quality and service in a complex, regulated market with €14.9 billion assets under management across multiple asset classes. It has a strong and established client base of leading Italian and international banks and funds, offering the Group an excellent platform to grow its business in Italy.

Chief executive officer
John Calvão

DELIVERING AGAINST OUR STRATEGY

To be a leading player in our chosen markets

Approach

- We work with both primary financial institutions and leading credit funds to expand and grow our business
- We have demonstrated our ability to build from our strong UK base, through acquisitions and organic growth into mainland Europe
- To fund this growth we have secured long-term funding with a lower cost of capital
- We have acquired leading servicing platforms in each of our chosen markets to enable us to increase asset management capability, supporting consortium transactions
- We actively participate in industry bodies that help lead change in legislation and best practice
- In an industry that continues to consolidate, we believe we have a reputation for consistency. As one of the larger players in the European market, we are a sustainable business, and are one of the net beneficiaries of the consolidation process

2016 progress

- Acquisition of Vesting in the Netherlands and Belgium
- Agreed terms for the purchase of Zenith
- Growth of 28.7% in underlying profit after tax for the Group
- Purchased loan portfolios and loan notes have increased 37.2% to £804.1 million, driven by an increase in 84-month ERC of £0.3 billion (30.2%)

To build a diversified risk weighted investment portfolio

Approach

- We are transforming our business by broadening our activities across different geographies, assets and businesses
- We have an established approach of purchasing 'pilot' portfolios in new geographies and asset classes across Europe, to understand the market and potential collections capabilities and returns, before we make material acquisitions
- We are able to partner with specialist servicers and our fund partners
- We operate a well-defined underwriting and investment process and have a robust governance structure in place, helping to ensure that we acquire portfolios inline with our risk-adjusted target returns
- As a business, we have long-term capital in place that provides ongoing funding and allows us to take advantage of opportunities as they arise

2016 progress

- Expanded the Group to be in six geographies, including Italy from 2017
- Ended the year with our 84-month ERC split between the UK 56%, Portugal 34%, and the Netherlands 10%
- 2016 investment split: 52% secured assets and 48% unsecured assets
- Significant progress has also been made to grow asset management revenues to 20% of total revenue

To transform the customer journey within our industry

Approach

- We know debt is a prominent issue and we want to be able to work with customers and help them improve their financial situation
- By using our industry leading data and customer segmentation systems, we understand our customers and their situations, which means we interact with them on an individual basis
- Our ultimate aim is to help customers rehabilitate their finances, improve their credit file and gain access to more affordable mainstream credit services others often take for granted
- We work with credit charities and other organisations that provide free impartial services, to ensure customers get the best advice possible

2016 progress

- Through the Vesting acquisition we now have access to historic credit performance across different geographies, providing us valuable insight into customer behaviours
- We have migrated a large proportion of accounts managed by third party collectors to our in-house operation in the UK
- Through our digital customer portal, we have seen increased customer engagement, with a 60% increase in online payments in the UK

To be the best operator in our market

Approach

- We have strong relationships with financial institutions and credit funds
- We are committed to having leading platforms in the markets in which we operate
- Through the growth of the business, we are able to invest in the best people, technology and data
- We have a Group-wide governance and risk management framework
- Through diversifying the business we have more opportunities to deploy capital. This enables us to invest at target returns whilst maintaining investment discipline

2016 progress

- Acquisition of Vesting in the Netherlands and Belgium
- Landmark deal in the Netherlands announced in September, where we agreed to co-invest in the assets and servicing capabilities of RNHB Hypotheekbank
- Completed off-market transactions of £187.0 million

To attract and retain the best talent

Approach

- We support our people through accessible career planning and training, valued incentives and recognition programmes and a collaborative and customer-oriented culture
- We recognise that the ongoing commitment to build leadership strength is vital to our continued growth; the development of our future leaders through stretching opportunities and broadening job experiences is important to our future success
- We offer professional development opportunities and a competitive package of pay and benefits. We recognise that a highly motivated and engaged workforce provides excellent customer service, and our people are effective advocates of our Group

2016 progress

- Strengthened our leadership teams in all geographies
- Added 400 staff to the Group, taking total number to over 1,500
- Enhanced expertise in unsecured and secured assets, securitisation and real estate operations
- Held our first European conference with colleagues from across all of our businesses
- Staff recognition scheme introduced, closely linked to Group values

OUR BUSINESS MODEL

We use the same core competences to generate value in our business in one of two ways:

1. We buy debt at a discount from its face value and use our expertise in data, analytics, collections, and asset resolution (where relevant) to help establish affordable repayment plans and settlements with our customers. We expect to collect approximately twice our investment over a period of 10 years.

2. We advise on and manage debt portfolios on behalf of others and charge a fee for this service.

An illustration of our debt purchase economics (£m)*	84-month	120-month
Face value of purchased balances owed	100	100
Price paid for the portfolio	11.7	11.7
Gross cash collections	21.1	23.4
Gross cash-on-cash multiple	**1.8**	**2.0**
Cost-to-collect percentage	15.0%	15.0%
Net cash collections	17.9	19.9
Net cash-on-cash multiple	**1.5**	**1.7**

An illustration of our asset management economics (£m)*	
Income from asset management	46.3
Minus cost-to-collect	(24.5)
Net contribution to profit	21.8

Reconciliations to equivalent IFRS measures can be seen on pages 38 to 39.

*Reflective of 2016 purchases and asset management revenues.

Our business activities can be divided into three broad phases:

Origination and underwriting

- Debt purchase
- Sourcing of servicing contracts

Asset management

- Management of Arrow Global owned debt purchase accounts
- Master servicing
- Consortium structures (part owned, part serviced)
- Data insights and analytics

Repayment – hybrid collections model

- In-house collections (owned and third party accounts)
- Panel management (for owned and third party accounts) – specialist and core where we work with a core panel of compliant servicers that offer a range of collection specialisms including: insolvency, bankruptcy and deceased customer accounts

OUR COMPETITIVE POSITION
CREATES VALUE

Looking ahead, we see four distinct areas where our business model and how we operate provides a compelling competitive position. These are:

1. High growth
2. Operational excellence
3. Financial excellence
4. Strong returns

High growth

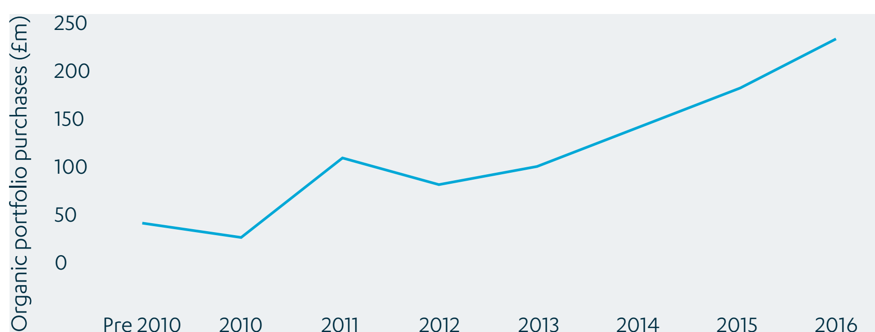
- **Market potential**
- **Arrow's strong origination franchise provides long-term opportunities**
- **An attractive mix of business and diversification improves earnings**

Market potential
PwC predicts that European banks need to divest €2.3 trillion of non-performing loans and non-core assets. Within the markets where we operate, we estimate there is more than €50 billion face value of debt sales each year.

European banks are heavily reliant on deposit funding across Europe, where its banks utilise around €45 trillion in deposits compared to around €16 trillion USA banks fund in a similar way. Against this backdrop and the 2008 financial crisis, with increased regulation and associated capital adequacy requirements, such as the Asset Quality Review (AQR), and accounting changes, such as IFRS 9, European banks are being asked to increase equity.

With European bank return on capital (ROE) at relatively low levels, this creates structural challenges for financial institutions, as it is difficult to raise new equity from investors. As a result, European banks are choosing to restructure or, in some instances through regulatory and government pressure, being forced to restructure.

Generally, the favoured option is to deleverage by releasing large pools of non-core and non-performing assets to be sold, creating long-term opportunities for Arrow Global.



We have consistently increased the annual level of organic portfolio investment, with £223 million deployed in 2016. Given the size of the market potential, we feel confident in deploying around twice our replacement rate annually over the medium-term.

Arrow's strong origination franchise provides long-term opportunities

With circa 110 client relationships, we are a leading partner to support financial institutions to move assets to a mix of credit funds, securitisations, and our own statement of financial position.

In the geographies where we operate, we have market leading platforms, which underpin our ability to offer tailored solutions, such as debt purchase, asset management and consortium structures. This makes Arrow Global relevant in helping the banks divest across asset classes and transaction types.

For larger transactions, we typically participate in consortium structures where we will work with credit funds, co-invest in the portfolio, and asset manage the full portfolio on behalf of the consortium.

This helps improve our returns from the portfolio purchase. Given the long lifespan of the assets, we will often purchase the tail of the asset from the credit fund as a secondary purchase. In 2016, we deployed £223 million plus Vesting back book portfolio purchase of £35.4 million resulting in total purchases of £258.4 million in organic portfolio purchases, 39.2% was in consortium transactions, with a further £483.7 million deployed by our partners.

The assets that we acquire have a long life, providing significant visibility of future servicing opportunities, buying opportunities, cash flows and pipeline.

We have key relationships in all the countries we operate, offering opportunities to secure 'off-market' trades, as well as competing strongly in competitive auctions.

Our strong market position is evidenced by our origination statistics:

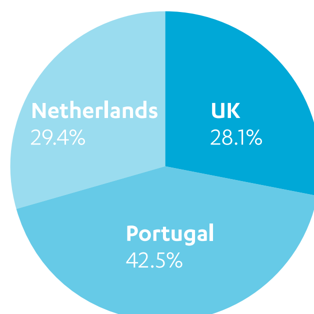
Asset type	Investment (£m)	Investment %
Auction/competitive	£71.3	27.6%
Off market	£187.1	72.4%
Total	**£258.4**	**100%**

New business	Investment %
Yes	47.3%
No	52.7%

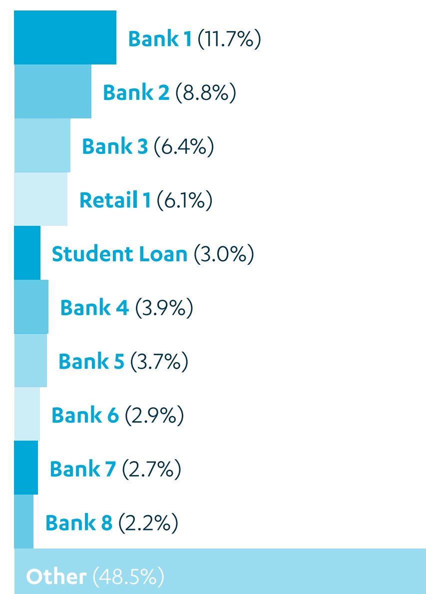
OUR COMPETITIVE POSITION CREATES VALUE

An attractive mix of business and diversification improves earnings
We operate across an increasing and diversified range of geographies and are not tied to the fortunes of any one country. We hold portfolios in multiple asset classes, but within each country we invest in different asset classes that are suited to the local market. In some markets, we will focus on unsecured debt, while in others we have invested in secured real estate and securitised assets.

Investment split by geography 2016
By purchase price



Portfolio split by originator
Cumulative by purchase price



	Volume of deals					
Year	**Won**	**Lost**	**Did not trade/ passed**	**Total**	**Win ratio**	**Bid ratio**
2013	17	19	24	60	47%	60%
2014	23	28	35	86	45%	59%
2015	23	20	52	95	53%	45%
2016	23	31	75	129	43%	42%

This strengthening of our market position provides greater opportunities for the Group to evaluate transactions, enabling us to deploy increasing levels of capital whilst maintaining investment discipline. This ensures investments continue to achieve target returns. The table above shows we are evaluating more transactions, but choosing to bid a lower percentage, whilst maintaining a broadly consistent win ratio.

As part of our origination strategy, we have been growing our asset management capability. This re-balances our income from purely debt purchases to include more capital-light servicing and asset management revenue. We have grown asset management revenues from 9% in 2015 to 20% of Group revenue in 2016. In 2017, we expect to grow the revenues from servicing and asset management to approximately 25% of the Group's total revenue.

This provides us with the flexibility of where we deploy our investment capital, and gives us the option to partner with credit funds, which in turn, helps us spread and diversify risk and drive profit.

Operational excellence

Expertise in data and analytics

From our creation in 2005, we constructed our own proprietary data repository which now has tens of millions of records. The richness of the data assets we hold informs our investment decisions, our collections strategies and also the best treatment for our customers.

As we have expanded our business, we have acquired additional historic data on credit performance in different European markets. The intelligent analysis of this combined data means we have significant insights into customer behaviours, which help us deliver better customer outcomes.

We continue to evolve our data assets and models to improve our understanding of our customers' individual circumstances. This, combined with an efficient operation, allows us to pay a fair price for a portfolio whilst still maintaining good returns.

In the UK, the number of records in our Proprietary Collection Bureau (PCB), our unique data matching tool designed in conjunction with Experian, has grown to 23.8 million (2015: 22.5 million). For a typical UK financial services portfolio, we are able to match approximately 44% of records. We therefore know or already have a relationship with this proportion of the portfolio.

PCB now works alongside other elements of a wider data warehouse developed after our acquisition of Capquest. All of this feeds into our operational IT platform.

In the Netherlands, in addition to the historic performance data acquired with the Vesting back book, we now own Focum, a credit bureau that holds more than 10.5 million records. We see further potential to leverage these data sets across our operation.

Track record of underwriting discipline

We operate a well-defined underwriting and investment process and have a robust governance structure in place, helping to ensure that we acquire portfolios in line with our target returns and risk management framework.

We have developed a number of proprietary underwriting models that leverage our data assets. These models forecast cash flow at an individual account level based upon certain attributes. Due to the significant portfolio assets we hold, and the data systems at our disposal, when we assess a portfolio through statistical modelling, we are able to identify and match a large percentage of its customers. This allows us to price more accurately and supports us in treating customers fairly when we look to collect on the portfolio.

Cumulatively we have collected 103% of our pre-purchase underwriting forecast (2015: 102%), demonstrating our overall accuracy.

Following the acquisition of a portfolio, we monitor performance to ensure that deviations in performance are understood. Models are developed or updated to ensure we continually learn from under or over performance.

Continual improvement in the customer journey

We work with our customers, leading debt charities, industry bodies and third party research agencies to help us understand our customers' needs. We aim to establish long-term affordable repayment plans, which help our customers' rehabilitate their credit listing and gain access to more affordable mainstream financial products.

Through our data models, we are able to build consolidated customer profiles that reflect customers' current circumstances and invest in leading customer service platforms to ensure that all our customers get the best service. In the UK, our collections colleagues are rewarded based on the customer outcomes they achieve, rather than the amount they collect.

2016 saw further development of our digital capability. Following the launch of our UK digital customer portal in October, there was a significant increase in the number of customers choosing to interact online and we saw a 60% increase in online payments.

In the UK, our new fully integrated customer service platform gives us greater flexibility to work across multiple asset classes, performing and non-performing loans. This allows us to develop a true single customer view and assist in making more informed collections decisions. Every collections colleague receives specialist training in handling vulnerable customers and all collection staff regularly undertake refresher courses.

OUR COMPETITIVE POSITION
CREATES VALUE

Financial excellence

Estimated remaining collections (ERC) provides long-term cash flow visibility

We quote 84-month and 120-month ERC forecasts as key metrics for the business, however our cash flow analysis extends beyond 10 years. As at 31 December 2016, the 84-month ERC increased to £1.3 billion and 120-month ERC to £1.5 billion. The statement of financial position carrying value for purchased loan portfolios and loan notes is supported by the rolling 84-month ERC, which we consider to be prudent. Each year we roll the ERC forward to include the additional year of collections, as our expected cash flows extend beyond 84-months.

The ERC is forecast at an individual account level and is updated twice a year to reflect actual and expected collections performance. The Portfolio Review Committee (PRC) meets regularly to review and challenge the latest forecast and judgments. The PRC reports to the audit committee twice a year.

The ERC is underpinned by approximately 600,000 customer accounts that have paid the Group in the last three months. These accounts have a current face value of £1.7 billion, meaning the Group has 1.3 times coverage of the ERC from existing customers.

The ERC provides significant cash flow visibility. For example, 75% of collections in 2016 came from portfolios we owned on 1 January 2016.

In order to maintain our ERC we need to invest at our replacement rate (maintenance capex). We consider this when we evaluate our cash result for the year, see page 39.

Asset management creates capital-light revenues

By developing our servicing and asset management proposition as part of our origination strategy, we have increased the level of capital-light revenues and cash flows (see illustrative economics on page 26).

Our asset management contracts are long-term in nature, averaging approximately five years in term. The revenues we generate are typically fee income, based upon collections performance of similar assets to those that we own in the ERC. These assets, therefore, have similar long-term collection forecasts that support earnings visibility.

We have grown asset management revenues from 9% in 2015 to 20% of Group revenue in 2016. In 2017, we expect to grow the revenues from servicing and asset management to approximately 25% of the Group's total revenue.

Balanced capital structure with reducing cost of capital

Our statement of financial position is robust, and reflects our commitment to maintaining a strong financial profile together with the increasingly diverse asset base we now hold. We are funded largely at a Group level.

Our debt funding sources are diverse, ensuring that we are not overly reliant on one funding source and that we will be able to support our growing business.

Our debt funding facilities are a mix of listed bonds and bank facilities. Our £180 million revolving credit facility provides statement of financial position liquidity. The bonds are a mix of fixed and floating rate with maturity dates ranging from November 2021 to September 2024, whilst the revolving credit facility matures in July 2021. The bonds are denominated in a mixture of Sterling and Euro and our revolving credit facility can be drawn in either currency.

Our financial policy is based upon the following metrics:

- **Leverage:** Net debt to Adjusted EBITDA of between 3.5-4 times, actual 3.9 times
- **Loan to value:** Secured Net debt/84m ERC: 60%, actual 57.0%
- **Cash cover:** Adjusted EBITDA/Cash interest: >4 times, actual 5.2 times

The track record that the business established through growth and diversification whilst maintaining ratios within our financial policy, has supported improvements in our cost of capital and our credit rating. During 2016, we refinanced our revolving credit facility and our sterling bond, reducing the cost of these facilities by 100bp and 275bp respectively. In addition, the Group's credit rating was upgraded to BB- by Standard and Poor's. In February 2017, the Group's credit rating was upgraded to Ba3 by Moody's, and the Group's RCF was increased to £215 million.

The combination of these diverse funding sources results in long-term debt facilities with an average maturity of around six years, and a total cost of funding of just under 5%.

Strong returns

Our leading origination franchise operating in growth markets combined with the areas of excellence outlined above have enabled us to deliver strong returns that we believe are sustainable.

We continue to exceed our key financial targets:

- **High teen underlying basic EPS growth: 2016: 28.5%**
- **Mid twenties underlying ROE: 2016: 29.1%**

In addition, the strong cash result (see page 39) driven by the portfolio returns, increase in asset management revenues and a reduction of our cost of capital enables the business to pay an increasing dividend to shareholders alongside investing in growth. Our full-year dividend, including the proposed final dividend of 6.4p, of 9.1p has grown from 7.1p in 2015 (28.7%).

Hilversum, Netherlands

"2016 was another important year for Arrow Global, where we achieved some important milestones. We have business momentum, strong financial returns, and a balanced capital structure, underpinned by longer and cheaper funding, which provides the Group with a solid platform for growth."

Rob Memmott
Group chief financial officer
2 March 2017

GROUP CHIEF FINANCIAL OFFICER REVIEW

I am pleased to present a strong set of results for 2016. They demonstrate the excellent progress we have made to develop the business, deliver strong returns, lay the foundation for future growth and enhance shareholder value.

Important note:
Both IFRS and cash metrics are important to understand the key drivers of the business. The reconciliations and commentary on the following pages have been prepared to aid this understanding, which helps to support the commentary of the financial review for the year.

Underlying profit after tax increased

Underlying profit after tax for the Group for 2016 has risen 28.7% to £45.6 million from £35.4 million in 2015. The growth in earnings has been driven by increasing investment in our portfolio asset base with strong collections performance from the UK and the Netherlands back books. The corporate acquisitions made by the Group in Portugal and the Netherlands in 2016 have helped grow our capital-light asset management revenue to 20%, with the aim of increasing this to 25% of total revenues in 2017.

The 2016 profit after tax of £26.3 million (2015: £31.7 million) includes £5.0 million of acquisition costs and £18.0 million associated with restructuring the Group's long-term financing. The saving in interest costs as a result of the refinancing will be beneficial to the Group's income statement in future years. The refinancing extended the maturity of our facilities, ensuring the financial position is sufficiently well structured to support and fund the continued growth plans for the Group.

Strong returns and progressive dividend

The underlying return on equity (ROE) for the Group in 2016 is 29.1%, up from 26.5% last year, and well above our target of 'mid-20s underlying ROE'. This metric is a key driver of shareholder value.

Basic EPS for 2016 is 15.1p compared to 18.2p in 2015, with the reduction largely due to the non-recurring items. Underlying basic EPS has increased 28.5% to 26.1p (2015: 20.3p). The Group has established a progressive dividend policy. The strong cash result for the year, supported by the growth in the asset management business, enables good returns to be made to our shareholders whilst allowing for future investment and growth. As such, the full-year dividend, including the proposed final dividend of 6.4p, for 2016 will increase to 9.1p, up 28.7% and represents a 35% payout of underlying profit after tax.

	IFRS 2016 £000	Non-recurring items 2016 £000	Underlying 2016 £000	IFRS 2015 £000	Non-recurring items 2015 £000	Underlying 2015 £000
Profit after tax	26,306	19,261	45,567	31,749	3,652	35,401
Opening net assets	145,356		145,356	121,874		121,874
Closing net assets	167,391		167,391	145,356		145,356
Average net assets	156,374		156,374	133,615		133,615
ROE (%)	**16.8%**		**29.1%**	**23.8%**		**26.5%**
Weighted average ordinary shares	174,373		174,373	174,046		174,046
Basic EPS (£)	**£0.15**		**£0.26**	**£0.18**		**£0.20**

GROUP CHIEF FINANCIAL OFFICER REVIEW

Record year for portfolio purchases

Our purchased loan portfolio asset base and loan notes increased by 37.2% to £804.1 million (2015: £586.3 million), which will help to support the future flow of collections and revenue streams.

This was driven by a record year for organic portfolio purchases of £223.0 million, up from £176.3 million in 2015, plus the portfolios acquired as part of the acquisition of Vesting, generated a corresponding increase in the ERC. The face value of debt portfolios acquired in the year was £2,200 million, with an average purchase price of 11.7p per £1. For the year to 31 December 2016, the 120-month expected gross money multiple for this vintage is 1.94 times (84-month: 1.78 times) from the date of purchase. This is slightly below our 2.0 times target given the higher proportion of secured portfolios within the vintage. Of the purchase price invested 52% related to secured portfolios. There was a good balance of investment by geography.

In the year, the Group acquired debt portfolios (including those through acquisitions) significantly in excess of the required replacement rate (the amount of annual investment required to keep the ERC constant). This higher level of acquired portfolios will increase future collections. This is reflected in the increased value of the ERC (84-months) from £1,028.6 million to £1,339.1 million, an increase of 30.2%. As described on page 38, it is the collections performance and size of the ERC which drives income recognised on loan portfolios.

All portfolios continue to be monitored carefully and where appropriate adjusted for in the ERC forecast based upon our detailed modelling. Although it has increased in total, the ERC has been adjusted down for our expectation of credit balances and a historic claim on one of the Portuguese portfolios.

Core collections increased

Core collections increased to £286.0 million (2015: £218.5 million) coming from over 7.7 million individual payments (2015: 7.5 million), reflecting the increase in our portfolio asset base. Collections were ahead of our ERC forecast and reflect a higher proportion of collections coming from recently acquired portfolios and the impact of collection strategy initiatives, such as litigation, the digital customer portal and the increased use of data sources.

Collections on UK books in particular have performed strongly in the year and the performance on the acquired Dutch portfolios has also been pleasing. Collections on our Portuguese portfolios have performed behind our expectations, largely due to delays in the migration of accounts from a third party servicer to in-house, and processing delays with the courts. We expect performance in Portugal to improve in 2017.

As at 31 December 2016, we have cumulatively collected 103% of our original underwriting forecast (2015: 102%), excluding foreign exchange impacts, reflecting the success of our data driven approach to underwriting.

Revenues and EBITDA increased

Total revenue for the year was £235.9 million, an increase of 42.6% from the 2015 comparative of £165.5 million. £38.9 million reflected the increase in purchased loan portfolios and loan notes and £31.6 million was from asset management services. The latter was due to a full period of results for Whitestar and the acquisition of Vesting in May 2016.

The increase in collections drove an increase in Adjusted EBITDA of 36.7% to £209.2 million (2015: £153.1 million). The reconciliation of IFRS profit after tax to the cash result, including a reconciliation to Adjusted EBITDA, is provided in the IFRS to cash result reconciliations starting on page 38. Adjusted EBITDA is a key driver of the cash result and allows us to monitor the operating performance of the Group.

Total income from asset management in 2016 was 20% of total revenue, and we expect this to increase to approximately 25% in 2017.

Reflective of the enlarged business, collection costs increased by 34.3% to £70.3 million (2015: £52.3 million). During the year, we completed the rationalisation of our UK panel and the associated migration of the accounts to our in-house operation, delivering the full benefit of the Capquest acquisition synergies.

Glasgow

Profit after tax

Profit after tax decreased from £31.7 million in 2015 to £26.3 million for the year, as we saw the impact of the non-recurring items offsetting the growth in underlying profit after tax. We saw positive results of £2.4 million from our 15% economic interest in French market leader, MCS. During the final quarter of 2016, we received a distribution of €8 million (£6.8 million), which will impact our share of profits from 2017 onwards.

Non-recurring items of £18.0 million arose on refinancing the £220 million fixed rate note and the Group's RCF, and £5.0 million arose on the strategic corporate acquisitions of Vesting and Redrock that completed in the year and the agreed acquisition of Zenith. These items are considered due to their size and nature to be outside of the normal operating activities of the Group. These items had a tax impact of £3.8 million. The cash impact of the financing and operating expenses for these non-recurring items in the year was £13.7 million.

The tax charge for 2016 represents an effective tax rate of 16.1% (2015: 19.2%) on profit before tax. The movement is mostly due to utilisation of historic trading losses being recognised and profits from associate already net of tax, offset by disallowable acquisition costs and a higher level of overseas taxable income at higher tax rates.

Net assets, funding and net debt

Net assets increased £22.0 million during the period, mostly reflecting the retained profit for the period of £26.3 million, foreign currency translation of £6.0 million and share-based payment movements of £3.2 million, offset by the final 2015 approved dividend and 2016 interim dividend paid totalling £14.1 million. The main driver of the translation movements was the significant movements in the Euro exchange rate from 1.35 at 31 December 2015 to 1.17 at 31 December 2016.

Net debt increased by £227.4 million to £816.0 million (2015: £588.6 million), driven by the acquisitions of Vesting and Redrock, organic portfolio purchases and foreign exchange.

The Group is committed to maintain its strong financial profile and aims to maintain the ratio of net debt to Adjusted EBITDA between 3.5x-4.0x, achieving 3.9x compared to 3.8x in 2015. Similarly, cash interest cover was 5.2x, comfortably ahead of target at greater than 4.0x, and ahead of 2015's 4.9x.

The ratio of net debt to 84-month ERC (LTV) was 60.8% as at 31 December 2016 (2015: 57.2%), which is significantly below our financial covenant of 75%. The secured LTV ratio as at 31 December 2016, was 57.0% (2015: 51.8%).

In July 2016, we refinanced our £180 million RCF, provided by four banks. The new facility has a margin of 275bp, a reduction of 100bps from the previous facility. The commitment fee has also been reduced by 54bps. The new facility has an extended maturity of 31 July 2021.

As a reflection of our ability to continue to expand our franchise whilst maintaining our key credit ratios, on 1 August 2016 S&P upgraded the Group's credit rating to BB- from B+ and the Group's Notes credit rating from BB- to BB.

On 1 September 2016, we refinanced our £220 million fixed rate note, reducing the cost by 275bps and increasing its term to eight years, resulting in a decrease in the Group's overall cost of debt to just under 5% and an increase in the average debt facility maturity to six years.

In February 2017, Moody's upgraded the Group's credit rating and Notes rating to Ba3 from B1. In addition, the Group increased its RCF by £35 million to £215 million, adding a fifth bank.

Summary

Group performance was strong for the year. This was seen through the growth of the asset management business, expansion of our geographical footprint and a material reduction in our cost of capital and extended funding maturity.

We have a Group financial control framework across all geographies, which we will further embed during 2017 to ensure a continued consistent approach in the application of our accounting controls and policies. This is being further supported by investment in IT and finance systems during 2017.

Rob Memmott
Group chief financial officer
2 March 2017

IFRS TO CASH RESULT RECONCILIATIONS

Introduction

We provide two reconciliations between IFRS and cash measures. The first looks at the movement in our purchased loan portfolios and loan notes 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. The second reconciles the IFRS profit after tax for the year to the cash result. For completeness we also separate out non-recurring items.

Our core competence is using data to identify, manage and collect non-performing purchased loan portfolios and loan notes. We use this competence to drive two key revenue streams, debt purchase, where we acquire the portfolio, and asset management, where we manage the portfolio, but do not take capital risk.

Models illustrating the economics of debt purchase and asset management can be seen on page 26. The way in which the business recognises revenue on each of these business streams differs substantially.

Debt purchase

For the debt purchase part of the business, we acquire portfolios and loan notes and turn these into regular, predictable and long-term cash flows; this involves high volumes of low value collections from customers.

We use analytical models to estimate cash flows we expect at an individual account level. The output of these account level forecasts is aggregated to a portfolio, and then into the Group's total ERC.

The price paid for the portfolio, collections experience and our ERC drive portfolio income.

When we purchase loan portfolios and loan notes, we recognise them in the statement of financial position at the purchase price in accordance with IFRS. In terms of the equivalent cash measure we add the portfolio ERC to the Group ERC at the point of purchase. We quote both 84-month and 120-month ERC forecasts as key performance measures for the business.

We are required to calculate the effective interest rate (EIR). This is the discount rate which would allow the estimated future cash flows to be discounted to the day one purchase price of the portfolio. This rate is used to calculate the amount of revenue we recognise each period. The EIR rate is fixed shortly after the point of purchase. The EIR is used to allocate the collections received between a repayment of our original purchase price, this is accounted for as a reduction in the loan balance (amortisation) and the balance of the collection as interest income (which is accounted for as revenue from purchased loan portfolios). This is akin to the way in which a mortgage would pay down.

The ERC extends beyond 15 years; however, we only include 84 months of cash flow in assessing our purchased loan portfolio and loan note assets. As we progress through the months of each year, we roll forward the ERC forecast, meaning we always have 84 months of expected cash flow from our portfolios recognised on the statement of financial position.

Due to the nature of our business, actual collections on portfolios and loan notes will not perform exactly as initially forecast, and each half year we review performance against collections experience and update the ERC forecast where appropriate. This updated cash flow forecast, discounted at the fixed discount rate (EIR) is the period end carrying value of the purchased loan portfolios and loan notes. This movement of the purchased loan portfolios and loan notes is reflected in income from loan portfolios in the income statement. The size of the portfolio asset, associated ERC and cash collections in the year are therefore all key drivers to the IFRS result we report.

As we collect on our portfolios and loan notes, the statement of financial position value, ERC and income we receive decreases over time.

The ERC forecast to 84-months or 120-months from date of purchase divided by the purchase price is the Gross Money Multiple (GMM) that we expect to achieve from that investment. The GMM is an important measure to understand the gross cash return on our investment. The GMM, therefore, is a measure of portfolio asset quality and is one of the metrics we evaluate when we appraise a portfolio. In 2016, we purchased portfolios and loan notes for £258.4 million, which with an 84-month GMM of 1.78 times added £459.4 million to ERC and a 120-month GMM of 1.94 times added £501.6 million to ERC.

Based upon our target returns that we expect to invest at, we are able to calculate a replacement rate, or maintenance capex, being the amount we need to invest to replace the reducing portfolios and to keep the Group's total portfolio value constant. During a period, if we invest higher than the replacement rate at target returns, the revenue from debt purchase grows. The replacement rate is a key driver to the cash result the business generates.

Asset management

As part of our strategy to diversify the business, the Group has also strengthened its capabilities in servicing and asset management to complement the strength it has in debt purchase. Asset management revenue is driven by commissions received, largely based on collections, plus fee income.

Asset management revenue does not require significant capital investment and therefore the development of this business is important to improving both the IFRS and cash result for the business.

Movement in purchased loan portfolios and loan notes under IFRS reconciled to cash ERC

	IFRS £000	ERC 84-month £000	ERC 120-month £000	
Purchased loan portfolios – 31 Dec 15*	586,274	1,028,591	1,224,522	ERC 31 Dec 15
Portfolios acquired during the year[1]	258,358	459,407	501,551	ERC acquired during the year
Collections in the year[2]	(285,960)	(285,960)	(285,960)	Collections in the year
Income from purchased loan portfolios	188,914[3]	–	–	
Exchange and other movements	56,521	–	–	
	–	137,070	104,422	ERC roll forward and reforecast[4]
	–	**1,339,108**	**1,544,535**	**ERC 31 Dec 16**
Effect of discounting	–	(535,001)[5]		
Purchased loan portfolios and loan notes – 31 Dec 16	**804,107**	**804,107**		

[1] Portfolios (including loan notes) acquired in the year are added to the statement of financial position carrying value of purchased loan portfolios and loan notes at their initial purchase price. The undiscounted forecast of estimated remaining collections is included in the ERC.

[2] Collections made in the year are deducted from both the IFRS carrying value of purchased loan portfolios and loan notes and ERC.

[3] Income on purchased loan portfolios and loan notes is calculated with reference to the effective interest rate (EIR) of the portfolio. This income is recognised after taking account of new portfolios and loan notes, collections, updated ERC forecast, disposals and any FX impacts. See **6** for more detail on total revenue.

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

[5] Under IFRS, the carrying value of purchased loan portfolios and loan notes includes 84-months of discounted cash flows. We expect to see cash flows beyond this period of time and report a 120-month ERC also, as is customary for the industry.

Reconciliation of profit after tax to the cash result

Revenue	IFRS P&L £000	Non-recurring items[9] £000	Underlying profit £000	Non-cash items £000	Cash result £000	
Income from loan portfolios	188,914	–	188,914	97,046	285,960	Collections in the year[2]
Profit on portfolio sales	701	–	701	(701)	–	
Income from asset management	46,315	–	46,315	–	46,315	Income from asset management
Total revenue[6]	**235,930**	**–**	**235,930**	**96,345**	**332,275**	
Total operating expenses	**(140,898)**	**5,022**	**(135,876)**	**10,485[7]**	**(125,391)**	**Cash operating expenses**
Operating profit	**95,032**	**5,022**	**100,054**	**106,830**	**206,884[10]**	
Net financing costs	(66,028)	17,994	(48,034)	7,571[8]	(40,463)	Cash interest
Share of profit in associate	2,363	–	2,363	–	2,363[10]	Share of profit in associate
Profit before tax	**31,367**	**23,016**	**54,383**	**114,401**	**168,784**	
Taxation charge on ordinary activities	(5,061)	(3,755)	(8,816)	–	(8,816)	
Profit after tax	**26,306**	**19,261**	**45,567**	**114,401**	**159,968**	
					(7,937)	Capital expenditure
					(97,273)[11]	Replacement rate
					54,758	**Cash result**

[6] Total revenue is largely derived from income from purchased loan portfolios and loan notes as explained in **3**, plus income from asset management being commission on collections for third parties and fee income received. The non-cash 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 purchased loan portfolios and loan notes arising from collections which are not allocated to revenue.

[7] Non-cash items include depreciation and amortisation, share-based payment charges and FX.

[8] Non-cash amortisation of fees and interest.

[9] The cash result is viewed on a recurring basis and excludes non-recurring items. Details of the non-recurring items are provided in the Group chief financial officer review starting on page 34.

[10] The sum of these balances is the Adjusted EBITDA for the business of £209,247,000, which is a key driver to the cash result. This measure allows us to monitor the operating performance of the Group. See the glossary for a detailed reconciliation of Adjusted EBITDA.

[11] Replacement rate is the level of purchased loan portfolio and loan note purchases, at our target portfolio returns, required during 2017 to maintain the 2016 average 84-month ERC.

*Excluding £23.5 million of portfolios due to be resold.

PRINCIPAL RISKS AND UNCERTAINTIES

Sound risk management is at the centre of our day-to-day activities. It benefits our business by ensuring balanced growth and stability of earnings while also protecting the sustainability of our future prospects.

Delivering our strategic priorities relies on the successful identification, assessment, management and reporting of risk. We focus on the top risks that impact our business, and also monitor emerging risks that might affect us in the future.

We operate an Enterprise-Wide Risk Management Framework. The overall framework is underpinned by our Risk Appetite Statements and a suite of policies. Risk is governed by the board, executive management and various risk committees.

The Group has a formal three lines of defence model, with internal audit performed by a combination of Deloitte LLP and our own Internal Audit functions in our European subsidiaries.

Our principal risks are categorised as strategic, conduct, operational and financial. The disclosures should not be regarded as a comprehensive list of all the risks and uncertainties facing the Group, but rather provide a summary of some of the key areas that could have the biggest impact.

Strategic risk

The risk to earnings arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

The Group's growth strategy is primarily based on the future purchase and collection of distressed loan portfolios, including as a servicer for third parties.

Changes in the competitive, economic, political (including Brexit) or regulatory environment in the UK or Eurozone could impact our ability to collect from portfolios, or competitively purchase and invest in line with our company objectives e.g. as a result of consolidation within the sector.

Negative attention and news regarding the debt collection industry and/or the Group's collections activity may impact our reputation and therefore the Group's ability to acquire portfolios and customers' willingness to repay the debt that the Group acquires.

Key mitigating actions

Management monitor the economic, political and regulatory environments in which we operate to influence future strategy. In addition, appropriate currency liquidity management and scenario planning is in place.

Strong relationships have been developed with our creditor client base and investment funds in order to mitigate the risk of reduced debt purchase opportunities in the market. The board regularly carries out reviews of the markets and strategy and reputational impacts are managed through our governance activities and by operating in accordance with all regulatory requirements and jurisdictional industry best practice.

Financial risk includes

Market risk: the risk of losses in portfolios due to changes in foreign exchange rates and the level of interest rates.

Funding and liquidity risk: the risk that the Group is unable to meet its obligations as they fall due.

Credit risk: the risk to earnings or capital arising when a customer or counter party defaults on its contractual obligations, including failure to perform obligations in a timely manner.

Tax risk: tax compliance risks arise from the complex nature of tax legislation and practice.

Investment risk: the risk of returns adverse to forecast as a result of inadequate portfolio purchase analysis and consequent mispricing therefore affecting ERC.

"The partnership we have developed with Arrow over the years is valued highly at Vanquis. Arrow's innovative style coupled to their deep foundation of decision science gives us great confidence that our customers are supported through the most challenging period of the debt cycle."

James Appleby
Vanquis Bank

Key mitigating actions

The Group's overarching financial risk management strategy is governed by a robust policy framework and is overseen by the treasury and tax committee, which is a delegated committee from the board and executive risk committees.

The Group aims to mitigate foreign exchange risk (a market risk) by matching foreign currency assets with foreign currency liabilities. The Group manages remaining exposures to foreign exchange at a Group level principally through the use of forward contracts. Interest rate risk is managed principally using interest rate swaps.

Funding and liquidity risk is managed through matching the maturity of our funding facilities with the maturity of our assets; forecasting funding requirements and applying appropriate stress testing, and ensuring that we maintain a balanced maturity profile of debt facilities. We are highly cash generative and aim to maintain a flexible cost base. Portfolio investment is largely discretionary and this provides us with a large degree of control over working capital.

Counterparty credit risk is managed through regular monitoring of the quality of new and existing counterparties and of our exposure to each. Counterparty risk with debt sellers is also mitigated through warranties. Credit risk is principally taken on through the purchase of customer debt and overseen on a country basis.

Tax risk is addressed through the use of tax specialists who advise the Group on its tax compliance obligations, application of tax legislation, and the transactions and activities undertaken by the Group.

Investment risk is managed through rigorous due diligence and controls to consider risks (including operational risks) and accurately price new investment opportunities. These include executive review through an investment 'gate' process and in certain circumstances board approval prior to purchase execution. Portfolio performance is regularly monitored by senior management and the board.

PRINCIPAL RISKS AND UNCERTAINTIES

Operational risk

The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including those relating to legal issues and IT security weaknesses.

Failure to comply with relevant legal and regulatory requirements through failed internal processes could result in the suspension or termination of our ability to conduct business, and could lead to regulatory censure and financial loss.

The Group relies on IT systems for customer and data management and data analytics. Should these systems experience performance issues or outage through, for example, cyber attack, our customers would be impacted, and we could experience financial loss.

There is also a risk of data quality and documentation deficiencies in purchased portfolios that require remediation post-purchase. The effectiveness of this remediation activity potentially affects the enforceability of debt, our future collections and credit risk or the quality of customer outcomes.

We choose in the UK to outsource the management of some customer accounts to third party partners who collect on our behalf. We are also dependent upon third party firms with whom customers engage to manage their debt or insolvency. Should these third parties experience sustained business interruption, be subject to takeover by an unfriendly competitor or fraudulent activity, or fail to maintain regulatory authorisation, we could suffer financial loss and/or potential detriment to customers.

"Since Capquest has merged with Arrow I have seen lots of changes for the better and it is great to see the business go from strength to strength. Our decisions have an impact on real customers and real lives so it's really important that we work correctly and take the right actions to ensure a good customer journey and to help them to help improve their financial well-being where appropriate."

James
Capquest

Key mitigating actions

Operational risk is managed in line with our operational risk policy, which sets out the framework and processes for managing this risk type.

We have a quarterly Risk and Control Self-Assessment (RCSA) process to identify and assess key operational and regulatory risks. Key risk areas are governed by a suite of policies approved by the board or executives to ensure standards are appropriately set across the Group.

We employ industry specialists to monitor the latest regulations and update our internal policies accordingly, and where required, we take external specialist advice. We also engage in regular training and assurance activity to ensure compliance with internal policies.

IT systems are regularly tested, backed up and managed through a set of quality and security policies, supported by disaster recovery and business continuity plans.

Due diligence is undertaken on prospective investment purchases to identify potential data quality and documentation weaknesses (see investment risk section above). Our Legal team are involved in all purchases and external legal advice is taken where required, with contractual terms and warranties used to provide protection against legacy issues.

In the UK, we have ongoing oversight of our partner network, including consideration of their business continuity arrangements. We monitor industry consolidation activity and have a diversified panel to ensure that we are not reliant on any particular third party servicer.

Conduct risk

The risk of inappropriate strategy, systems, behaviour, or processes that leads to poor customer outcomes or impacts market integrity.

We operate in a highly regulated environment, particularly in the UK, and any action that leads to poor customer outcomes or customer detriment could lead to a breach of regulations, resulting in censure, financial loss and reputational damage to our brand.

Poor customer outcomes or customer detriment could arise through the debt collection activities within our in-house operations or the third-party servicer network of collection agencies, whether we are collecting debt which we have acquired or on behalf of clients. We always seek to ensure we adhere to all local best practice collections approaches.

"MBNA and Arrow have been working together for the last 10 years. Arrow understand our business well – like us, they are demonstrably committed to putting the customer at the centre of everything they do in order to improve outcomes."

Alan North
Credit Risk and Analytics Executive
MBNA

Key mitigating actions

Conduct risk and Treating Customers Fairly (TCF) are at the heart of our business. All employees and third parties acting on our behalf receive mandatory training, including conduct risk, handling vulnerable customers and complaints, relevant to the local market and our activities.

We consider customer outcomes when developing our strategy, systems, policy and processes and ensure that our HR framework and Company values support appropriate customer outcomes.

We have a rigorous oversight framework, focused on compliance, independent assurance, performance, and customer outcomes across both our in-house operations and in the UK third party 'partner' network, with a continuous programme of reporting and reviews.

Governance over conduct risk is provided by the risk committees, principally through the operational risk committee in the UK and risk committees in each of our European subsidiaries. These committees provide oversight of the Group's processes and procedures, monitoring their effectiveness in fulfilling regulatory obligations and the management of risk that may result in non-compliance and/or poor outcomes for customers. Conduct risk exposures are also managed and monitored against the board's risk appetite.

CORPORATE AND SOCIAL RESPONSIBILITY

Supporting debt charities

We support the activities of a number of debt charities. We have a place on the Citizens Advice Advisory Group responsible for developing their new Debt Management Service, with end-to-end free advice and debt management plans. We make significant Fairshare contributions to both StepChange and Payplan.

Helping our local communities

We also support Arrow charities local to each of our sites; such as the Christie Charity in Manchester, one of Europe's largest cancer treatment centres. The Christie has benefitted from various fundraising events such as a charity skydive, bake sales, as well as colleague volunteering at the Salford Triathlon.

In Glasgow, we have helped the Beatson West of Scotland Cancer Centre through sport based fundraising activities such as charity netball to football tournaments and in Farnborough we have supported Creating Futures, a charity offering children an alternative to being on the streets achieved through youth clubs and workshops.

We also support colleagues' contributions to the community by matching funds raised by them for our chosen charities and we encourage our staff to volunteer and assist local community organisations, both in and out of Company time.

"Great service, very pleasant. Couldn't have done anything better."

Mrs J.
From Preston

Financial education

According to recent Money Advice Service research, fewer than half of children aged 7-17 receive any education on financial capability. We see this manifest itself through the challenges our customers face on a daily basis, therefore our role in financial capability education is critical to help address this imbalance for future generations.

Arrow Global has established a strong partnership with the Young Enterprise charity which stretches back to 2014. Since then we have sponsored a local Manchester secondary school, Oakwood Academy, supporting them in attaining national accreditation as a 'Centre of Excellence' for the provision of financial education to its students. Oakwood is now seen as a beacon of financial education and good practice in the local education community.

On the back of Oakwood's resounding success, we are now expanding our reach to more young people in our local communities through delivery of financial education. This is being achieved through 'Money Matters' designed to educate and inspire young people to take ownership of their finances.

Arrow Global colleagues delivered our first ever financial capability 'Money Matters' workshop in Q4 this year, a very rewarding experience for pupils, teachers and Arrow Global volunteers alike.

In Benelux, Vesting Finance is a sponsor of Stichting LEF, a foundation that strives to reduce debt problems in society by increasing financial awareness amongst young people. Similar to the 'Money Matters' workshop in the UK, LEF has developed a 'Money Management' programme for young people and invite volunteers to teach young people in school.

In Portugal, Whitestar sponsors a Mozambican school, Ilocone, providing financial support to ensure the effective delivery of education programmes to children aged 3-6.

We plan to further develop our financial education programme in 2017.

Volunteering and mentoring with City Year

City Year seek to address the important issues of academic under achievement of children from deprived backgrounds and the risk of 'no experience, no job' for young people entering the employment market.

Arrow Global began its relationship with City Year in 2015 as a founding partner to the City Year's launch in the Greater Manchester area, and are a member of the charity's Manchester Advisory Council. Arrow provides fundraising, sponsorship and employee volunteering support to City Year across a wide range of initiatives.

Arrow Global volunteers play a key role in the development of the City Year's young people through mentoring, leadership development and CV/interview skills coaching.

Moving and making a difference

Throughout the year, our colleagues participate in a variety of organised charity events. Following the launch of our 'Move and Make a Difference' charity challenge in 2015, colleagues have been encouraged to 'donate a mile' to one of the charities we support, completing a mile in any way they choose. The Company then makes a fixed donation on their behalf, or they can gain additional sponsorship and we will match the funds that they raise.

The challenge ran throughout 2016 and raised £12,000 through a variety of activities, such as a team sled pull, rowing, running and cycling, and a group skydive over a vertical mile.

"Corporate Social Responsibility is about making sure we run our business in a responsible way. We're committed to treating everyone we deal with fairly and ethically from our customers and colleagues to our suppliers and business partners."

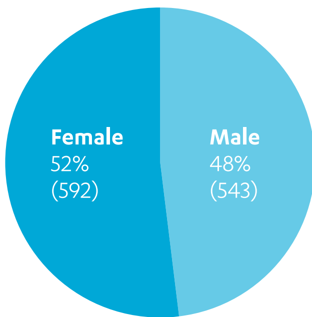
Tracy French
Group HR director

CORPORATE AND SOCIAL RESPONSIBILITY

Our people

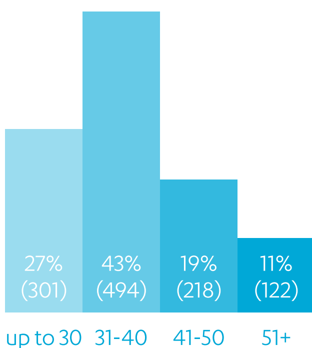
Staff split

By gender (at 31 December 2016)



Staff split

By age (at 31 December 2016)



"It is a great place to work where hard work is recognised. I love that our main aim is to do the right thing by the customer as that is really important to me."

Gerry
Capquest

Supporting human rights

All the Group's current activities are carried out in developed countries that have strong legislation governing human rights, and Arrow Global complies with applicable legislation in every country where it operates.

Regulatory and industry engagement

During the year, Arrow Global has actively contributed to a wide range of initiatives across the collections and debt advice sectors.

Following the publication of our report 'Debt Britain 2016: The Big Picture' we held an industry-wide round table in December, attended by 50 stakeholders including regulators, the debt advice sector, credit reference agencies, creditors, trade bodies and others. You can read more about this on pages 48 and 49.

In 2016, we held a number of important industry positions:

- the presidency of the Credit Services Association (CSA) for an extended third year, promoting better relationships with the FCA and Government, the debt advice sector and other stakeholders, to ensure they are made aware of the processes and high standards of Arrow Global and the rest of the membership of the CSA
- the Chair of the Steering Committee on Reciprocity (SCOR), which governs the rules for credit data sharing in the UK, bringing about important new rules and safeguards for the use of credit data by debt buyers
- the vice presidency of the Federation of European National Collection Associations (FENCA). Consistent FENCA involvement over the last four years has resulted in considerable lobbying success on the final wording of the forthcoming EU General Data Protection Regulation (GDPR), and we now have the portfolio of developing Codes of Conduct for GDPR as it relates to collections, and for pan-European collections as a whole. These two codes, the first of which will be in place by May 2018 when GDPR comes into force, will help provide a level playing field for the European consumer, clarity on the GDPR regulation for our industry, and may forestall further regulation from Brussels which could adversely affect Arrow Global and our customers.

We hold a board position on the influential and newly-incorporated Money Advice Liaison Group, and a trusteeship of the Fairlife Charity, promoting fair treatment of the consumer across financial services.

We represented the credit industry on a subcommittee of the MOJ Civil Procedure Rule Committee responsible for drafting the pre-action protocol for debt claims (known as PAP). This engagement has resulted in significant improvements to the final outcome, including usage of the standard financial statement, and the dropping of the requirement to send an original agreement to every customer before legal action is commenced. The revised PAP is likely to come into effect late 2017.

We have lobbied Ofcom this year on their proposed changes to dialler usage. Our engagement has brought considerable progress for the industry, with the new policy statement leaving the regulations largely unchanged. We have liaised extensively with our clients to reassure them that the new Ofcom policy is not intended to affect our industry.

We have attended more than 100 trade body events and conferences during 2016, and we chair and speak regularly at non-performing loan and industry events and conferences throughout the year.

As a result of our CSA involvement and our own recent authorisation, we have a constructive relationship with the FCA, and have contributed to projects on due diligence for debt purchase, common misconceptions in CONC, CCA retained provisions, and the ongoing authorisation of fee-charging debt management firms.

We have had regular meetings with HMT, MAS, The Cabinet Office, MOJ, HMRC, DWP, HMCTS and other government departments, and are part of working groups looking at statutory breathing space, the future funding of debt advice, the new standard financial statement, and fairness in government debt collection. This has resulted in TCF and fair pro-rata payments from consumers being considered, often for the first time, in accordance with our belief in fair customer outcomes and sustainable solutions for all stakeholders.

Work will continue on these initiatives in 2017. We remain fully committed to raising standards, promoting fairer practices in the collection of debt by Government and other sectors we are active in, lobbying for a really effective successor to The Money Advice Service, and supporting better financial futures for children and those adults who, as shown by our Debt Britain report, are so often in need of our help and support.

Sustainability – caring for the environment

Due to the nature of its business activities, the Group's environmental impact is considered minimal. An environmental policy is in place to increase employee awareness of environmental issues and complies with all relevant regulatory requirements.

With the acquisition of Whitestar in Portugal, Vesting in Benelux, and the agreed acquisition of Zenith in Italy, the Group now has a truly European structure. This has inevitably seen an increase in international travel, but to reduce the impact of this and other travel on our carbon footprint, we actively encourage colleagues to increase the use of video and telephone conferencing facilities.

In the UK, we offer colleagues a cycle to work scheme and, at appropriate sites, we have car shares and group transport schemes in place.

Key areas of the policy addressing the business' environmental impact are as follows:

- minimising paper usage and the purchase of recycled paper and packaging where possible
- energy efficient office products
- recycling office waste
- increased use of video and conference calls

Carbon reporting – methodology

We have followed the requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the Carbon Trust conversion factors to measure and report greenhouse gas emissions, as well as the disclosure requirements in Part 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The financial control method, which captures the sources that fall within our consolidated financial statements, has been used. Although we operate an outsourced model working with partners, these partners do not work exclusively for the Group and, therefore, it is not deemed appropriate to include emissions outside of the Group consolidated financial statements. The reporting period aligns to the financial period (i.e. the year to 31 December 2016) and the Group's carbon reporting falls under three scopes:

CO_2 emissions increased to 1,621.8 tonnes from 878.5 tonnes in the prior year. The increase is due to the acquisition of Vesting and the agreed purchase of Zenith. Whilst we consider our carbon emissions to still be relatively low, with the Group expanding globally, the main area we can control is business travel and we will continue to make employees aware of environmental impacts.

DEBT BRITAIN 2016

In July 2016, Arrow Global launched a report that looked into the state of personal indebtedness in the UK and of the wider consumer debt industry. 'Debt Britain 2016: The Big Picture – The Arrow Global Guide to Consumer Debt' explores the role debt plays in consumers' lives and the nation's economy.

Debt is a crucial factor in today's society. On one hand, it plays a vital role as a turbo charger of the economy. On the other hand, and for a variety of reasons, a proportion of our customers will always fall behind on their repayments.

Our research showed that most borrowers found themselves in debt for unforeseeable reasons, such as illness (25%) and loss of job (23%). We carried out extensive research and analysis which enabled us to better understand the reasons why this was, and more importantly, how we could help.

Debt Britain 2016 explores and exposes the problems that over indebtedness and default can create, addressing the broader issue of the use of debt and its contribution to the UK economy. The report also analysed the macroeconomic context for defaults, providing a first of its kind forecast of consumer debt defaults.

Bringing the industry together

Having commissioned the report and considered its findings, we wanted to do more than just present it. We were keen to generate a wider discussion on the impact of debt and develop a more consistent approach to customer interaction. We also wanted to gain a better knowledge and understanding of consumers in unmanageable debt, to help us provide more relevant customer discussions and outcomes.

In December 2016, a roundtable event was organised in association with CCR Magazine. Over 60 delegates from the consumer debt industry, including credit reference agencies, creditors, lenders, debt collection agencies and debt charities, were invited to discuss the report and how, together as an industry and through shared ownership, we could move forward.

Discussions throughout the day ranged from working together as an industry, to ensuring a fair outcome for customers in a potentially difficult macro-economic environment, to the practical measures the industry could all get behind to improve recognition for consumers who are trying to secure better financial futures.

The next steps

Looking forward to 2017, we intend to work with the key players across the consumer debt industry with the aim of improving the customer journey to build better financial futures.

Analysis from the December discussions indicated that there is not one solution. Education, the use of industry data and incentives for those customers making regular repayments are only a few of the areas which all require improvement and investment, and we look forward to working with our industry colleagues on this important initiative.

The majority of borrowers start defaulting through no fault of their own:

The human impact of defaulting on debt:

Trouble sleeping

60%
47% Male
69% Female

Mental health problems

24%
18% Male
28% Female

Trouble with personal relationships

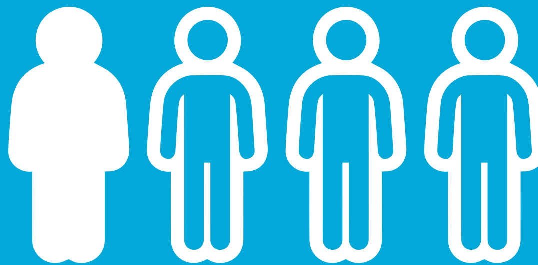
32%
31% Male
34% Female

Abuse of drugs or alcohol

16%
18% Male
14% Female

The main types of loans that people struggle to pay back:

1 in 4 borrowers have struggled to make repayments at some stage in their life



60% Credit card not being paid off in full

22% Unsecure loans

18% Bank overdraft

17% Mail order credit

17% Mortgage

Source: Arrow Global research

SUMMARY – CORPORATE GOVERNANCE

Board of directors

Chairman
Jonathan Bloomer MBE

Executive directors
Lee Rochford
Rob Memmott

Non-executive directors
Iain Cornish (senior independent director)
Maria Luís Albuquerque
Lan Tu
Andrew Fisher

Company secretary
Stewart Hamilton

Our board

As detailed above, the board has seven directors comprising the Chairman, two executive directors and four independent non-executive directors, one of whom is the senior independent director. Biographies for each director can be found on pages 54 to 55. The board regarded Jonathan Bloomer as independent upon his appointment.

On 3 January 2017, Tom Drury stepped down as Group chief executive officer and was replaced by Lee Rochford. Maria Luís Albuquerque and Andrew Fisher joined the board on 7 March and 9 December 2016 respectively as independent non-executive directors. Robin Phipps stepped down from the board on 27 October 2016 and Lan Tu replaced Robin as chair of the remuneration committee.

The board is collectively responsible for the long-term success of the Company, its strategy, values and governance. The work of the board in 2016 can be found on page 62.

Our board committees

In order to provide effective oversight and leadership, the board has established a number of board committees with particular responsibilities. The work of the board committees is discussed in their individual reports. The terms of reference of each of these committees is referred to on page 65.

Audit and risk committee

The combined audit and risk committee's primary role was monitoring the integrity of the Group's financial reporting and reviewing the Group's risk management and internal control systems.

The audit and risk committee was formally separated with effect from 25 January 2017. The board, supported by the nomination committee, considered that, given the increased geographic footprint, complex regulatory environments and the consequent impact on risk exposures, it was now appropriate to operate separate audit and risk committees, as is the case in many other listed financial services companies.

Chair: Iain Cornish
(throughout 2016 and to 24 January 2017)

Audit committee chair: Andrew Fisher
(from 25 January 2017)

Risk committee chair: Iain Cornish
(from 25 January 2017)

Remuneration committee

The remuneration committee is responsible for approving remuneration policy and reviewing the effectiveness of its implementation. The committee also considers senior executive remuneration and makes recommendations to the board on the remuneration of executive directors.

Chair: Lan Tu
(from 27 October 2016)

Nomination committee

The nomination committee is responsible for considering and making recommendations to the board in respect of appointments to the board, the board committees and the chairmanship of the board committees. It is also responsible for keeping the structure, size and composition of the board under regular review, and for making recommendations to the board with regard to any changes necessary. Furthermore, the nomination committee is required to manage the process for evaluating the performance of the board.

Chair: Jonathan Bloomer MBE

Disclosure committee

The disclosure committee is responsible for monitoring, evaluating and enhancing disclosure controls and procedures of the Group. The disclosure committee is also required to assist the Company and the Group to make timely and accurate disclosure of all information where disclosure is required to meet legal and regulatory obligations.

Chair: Iain Cornish

UK Corporate Governance Code
Throughout the year ended 31 December 2016, the Company has complied with all relevant provisions of the 2014 Edition of the UK Corporate Governance Code, which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

Lee Rochford
Group chief executive officer
2 March 2017

STATEMENT OF VIABILITY

The directors are required to make an assessment of the Group's ability to continue to trade as a going concern for the three-year period of assessment used to assess the business. The directors have given this matter due consideration through a review of forecast cash flow models and scenarios and current cash availability and have concluded that it is appropriate to prepare the Group financial statements on a going concern basis.

The main considerations were as follows:
The Group prepares annually a five-year plan as part of its corporate planning process, which is aligned to the strategic goals approved by the board. The plan is predicated on a detailed year one budget, and extrapolated forecasts in outer years. It is the first three years of the forecast which command the greatest focus and have the greater certainty over the forecasting assumptions used. Hence this is why the board has concluded that the viability statement should cover a period of three years.

The Group is highly cash generative receiving weekly cash flows in collections from customers and has a low fixed cost base. We have a long track record of predictable cash flows over many years. The directors have reviewed the available headroom of the Group, and confirmed that the Group has sufficient resources to meet future obligations as they fall due.

The principal covenants of the revolving credit facility that the Group currently has in place are loan to value (LTV) ratio of no more than 75% and a super senior loan to value (SSLTV) ratio of no more than 25%, both tested quarterly. The directors have reviewed the Group's financial projections covering a minimum period of at least 12 months from the date of signing of these financial statements and the projections show covenant compliance. Furthermore based on the three-year forecast and funding plan, the Group will continue to be in compliance.

The directors have considered the Group's viability in detail over a three-year period to December 2019. This assessment is in accordance with provision C.2.2 of the UK Corporate Governance Code. It has been made taking into account the current position of the Group, the corporate planning and budget process, and the Group's principal risks as detailed in the strategic report on pages 40 to 43.

As a matter of good practice, a variety of stress tests are performed on the plan. The tests selected consider the principal risks faced by the Group. The principal risk modelled within the stress tests is a reduction in collections, which would reflect the impact of either external macroeconomic factors or internal operational issues arising. In the UK, we completed a specific exercise regarding macroeconomic stress to simulate the potential impacts of any downturn in macroeconomic factors, due to Brexit or otherwise. We asked Jaywing Consulting to consider and challenge our analysis, details of which can be seen on page 18. This has helped inform some of the stress testing performed.

The directors have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities, as they fall due, over the three-year period of their detailed assessment.

Directors' and committee reports

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Iain Cornish

Non-executive director
Appointment: 15 October 2013 (Iain became senior independent director on 4 June 2015)
Committee membership: Senior independent director, risk committee (Chair), disclosure committee (Chair), audit committee and nomination committee
Skills and experience: Iain has a wealth of experience in the financial services industry, having spent, until 2011, 20 years' at Yorkshire Building Society, including eight years as chief executive officer. He was previously non-executive director of Vanquis Bank, non-executive director of the Prudential Regulatory Authority, Chairman of the practitioner panel of the FSA and of the Building Societies Association and executive committee member of the Council of Mortgage Lenders.
External appointments: Iain is currently non-executive Chairman of Shawbrook Group Plc, senior independent director and risk committee Chairman at St James' Place Wealth Management Plc, trustee and treasurer of Macmillan Cancer Support (from 1 January 2017).
Contribution in 2016: As chair of the previously combined audit and risk committee, Iain oversaw the acquisition of Vesting, the proposed acquisition of Zenith and the addition of a specialist servicing capability and entry into a five-year servicing agreement in the Netherlands. Iain has continued to support the Chairman in his role as senior independent director and was involved in the recruitment of Lee Rochford as Group chief executive officer and Andrew Fisher as non-executive director.

Andrew Fisher

Non-executive director
Appointment: 9 December 2016
Committee membership: Audit committee (Chair), risk committee and remuneration committee
Skills and experience: Andrew, a chartered accountant, is currently the finance director of FTSE 100 Provident Financial Plc, having been appointed in 2006. He has spent over 20 years as finance director of major listed companies, where he has accumulated broad international experience and a considerable depth of knowledge across a variety of consumer credit asset classes. Prior to working in the financial services industry, he was a partner with Price Waterhouse LLP.
External appointments: Finance director of Provident Financial Plc.
Contribution in 2016: Andrew joined the board in December 2016.

Rob Memmott

Group chief financial officer
Appointment: 14 August 2013
Committee membership: Disclosure committee
Skills and experience: Rob has been chief financial officer at Arrow Global since 2011 and played a leading role in the IPO in 2013. He has over 17 years' experience in senior financial leadership roles. Rob's previous roles included chief financial officer for Leeds Bradford International Airport Limited and Servisair and finance director for Alfred McAlpine. He qualified as a chartered accountant with KPMG in Manchester.
External appointments: None
Contribution in 2016: Rob has been instrumental in the Company, delivering a strong set of results for 2016, which demonstrates the excellent progress that has been made to develop the business, deliver strong returns and lay the foundation for future growth, enhancing shareholder value. Highlights of the financial results are set out in the chief financial officer's review on pages 34 to 37, in particular the refinancing of the Company's revolving credit facility and £220 million fixed-rate notes.

Jonathan Bloomer MBE

Non-executive Chairman
Appointment: 5 October 2013
Committee membership: Nomination committee (Chair) and remuneration committee
Skills and experience: Jonathan has a wealth of experience in the financial services industry and has significant board experience both as an executive and non-executive. His previous positions include chief executive of Prudential Plc, Chairman of the employee benefit business of Jardine Lloyd Thompson Plc, senior independent director of Hargreaves Lansdown Plc, Chairman of the audit committee of Autonomy Plc, Chairman of the Practitioner Panel of the FSA and board membership of the Geneva Association.
External appointments: Jonathan is currently chairman of Shepherd Direct Ltd, non-executive director of Morgan Stanley International, director of Change Real Estate Limited and a member of the code committee of the Takeover Panel.
Contribution in 2016: Jonathan led the board through a significant period of geographic expansion in the Group's history following the acquisition of Vesting in May 2016 and the announcement of the proposed acquisition of Zenith in December 2016. As chair of the nomination committee, Jonathan oversaw the recruitment of Lee Rochford as Group chief executive officer and Andrew Fisher as non-executive director and the recommendation to appoint Lan Tu as chair of the remuneration committee.

Lee Rochford

Group chief executive officer
Appointment: 3 January 2017
Committee membership: None
Skills and experience: Before joining the Company, Lee was chief financial officer at Virgin Money between October 2013 and August 2015, seeing the group through its successful IPO and into life as a listed company. Prior to this he held a number of roles at RBS between 2007 and 2013, culminating as managing director and head of the Financial Institutions Group. Earlier in his career, Lee was managing director of Wachovia Securities' Principal Finance team, managing director and head of European asset finance at Credit Suisse and head of Northern European securitisation at BNP Paribas.
External appointments: None
Contribution in 2016: Lee joined the board in January 2017.

Maria Luís Albuquerque

Non-executive director
Appointment: 7 March 2016
Committee membership: Audit committee and risk committee
Skills and experience: Maria Luís was Portuguese Minister of State and Finance from July 2013 until November 2015 when there was a change of government in Portugal, and Deputy Minister for Treasury from June 2011 to July 2013. She had previously held a number of senior Finance/Treasury positions in the Portuguese public sector, including Head of Issuing and Markets at the Portuguese Treasury and Debt Management Agency, and director of the department of financial management at REFER, the state-owned rail infrastructure company. She is an economist who also lectured at Universidade Lusíada of Lisbon from 1991 to 2006.
External appointments: Maria Luís is a Member of the Portuguese Parliament, having been re-elected in the general election of 4 October 2015.
Contribution in 2016: Maria Luís joined the board in March 2016 and complemented the existing board by bringing a wealth of international and financial sector experience. Maria Luís provided insight and challenge to the board on the Group's geographic expansion, particularly in the context of European financial stability.

Lan Tu

Non-executive director
Appointment: 9 March 2015
Committee membership: Remuneration committee (Chair), audit committee, risk committee and nomination committee
Skills and experience: Lan has had over 10 years of experience in senior leadership roles within American Express until 2015. Lan ran its Emerging Payment and Services business in Europe, Middle East and Africa; was the general manager for its UK and Nordics Merchant Services business; and previously led its International Strategic Planning Group. Previous experience also includes 12 years at McKinsey & Company, working primarily in the financial services sector.
External appointments: Lan is chief strategy officer of Standard Life Plc, non-executive director of Kings College London and non-executive director of Maudsley Learning at Work.
Contribution in 2016: Lan was appointed chair of the remuneration committee in October 2016. In this role, Lan oversaw the remuneration proposals in respect of Tom Drury stepping down as Group chief executive officer and Lee Rochford's appointment. As an experienced member of the board, Lan has continued to provide strategic guidance and is particularly supportive of the Group developing its digital strategy.

Stewart Hamilton

General counsel and company secretary
Appointment: 24 September 2013
Skills and experience: Stewart has 15 years' experience as a solicitor in corporate and commercial law. He joined the Company from Addleshaw Goddard in 2011. He qualified as a solicitor with Linklaters in 2002 before working for Baker & McKenzie in London.
External appointments: None

REPORT OF THE DIRECTORS

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2016. The corporate governance report set out on page 61 forms part of this report. The Company's principal subsidiaries are listed in note 23.

Results and going concern

The Group's results are discussed in the Chairman's statement, Group chief executive officer's review, Group chief financial officer's review and strategic report starting on pages 10, 14, 34 and 20 respectively, which are incorporated into this report by reference.

Consideration of going concern can be seen on page 51. After making appropriate enquiries, the directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence for the three-year period of assessment, owing to the fact that forecasts show sufficient resources are available throughout the period under review. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Fair, balanced and understandable

As required by the UK Corporate Governance Code 2014 Edition (the 'Code'), the directors confirm that they consider that this annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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

Dividends

The directors recommend the payment of a final dividend of 6.4p per ordinary share for the financial year ended 31 December 2016 (2015: 5.4p) to be paid (assuming shareholder approval is obtained) on 6 July 2017 to ordinary shareholders on the register on 9 June 2017. This together with the interim dividend of 2.7p per share (2015: 1.7p) paid on 13 October 2016, brings the total dividend declared and proposed for the year to 9.1p per share (2015: 7.1p).

The Company held £37.5 million distributable reserves at 31 December 2016, which is sufficient to pay the dividend.

Share capital

As at 31 December 2016, the Company had 174.4 million ordinary shares in issue, of one class, with a nominal value of 1p each. Full details of the share capital of the Company are set out in note 20 to the Group financial statements on page 122. The information in note 20 is incorporated by reference and forms part of this directors' report. On a show of hands at a general meeting of the Company, each member present in person or by proxy, and entitled to vote, shall have one vote and, on a poll, every member shall have one vote for every ordinary share held. There are no issued shares in the Company with special rights with regard to control of the Company.

Purchase of own shares

At the 2016 annual general meeting, shareholders authorised the Company to make market purchases of up to 17,443,902 ordinary shares representing 10% of the issued share capital at that time, and to allot up to an aggregate nominal amount of £1,162,926.84. These authorities expire at the 2017 annual general meeting. During the year to 31 December 2016, no shares were allotted or repurchased. Resolutions to renew these authorities will be proposed at the 2017 annual general meeting.

The Company announced on 16 February 2017 that 4 million ordinary shares in the Company had been admitted to the Official List by way of block listing. The shares will be allotted from time to time in accordance with the vesting of certain employee awards. As at 2 March 2017, none of the block listed shares had been allotted by the Company. RIS announcements will be made in accordance with the Disclosure, Guidance and Transparency Rules when an allotment has occurred.

The Company operates an independent employee benefit trust for future benefit to employees of the Group. Bedell Trustees Limited was the trustee of the Arrow Global Benefit Trust, which was established by a Trust Deed dated 14 October 2011 (the 'Bedell Trust'). Estera Trust (Jersey) Limited is the trustee of the Arrow Global Group 2016 Employee Benefit Trust (the 'Estera Trust'), which was established by the Company by a trust instrument on 3 May 2016. On 17 May 2016, the Bedell Trust transferred the assets held by it to the Estera Trust. The Bedell Trust was then terminated by Deed dated 20 May 2016. During the financial year, the Bedell Trust (until termination) and the Estera Trust (from appointment) transferred shares to the trustee of the Arrow Global Share Incentive Plan (the 'SIP') to satisfy awards of shares to participating employees under the SIP.

As at 31 December 2016, the Estera Trust held 66,277 ordinary shares (2015: 392,484 shares) representing 0.04% (2015: 0.2%) of the Company's issued share capital. The Trust deed contains a dividend waiver provision in relation to these shares. There were no purchases of shares by either the Bedell Trust or the Estera Trust during the year.

Transfer of securities

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

The board may decline to register a transfer of any share which is not fully paid. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the articles of association) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The board may decline to register a transfer of a certificated share unless the instrument of transfer: (i) is duly stamped or certified or otherwise shown to the satisfaction of the board to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the board may reasonably require; (ii) is in respect of only one class of share; and (iii) if joint transferees, is in favour of not more than four such transferees.

Further, the board may decline to register a transfer of a certificated share where the transfer is requested by a person with more than a 0.25% interest in the issued share capital of the Company (excluding treasury shares) if such a person has been served with a restriction notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006, unless the transfer is shown to the board to be pursuant to an arm's length sale (as defined in the articles of association).

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

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

Substantial shareholdings

As at 31 December 2016, the Company had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, or was otherwise aware, of the following holdings of voting rights in its shares:

Shareholder	No. of ordinary shares/voting rights notified	% of ordinary share capital/ voting rights notified
Schroders Plc	17,204,276	9.86%
Jupiter Asset Management Limited	17,271,122	9.90%
Tom Drury	6,962,283	3.99%
BlackRock, Inc.	6,681,014	3.83%
Legal and General Group Plc	6,247,274	3.58%
Odin Fortvaltning AS	5,322,029	3.05%

The following changes to the above voting rights have been notified to the Company from 1 January 2017 up until 1 March 2017:

Shareholder	No. of ordinary shares/voting rights notified	% of ordinary share capital/ voting rights notified
Schroders Plc	17,608,036	10.09%
Kairos Investment Management Limited	5,249,949	3.01%

REPORT OF THE DIRECTORS

Directors

The directors who served during the financial year were as follows:

Director	Position	Service in the year ended 31 December 2016
Jonathan Bloomer	Chairman	Served throughout the year
Tom Drury	Group chief executive officer	Served throughout the year (stepped down 03 January 2017)
Rob Memmott	Group chief financial officer	Served throughout the year
Iain Cornish	Senior independent non-executive director	Served throughout the year
Robin Phipps	Independent non-executive director	Stepped down 27 October 2016
Lan Tu	Independent non-executive director	Served throughout the year
Maria Luís Albuquerque	Independent non-executive director	Appointed 7 March 2016
Andrew Fisher	Independent non-executive director	Appointed 9 December 2016

Biographical details of the directors of the Company can be seen on pages 54 and 55. Maria Luís Albuquerque and Andrew Fisher were appointed as non-executive directors on 7 March 2016 and 9 December 2016 respectively. Robin Phipps stepped down as non-executive director on 27 October 2016. Post-year end, with effect from 3 January 2017, Lee Rochford was appointed as an executive director and Tom Drury stepped down as an executive director.

Further details relating to board and committee composition are disclosed in the corporate governance report and committee reports on pages 61 to 92.

The directors are aware of the retirement by rotation provisions in the Code that apply to FTSE 350 companies and have adopted these provisions. Lee Rochford and Andrew Fisher offer themselves for election by shareholders for the first time at the 2017 annual general meeting. All other directors will offer themselves for re-election at the 2017 annual general meeting.

Directors' interests

The directors' interests in the share capital of the Company at 31 December 2016 are set out on page 78.

Directors' indemnities

During the financial year ended 31 December 2016 and up to the date of this directors' report, the Company has maintained appropriate liability insurance for its directors and officers.

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

Interim report

Current regulations permit the Company not to send copies of its interim reports to shareholders. Furthermore, the 2017 interim results will not be sent to shareholders. Interim results and other information about the Company will be available on the Company's website at (**www.arrowglobalir.net**).

Electronic and website communication with shareholders

The Company's articles of association permit electronic communication with shareholders as provided in the Companies Act 2006. The Company obtained authority from its shareholders at the 2014 annual general meeting to implement electronic communication. It is intended that the 2016 annual report and notice of annual general meeting 2017 will be distributed electronically again and via the Company's website to shareholders who have consented, or are deemed to have consented. Shareholders who have requested shareholder information in hard copy form will continue to receive this.

Employee consultation

The Group places considerable value on the involvement of its employees and uses a number of ways to engage with the team on matters that impact them and the performance of the Group. These include regular Company-wide update meetings and email communication, use of the colleague council, the distribution of a weekly newsletter, focus group meetings, annual employee surveys and regular Company-wide business update meetings and workshops. Our people managers carry out monthly one-to-one meetings with their direct reports and the senior management team has an open door policy which allows all employees to discuss any concerns or new initiatives.

Employees are encouraged to be involved in the Company's performance via the SIP scheme, the detail of which is set out at note 28.

The Group also has a whistleblowing policy and employees are made aware of this at induction and through regular ongoing refresher training.

Disabled persons

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

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

- minimising paper usage and the purchase of recycled paper and packaging where possible
- energy efficient office products
- recycling office waste
- increased use of video and conference calls
- supporting cycling to work through a cycle to work scheme

Carbon reporting – methodology
We have followed the requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the Carbon Trust conversion factors to measure and report greenhouse gas emissions, as well as the disclosure requirements in Part 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The financial control method, which captures the sources that fall within our consolidated financial statements, has been used. Although we operate an outsourced model working with partners, these partners do not work exclusively for the Group and, therefore, it is not deemed appropriate to include emissions outside of the Group consolidated financial statements. The reporting period aligns to the financial period (i.e. the year to 31 December 2016) and the Group's carbon reporting falls under three scopes:

CO_2 omissions have increased during the year due to the acquisitions of Vesting and Redrock, and the agreed purchase of Zenith. Whilst we consider our carbon emissions to still be relatively low, with the Group expanding globally, the main area we can control is business travel and we will continue to make employees aware of environmental impacts.

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

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

Activities that the Group was responsible for led to 1,621.8 tonnes of annual CO_2 emissions in 2016 as documented below:

Scope	CO_2 emissions (tonnes) per annum 2016	CO_2 emissions (tonnes) per annum 2015
1	488.3	3.2
2	715.9	533.3
Total scope 1 and 2	**1,204.2**	**536.5**
3	417.6	342.0
Total	**1,621.8**	**878.5**
Tonne of CO_2 per employee (using average number of employees for the year)	**1.4**	**1.2**

Risk management
Please refer to the strategic report, pages 40 to 43.

Statement of disclosure of information to the auditor
Each of the persons who is a director at the date of approval of the financial statements confirms that:

1. so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. the director has taken all steps he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor
KPMG LLP have indicated their willingness to accept re-appointment as auditors of the Company. Resolutions to reappoint KPMG LLP as independent auditor to the Company and to authorise the directors to determine their remuneration will be proposed at the forthcoming annual general meeting.

Annual general meeting
The forthcoming annual general meeting of the Company will take place at the Midland Hotel, Peter Street, Manchester M60 2DS on Wednesday, 24 May 2017 at 2.00pm. Notice of the annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appear in the document accompanying this report and accounts.

This report was approved by the board and signed on its behalf by:

Stewart Hamilton
Company secretary
2 March 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This report was approved by the board and signed on its behalf by:

Rob Memmott
Group chief financial officer
2 March 2017

Lee Rochford
Group chief executive officer
2 March 2017

CORPORATE GOVERNANCE REPORT

Compliance statement

This corporate governance report, together with the reports of the audit and risk committee, nomination committee, disclosure committee and the directors' remuneration report, provide a description of how the main principles of the UK Corporate Governance Code published by the Financial Reporting Council ('FRC') in September 2014 (the 'Code'), have been applied by the Company in 2016. The Code is available on the FRC website at **www.frc.org.uk**

During the year, the Company was in compliance with the relevant provisions of the Code and intends to continue to comply with the requirements of the Code, which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

The FRC introduced certain changes to the Code in April 2016, most of which relate to the conduct of the audit committee, and, although the Company was not formally required to adopt the new provisions until 2017, the board adopted a large number of the changes introduced by the 2016 Code during the year. The Company will formally report against the 2016 Code in 2017.

The board currently comprises seven members, including me, as Chairman, two executive directors (Lee Rochford and Rob Memmott) and four independent non-executive directors (Iain Cornish, Lan Tu, Maria Luís Albuquerque and Andrew Fisher). The board regarded me, as Chairman, as independent upon my appointment and considers that I continue to meet the independence criteria.

As mentioned in my statement on pages 10 to 13, we announced in December 2016 that Tom Drury would be stepping down as Group chief executive officer and would be replaced by Lee Rochford with effect from 3 January 2017. Maria Luís Albuquerque and Andrew Fisher also joined the board on 7 March and 9 December 2016 respectively as independent non-executive directors. Robin Phipps stepped down from the board on 27 October 2016.

Iain Cornish is the Company's senior independent director. The board is satisfied that Iain is independent in character and judgment and with skills and experience that make him well suited to the role. Where a company is outside the FTSE 350, the Code recommends that the board of directors includes at least two 'independent' non-executive directors. The Company (being outside the FTSE 350) currently has five independent non-executive directors, including me as Chairman, and therefore, complies with the recommendation of the Code.

On the nomination committee's recommendation and following the board's approval, the audit and risk committee was formally separated in January 2017. Andrew Fisher was appointed chair of the audit committee with effect from 25 January 2017 and continues to be a member of the risk committee. Iain Cornish continues to chair the risk committee and is a member of the audit committee.

Biographical details of all the directors are set out on pages 54 and 55. The board adopted the provision regarding the annual re-election of all directors at the first annual general meeting in 2014 and intends to continue this at the 2017 annual general meeting. Lee Rochford and Andrew Fisher will offer themselves for election by the shareholders for the first time at the 2017 annual general meeting.

Shareholder, bondholder and revolving credit facility provider engagement

The board considers that active dialogue with its shareholders, bondholders and revolving credit facility providers to be vital to the success of the business. Further details regarding these engagements are set out on page 65.

Jonathan Bloomer
Non-executive Chairman
2 March 2017

CORPORATE GOVERNANCE REPORT

Leadership

The board

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

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

Specific key considerations of the board in 2016 also included:

- the acquisition of Vesting in the Netherlands and Belgium
- the proposed acquisition of Zenith in Italy
- Sterling bond refinancing
- RCF refinancing
- FCA authorisation application
- the appointment of Group chief executive officer, Lee Rochford
- the appointment of non-executive directors, Maria Luís Albuquerque and Andrew Fisher
- the addition of a specialist servicing capability and entry into a five-year servicing agreement in the Netherlands
- European expansion considerations.

Chairman and Group chief executive officer

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

Non-executive directors

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

Effectiveness

Time commitment

The individual letters of appointment set out the expected time commitment for non-executive directors and are available for inspection at our registered office. Other significant commitments are disclosed to the board on each occasion that these commitments change.

Undertakings are given that non-executive directors will have sufficient time to meet the requirements of the role. Details of the Chairman's and other directors' commitments can be seen in the director biographies on pages 54 and 55.

Board activity

The board discharges its responsibilities through an annual programme of board and committee meetings which are held at the various operational sites of the company. The board visited the Capquest offices in June 2016 and the Whitestar offices in October 2016.

Board attendance

The board held ten scheduled meetings in 2016. Details of board attendance by all directors who held office during the year are set out below:

Director	Eligible to attend	Attended
Jonathan Bloomer	10	10
Tom Drury (stepped down 3 January 2017)	10	10
Rob Memmott	10	10
Iain Cornish	10	10
Robin Phipps (stepped down 27 October 2016)	8	8
Lan Tu*	10	8
Maria Luís Albuquerque (appointed 7 March 2016)	8	8
Andrew Fisher (appointed 9 December 2016)	0	0

*Lan Tu was unable to attend certain board meetings due to prior commitments.

Ad hoc conference calls and meeting were also convened to deal with specific matters which required attention between scheduled meetings.

Continued professional development undertaken during the year

Training is offered to all new directors as necessary. The Chairman, together with the Group chief executive officer and company secretary, ensure new directors receive a full, formal and tailored induction upon joining the board, including full briefing packs.

As part of a tailored induction programme, new directors receive a comprehensive induction pack which includes background information on the Company, material on matters relating to the board and its committees, and governance related information (including the duties and responsibilities of directors). New directors meet with key advisors and members of the executive team. Visits to operational sites are arranged as well as meetings with the external and internal auditors. Ongoing training was provided during the year for existing directors. Major shareholders are welcome to meet newly appointed non-executive directors should they express a desire to do so.

The aforementioned induction process was applied following the appointment of Maria Luís Albuquerque in March 2016 and Andrew Fisher in December 2016. Lee Rochford undertook a thorough induction process leading up to his appointment on 3 January 2017 and throughout the 'handover' period during January and February 2017 with Tom Drury.

Access to independent advice

An approved procedure for all directors to take independent professional advice, at the Company's expense, is in place. The committees are provided with sufficient resources, including the ability to appoint external advisors when they deem it appropriate to call upon a particular resource. All directors have access to the advice and services of the company secretary and are entitled to rely on the impartial and independent nature of such advice and services. The company secretary is responsible to the board for both the proper administration of procedures and arrangements established by the board for the conduct of its own business, and the Company's compliance with internal and external rules and regulations. The board receives agendas and supporting papers well in advance of board meetings.

Evaluation of the board and committees

The board undertook a process of self-evaluation of its performance during the year. A questionnaire, including the main themes from the 2015 evaluation, was issued to board members for review and completion and was subsequently submitted to the Chairman, who has reviewed the responses and reported on the conclusions to the nomination committee and to the board. A number of areas for further improvement were identified and have been acted upon, including: the separation of the audit and risk committee and the development of the board's training programme in light of the enlarged Group and asset class diversification. None of the areas identified for further improvement were considered material, and, overall, board members were satisfied with the performance of the board during the year. An internal evaluation of both the audit and risk, nomination and remuneration committees took place adopting the same procedure. Meetings of the non-executive directors led by the Chairman, without the executive directors being present, took place. Iain Cornish, as senior independent director, led the meeting of the non-executive directors (without the Chairman being present) to appraise the Chairman's performance. No actions were considered necessary as a result of these evaluations. The board has confirmed that its performance, as well as the contribution of each of the executive and non-executive directors continues to be effective, that they continue to demonstrate commitment to their respective roles and that the board members' respective skills complement one another and enhance the overall operation of the board. The board, therefore, recommends that shareholders approve the resolutions to be proposed at the 2017 annual general meeting in relation to the election and re-election of the directors.

Accountability

Adequacy of risk management and internal control systems

The Code requires that the board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The board complies with this Code provision in line with the guidance published by the FRC, 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014)'. In this context, the board is responsible for, and monitors, the Group's systems of internal controls (which include financial, operational and compliance controls) and risk management systems. The risk management framework is designed to identify and mitigate risks, but it does not eliminate all risks. The board has approved an appropriate suite of policies on internal control, and seeks regular assurance that the systems of internal control are effective in managing risks in line with its articulated risk appetite. The Group has a formal three lines of defence model, with the third line provided by Deloitte LLP together with in-house internal audit functions. During the year, the board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These are documented on pages 40 to 43 of the strategic report.

The following activities are considered to cover the most critical business processes and associated risks:

- A disciplined underwriting process, overseen by the board, with delegated authority to the executive committee for certain transactions. This process ensures an objective, rigorous and consistent approach to pricing and due diligence. Additionally, any transactions greater than £20 million in investment value or those that represent a new asset class are escalated to the board for approval. The processes and controls are documented in a portfolio acquisition policy

CORPORATE GOVERNANCE REPORT

- A strong risk and compliance framework was embedded via the audit and risk committee, executive and management teams and supported by the risk management framework and maintenance of the Group, country and departmental risk registers
- Regular monitoring of portfolio performance, overseen by the portfolio review committee, which considers actual versus forecast results, focusing on significant individual portfolio variances, re-forecasts cash flows on a six-monthly basis, signs off the latest ERC forecast, assesses the carrying value of the portfolio assets and reviews revenue recognition
- Internal controls exist over all key processes of the Group that have an impact on the financial results. Full documentation of these processes is well progressed via departmental manuals and new processes are documented as business need arises.

Comprehensive reporting to the audit and risk committee and the board on the above activities took place throughout the year. The audit and risk committee carried out a review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls. In carrying out this review, the committee received a report from the Group chief risk officer and the Group chief financial officer on the Group's internal controls (including financial, operational and compliance controls) and risk management systems.

The assessment for 2016 took into account a broader assessment of risk management across the Group, including, the Group's subsidiaries in Portugal and the Benelux countries. For 2017, there will be more oversight of the respective internal control systems in Portugal and the Benelux countries.

No new or open high risk observations were identified by the external auditor, KPMG, during the interim audit for 2016. The risk management framework provides assurance and evidence that the Group's risks are understood and being appropriately managed. The audit and risk committee monitored the Group's risk management and internal control systems and, following a review of their effectiveness, concluded that they were adequate. There were no material failings or weaknesses identified following the committee review, though management needed to continue to further embed the framework as expected in a maturing organisation and further work was required to strengthen the internal financial controls in Portugal and the Benelux countries. Based on the audit and risk committee's recommendation, the board concluded that, overall, the Group's risk management and internal control systems were adequately effective.

Non-audit services provided by the auditor

The provision of non-audit services by the external auditor is monitored throughout the year. Non-audit services were performed by the auditors, namely mandatory work performed in relation to the issuance of the €230 million seven-year floating rate notes and the £220 million senior secured notes due 2024. Additionally, the auditors performed a controls report for Vesting in its capacity as a service organisation. The level of non-audit fees and audit related assurance services, provided by the external auditor, for the year can be seen in note 9 on page 114. A revised non-audit services policy, which complies with best practice, has been adopted by the audit committee.

The committee has concluded that the provision of non-audit services to date has not compromised external auditor independence and objectivity. See pages 87 and 92 for more details of the non-audit services policy and the future changes in this area introduced by legislation.

Internal audit function

The audit and risk committee was responsible for monitoring and reviewing the effectiveness of internal audit activities in 2016, however, following the formal separation of the audit and risk committee with effect from 25 January 2017, this responsibility will now fall under the remit of the audit committee. The audit and risk committee approved the appointment of an outsourced internal audit provider, Deloitte, in October 2015, which has a Group-wide remit. There are also in-house internal audit teams at Whitestar and Vesting.

Conflicts of interests

Company policy requires that if a director becomes aware that they have a direct or indirect interest in an existing or proposed transaction with the Company, they should notify the board at the next board meeting or by providing a written declaration. Directors have a continuing duty to update any changes in such interests. See also the related party transactions note 22.

Approving significant transactions and investment decisions

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

The origination team reviews approximately 125 transactions per year, with approximately 23 completed transactions. Transactions range from repeat transactions with creditors and asset classes familiar to the Group, through to more complex consortium trades with special purpose vehicle structures.

An authority matrix sets out the delegated authority to the investment committee and executive committee. The board retains authority for any new asset classes or geography, complex deals over £10 million and any transaction over £20 million. Based upon recent performance, the board will be asked to consider circa four to five transactions per annum. In 2016, the board approved, amongst others, the acquisition of Vesting and the proposed acquisition of Zenith in Italy, together with the acquisition of a specialist servicing capability, the entry into a five-year servicing arrangement and related co-investment in the €1.7 billion portfolio of secured real-estate assets sold by RNHB Hypotheekbank in the Netherlands; resulting in loan notes of £21.3 million.

Bribery Act compliance

The Company has anti-bribery and corruption policies and standards available to its employees. There is a summary of the policy complying with the provisions of the UK Bribery Act available on the Company's website, which is in line with Ministry of Justice (MOJ) Guidance on the Bribery Act 2010 ('MOJ Guidance'). The policy contains a gifts and hospitality procedure and prohibits facilitation payments. Adequate and regular training on the policy and the principles outlined therein is provided to staff and directors.

The Company considers it to have adequate procedures within the meaning of the MOJ Guidance. The Group chief risk officer has primary and day-to-day responsibility for implementing this policy.

Remuneration

In line with the Code and the Directors' Remuneration Disclosure Regulations 2013, details on remuneration including the annual report on remuneration and the directors' remuneration policy, which was approved at the 2015 annual general meeting held on 3 June 2015, can be seen on pages 69 to 85.

Relations with shareholders

Dialogue with shareholders, bondholders and revolving credit facility providers

In 2016, the Company held a capital markets day for institutional investors and analysts at the London office of its corporate communications advisors, Instinctif, which included presentations on results and information on the Group's activities. The capital markets presentation can be accessed on the Group's website at (**www.arrowglobalir.net**). The Chairman, the Group chief executive officer and the Group chief financial officer also hosted a dinner, which all major shareholders were invited to attend.

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

Following the announcement of the preliminary and interim results and the executive directors' presentations to analysts and shareholders, the board receives a report on institutional feedback prepared by the Company's advisors.

The Group chief executive officer and the Group chief financial officer also verbally report on their meetings with shareholders. Copies of analysts' and brokers' briefings are circulated to the board.

Annual general meeting

The annual general meeting is an opportunity for all shareholders to both vote on resolutions put forward and ask the board any questions they may have. See inside cover and page 59, for information on the 2017 annual general meeting. The notice of meeting and annual report will be sent out at least 20 working days before the meeting. Separate votes will be held for each proposed resolution and a proxy count will be given in each case.

The proxy forms will provide a 'vote withheld' option. The chairs of the audit, risk, remuneration and nomination committees attend and are available to answer questions.

Disclosure committee

The disclosure committee is made up of one non-executive director, Iain Cornish, who chairs the committee, and one executive director, Rob Memmott, the Group chief financial officer. The disclosure committee meets at such times as may be necessary or appropriate.

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

Audit and risk committee

Details regarding the audit and risk committee and its responsibilities can be seen on pages 86 to 92.

Nomination committee

Details regarding the nomination committee and its responsibilities can be seen on pages 66 to 68.

Remuneration committee

Details regarding the remuneration committee can be seen on pages 69 to 85.

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

This report was approved by the board and signed on its behalf by:

Stewart Hamilton

Company secretary

2 March 2017

NOMINATION COMMITTEE REPORT

Dear Shareholder

I am pleased to provide a report of the nomination committee's activities in 2016.

The committee plays an important role in ensuring that the Company is led by a board which is best placed to ensure the long-term success of the Company and that the Company operates effectively in the context of our strategic objectives.

The committee's primary focus this year was the identification of potential candidates for the roles of Group chief executive officer and non-executive director, following the announcements that Tom Drury and Robin Phipps would be stepping down from their respective roles. I am very pleased with the outcome of these processes, which resulted in the appointment of:

- Lee Rochford as Group chief executive officer. Lee's appointment was announced on 7 December 2016 and he formally took up the position on 3 January 2017; and
- Andrew Fisher as non-executive director. Andrew's appointment was announced on 9 December 2016 and he took up the position with immediate effect.

Further detail on the recruitment process for each appointment is set out on page 67.

As noted within my Chairman's statement on page 11, in light of the change in nature and shape of the Group, the country management structure was reorganised in 2016, such that from 2017, the Group will operate on a country basis with profit or loss the responsibility of country chief executive officers and local leadership teams. The committee was supportive of the reorganisation and the reports of the country chief executive officers are located on pages 20 to 23.

Another important step during the year was the committee's recommendation to the board, given the growth and complexity of the Group, to separate the audit and risk committee and for each committee to be chaired by separate individuals. The board agreed with this recommendation and, with effect from 25 January 2017, the combined audit and risk committee, previously chaired by Iain Cornish, was formally separated; the newly formed audit committee being chaired by Andrew Fisher and the newly formed risk committee being chaired by Iain Cornish. Andrew became a member of the risk committee and Iain remains a member of the audit committee.

The committee continues to monitor board and executive management succession to ensure an appropriate balance of skills and experience, with due regard given to the benefits of diversity, and that opportunities for talent progression are identified and developed.

Robin Phipps stepped down from the board on 27 October 2016. Arising from this, the committee recommended the appointment of Lan Tu as chair of the remuneration committee, which the board approved.

Diversity remains a key area of focus for the committee, with the composition of the board and capabilities of all directors kept under review to ensure that board membership is sufficiently diverse and reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities.

Further information regarding the committee's activities during the year and its roles and responsibilities are set out in the remainder of this report.

Jonathan Bloomer
Chairman of the nomination committee
2 March 2017

Committee membership and meetings
I chair the nomination committee and I was regarded as independent on appointment. The committee also comprises two other independent non-executive directors, Iain Cornish and Lan Tu. I will not chair the committee when it is dealing with the matter of succession to the chairmanship. The committee is compliant with the provisions of the Code as the majority of the committee members are independent non-executive directors.

Biographies of the members of the committee are set out on pages 54 to 55.

The committee held three scheduled meetings during the year. Details of attendance by all members who held office during the year are set out below:

Committee members	Eligible to attend	Attended
Jonathan Bloomer	3	3
Iain Cornish	3	3
Lan Tu	3	2

Role
The committee's responsibilities are set out in its terms of reference. They include responsibility for considering and making recommendations to the board in respect of appointments to the board, the board committees and the chairmanship of the board committees. It is also responsible for keeping the structure, size and composition of the board under regular review, and for making recommendations to the board with regard to any changes necessary. Furthermore, the nomination committee is required to manage the process for evaluating the performance of the board.

The work of the committee in 2016 has included:

- The recruitment of Lee Rochford as Group chief executive officer
- The recruitment of Andrew Fisher as a non-executive director
- Recommending to the board that the audit and risk committee be split into separate committees with separate chairs
- Recommending to the board the appointment of Lan Tu as chair of the remuneration committee on Robin Phipps stepping down as a non-executive director
- Reviewing the talent pipeline across the Group's senior leadership team
- Reviewing the terms of reference of the committee
- Continued monitoring of the structure, size, composition and diversity of both the board and its committees
- Considering approaches to the 2016 board and committee performance evaluation review and reviewing summaries compiled from responses received from board members
- Recommending to the board the re-election/election of the entire board at the forthcoming annual general meeting.

Recruitment of directors
The appointment of both Lee Rochford and Andrew Fisher followed an extensive search and a rigorous selection process. For each position, the committee assessed the skills and experience required to fulfil the relevant role and role descriptions detailing the capabilities required for each appointment were prepared accordingly. The executive search firm, Spencer Stuart, was retained in relation to the appointment of Lee Rochford and the firm, Ridgeway Partners, in relation to the appointment of Andrew Fisher. Neither firm has any other connection with the Company.

The recruitment process for the role of Group chief executive officer resulted in two candidates being shortlisted for interview. Interviews with both candidates were conducted by me, the executive and non-executive directors and each candidate also undertook an in-depth assessment with business psychologists.

NOMINATION COMMITTEE REPORT

The recruitment process for the role of non-executive director also resulted in two candidates being shortlisted for interview. Each candidate was then interviewed by me, the executive and non-executive directors and the Company's auditors, KPMG, as the role description provided that the selected candidate would chair the Company's audit committee.

The committee unanimously approved the recommendation of the appointment of each of Lee and Andrew to the board. The board unanimously approved the recommendations and each of Lee and Andrew's appointments were announced respectively on 7 December and 9 December 2016. Lee joined the Company on 3 January 2017 and Andrew took up his role with immediate effect.

Succession Planning
The committee has considered the recommendations published by the FRC (FRC Feedback Statement: UK Board Succession Planning Discussion Paper (May 2016)) and recognises the importance of strategic, thoughtful and practical succession planning as a key driver in maximising board effectiveness and as an important contributory factor to the Company's long-term success. The committee has taken an active interest in talent management and acknowledges that internal candidates for senior management and board positions should be given a broader experience of the business, with greater exposure to the board and boardroom experience. The committee supported the board in its initial review of talent progression opportunities across the Group's senior leadership team and will continue to work with the relevant internal parties, and external executive search providers where appropriate, to enhance the succession planning programme throughout 2017.

Diversity
The board recognises the benefits that diversity can bring and seeks to recruit directors from different backgrounds with a range of experience, perspectives, personalities, skills and knowledge, which is in line with the Company's equality and diversity policy. The board supports, in principle, the recommendations outlined in the Hampton-Alexander Review published in November 2016, particularly in improving the representation of women both at board level and also below board level and in senior leadership positions. The Company is a member of the international women's network, 'Women on Boards', which all senior female leaders have been invited to join.

Both the committee and the board have a fundamental obligation to ensure that appointments are of the best candidates who are selected on merit against objective criteria. Subject to this, the availability of suitable candidates and compliance with the requirements of the Equality Act 2010, the board is committed to strengthening female representation at board and senior management level. It has not, however, set prescriptive targets as it does not believe these are in the best interests of either the Company or its shareholders. Although the company is currently outside the FTSE 350, the committee will keep under review the Hampton-Alexander Review recommendations for female board representation in relation to FTSE 350 listed companies, as well as recommendations in relation to improvements on under-representation on the executive committee and on the layer immediately below for such companies.

The board currently comprises two female non-executive directors, Lan Tu and Maria Luís Albuquerque, who together represent 29% female board membership which is just below the 33% target recommended by the Hampton-Alexander Review for FTSE 350 listed companies. The executive committee comprises one female member, who represents 11% of the executive committee's membership.

Effectiveness
In 2016 the committee carried out an evaluation of its effectiveness by way of a questionnaire. The questionnaire focused on areas such as board composition and succession planning. Development areas to be actioned in 2017 include:

- Continuing to closely monitor the composition of the board, particularly in the context of the enlarged Group; and
- Enhancing the succession planning programme following the detailed exercise undertaken in 2016, to include a more detailed review of senior management capability and progression opportunities.

The board, based on the outcome of the evaluation exercise, concluded that the committee was considered to be effective in fulfilling its role throughout 2016.

This report was approved by the board and signed on its behalf by:

Jonathan Bloomer
Chairman of the nomination committee
2 March 2017

DIRECTORS' REMUNERATION REPORT

The report complies with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), the 2014 edition of the UK Corporate Governance Code ('the Code') and the Financial Conduct Authority's Listing Rules.

This report is split into two sections: the annual report on remuneration which follows this statement and then an extract from the directors' remuneration policy. No changes are proposed to the directors' remuneration policy (which was approved by shareholders at the 2015 AGM with 100% of the votes cast in favour of it). Therefore, we have included in this report, for ease of reference, only the 'policy tables' as set out in that approved policy; the full policy, as approved by shareholders at the 2015 AGM held on 3 June 2015, is included in the 2014 annual report and accounts available on the Company's website at (**www.arrowglobalir.net**). The directors' remuneration report (excluding the directors' remuneration policy) will be subject to an advisory vote at the 2017 annual general meeting.

Annual statement

On behalf of the board, I am pleased to present our directors' remuneration report for the year ended 31 December 2016. I succeeded Robin Phipps as chair of the remuneration committee after he stepped down from the board on 27 October 2016. I would like to thank Robin for his contribution in chairing this committee since the IPO.

Remuneration policy and link to strategy

No changes are proposed to the operation of the remuneration policy in 2017. At the end of this statement, I have summarised the key aspects of our directors' remuneration policy and how they relate to our overall corporate strategy.

Performance and variable pay outcomes for the year ended 31 December 2016

As described in the strategic report, the Company continues to perform strongly, delivering profitable earnings growth and strong progress against our strategy of diversifying by geography, asset class and revenue stream, while driving strong returns on investment, as summarised below.

Underlying profit after tax	Increased by 28.7% to £45.6 million
Underlying basic EPS	Increased to 26.1p representing growth of 28.5%
Underlying ROE	29.1% ROE delivered
Strategic developments	The executive directors and their teams have worked hard to achieve the successful integration of the Vesting acquisition, overlaying continued growth from attractive organic investments. Integration with the Zenith business in Italy, following completion of its acquisition, will form an important programme of work in 2017

Taking into account the performance achieved during the year, the executive directors have earned annual bonuses of:

- Tom Drury: £389,167; and
- Rob Memmott: £296,276.

Further rationale for these payments can be found on pages 73 to 75. Before approving the level of variable remuneration for 2016, the remuneration committee sought the views of the Group chief risk officer and the risk committee chairman on the effectiveness of the executive's management of conduct and risk during the year.

Recognising that Tom Drury was employed for the whole of 2016, the committee has awarded him a bonus based on the achievement of the applicable performance conditions. As with Rob Memmott, 33% of that bonus will be delivered in the form of deferred shares; further information is set out on page 73.

The first LTIP award, which was granted in March 2014, is scheduled to vest in March 2017 based on performance to 31 December 2016 assessed against EPS as regards 75% of the award and TSR as regards the balance. Since Tom Drury was employed for the whole of the three-year performance period, the committee permitted him to retain the benefit of this award, subject to the satisfaction of the performance conditions: further information is set out on page 70. Following an assessment of these performance conditions by the committee, the EPS element of the award vested in full and the TSR element vested as to 44.15%. This will deliver 171,456 shares to Tom Drury and 135,086 shares to Rob Memmott. Further details can be found on page 76.

DIRECTORS' REMUNERATION REPORT

Base salary increases

As outlined in our remuneration report last year, the second of the two-year phased salary increases for Tom Drury and Rob Memmott, took effect in March 2016. Our approach to executive director salaries for 2017 is summarised below.

Executive director changes

As announced on 7 December 2016, Tom Drury stepped down as Group chief executive officer and as a director of the Company on 3 January 2017 and left the business on 28 February 2017. Lee Rochford was appointed as Group chief executive officer and executive director with effect from 3 January 2017.

Tom Drury

In summary, the remuneration arrangements in respect of Tom Drury's departure, which are in line with the shareholder approved directors' remuneration policy, are:

Annual bonus	Recognising that Tom Drury was employed for the whole of 2016, he has earned a bonus for the year based on the achievement of the applicable performance conditions. 33% of the bonus will be delivered in the form of a deferred share award Tom Drury will not be eligible to earn a bonus for the period of his service in 2017
Existing deferred bonus awards	Tom Drury holds deferred share awards in respect of his 2014 and 2015 bonuses. Recognising his contribution to the business over the relevant bonus periods and the fact that the awards were not subject to further performance conditions, Tom Drury will be eligible to retain these awards. The award granted on 9 April 2015 in respect of the 2014 bonus will vest in April 2018 as originally envisaged. The committee has decided to accelerate the vesting of the award granted on 8 April 2016 in respect of the 2015 bonus from April 2019 to December 2018 Both awards will remain subject to the malus and clawback provisions contained in the Deferred Share Bonus Plan ('DSBP') rules
LTIPs	Tom Drury's 2015 and 2016 LTIP awards lapsed on 28 February 2017 Recognising that Tom Drury was employed for the whole of the three-year performance period applying to the 2014 LTIP award, and his significant contribution to the business over that period, the committee has permitted Tom Drury to retain this award which, as noted above, will vest in March 2017

Lee Rochford

The remuneration arrangements for Lee Rochford, which are line with the shareholder approved directors' remuneration policy, are described on page 81. Lee Rochford's base salary of £425,000 was set balancing the size and complexity of the Company, his remuneration package as a whole, his remuneration package at his previous employer, internal relativities and affordability to the Company, and ensuring that the Company does not pay more than is necessary; his overall package has been determined to reflect appropriate shareholder alignment through the balance of short, medium and long-term incentives.

Lee Rochford's annual bonus and LTIP opportunity for 2017 will be the same as for Rob Memmott (and in line with the arrangements for 2016). No 'buyout' or other recruitment award was made to Lee Rochford. Lee Rochford's service agreement provides for a notice period of twelve months.

Looking forward to 2017

No changes to the policy or the overall structure of remuneration are proposed for 2017. Lee Rochford's salary has been set at £425,000 for 2017 as described above. Rob Memmott's salary has been increased to £319,300 with effect from 1 March 2017, a 3% increase which is within the range of increases awarded to the wider workforce. The structure for the annual bonus and LTIP for 2017 remain the same as for 2016, and further information is given on page 81.

Committee evaluation

As part of the overall board evaluation review, the committee reviewed the findings in relation to its overall effectiveness. A small number of areas for further improvement were identified and will be acted upon. None were considered material, and overall committee members were satisfied with the performance of the committee during the year.

Changes to the committee composition

I succeeded Robin Phipps as chair of the remuneration committee following his stepping down from the board on 27 October 2016. Jonathan Bloomer, Iain Cornish and Andrew Fisher (appointed on 9 December 2016) are the other non-executive directors on this committee.

Overall, given the Group's performance, I am comfortable that the absolute amounts earned by our executive directors are appropriate. The following pages describe in further detail how we have implemented our remuneration policy in respect of 2016, together with our plans for 2017.

This report was approved by the board and signed on its behalf by:

Lan Tu
Chair of the remuneration committee
2 March 2017

DIRECTORS' REMUNERATION REPORT

Our executive directors' remuneration at a glance

We take a disciplined approach to the implementation of our remuneration policy to ensure that our remuneration framework rewards the right behaviours and supports the strategic goals of the Group. We have set out below an overview of how our remuneration policy supports the strategic objectives of the business.

Annual bonus performance metrics	We balance profit growth with other key financial and non-financial targets and specific personal objectives linked to our strategic goals of protecting and enhancing our market leading position, diversifying the business, delivering strong risk adjusted investment returns and developing our customer proposition We ensure that the strategic goals are specific, measurable and fairly assessed
Annual bonus deferral	A proportion of any annual bonus is deferred into shares to ensure that executive directors consider the longer-term impact of decisions and the sustainability of the business
LTIP	The LTIP is designed to encourage behaviours which facilitate the delivery of sustainable growth of the business, whilst delivering value to stakeholders and promoting the long-term success of the Group. For 2016 and 2017: > 50% is based on underlying basic EPS, aligned to the Company's strategy to deliver earnings growth; > 25% is based on underlying return on equity (ROE) which is a key driver of shareholder value and reflects the importance of purchasing debt of a suitable quality with an appropriate return; and > 25% is based on TSR maintaining a link to share price performance and assessing our performance to that of peers, namely TSR currently relative to the constituents of the FTSE 350 Index (excluding investment trusts)
Risk	Variable remuneration targets are set at a level which reward high performance but which do not encourage inappropriate business risk Annual bonus payments determined by reference to the performance measures are subject to a review of the executive's management of conduct and risk during the year. The vesting of LTIP awards granted from 2015 onwards is subject to a further underpin based on an assessment of risk management throughout the performance period All annual bonus and LTIP awards are subject to both malus and clawback provisions.
Shareholding requirements	Shareholding guidelines apply to all executive directors to align their long-term interests with those of shareholders In 2015, we increased these guidelines to 200% of salary for our chief executive officer and to 150% of salary for other executive directors

Annual report on remuneration

Directors' remuneration (audited information)

Details of the executive directors' remuneration are as follows:

Director	Salary and fees £000 2016	Salary and fees £000 2015	Taxable benefits[1] £000 2016	Taxable benefits[1] £000 2015	Performance related bonus[2] £000 2016	Performance related bonus[2] £000 2015	Long-term incentives[3] £000 2016	Long-term incentives[3] £000 2015	Pension-related benefits[4] £000 2015	Pension-related benefits[4] £000 2014	Total compensation £000 2016	Total compensation £000 2015
Tom Drury	389	355	4	2	389	312	531	–	58	53	1,371	722
Rob Memmott	306	281	2	1	296	229	418	–	46	42	1,068	553
Total	**695**	**636**	**6**	**3**	**685**	**541**	**949**	**–**	**104**	**95**	**2,439**	**1,275**

[1]Private medical and dental cover.

[2]Performance related bonus is the value of the bonus earned in respect of the year including the value of the deferred shares. Further information in relation to the performance conditions applied for the year is provided on pages 73 to 75.

[3]Long-term incentives reflect the value of the awards scheduled to vest in March 2017 based on performance over the three years to 31 December 2016. In accordance with the applicable regulations, the value is calculated as the number of shares that are expected to vest multiplied by the average share price over the three month period ending 31 December 2016 (£2.9468), plus the value of dividends paid over the period from grant to vesting (£25,546 in the case of Mr Drury and £20,128 in the case of Mr Memmott). Further information is provided on page 69.

[4]Mr Drury and Mr Memmott received a monthly cash allowance of 15% of salary in lieu of participation in a pension arrangement. The cash allowance is not included in the annual bonus or LTIP allocation.

Additional disclosures to the single figure table (audited information)

2016 annual bonuses (audited information)

For 2016, executive directors were eligible for an annual performance related bonus of up to 125% of salary, subject to meeting stretching performance targets. To encourage behaviours that facilitate continued profitable growth and future development of the business, the 2016 annual bonus was based on the following:

- 50% of the bonus was based on Group underlying profit for the year attributable to equity shareholders ('financial element out-turn'), and;
- 50% was based on a balanced range of financial, strategic, personal and other key Group objectives ('strategic business/personal objectives out-turn')

The bonus payouts for 2016 are detailed in the table below. Further details on the how the elements of the bonuses have been earned are shown below.

	Financial element out-turn	Strategic business/personal objectives out-turn		Total bonus out-turn		
Director	% of maximum opportunity	Overall rating	% of maximum opportunity	% of salary	% of maximum opportunity	£
Tom Drury	75	Exceeds expectations	85	100	80	389,167
Rob Memmott	75	Exceeds expectations	80	96.88	77.5	296,276

33% of the bonus earned will be deferred into shares. In the case of Mr Memmott, the deferred share award will be deferred for a period of three years. In the case of Mr Drury, recognising his departure from the business, the deferred share award will vest on 31 December 2018. For both Messrs Memmott and Drury, the deferred award will be subject to malus during the deferral period and clawback for a period of three years from vesting.

DIRECTORS' REMUNERATION REPORT

Financial element out-turn:
The financial element of the 2016 annual bonus was based on achieving underlying profit for the year attributable to equity shareholders, in accordance with the schedule below:

	Threshold*	Target*	Stretch*	Actual**
Performance level	£41.07m	£44.4m	£46.62m	£45.5m
Vesting (% of financial element)	20%	50%	100%	75%

*Straight line vesting between the points.

**This is underlying profit for the year attributable to equity shareholders, adjusted for bonus purposes and is inclusive of the bonus cost.

Strategic business/personal objectives out-turn:
This element of the bonus was measured on achievement of clear personal objectives and targets which supported the strategic objectives of the business. The committee made a judgment based on the committee's view of the relative importance and impact of each of the objectives and factors over the course of the year. Before approving the level of performance in 2016, the remuneration committee sought the views of the Group chief risk officer and the risk committee chairman on the effectiveness of the executive's management of conduct and risk during the year.

The objectives and targets (together with commentary of their achievement) were:

Objective	Achievement
Financial	
> Build servicing revenues to 15% of Group income	> Servicing revenue stream has developed strongly in 2016 as part of a move to a more diversified revenue base in line with Group strategy. It delivered 19.6% of Group income in 2016
> Grow underlying basic EPS by >20%	> EPS continues to perform well and grew by 28.5% in 2016
> Deliver underlying ROE in excess of 25%	> ROE similarly performed well and delivered 29.1% in 2016
> Meet collection targets and manage cost base according to budget	> Whilst costs ran ahead of budget for the year, the impact was offset by strong revenue performance from the Group's collections streams, with targets being met
> Further develop capability in the finance function, including Risk Weighted Analysis	> Several important hires were made across Group Finance which, amongst other things, has enabled the development and deployment of a Risk Weighted Analysis approach to decision making. This remains an emergent approach and will be further developed and refined in 2017
Market	
> Implement a pan-European portfolio acquisition approach, including further collaboration with credit funds and continuation of the build out of the European business	> Significant progress was made on all these fronts – from acquisitions in Benelux and Italy to continued collaboration with credit funds. The relevant acquisitions are in the process of embedding across the Group geographies
> Invest in line with Group purchasing target and target gross money multiple	> Investments made at target gross money multiple exceeded target
> Update objectives related to the development of the Group's UK market proposition and delivery of the Group's Portugal business priorities	> Work has progressed well on the 'operational excellence' program in the UK to full clarify and capitalise on our market proposition. Portugal had a tougher financial year (as described elsewhere in this annual report), finishing behind budget, but prospects are stronger in 2017

Objective	Achievement
Regulator/society	
> Develop a Europe-wide risk management framework and develop effective relationship with regulatory bodies	> Full FCA approvals were achieved in the UK in 2016 and the framework is in place and being embedded across the Group. There are effective relationships with all relevant regulatory bodies in the territories in which the Group now operates
> Further develop the Group's CSR agenda with particular focus on financial education, relationships with debt charities and the promotion of the financial health and rehabilitation of customers	> Progress was achieved in all areas as evidenced in the CSR section of this annual report, in particular our Debt Britain report was well received
Customer	
> Continue to put the customer at the heart of everything we do through targeted initiatives aimed at improving the experience received in all dealings with the customer-facing Group companies	> Multiple initiatives were successfully implemented including completion of servicer panel rationalisation, the migration of the student loans platform Erudio in-house, the further development of IT platforms and the overall data and digital strategy
> Develop a brand strategy that leverages the positives from Arrow's reputation in the market	> The Group purpose was launched in 2016 'building better financial futures'. Work on the Group values, alignment and architecture has commenced
People	
> Embed the Group's values throughout the business, demonstrating a culture of engagement and accountability that supports our vision and strategy	> Considerable activity in all geographies including the introduction of the Top Talent programme, and the recruitment of key senior employees to complement the existing leadership capability and ensure the Group has appropriate bench strength
> Deliver the engagement, talent and organisation design agenda to ensure our people are well positioned to contribute to the continued success of the Group	> During 2016, the Group has agreed and developed its core organisation design principles, which will be further developed moving into 2017

DIRECTORS' REMUNERATION REPORT

LTIPs vesting by reference to performance in 2016 (audited information)

LTIP awards were granted on 11 March 2014 which are due to vest on 11 March 2017. The performance conditions, performance achieved and vesting outcomes are summarised below.

Performance condition	Targets	Vesting amount	Actual performance	Actual vesting
EPS growth per annum (75% of the award)	10% 20%	25% 100%	Underlying basic EPS: Base year - 14.4p 2016 - 26.1p Annual growth of 22%	100.0%
TSR* (25% of the award)	Median Upper quartile	25% 100%	Between median and upper quartile	44.15%
Overall LTIP 2014 vesting				86.04%

*Relative to the TSR of the constituents of the FTSE 350 (excluding Investment Trusts).

Director	Shares subject to award	Vested shares	Vested value*
Tom Drury	199,275	171,456	£530,793
Rob Memmott	157,004	135,086	£418,199

*In the single figure table above, in accordance with the applicable regulations the value is calculated as the number of shares that are expected to vest multiplied by the average share price over the three month period ending 31 December 2016 (£2.9468) plus the value of dividends paid over the period from grant to vesting (£25,547 in the case of Mr Drury and £20,128 in the case of Mr Memmott).

As disclosed in the 2015 directors' remuneration report, Zachary Lewy's LTIP award granted in 2014 continued following his stepping down from the Company's board from 30 April 2015. That award remained subject to the same performance conditions as applied to the executive directors' awards and awards held by other employees. Accordingly the award is expected to vest on 11 March 2017 in respect of 145,478 of the 169,082 shares over which it was granted and to lapse in respect of the balance. Mr Lewy will also be entitled to a further benefit of £21,676 in respect of dividends paid over the period from grant to vesting.

Non-executive directors' remuneration (audited information)

Details of the non-executive directors' remuneration for the year ended 31 December 2016 are as follows:

	Salary and fees £000		Taxable benefits £000		Performance related bonus £000		Vesting remuneration £000		Pension-related benefits £000		Total compensation £000	
Director	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Jonathan Bloomer	160	160	–	–	–	–	–	–	–	–	160	160
Iain Cornish	60	57	–	–	–	–	–	–	–	–	60	57
Robin Phipps[1]	44	53	–	–	–	–	–	–	–	–	44	53
Lan Tu	46	37	–	–	–	–	–	–	–	–	46	37
Maria Luís Albuquerque[2]	37	–	–	–	–	–	–	–	–	–	37	–
Andrew Fisher[3]	4	–	–	–	–	–	–	–	–	–	4	–
Total	**351**	**307[4]**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**351**	**307**

[1]Robin Phipps stepped down from the board on 27 October 2016.

[2]Maria Luís Albuquerque was appointed to the board on 7 March 2016.

[3]Andrew Fisher was appointed to the board on 9 December 2016.

[4]The 2015 table included the salary and fees of Sir George Mathewson who retired from the board on 3 June 2015, including his salary and fees the total for 2015 was £329,000.

For the majority of 2016 the non-executive directors were paid a basic fee of £45,000 per annum, with further fees of £7,500 per annum being paid for chairing the remuneration committee, audit committee and risk committee and for holding the position of senior independent director. The non-executive Chairman's fee was £160,000 per annum. As set out in the remuneration policy, non-executive director fees are reviewed periodically to comparable companies' pay. These fees were last set at the time of the IPO in 2013. Following a peer benchmarking review by our remuneration consultants, it was resolved to increase the fees with effect from 1 January 2017 to the following levels:

- £55,000 per annum for the basic fee
- £10,000 per annum for committee chairs/senior independent director
- £170,000 per annum for the non-executive Chairman

Andrew Fisher was paid at the new fee level from appointment on 9 December 2016.

It is proposed that the fees for the non-executive Chairman or other non-executive directors will not be reviewed for another three years.

2016 LTIP awards (audited information)

The table below outlines LTIP awards made to executive directors during 2016:

Date of grant	Participant	Basis of award	Number of shares	Face value of award £*	Performance period
8 April 2016	Tom Drury**	150% of salary	222,097	592,500	1 Jan 2016 to 31 Dec 2018
8 April 2016	Rob Memmott	150% of salary	174,304	465,000	1 Jan 2016 to 31 Dec 2018

*Based on the average closing middle market quotation price during the five business days ending on the business day before the Award date being £2.66775.

**Mr Drury's award lapsed on 28 February 2017 when he left the business.

The performance conditions attaching to the 2016 LTIP awards are the same as for the awards granted in 2015:

Measure and alignment with strategy and shareholder value creation	Weighting (% of award)		Vesting level (% of maximum)	Performance target
Growth in underlying basic EPS	50%	Threshold	25	10% per annum
		maximum	100	20% per annum
Underlying ROE (three year average)	25%	Threshold	25	20%
		maximum	100	26%
TSR relative to FTSE 350 (excluding investment trusts)	25%	Threshold	25	Median
		maximum	100	upper quartile

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

DIRECTORS' REMUNERATION REPORT

Directors' shareholdings (audited information)

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

The shareholding requirement for executive directors was increased in March 2015 from 100% to 150% of salary (and 150% to 200% for the chief executive officer). Newly appointed directors are expected to acquire shares with a value of 100% of base salary within five years of appointment (150% in the case of Lee Rochford) and 150% of base salary (200% in the case of Lee Rochford) as soon as possible thereafter. Until the requirement has been met, executive directors must retain 50% of all vested LTIP awards (net of tax).

The actual shareholdings of our executive directors in office at the end of 2016 are significantly higher – 5,261% of salary for Tom Drury, and 2,255% of salary for Rob Memmott based on the number of shares held and closing share price at 31 December 2016.

Lee Rochford has already taken a significant step towards satisfaction of the guideline, acquiring 174,928 shares on 15 December 2016 for an aggregate cost of £496,515, meaning that his holding for the purposes of the guidelines was 123% of his starting salary based on the closing share price at 31 December 2016.

(a) Executive directors

Director	Type	Owned outright	Unvested subject to performance conditions	Unvested not subject to performance conditions	Total
Tom Drury	Shares	6,962,283	–	–	**6,962,283**
	LTIP[1]	–	626,578	–	**626,578**
	DSBP	–	–	55,565	**55,565**
	SIP	–	–	218	**218**
Rob Memmott	Shares	2,342,020	–	–	**2,342,020**
	LTIP[1]	–	493,762	–	**493,762**
	DSBP	–	–	41,543	**41,543**
	SIP	–	–	218	**218**

[1]The number of shares included in relation to LTIP grants includes the 2014, 2015 and 2016 LTIP awards. Mr Drury's 2015 and 2016 LTIP awards lapsed on 28 February 2017. In relation to the 2014 LTIP awards, 171,456 shares vested and 27,819 shares lapsed in relation to Mr Drury and 135,086 shares vested and 21,918 shares lapsed in relation to Mr Memmott.

(b) Non-executive directors

Non-executive directors	Type	Owned outright	Unvested subject to performance conditions	Unvested not subject to performance conditions	Total shareholding
Jonathan Bloomer	Shares	24,391	–	–	**24,391**
Iain Cornish	Shares	–	–	–	**–**
Robin Phipps[1]	Shares	–	–	–	**–**
Lan Tu	Shares	23,309	–	–	**23,309**
Maria Luís Albuquerque[2]	Shares	–	–	–	**–**
Andrew Fisher[3]	Shares	–	–	–	**–**

[1]Stepped down from the board on 27 October 2016. and subsequently disposed of his shareholding.

[2]Joined the board on 7 March 2016.

[3]Joined the board on 9 December 2016.

There were no changes in the above interests between 31 December 2016 and 2 March 2017.

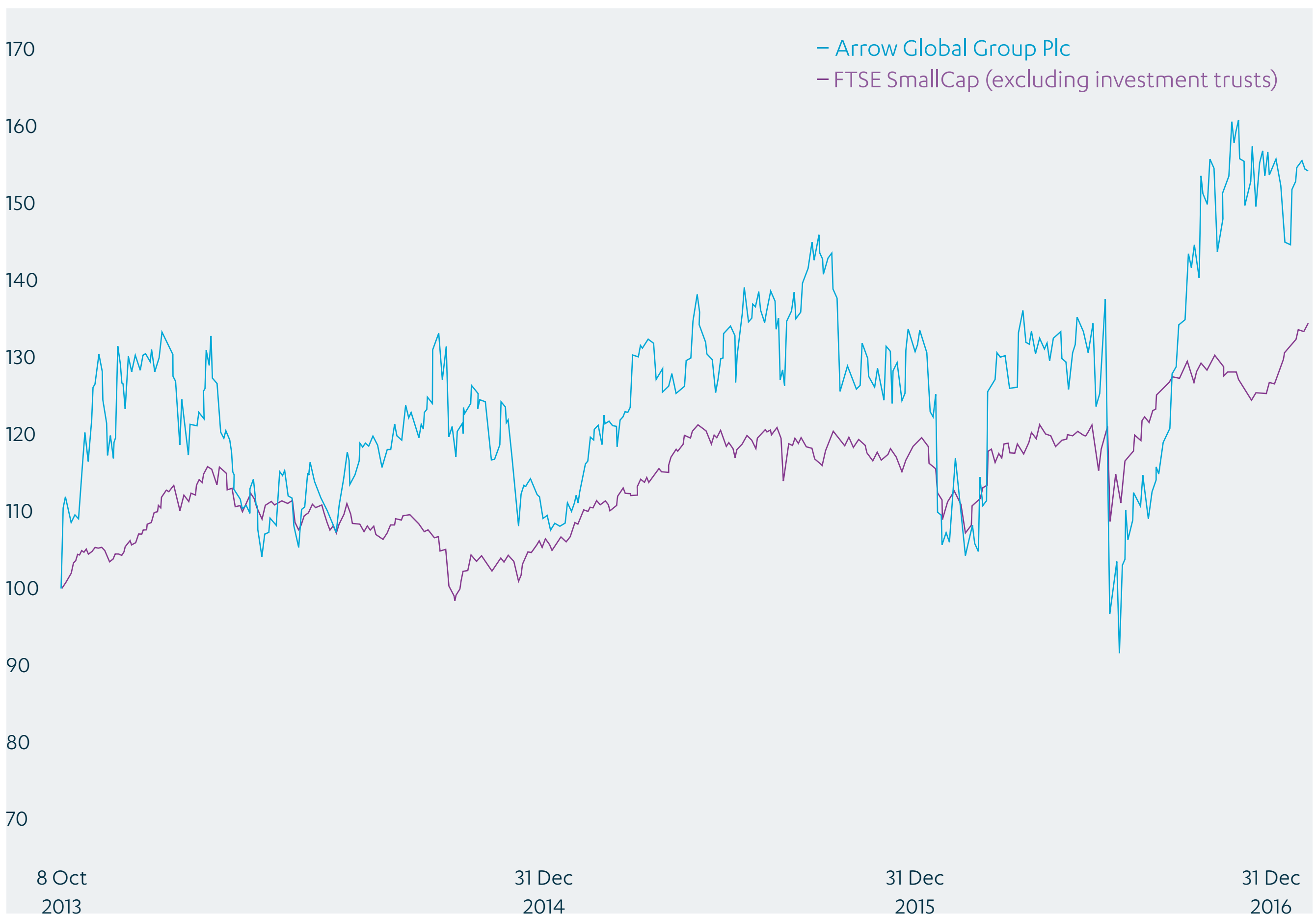
Payments to past directors and payments for loss of office (audited information)

No payments to past directors or payments for loss of office have been made in the year. The approach taken by the committee to Tom Drury's remuneration on his leaving the business is described in the statement by the committee's chair on page 70. As noted on page 76, Zachary Lewy's LTIP granted in 2014 will vest in March 2017 to the same extent as awards held by other participants.

TSR performance

The graph below shows TSR performance of the Company from IPO to 31 December 2016 compared with the FTSE SmallCap index. Throughout the year ended 31 December 2016, the Company has been a constituent member of the FTSE SmallCap index, and, therefore, the committee has selected this index for comparison purposes in this report.

Total shareholder return (rebased to 100)



DIRECTORS' REMUNERATION REPORT

Chief executive officer disclosures

(a) Previous chief executive officer (CEO) remuneration

The table below sets out the total pay of the chief executive officer since the IPO on 11 October 2013. The Company was only established shortly before the IPO and therefore, information prior to this does not exist. Tom Drury held the position of chief executive officer from the IPO until 3 January 2017.

	CEO single figure £000	CEO bonus (as a % of maximum)	CEO LTIP vesting (as a % of maximum)
2016	1,371	80.0	86.0
2015	722	70.3	–
2014	631	62.5	–
2013	154	80.0	–

(b) Percentage change in chief executive officer remuneration

The table below shows how the percentage change in the chief executive officer's salary, taxable benefits and annual bonus payout between 2015 and 2016 compared with the percentage change in the average of each of those components for the workforce as a whole.

	% change in salary and fees	% change in taxable benefits	% change in performance related bonus
Chief executive officer	10%	117%	25%
Workforce	6%	58%	35%

Relative importance of spend on pay

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

	Total employee remuneration* £000	Shareholder distributions £000
2016	30,649	14,123
2015	18,381	8,889
Difference	12,268	5,234

*For total employee remuneration, please see note 10.b) in the notes to the financial statements.

Service agreements and letters of appointment

The service agreements of our executive directors and the letters of appointment of our non-executive directors are as summarised below.

Director	Date of service agreement/ letter of appointment	Expiry	Notice period
Lee Rochford	6 December 2016	n/a	12 months
Rob Memmott	7 October 2013	n/a	12 months
Jonathan Bloomer	7 October 2013	8 October 2016*	1 month
Iain Cornish	5 October 2013	8 October 2016*	1 month
Lan Tu	2 March 2015	9 March 2018*	1 month
Maria Luís Albuquerque	7 March 2016	7 March 2019*	1 month
Andrew Fisher	9 December 2016	9 December 2019**	1 month

*Subject to re-election at the 2017 AGM.

**Subject to election at the 2017 AGM.

Statement of implementation of remuneration policy in 2017

Details of Lee Rochford's remuneration arrangements which are effective from 3 January 2017 are as follows:

Service contract	Notice period of twelve months
Salary	> £425,000 per annum
Bonus	> Up to 125% of base salary, subject to meeting performance targets > 50% of the bonus is based on financial targets > 50% of the bonus is based upon a range of strategic and personal objectives > 33% of any bonus earned is deferred into shares for a three-year period
LTIP	> Nil cost option, subject to the discretion of the committee, equivalent to 150% of base salary
Shareholding	> Required to acquire a shareholding equivalent to 200% of salary – 150% within five years of appointment and 200% as soon as possible thereafter. Until the requirement has been met, Mr Rochford must retain 50% of all vested LTIP awards (net of tax) > Lee Rochford has already taken a significant step towards satisfaction of the guideline, as referred to on page 78
Pension	> Contribution of up to 15% of salary

No changes are proposed to the policy which was approved by shareholders at the 2015 annual general meeting, and that policy will, therefore, apply for the year ending 31 December 2017 as follows:

(a) Base salaries

As noted above, Lee Rochford's salary for 2017 has been set at £425,000. Rob Memmott's salary for 2017 has been increased to £319,300 with effect from 1 March 2017, a 3% increase which is within the range of increases awarded to the wider workforce.

(b) Annual bonus

The maximum opportunity will remain at 125% of base salary. As for 2016, the 2017 annual bonus will be based on:

- 50% of the bonus will be based on underlying profit for the year attributable to equity shareholders
- 50% of the bonus will be assessed against a balanced range of financial, strategic and other key Group objectives

The directors consider the targets under the annual bonus plan to be commercially sensitive because they provide the Group's competitors with insight into the Group's business plans, expectations and strategic actions. However, the committee will continue to disclose how the bonus pay-out delivered relates to performance against the targets on a retrospective basis.

33% of any bonus for 2017 will be deferred into shares under the DSBP in line with the approved remuneration policy.

(c) LTIP

The maximum LTIP opportunity for 2017 will remain at 150%.

The 2017 LTIP awards will be subject to the same performance conditions, being underlying EPS growth, underlying ROE and relative TSR performance, with the same weightings and vesting schedules, as apply to the 2016 LTIP awards as referred to on page 77. Each performance condition will be measured over a three-year performance period from 2017 to 2019.

DIRECTORS' REMUNERATION REPORT

The remuneration committee

Up to 9 December 2016, the committee consisted of two independent non-executive directors, namely Robin Phipps as Chair (until he stepped down from the board on 27 October 2016 when he was replaced as Chair by Lan Tu) and Iain Cornish. In addition, the Company Chairman, Jonathan Bloomer, who was considered independent on appointment, is a member of the committee. On 9 December 2016, Andrew Fisher was appointed to the board and joined the committee. The committee from that date consisted of three independent non-executive directors. The Company complies with the recommendations of the Code for companies outside the FTSE 350, concerning the number of independent non-executive directors that the committee should have.

The committee held three scheduled meetings during the year. Details of attendance by all members who held office during the year are set out below:

Committee members	Eligible to attend	Attended
Robin Phipps (until 27 October 2016)	2	2
Jonathan Bloomer	3	3
Iain Cornish	3	2
Lan Tu	1	1
Andrew Fisher (from 9 December 2016)	–	–

The terms of reference of the committee are on the Company website at (**www.arrowglobalir.net**).

Advisors

During the year, the committee was assisted in its work by Deloitte LLP, who were appointed as advisors in July 2014, following a comprehensive and thorough competitive tender. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. The total fees paid to Deloitte for providing remuneration advice were £20,000 for the year ended 31 December 2016. Deloitte also provided internal audit services and advice in relation to taxation during the year.

The committee will assess from time to time whether the appointment of Deloitte remains appropriate or should be put out to tender.

The chief executive officer has also attended committee meetings to provide advice and respond to specific questions, but is not in attendance when his own remuneration is discussed. The company secretary acts as secretary to the committee.

Statement of shareholder voting

At the 2015 AGM, the directors' remuneration policy was approved by shareholders with the following votes.

% of votes for	% of votes against	Number of votes withheld
100	0	0

At the 2016 AGM, the annual report on remuneration was approved by shareholders with the following votes.

% of votes for	% of votes against	Number of votes withheld
99.58	0.42	33,457

Directors' remuneration policy

The Company's directors' remuneration policy was approved by shareholders at the annual general meeting on 3 June 2015 and took effect from the date of the meeting. We have set out below the 'policy tables' from the approved policy (except that we have updated date specific provisions). The full policy as approved at the 2015 annual general meeting, is available on (**www.arrowglobalir.net**). The next iteration of the policy is scheduled to be tabled for approval at the 2018 annual general meeting.

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity
Salaries Provide core remuneration for the role at a level to recruit and retain executive directors with the required skills and experience	> Positioned within a broad range around the mid-market level for the role > Paid monthly and reviewed annually > The current salaries of the executive directors are set out in the annual remuneration report	> Base salaries are reviewed annually, though not necessarily increased, having regard to market conditions, benchmark data and other relevant factors such as pay increases for the Group's employees, internal relativities and individual performance > The maximum annual salary increase will not normally exceed the average increase which applies across the wider workforce. Larger increases may be awarded in certain circumstances including, but not limited to: - increase in scope or responsibilities of the role - to apply salary progression for a newly appointed director - where the director's salary has fallen significantly below the market conditions
Benefits Provide a competitive benefits package at a level to recruit and retain executive directors with the required skills and experience	> Typically comprises private medical and dental cover, life insurance and permanent health insurance > Reviewed from time to time to ensure market competitive and meet operational needs of the business. Benefits may be extended in certain circumstances (such as relocation expenses) > Access to flexible benefits on same basis as the wider workforce	> None > The cost of providing benefits is borne by the Group and varies from time to time
Pension Provide a competitive level of long-term retirement saving for executives	> Contribution into self-invested personal pensions or monthly cash allowance in lieu of pension	> Up to 18% contributions or cash allowance provided > Only basic salary is pensionable
Annual bonus Reward achievement of annual objectives whilst encouraging a long-term focus through the use of deferred shares via the deferred share bonus plan DSBP	> Performance targets set annually > Payouts determined by committee following the financial year end > Up to 50% of the bonus earned is deferred, on a gross or net basis, into shares for up to three years via the DSBP, subject to continued employment during the vesting period > The remuneration committee may make a dividend equivalent payment to reflect dividends that would have been paid over the period to vesting on shares that vest (and which may assume the reinvestment of the dividend equivalents) > The payment may be in the form of additional shares or a cash payment equal to the value of those additional shares > Malus and clawback provisions apply	> Maximum bonus opportunity of 125% of annual base salary > Split between financial and strategic performance measures in support of business strategy > Bonus for achieving threshold financial performance target is up to 20% of the maximum opportunity for that element

DIRECTORS' REMUNERATION REPORT

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity
LTIP awards Reward the achievement of long-term objectives; promotes retention and aligns interests of executives with those of shareholders	> Nil cost share options, conditional awards or restricted shares can be awarded. Share awards can be settled in cash at the election of the committee > Three-year vesting period subject to performance conditions > LTIP awards normally granted post announcement of preliminary/interim results > Where exceptional circumstances exist, the committee has overriding discretion > The remuneration committee may, at its discretion, structure awards as qualifying LTIP awards consisting of both an HMRC tax-qualifying option and an LTIP award. Qualifying LTIP awards enable the participant and the Company to benefit from tax-advantaged treatment in respect of part of the award without increasing the pre-tax value delivered to participants. The qualifying LTIP awards will be structured as a tax qualifying option and an LTIP award with the vesting of the LTIP award scaled back to take account of any gain made in the exercise of the tax-advantaged option > The remuneration committee may make a dividend equivalent payment to reflect dividends that would have been paid over the period to vesting on shares that vest and over the period to exercise in the case of options (and which may assume the reinvestment of the dividend equivalents). The payment may be in the form of additional shares or a cash payment equal to the value of those additional shares > Malus and clawback provisions apply	> Maximum award of 200% of annual base salary. LTIP awards above the level of 150% of salary will only be made where the committee considers there to be a commercial rationale (for example, there is a change in the scope of the role or increase in responsibility, a reduction to other elements of the remuneration package; or a significant change in the size and complexity of the Group) > Tax-qualifying option may be granted. Shares subject to a tax-qualifying option granted as part of a qualifying LTIP award are not taken into account for the purposes of the individual limits because, as referred to in the operation column, the LTIP award will be scaled back to reflect the gain made on the exercise of the tax-advantaged option > Performance targets based on financial measures, such as EPS growth, ROE and TSR > 25% of award vests for threshold performance rising to 100% for maximum performance > Where a tax-advantaged option grant is made the same performance conditions apply as applies to the LTIP award
Share incentive plan (SIP) HMRC requires participation on an all-employee basis. Promotes alignment with shareholders across Group's entire employee base	> HMRC approved plan of free, partnership, matching or dividend shares (or cash in lieu of dividends) > Minimum three-year vesting period > Open to all employees generally	> No performance targets > Maximum awards and matching share ratio aligned to HMRC limits
Save as you earn plan ('sharesave') HMRC requires SAYE options to be offered on an all-employee basis. Promotes further alignment with shareholders across Group's entire employee base	> The Group may consider the implementation of a sharesave in the future to complement the SIP > In the event that a sharesave is introduced, the executive directors will be eligible to participate in the sharesave on the same terms as other eligible employees	> There would be no performance targets on share acquisitions under the sharesave > The sharesave would enable participants to invest in shares of the Group up to the limits in place at that time

Components and structure of remuneration – non-executive directors

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

Element and purpose	Operation and link to business strategy	Maximum opportunity
Fees To attract and retain high calibre non-executive directors by offering competitive fees	> Per annum basis > Additional fees may be paid to reflect extra responsibilities such as committee chairman or SID > With the agreement of the Chairman of the Group, non-executive directors can carry out specific project work for the Group on fees to be agreed > Non-executive directors may be eligible for benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate	> Reviewed periodically to comparable companies' pay

This report was approved by the board and signed on its behalf by:

Lan Tu
Chair of the remuneration committee
2 March 2017

AUDIT AND RISK COMMITTEE REPORT

Dear Shareholder

I am pleased to provide a report of the audit and risk committee's activities in 2016.

The committee's agenda in respect of the financial year ended 31 December 2016 has once again been full. In addition to its primary roles, of monitoring the integrity of the Group's financial reporting and reviewing the Group's risk management and internal control systems, the committee has overseen various activities undertaken by management to further embed the systems of risk management and internal control across the enlarged Group.

The principal issues on which the committee focused in 2016 are set out in the report. These issues continue to be challenging and form an extensive list, particularly given the Group's ongoing expansion and diversification. In spite of these challenges, I continue to have confidence that management are able to identify and manage risks and that the committee receives accurate and timely reports on the risk and control environment which allows it to discharge its responsibilities.

In August 2016, it was particularly pleasing to have confirmation that our UK business successfully achieved full FCA authorisation. This was the culmination of significant investment in people, systems and processes, which are designed to operate in a UK consumer credit world. In addition, authorisation was received from the Netherlands Authority for the Financial Markets in respect of the acquisition of Vesting in May 2016.

In my last report, I confirmed that Deloitte had been appointed as the Group's internal auditors supplementing the in-house internal audit team that existed in our Portuguese business and replacing the original internal audit provider in the UK. During the year Deloitte has provided a robust audit service, which has provided the committee with a valuable opinion of the prevailing risk and control environment.

Following the acquisition of Vesting, management have since been reviewing the risk and control framework in the Benelux business. Elements of the Group-risk framework have already been implemented, including the creation of a local executive risk committee which reports to our Group executive risk committee and finally, in turn, to the Group audit and risk committee.

More widely, progress has been made in embedding the overall Group risk framework, though more work is required to make it fully effective. As we expand into new geographies, for example, through our proposed acquisition of Zenith in Italy, we intend to implement the Group risk framework, adapting this as appropriate to meet specific local requirements. During 2017, we will also review our approach to the provision of internal audit services across the enlarged Group.

I am also able to confirm that, with effect from 25 January 2017, we have operated separate audit and risk committees. The board, supported by the nomination committee, considered that, given the increased geographic footprint, complex regulatory environments and the consequent impact on risk exposures, it was now appropriate to have separate audit and risk committees, as is the case in many other listed financial services companies. I am pleased to confirm that my new colleague, Andrew Fisher, who has recent and relevant financial experience as well as having competence in both accounting and auditing, has taken up chairmanship of the audit committee and I continue to chair the risk committee as well as maintaining my membership of the audit committee.

During the year, a review of the performance of the external auditors took place. It was supplemented by the committee and senior members of the Group finance team completing a questionnaire. A summary of the key findings was reviewed by the committee in private without the external and internal auditors being present. The committee was satisfied with the effectiveness of the external audit process.

In accordance with best practice, the committee has continued to keep the provision of non-audit services under review. Fees of £310,000 were paid to our external auditors, KPMG, for non-audit services in the year, being work performed in relation to the issuance of the €230 million seven-year floating rate notes and the £220 million senior secured notes due 2024. Additionally, the auditors performed a control report for Vesting in its capacity as a service organisation. We anticipate the ratio of the Group's non-audit fees to audit fees to reduce in 2017 and to continue to be low in future reporting periods. In addition, a revised non-audit services policy, which complies with best practice, has been adopted by the audit committee.

In relation to the financial statements, the committee continues to focus on those matters it considers to be important by virtue of their size, complexity, subjectivity or impact, and these are set out in this report.

On behalf of the board, the committee has also carried out a review of the effectiveness of the Group's risk management and internal control systems and found them to be adequate.

As part of the overall board evaluation review, the committee reviewed the findings in relation to its overall effectiveness. A number of areas for further improvement were identified and will be acted upon. A common theme was that improvements were expected once the audit and risk functions were formally separated, which would allow fuller participation and more time to consider the issues. Participants also noted that the committee's ongoing professional development to date had been undertaken by 'deep dives' on certain key issues. It was felt by committee members that 'deep dives' should be complemented by specific training in some areas. None of the other observations were considered material, and overall committee members were satisfied with the performance of the committee during the year.

Robin Phipps stepped down from the board during the year. I would like to thank Robin for his contribution to the committee since the IPO. Both Maria Luís Albuquerque and Andrew Fisher joined the committee during the year. I am grateful to my fellow members on the committee and to our colleagues throughout the Group, who supported the work of the committee last year.

This report was approved by the board and signed on its behalf by:

Iain Cornish
Chairman of the audit and risk committee during 2016
2 March 2017

AUDIT AND RISK COMMITTEE REPORT

The committee's responsibilities are set out in its terms of reference. They include responsibility for external and internal audit, financial reporting, narrative reporting, internal controls and risk management. The terms of reference also set out the authority of the committee to carry out its responsibilities.

The committee focuses particularly on compliance with accounting policies and ensuring the maintenance of an effective system of internal financial control. It also monitors and reviews the effectiveness of the Group's internal audit function.

The ultimate responsibility for reviewing and approving the annual report remains with the board. The committee is also responsible for advising the board on the Group's overall risk appetite and strategy, and for overseeing and advising the board on the current risk exposures of the Group and the overall risk management approach and systems of internal control. As part of this, the committee reviews the Group's risk assessment processes and methodology and its capability for identifying and managing risk. In addition, it considers material proposed transactions and reviews reports on significant incidents and position against risk appetite.

The committee met eight times in 2016 at the appropriate times in the financial reporting and audit cycle, and at such other times as required. Out of these eight meetings, there were an additional two risk meetings in 2016. The attendance of our members is shown in the table below.

During 2016, the committee also met separately with representatives of the external auditor and the head of the internal audit function without any management present.

The Code recommends that, for companies outside the FTSE 350, the audit and risk committee comprises at least two members who are independent non-executive directors and includes one member with recent and relevant financial experience. For meetings held in 2016, the committee comprised of the following members: Iain Cornish as Chair; Robin Phipps who stepped down from the board on 27 October 2016; Lan Tu and Maria Luís Albuquerque (who was appointed to the board on 9 March 2016). Andrew Fisher joined the committee following his appointment to the board on 9 December 2016. All are independent non-executive directors and therefore satisfy the Code's requirements. Iain Cornish has recent and relevant financial experience, having held senior positions at Yorkshire Building Society until his retirement in 2011, as well as a number of other non-executive directorships as outlined on page 55.

Biographies of the members of the committee are set out on pages 54 and 55.

Committee members	Eligible to attend	Attended
Iain Cornish (Chairman)	8	8
Robin Phipps (resigned 27 October 2016)	7	7
Lan Tu	8	7
Maria Luís Albuquerque (appointed 7 March 2016)	6	6
Andrew Fisher (appointed 9 December 2016)	0	0

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

Reporting	> Integrity and effectiveness of the financial reporting process, including the half year and annual results, related commentary and announcements and associated reports prepared by KPMG > Continuing appropriateness of and changes to accounting policies and the use of estimates and judgments as noted in the Group's report and accounts > Going concern review and approval of longer term viability statement for recommendation to the board > Fair, balanced and understandable concept in respect of the 2016 report and accounts
External audit	> KPMG's annual external audit plan review and approval > Effectiveness of the external audit process and reporting to the board on how the external auditor has discharged its responsibilities > Regular meetings with external auditor (at planning and reporting stages) with a private meeting with external auditor without executive directors and management present > Changes to the regulatory framework in respect of external audit tendering and recommending reappointment of the external auditors to the board > Consideration of management letters from external auditors and review of representation letters requested by the external auditor > Impact of new accounting standards > Develop and implement policy on the supply of non- audit services by the external auditor to avoid any threats to auditor objectivity and independence
Risk management and internal controls	> Monitoring and effectiveness review of risk management and internal control systems (including financial, operational and compliance) across the Group > Updates on corporate risk assessment management activities, including risk registers and the robustness of assessment and mitigation of principal risks facing the Group > Advising the board on the current risk exposures of the Group and future risk strategy > Approval of Group and UK policies, risk appetite statements and new hedging regime for managing the Group's liquidity position and foreign exchange risks > Consideration of specific risk exposures and associated mitigations, including portfolio performance and acquisitions, legal claims and litigation, tax status and customer outcomes > Outcomes of assurance reports on third parties service providers (e.g. debt collection agencies) and compliance monitoring activities > Review of reports on significant litigation and compliance issues > Review of procedures for protecting against fraud > Review of regular reports from money laundering reporting officer > Review of reports from the compliance department > Advising remuneration committee on the annual review of risk appetite with risk management assessments carried out from time to time > Review and challenge due diligence on risk issues relating to material transactions and strategic proposals that are subject to board approval
Review of conduct risk	> Review of reports from management on the treatment of customers including complaints handling, vulnerable customers, litigation and oversight of third party servicers > Review of the regulatory landscape and changes proposed in relation to the oversight of conduct issues

AUDIT AND RISK COMMITTEE REPORT

Benelux acquisitions	> Oversight of the Vesting acquisition and integration activity > Review of the existing Vesting risk management framework > Consideration of the risks that exist in Benelux and the Group's response to them > Review of Benelux portfolio purchase process > Approval of the implementation of the Group's risk management framework into Benelux, including consideration of the role of internal audit > Oversight of the acquisition of a specialist servicing capability, the entry into a five year servicing arrangement and related co-investment in the €1.7 billion portfolio of secured real-estate assets sold by RNHB Hypotheekbank in the Netherlands; resulting in £21.3 million of loan notes
Italian acquisition	> Oversight of the proposed Zenith acquisition
Internal audit	> Review of the Group internal audit charter which sets out the objectives, accountability and independence, authority, responsibilities, scope of work and standards and performance for internal audit > Adequacy of the internal audit programme over the Group's processes and controls, including coverage, prioritisation and allocation of resource > Updates on the activities of internal audit, including receipt of audit reports, to gain and provide assurance that the control environment continued to operate effectively > Status reports on the implementation and follow-up of internal audit recommendations > Effectiveness of the internal audit function
Other	> The effectiveness of the committee > The committee's terms of reference and work programme

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

Estimation of future cash collections from purchased loan portfolios:
The estimation of remaining collections from debt portfolios is complex and requires management to make significant judgment in relation to expected life, probability and value of related cash flows for each loan. The committee considered the value of the loan portfolio by reference to cash flow models. Management's key assumptions were examined carefully by the committee, including the profile of expected future cash collection based on the Group's historical collection experience and changes in collection strategies.

Value of purchased loan portfolio assets and setting of the EIR:
On acquisition of purchased loan portfolios, a short period of time is required to determine the EIR due to the complexity of the loan portfolios acquired. The committee considered the EIR of all portfolios and the judgments made by management relating to the expected life and related cash flows. The committee, together with the external auditor, considered the robustness of the EIRs which were found to be acceptable. The auditor's 2015 observations on improving the processes around model governance, reconciliations and data inputs were incorporated in 2016. The portfolios are reviewed by management for any possible indications of impairment or enhancement at the statement of financial position date in accordance with IAS 39 – Financial Instruments: Recognition and Measurement. The committee, together with the external auditor, considered the value of the loan portfolio by reference to cash flow models.

Vesting and Redrock acquisitions:
During the year the Group acquired the entire share capital of Vesting and Redrock. Management used the acquisition method in considering the appropriate acquisition accounting, following the steps required by IFRS 3 (revised) – Business Combinations, to recognise assets acquired, liabilities assumed and measure goodwill. The committee reviewed the appropriateness of management's fair value considerations and recognition of assets and liabilities on acquisition and approved management's methodology.

Accounting for material transactions:
The Group is increasingly making equity investments in addition to purchasing portfolios in different asset classes and geographies, which can lead to new and sometimes complex transactions and accounting. The buying process is a multi-stage approach. The underwriting process includes a four-stage approval, or gate, process before presentation of the investment memorandum to the investment committee. The committee then determines whether to recommend the purchase to the board (when material or complex) in advance of submission of a final bid. For material and complex transactions, the finance team are involved throughout the process and, where appropriate, accounting papers are produced and disclosed for discussions with the external auditor and approval by the audit and risk committee.

Internal control and risk management systems:
The committee is responsible for monitoring and reviewing the effectiveness of the Group's internal control and risk management systems. Through monitoring the effectiveness of its internal controls and risk management, the committee is able to maintain a good understanding of business performance, key judgmental areas and management's decision-making processes. The committee considered the adequacy of management's response to matters raised and the implementation of recommendations made. The committee carried out the following in 2016:

- reviewed the framework and effectiveness of the Group's system of internal control and risk management, including financial, operational and compliance controls
- received regular updates from management on internal control improvements and requested that KPMG report on progress as part of their year end work
- reviewed comprehensive reports from the external auditor, KPMG, of the results of their controls testing as part of the external audit
- reported to the board on its evaluation of the operation of the Group's internal control and risk management system, informed by reports from Deloitte and KPMG.

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

- considered and approved the proposed materiality and audit plan prepared
- considered the quality and effectiveness of the external audit process, in light of the FRC's Guidance on Audit Quality – Practice aid for audit committees (May 2015). The assessment of this effectiveness was completed as part of an ongoing process of review throughout the year, with the committee seeking assurances and understanding of the auditor's approach to the audit. The committee considered the FRC Audit Quality Review of KPMG and discussed the actions taken by KPMG in light of the recommendations. A questionnaire was completed by members of the committee and senior members of the finance team (which included consideration of the effectiveness of KPMG, their approach, fulfilment of the agreed audit plan, their handling of key accounting and audit judgments, assessments of significant risks, communication, independence, objectivity and reporting). A summary of the results of the questionnaire were discussed by the committee, with the results communicated by the Chairman of the committee to the KPMG lead engagement partner and the findings presented to the board. The committee were satisfied with KPMG's performance and there was nothing of concern that would impact on the effectiveness of the external audit process

AUDIT AND RISK COMMITTEE REPORT

- reviewed comprehensive reports from the external auditors of the results of their controls testing as part of the external audit
- concluded and implemented the Group's policy on the provision of non-audit services by the external auditor
- Having considered KPMG's independence, compliance with regulatory and ethical standards, and assessed its objectivity, the committee unanimously recommended to the board that a resolution for the re-appointment of KPMG LLP as the Group's external auditor be proposed to shareholders at the 2017 annual general meeting.

The external auditor, KPMG, was appointed in July 2014 following a comprehensive and thorough competitive tender. The lead audit partner will rotate every five years to ensure independence. The KPMG lead audit partner will not be rotated until July 2019 in accordance with the FRC's Revised Ethical Standard 2016. The external audit contract will be tendered at least every 10 years as prescribed by EU and UK legislation, with a change of auditor after 20 years.

Both the committee and the external auditor have in place safeguards to avoid any compromise of the independence and objectivity of the external auditor. The committee considers the independence of the external auditor annually and the Group has a formal policy for the engagement of its external auditor to supply non-audit services. The policy is designed to ensure that neither the nature of the service to be provided nor the level of reliance placed on the services could impact the objectivity of the external auditor's opinion on the Group's financial statements.

The policy precludes the appointment of the external auditor to provide certain prohibited services as set out in the FRC Guidance on Audit Committees 2016 and the FRC's Revised Ethical Standard 2016, as well as setting out where certain types of non-audit services for which the use of the external auditor are pre-approved. New EU legislation on permitted non-audit services came into effect from 17 June 2016, which introduced a permitted non-audit services fee cap of 70% of the average audit fee over a consecutive three-year period. This cap will come into effect for the Group in the financial year ending 31 December 2020.

Internal audit

Following a comprehensive and thorough competitive tender, Deloitte were appointed by the board in October 2015 to provide an internal audit function to the Group.

In 2016, the committee carried out the following:

- continued to oversee the activities of the internal audit function, recognising that in the UK full FCA authorisation brings with it an even higher expectation in terms of customer outcomes and conduct risk
- reviewed and approved the internal audit plan which defines the scope of work that internal audit function will carry out
- reviewed results from audits performed, having particular scrutiny over unsatisfactory audit findings and related action plans
- reviewed open audit actions, together with monitoring progress against the actions
- reviewed the assurance map to ensure there is clear and comprehensive risk and assurance coverage
- met with the lead internal audit partner on six occasions

During the year, the committee monitored progress of the internal audit function against that plan, ensuring that the internal audit function had sufficient resource to carry out its duties effectively. Reports on internal audit work have been received by the committee and, where necessary, appropriate actions have been recommended to the board. The results of this work, together with the committee's engagement with the management information of the Group and the executive directors, have enabled them to conclude that the statements given on pages 63 and 64 of the corporate governance report relating to the Group's systems of internal control and its management of risk are appropriate.

Separation of audit and risk committees

As stated in the audit and risk committee chairman's statement on page 86 and 87, separate audit and risk committees were set up with effect from 25 January 2017. Each committee has its own terms of reference which can be found on the company's website at (**www.arrowglobalir.net**).

Andrew Fisher chairs the audit committee and remains a member of the risk committee. Andrew Fisher has recent and relevant financial experience, as well as having competence both in accounting and auditing, gained as finance director of Provident Financial Plc. Iain Cornish continues to chair the risk committee and remains a member of the audit committee.

The members of the separate audit and risk committees, effective from 25 January 2017 are: Iain Cornish, Andrew Fisher, Maria Luís Albuquerque and Lan Tu. All are independent non-executive directors.

This report was approved by the board and signed on its behalf by:

Iain Cornish

Chairman of the audit and risk committee during 2016
2 March 2017

Independent auditor's report

to the members of Arrow Global Group PLC only

Opinions and conclusions arising from our audit

1. Our opinion on the group financial statements is unmodified

We have audited the financial statements of Arrow Global Group PLC for the year ended 31 December 2016 set out on pages 99 to 146. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Overview		
Materiality: group financial statements as a whole	£1.9m (2015:£1.8m) 3.5% of normalised Group profit before tax (2015: 4.6% of Group profit before tax)	
Coverage	100% (2015: 100%) of group profit before tax	
Risks of material misstatement		**vs 2015**
Recurring risks	Estimation of future cash collections from debt portfolios	◀▶
Event driven	Fair value of the net assets in acquisition accounting	◀▶

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2015):

	The risk	Our response
Carrying value of purchased loan portfolios and loan notes (£804.1 million; 2015: £610.7 million) *Refer to critical accounting estimates and judgements in note 4 of the financial statements, the audit and risk committee report on pages 86 to 92 and note 16 in the audited part of financial statements.*	**Forecast-based valuation:** The Group's estimate of the future cash collections from the loan portfolios is the key variable in determining the Effective Interest Rate ('EIR') and any subsequent revenue adjustments. Given the nature of the company's debt portfolios, estimation of future cash collections requires significant judgement. The Group uses cash flow forecasting models to calculate an initial estimate of future collections. The assumptions used in the models include the value, probability and timing of expected future cash flows for each type of asset class within a portfolio. These estimates are subject to ongoing review by management to assess reasonableness, comparing actual performance against previous forecasts. Estimates of future cash flows are impacted by management's approach to managing the portfolios (e.g. changes in collection policies or use of specialist collectors). Where management believe changes in the approach to managing portfolios may lead to changes in these estimates these are factored into the Group's future cash collection forecasts. Due to the level of subjectivity inherent in the assumptions used in the cash flow forecasting models this is a key judgement area for our audit.	Our procedures included: — **Controls design:** assessing the design and operating effectiveness of controls over data used in the cash flow forecasting models driving the estimated future cash flows; — **Governance controls:** assessing the design and operating effectiveness of controls that cover the outputs of the models and manual adjustments to ensure that these have been scrutinised by appropriate management personnel; — **Our sector experience:** critically assessing the cash flow forecast and any manual adjustments made by the Group with reference to our understanding of the Group and industry; and — **Historical comparisons:** critically assessing the cash flow forecasts and any manual adjustments made by the Group with reference to our understanding of the current and past performance of the Group's portfolios, including recent cash collections.

KPMG

2. Our assessment of risks of material misstatement (cont.)

	The risk	Our response
Fair value of portfolios and intangibles acquired as part of business combinations (£49.6 million) *Refer to the critical accounting estimates and judgements in note 4 of the financial statements, the audit and risk committee report on pages 86 to 92 and note 31 in the audited part of financial statements.*	**Forecast-based valuation** During the year ended 31 December 2016, the Group acquired InVesting B.V in The Netherlands and Belgium, and Redrock Capital Partners S.A in Portugal with the assets and liabilities purchased being accounted for at fair values at the date of acquisition. The Group prepared the acquisition balance sheets based on their estimate of the fair value of assets and liabilities acquired. In particular, they prepared discounted cash flow models to arrive at their estimates of fair value for loan asset portfolios and customer relationships .This required them to exercise judgement in relation to determining the expected cash flows from the assets and the discount rates used.	Our procedures included: **Acquired loan portfolios** — **Our sector experience:** challenging the assumptions, including the value, probability and timing of cash flows used in calculating the fair value of the acquired loan asset portfolios as outlined in the "Estimation of future cash collections on debt portfolios" section of this report; and — **Historical comparisons:** assessing the discount rates used in calculating the fair value of the acquired loan asset portfolios with reference to the risks associated with similar loan portfolios previously acquired. **Acquired customer relationships** — **Our sector experience:** challenging the assumptions, including value, probability and timing of cash flows, made in calculating the fair value assigned to the customer relationship intangible with reference to the business plan, existing customer contracts and our knowledge of the industry; and — **Historical comparison:** assessing whether the discount rate used in calculating the fair value of the customer relationships intangible reflected market conditions based on our knowledge of the industry.

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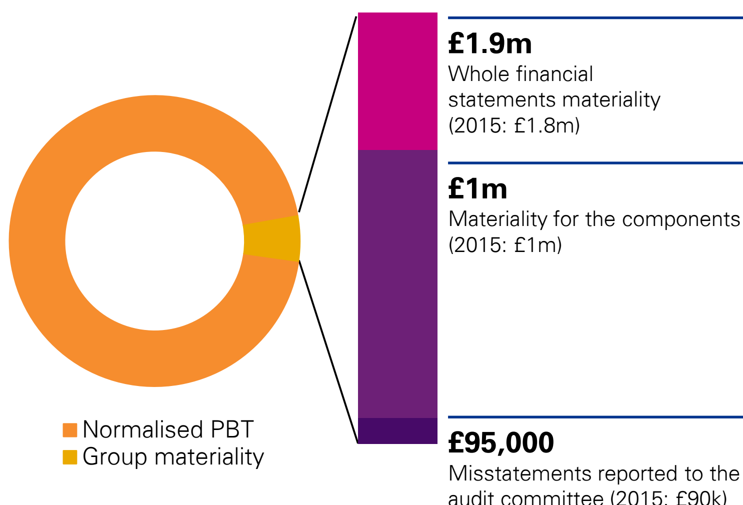
3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £1.9 million, determined with reference to a benchmark of Group profit before taxation normalised to exclude a current year one-off expenses of £23 million in relation to the Group's acquisitions and debt refinancing set out on page 100. The group team performed procedures on the items excluded from normalised group profit before tax. The materiality represents 3.5% of the Group's reported profit before taxation as normalised.

In 2015, the materiality for the Group financial statements as a whole was set at £1.8 million, determined with reference to a benchmark of Group profit before tax (PBT), of which it represented 4.6%.

We report to the audit committee any corrected or uncorrected identified misstatements exceeding £95,000 (2015: £90,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.



How we scoped our audit:

Audits for group reporting purposes were performed on all four (2015: three) reporting components, which were:

- Group holding company;
- UK operating and non-operating subsidiaries;
- The Portuguese operating and non-operating subsidiaries; and
- The Benelux operating and non-operating subsidiaries which include entities in Netherlands and Belgium.

The components scoped in for Group reporting purposes accounted for 100% of Group revenue, 100% of Group profit before tax and 100% of Group total assets.

The audit of the Portuguese and Benelux components was performed by component audit teams in Portugal, Netherlands and Belgium. The audit of the Group holding company, UK operating and non operating subsidiaries and consolidation was performed by the Group audit team.

The Group audit team instructed the component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materiality of £1.0 million (2015: £1.0 million), having regard to the size and risk profile of Group across the components.

The Group audit team managed and co-ordinated the component auditors in the following ways:

At the planning stage, the Group audit team visited component audit teams where necessary, participated in site visits, and held telephone calls and face-to-face discussions with the components audit teams to discuss audit risks and strategy.

During the audit, the Group audit team held regular telephone calls with the component audit teams. Through the calls and meetings, the findings and observations reported to the Group audit team were discussed in more detail and any further work required by the Group audit team was then performed by the components auditors.

In addition, the Group audit team participated in the audit close out meetings of the component teams to all material issues affecting the Group are identified and communicated back to Arrow Global Group Plc.

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4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

— the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

— the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

— we have not identified material misstatements in those reports; and

— in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

— the directors' statement of viability on page 51, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to 2020; or

— the disclosures in note 3 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or

— the audit committee report does not appropriately address matters communicated by us to the audit committee.

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

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

— the directors' statements, set out on pages 51 and 105, in relation to going concern and longer term viability; and

— the part of the Corporate Governance Statement on page 61 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 60, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Richard Gabbertas (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One St Peters Square

Manchester

M2 3AE

2 March 2017

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	31 December 2016 £000	31 December 2015 £000
Continuing operations			
Revenue			
Income from purchased loan portfolios	16	188,914	150,238
Profit on portfolio sales		701	503
Total revenue from portfolios		189,615	150,741
Income from asset management		46,315	14,713
Total revenue		**235,930**	**165,454**
Operating expenses			
Collection activity costs		(70,261)	(52,303)
Recurring other operating expenses	10	(65,615)	(34,205)
Non-recurring other operating expenses			
Costs arising from business acquisitions		*(5,022)*	*(1,491)*
Company integration		*–*	*(1,452)*
IPO related costs		*–*	*(1,366)*
Total other operating expenses	10	**(70,637)**	**(38,514)**
Total operating expenses		**(140,898)**	**(90,817)**
Operating profit	6	**95,032**	**74,637**
Finance income	7	813	152
Recurring finance costs	8	(48,847)	(36,760)
Non-recurring finance costs			
Bond related and RCF refinancing costs		*(17,994)*	*–*
Total finance costs	8	**(66,841)**	**(36,760)**
Share of profit in associate net of tax		2,363	1,243
Profit before tax		**31,367**	**39,272**
Recurring taxation charge on ordinary activities		(8,816)	(8,180)
Tax on non-recurring items		*3,755*	*657*
Taxation charge on ordinary activities	11	(5,061)	(7,523)
Profit after tax		**26,306**	**31,749**
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
FX translation difference arising on revaluation of foreign operations		5,954	34
Hedging movement		670	(615)
Items that will not be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		(10)	–
Total comprehensive income		**32,920**	**31,168**
Profit after tax attributable to:			
Owners of the Company		26,305	31,749
Non-controlling interest		1	–
		26,306	**31,749**
Underlying profit after tax		***45,567***	***35,401***
Basic EPS (£)	30	**0.15**	**0.18**
Diluted EPS (£)	30	**0.15**	**0.18**

CONSOLIDATED AND PARENT COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

Assets	Note	Group 31 December 2016 £000	Group 31 December 2015 £000	Company 31 December 2016 £000	Company 31 December 2015 £000
Non-current assets					
Goodwill	13	128,081	79,490	–	–
Other intangible assets	14	39,144	20,643	–	–
Property, plant and equipment	15	3,584	3,649	–	–
Investment in subsidiary undertakings	23	–	–	307,500	307,500
Investment in associate	23	10,371	12,158	–	–
Loan notes	16	–	862	–	–
Deferred tax asset	19	3,692	639	–	–
Total non-current assets		**184,872**	**117,441**	**307,500**	**307,500**
Current assets					
Cash and cash equivalents		23,203	10,183	8	16
Other receivables	17	35,484	34,781	80,906	71,825
Purchased loan portfolios	16	782,792	609,793	–	–
Loan notes	16	21,315	–	–	–
Total current assets		**862,794**	**654,757**	**80,914**	**71,841**
Total assets		**1,047,666**	**772,198**	**388,414**	**379,341**
Equity					
Share capital	20	1,744	1,744	1,744	1,744
Share premium	20	347,436	347,436	347,436	347,436
Retained earnings		92,327	76,916	37,509	25,513
Hedging reserve		(632)	(1,302)	–	–
Other reserves		(273,484)	(279,438)	(1,936)	(1,936)
Total equity attributable to shareholders		**167,391**	**145,356**	**384,753**	**372,757**
Liabilities					
Non-current liabilities					
Senior secured notes	29	681,158	447,545	–	–
Trade and other payables	18	–	7,648	–	–
Deferred tax liability	19	14,859	4,396	–	–
Defined benefit liability	24	1,721	–	–	–
Total non-current liabilities		**697,738**	**459,589**	**–**	**–**
Current liabilities					
Trade and other payables	18	76,261	83,906	2,966	6,172
Derivative liability	26	1,433	1,281	–	–
Current tax liability		5,469	3,755	695	412
Revolving credit facility	29	74,169	71,479	–	–
Bank overdrafts	29	7,698	–	–	–
Other borrowings	29	12,077	–	–	–
Senior secured notes	29	5,430	6,832	–	–
Total current liabilities		**182,537**	**167,253**	**3,661**	**6,584**
Total liabilities		**880,275**	**626,842**	**3,661**	**6,584**
Total equity and liabilities		**1,047,666**	**772,198**	**388,414**	**379,341**

Approved by the board of directors on 2 March 2017, signed and authorised for issue on its behalf by:

Rob Memmott
Group chief financial officer
Company number: 08649661

Lee Rochford
Group chief executive officer

CONSOLIDATED AND PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Group	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 2015	**1,744**	**347,436**	**51,479**	**(687)**	**(562)**	**(575)**	**(276,961)**	**121,874**	**–**	**121,874**
Profit after tax	–	–	31,749	–	–	–	–	31,749	–	31,749
Exchange differences	–	–	–	–	–	34	–	34	–	34
Net fair value losses – cash flow	–	–	–	(729)	–	–	–	(729)	–	(729)
Tax on hedged items	–	–	–	114	–	–	–	114	–	114
Total comprehensive income for the year	–	–	31,749	(615)	–	34	–	31,168	–	31,168
Repurchase of own shares	–	–	–	–	(1,374)	–	–	(1,374)	–	(1,374)
Share-based payments	–	–	2,577	–	–	–	–	2,577	–	2,577
Dividend paid	–	–	(8,889)	–	–	–	–	(8,889)	–	(8,889)
Balance at 31 December 2015	**1,744**	**347,436**	**76,916**	**(1,302)**	**(1,936)**	**(541)**	**(276,961)**	**145,356**	**–**	**145,356**
Profit after tax	–	–	26,305	–	–	–	–	26,305	1	26,306
Exchange differences	–	–	–	–	–	5,954	–	5,954	20	5,974
Net fair value losses – cash flow	–	–	–	827	–	–	–	827	–	827
Tax on hedged items	–	–	–	(157)	–	–	–	(157)	–	(157)
Remeasurements of the defined benefit liability	–	–	(10)	–	–	–	–	(10)	–	(10)
Total comprehensive income for the year	–	–	26,295	670	–	5,954	–	32,919	21	32,940
Share-based payments	–	–	3,239	–	–	–	–	3,239	–	3,239
Dividend paid	–	–	(14,123)	–	–	–	–	(14,123)	–	(14,123)
Non-controlling interest on acquisition	–	–	–	–	–	–	–	–	394	394
Settlement of non-controlling interest	–	–	–	–	–	–	–	–	(415)	(415)
Balance at 31 December 2016	**1,744**	**347,436**	**92,327**	**(632)**	**(1,936)**	**5,413**	**(276,961)**	**167,391**	**–**	**167,391**

*Other reserves total £273,484,000 deficit (2015: £279,438,000 deficit).

Company	Ordinary shares £000	Share premium £000	Retained earnings £000	Own share reserve £000	Total £000
Balance at 1 January 2015	**1,744**	**347,436**	**10,100**	**(562)**	**358,718**
Profit after tax	–	–	21,725	–	21,725
Total comprehensive income for the year	–	–	21,725	–	21,725
Repurchase of own shares	–	–	–	(1,374)	(1,374)
Share-based payments	–	–	2,577	–	2,577
Dividend paid	–	–	(8,889)	–	(8,889)
Balance at 31 December 2015	**1,744**	**347,436**	**25,513**	**(1,936)**	**372,757**
Profit after tax	–	–	22,880	–	22,880
Total comprehensive income for the year	–	–	22,880	–	22,880
Repurchase of own shares	–	–	–	–	–
Share-based payments	–	–	3,239	–	3,239
Dividend paid	–	–	(14,123)	–	(14,123)
Balance at 31 December 2016	**1,744**	**347,436**	**37,509**	**(1,936)**	**384,753**

Translation reserve

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

Merger reserve

The 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.

Own share reserve

The own share reserve comprises the cost of the Company's ordinary shares held by the Group. At 31 December 2016, the Company held 66,277 ordinary shares of 1p each, held in an employee benefit trust. This represents 0.04% of the Company share capital at 31 December 2016.

CONSOLIDATED AND PARENT COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	Group Year ended 31 December 2016 £000	Group Year ended 31 December 2015 £000	Company Year ended 31 December 2016 £000	Company Year ended 31 December 2015 £000
Net cash (used in)/generated by operating activities	32	**(26,217)**	**(56,294)**	**14,115**	**10,264**
Investing activities					
Purchase of property, plant and equipment		(525)	(920)	–	–
Purchase of intangible assets		(7,412)	(8,618)	–	–
Proceeds from disposal of intangible assets and property, plant and equipment		643	–	–	–
Dividends received from associate		6,820	658	–	–
Additional investment in associate		(1,305)	–	–	–
Acquisition of subsidiaries, net of cash acquired		(62,465)	(15,581)	–	–
Acquisition of subsidiary, deferred consideration		(14,998)	–	–	–
Net cash used in investing activities		**(79,242)**	**(24,461)**	**–**	**–**
Financing activities					
Net proceeds from additional loans		12,193	35,835	–	–
Proceeds from senior notes (net of fees)		169,712	81,560	–	–
Early repayment of bond		(8,664)	–	–	–
Repayment of interest on senior notes		(36,915)	(27,365)	–	–
Repurchase of own shares		–	(1,374)	–	(1,374)
Receipt of loan notes		938	579	–	–
Bank fees paid		(4,389)	(4,304)	–	–
Payment of dividends		(14,123)	(8,889)	(14,123)	(8,889)
Payment of deferred interest		(1,071)	–	–	–
Settlement of non-controlling interest		(415)	–	–	–
Net cash flow generated by/(used in) financing activities		**117,266**	**76,042**	**(14,123)**	**(10,263)**
Net increase/(decrease) in cash and cash equivalents		**11,807**	**(4,713)**	**(8)**	**1**
Cash and cash equivalents at beginning of year		10,183	14,542	16	15
Effect of exchange rates on cash and cash equivalents		1,213	354	–	–
Cash and cash equivalents at end of year		**23,203**	**10,183**	**8**	**16**

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Arrow Global Group Plc is a company incorporated in England and Wales and is the ultimate parent Company of the Group. The address of the registered office is presented on the inside cover. The financial statements are presented in pounds sterling and rounded to the nearest thousand.

The Company's subsidiaries and associate, both direct and indirect, at this date are listed in note 23.

The Group's principal activity is to identify, acquire and manage secured and unsecured defaulted loan portfolios from financial institutions, such as banks and credit card companies, as well as retail chains, student loans, motor credit, telecommunication firms and utility companies.

The Group's and the Company's financial statements for the year ended 31 December 2016 have been prepared in accordance with IFRS as adopted for use in the EU, and therefore comply with Article 4 of the EU IFRS Regulation. The accounting policies have been applied consistently in the current and prior periods.

As permitted by section 408 of the Companies Act 2006, a separate income statement and related notes of the Company have not been presented in this annual report and accounts.

2 Adoption of new and revised standards

The following new standards and interpretations are mandatory for the year beginning 1 January 2016:

- IFRS 11 (amendments) Accounting for acquisitions of interests in joint operations
- IAS 16 and IAS 38 (amendments) Clarification of acceptable methods of depreciation and amortisation
- IAS 27 (amendments) Equity method in separate financial statements
- Annual improvements to IFRSs 2012-2014 cycle
- IAS 1 (amendments) Disclosure initiative

During 2016, these new standards and interpretations had an insignificant effect on the consolidated financial statements of the Group.

The following new and revised Standards and Interpretations have been endorsed but are not yet effective for these financial statements and have not been early adopted:

IFRS 9 Financial Instruments
New reporting requirements under IFRS 9 introduce forward looking credit loss models which will lead to changes in timing of impairment recognition. We continue to assess the impact of IFRS 9 and have implemented a project plan to ensure compliance with the new standard ahead of its proposed implementation date of 1 January 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. Management are assessing the impact of IFRS 15 on future periods, in particular by considering the asset management contracts with customers in relation to contingency collection fees, due diligence, real estate management and advisory fees.

Other standards
The following new and revised Standards and Interpretations have been issued but are not yet endorsed or effective for these financial statements and have not been early adopted:

- IAS 7 (amendments) Disclosure initiative
- IAS 12 (amendments) Recognition of deferred tax assets for unrealised losses
- IFRS 16 Leases
- IFRS 2 (amendments) Classification and measurement of share-based payment transactions
- IFRS 10 and IAS 28 (amendments) Sale or contribution of assets between an investor and its associate or joint venture

The Group is assessing the potential impact on its consolidated financial statements resulting from the new and revised Standards and Interpretations. So far, the Group does not expect any significant impact.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies

Basis of preparation

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2016 and comparative period. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with its investee entity and has the ability to affect these returns through its power over the investee entity.

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

Also see the accounting policy 'shares held in an employee benefit trust' (EBT).

Going concern

The directors are required to make an assessment of the Group's ability to continue to trade as a going concern for the foreseeable future. The directors have given this matter due consideration through a review of forecast cash flow models and scenarios and current cash availability and have concluded that it is appropriate to prepare the Group financial statements on a going concern basis. Refer to the statement of viability on page 51 for further details of the going concern assessment.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) (Business Combinations) are recognised at their fair value at the acquisition date, except that of deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements that are recognised and measured in accordance with IAS 12 (Income Taxes) and IAS 19 (Employee Benefits) respectively.

IFRS 3 allows a measurement period of up to one year after acquisition to reflect any new information obtained about facts and circumstances that were made available to the Group at the acquisition date.

Goodwill

Goodwill arising on a business combination is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired.

The Group calculates the recoverable amount of each CGU by determining the higher of its fair value less costs to sell, and value in use. Certain assumptions are made in relation to the value in use calculation including forecast cash flows, growth rates, and an appropriate discount rate.

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

On a business combination the portfolio investments are remeasured to fair value using an appropriate discount rate at the date of acquisition, calculated based on actual performance and forecasts at that date.

On disposal of a subsidiary, the goodwill attributable to that subsidiary is included when calculating the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 to 50 per cent of the voting power of another entity, or can demonstrate significant influence, or evidence through a number of aspects such as representation on the board of directors, participation in policy making and decisions, material transactions between the entity and investee, interchange of managerial personnel or provision of essential technical information. Associates are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of the associate from the date that significant influence commences until the date that it ceases.

Revenue recognition and effective interest rate method (EIR) Income from purchased loan portfolios

Income from purchased loan portfolios represents the yield from acquired portfolio investments. Purchased loan portfolios are financial instruments that are accounted for under IAS 39 and recognised at fair value at the purchase date that equals the price paid. They are subsequently measured at amortised cost using the EIR method.

The EIR method is a method of calculating the amortised cost of a purchased loan portfolio and of allocating interest income over the expected life of the portfolio. The EIR is the rate that exactly discounts 84-months of estimated future cash receipts of the purchased portfolio asset to the net carrying amount at initial recognition (i.e. the price paid to acquire the asset).

Upward revaluations ('write-ups') are increases to carrying values, discounted at the EIR rate, of the acquired debt portfolios as a result of reassessments to their estimated future cash flows and are recognised in the income from purchased loan portfolios line within revenue, with any subsequent reversals to write-ups also recorded in this line. If these reversals ('write-downs') exceed any previously recognised cumulative write-ups (i.e. a write-down reduces the portfolio carrying amount below its initial purchase price) then impairment is recognised as a separate line in the statement of profit or loss and other comprehensive income.

Unallocated cash is held as a liability in the statement of financial position until it is reconciled. Unallocated cash is held as liability until all reasonable steps have been taken to show that it has been extinguished, only being released to the consolidated statement of profit or loss and other comprehensive income at this point.

Where the Group acquires purchased loan portfolios via forward flow agreements, being contracted multiple future purchases, there is no difference in accounting treatment than described above.

Impairment of purchased loan portfolios

The portfolios are reviewed for indications of impairment at the statement of financial position date, such as variances to historical cash curves, in accordance with IAS 39. This is considered on a portfolio basis. Where portfolios exhibit objective evidence of impairment, an adjustment, being the difference between the current carrying value and the net present value of future estimated cash flows, is recorded to the carrying value of the portfolio.

Revenue on assets under management

The Group receives asset management revenue on portfolios managed for third parties in the UK, Portugal and the Netherlands. In accordance with IAS 18, the Company recognises revenue on its managed services contracts when the right to receive such revenue is reasonably assured and can be measured reliably. The nature of the revenue is contingency collection fees, which are received either as a fixed fee, or as a percentage of collections or the outstanding portfolio asset value.

Non-recurring items

Non-recurring items are those which are separately identified by virtue of their size and nature (i.e. outside of the normal underlying operating activities of the Group) to allow a full understanding of the underlying performance of the Group. These are disclosed separately on the face of the statement of profit or loss and other comprehensive income. Current year non-recurring items are explained in notes 8, 10 and 11. The identification of these items has significance as the resulting underlying profit is one of the key determinants of dividends payable.

Interest income from secured loan notes

The Group has entered into lending arrangements with third parties to provide capital to purchase non-performing consumer debt portfolios (see note 16). Interest income is recognised throughout the year using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

Retirement benefit costs

Payments to defined contribution retirement schemes are charged as the employees provide services to the Group.

The Group has, for the period covered by these financial statements, made contributions to defined contribution plans to provide pension benefits for employees upon retirement.

A number of employees of Vesting Finance are entitled to pension benefits that the company has insured through a contract with an insurance company. The arrangement meets the definition of a defined benefit plan and the insurance policy represents qualifying plan assets of the scheme.

The Group's net obligation in respect of the defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets from the insurance policy.

The calculation of defined benefit obligation is performed at acquisition and then annually by a qualified actuary. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of future economic benefits, consideration is given to the applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the ceiling (if any, excluding interest), are recognised immediately through the other-comprehensive income. The Group determines the net interest expense on the net defined liability for the period by applying the discount rate used to measure the defined benefit obligation at acquisition or the beginning of the annual period to the then net-defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit pension plan are recognised in profit or loss.

When the benefits of the plan are changed or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the statement of comprehensive income. The Group recognises gains and losses in the settlement of a defined benefit plan when the settlement occurs.

Foreign currency translation

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

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

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

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

Leases

Assets leased are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownerships to the lessee but not necessarily legal title. All other leases are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Taxation

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

Current tax

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

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

Deferred tax

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

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation is measured at the average tax rates that are expected to apply in the years in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at each reporting date. The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred taxation is charged or credited in the statement of profit or loss and other comprehensive income, except when it relates to items charged or credited to equity, in which case the deferred taxation is also dealt with in equity.

Share based payment transactions

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

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

Shares held in an employee benefit trust (EBT)

Transactions of the Company sponsored EBT are treated as being those of the Company and are therefore, reflected in these financial statements.

Property, plant and equipment and other intangibles

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

Depreciation is recognised so as to write-off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method on the following basis:

Furniture	five years
Computer equipment	three years
Leasehold improvements	five years
Software licences	shorter of contractual life and useful economic life
IT platform	useful economic life

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

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

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

Financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

Purchased loan portfolios and secured loan notes

The Group's purchased loan portfolios and secured loan notes are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Under IAS 39, such assets are classified as 'loans and receivables' and are measured at amortised cost using the EIR method less any impairment.

Purchased loan portfolios are acquired at a deep discount and as a result the estimated future cash flows reflect the likely credit losses within each portfolio. The portfolio investments are initially recorded at their fair value, being their acquisition price, and are subsequently measured at amortised cost using the EIR method.

The portfolio asset is analysed as current in the statement of financial position as part of the Group's normal operating cycle.

As part of the Group's litigation strategy to recover customer balances, the Group incurs legal costs. Where these are considered recoverable these are included within the estimated forecasts of future cash flows within the purchased loan portfolios balance.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in the OCI is recognised in the statement of profit or loss and other comprehensive income. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the consideration required to settle that obligation at the date of the consolidated statement of financial position and are discounted to present value where the effect is material.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities, such as loan notes, or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRS.

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

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group uses derivative financial instruments, principally interest rate swaps and forward currency contracts, to manage the interest rate and currency risks arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39. The majority of the Group's derivatives are cash flow hedges of highly probable forecast transactions and meet the hedge accounting requirements of IAS 39. Derivatives are initially recognised at the fair value on the date a derivative contract is entered into and are subsequently remeasured at each reporting date at their fair value. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately within the statement of profit or loss and other comprehensive income. For derivatives that are designated as cash flow hedges and where the hedge accounting criteria are met, the effective portion of changes in the fair value is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss and other comprehensive income as part of finance costs. Amounts accumulated in equity are recognised in the statement of profit or loss and other comprehensive income when the income or expense on the hedged item is recognised in the statement of profit or loss and other comprehensive income.

The Group discontinues hedge accounting when:

- it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated or exercised; or,
- the underlying hedged item matures or is sold or repaired.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are stated subsequently at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the expected life of the borrowings using the EIR. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Cash and cash equivalents

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

Legal transaction fees

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

Operating expenses

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

Fair value measurements

The fair value of financial instruments is determined in accordance with IFRS 13 in the manner described in note 26.

Other reserves

Other reserves include the own share reserve, the translation reserve and the merger reserve. These reserves are further explained on the consolidated statement of changes in equity on page 102.

4 Critical accounting judgments and estimates

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

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

Critical judgments in applying accounting policies

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

a) Approach to substance of loan notes as portfolios

The Group has purchased a number of loan notes in entities that in turn have legal ownership of underlying loan portfolios. The Group has assessed the substance of the loan notes under the criteria set out in IAS 39 to determine whether to account for the underlying portfolio loan assets or to recognise an investment in the loan note asset in the entity that has issued the loan notes.

The decision is based on whether the circumstances meet the requirements of IAS 39, paragraph 19, which deems that the Group would recognise its proportionate share of the asset on balance sheet as portfolio loan assets, where the following criteria are met:

- the loan note issuing entity has no obligation to pay amounts to the Group unless it collects equivalent amounts from the original asset;
- the loan note issuing entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the Group for the obligation to pay them cash flows; and
- the loan note issuing entity has an obligation to remit any cash flows it collects on behalf of the Group without material delay.

Essentially where the risks and rewards of the loan portfolio assets sit with the Group rather than the issuer of the loan notes, it is appropriate for the entity issuing the loan notes to derecognise the underlying asset, and the Group to recognise their proportionate share.

If these criteria are met the Group recognises its appropriate share of the underlying loan portfolios and if criteria are not met then the Group recognises an investment in the loan notes.

NOTES TO THE FINANCIAL STATEMENTS

4 Critical accounting judgments and estimates (continued)

Key sources of assumption and estimation uncertainty in applying accounting policies

The following are the key sources of assumption and estimation uncertainty that have been made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

a) Fair value of acquisition statement of financial position and carrying value of goodwill

The Group capitalises goodwill on the acquisition of entities as discussed in the significant accounting policies. Goodwill is the excess of the consideration paid over the fair value of its net assets, therefore the fair value of assets acquired directly impacts the amount of goodwill recognised on acquisition. The determination of the fair value of acquired net assets requires the exercise of management judgment, particularly for those financial assets or liabilities for which there are no quoted prices, or assets such as acquired loan portfolios and customer intangibles where valuations reflect estimates and timing of future cash flows. Different valuations would result in changes to the goodwill arising and to the post-acquisition performance of the acquired entities. Further detail on the valuation of acquired loan portfolios is given in section b) below.

Goodwill is not amortised but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired e.g. financial performance of the respective acquired entity/CGU is significantly below expectations. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. Calculation of the value in use requires an estimate of the amount and timing of future cash flows expected to arise from the CGU, which are discounted by an appropriate discount rate to calculate a present value of the future cash flows. The discount rate applied is the Group's weighted average cost of capital with an adjustment to reflect the specific risk characteristics of the CGU. This calculation inherently involves a number of judgments in that cash flow forecasts are prepared for periods that are beyond the normal requirement of management reporting, and the appropriate discount rate relevant to the CGU is an estimate.

Sensitivities have been considered in note 13.

b) Carrying value and EIR of purchased loan portfolios

84-month cash flow forecasts are prepared for each portfolio on an account basis. These forecasts are generated using statistical models incorporating a number of factors, including predictions of probability to pay, which is informed by customer and account level data, credit agency data and our historic experience with accounts which have similar key attributes. A further key model input is previous payments made by a customer. Additionally estimates are made of the movement of accounts from non-paying to paying, and vice-versa, either through breakdown of the account or settlement/pay down of the balances due. In relation to non-paying accounts, assumptions will be made as to which operational strategy is the most appropriate to move the account to paying status, this may include placing these accounts into litigation. Operational factors, that may impact future estimated cash flows, are also considered such as improved collections processes and systems.

Management also review the model on a portfolio basis to take into account external factors, which have impacted historical or will impact future performance and where necessary portfolios are calibrated to take into account these known factors. The assumptions and estimates made are specific to the particular characteristics of each portfolio.

The ERCs created from the ERC forecasting models, are regularly benchmarked at a portfolio level against actuals, this informs the decision as to whether a write-up or write-down may be required.

An impairment is only recognised if the 'write-downs' exceed any previously recognised cumulative write-ups and revenue recognised.

Write-downs to the total loan portfolio balance occurred in the year as a result of changed expectations of credit balances and a historic claim on one of the Portuguese portfolios. These were more than offset by write-ups on a number of other portfolios.

The estimated future cash flows generated by the above process are the key estimate/judgment in these financial statements. Flexing the expected future gross cash flows by -1/+1% would impact the closing carrying value of the purchased loan portfolios as at 31 December 2016 by £7,044,000 (2015: £4,123,000). Flexing the expected future gross cash flows by -3/+3% would impact the closing carrying value of the purchased loan portfolios as at 31 December 2016 by £21,131,000 (2015: £12,368,000).

c) Measurement of the defined benefit liability

The carrying value of the liabilities relating to the defined benefit pension scheme is valued using an actuarial valuation. The valuation is based on assumptions. All the assumptions used are estimates of future events. Further details about the key assumptions used are given in note 24.

NOTES TO THE FINANCIAL STATEMENTS

5 Segmental reporting

The Group represents a single reportable segment. The Group head office in the UK, with subsidiaries also based in wider Europe.

Collections information is available for the UK and the wider-European operations. This is the only information analysed between the UK and the wider-European operations received on a regular basis by the chief operating decision maker (CODM), and does not constitute sufficient information upon which to base resource allocation decisions, consequently one segment has been identified. In line with the business strategy we expect this to be developed over the next 12 months. The CODM is considered to be the board of directors collectively.

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Total revenue	**235,930**	**165,454**
Collection activity costs	(70,261)	(52,303)
Recurring other operating expenses	(65,615)	(34,205)
Non-recurring items	(5,022)	(4,309)
Operating profit	**95,032**	**74,637**
Finance income	813	152
Total finance costs	(48,847)	(36,760)
Share of profit in associate	2,363	1,243
Non-recurring items	(17,994)	–
Profit before tax	**31,367**	**39,272**
Taxation	(5,061)	(7,523)
Profit after tax	**26,306**	**31,749**

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Purchased loan portfolios	782,792	609,793
Investments in associate	10,371	12,158
Statement of financial position		
Total segment assets	1,043,974	771,559
Total segment liabilities	(865,416)	(622,446)
Segment net assets	**178,558**	**149,113**
Unallocated assets which is represented by deferred tax balances	3,692	639
Unallocated liabilities which is represented by deferred tax balances	(14,859)	(4,396)
Consolidated net assets	**167,391**	**145,356**

Geographical information	UK entities 2016 £000	Foreign entities 2016 £000	Intra group trading 2016 £000	Total 2016 £000
Total revenue	179,703	66,289	(10,062)	**235,930**
Non-current assets	150,599	34,273	–	**184,872**

NOTES TO THE FINANCIAL STATEMENTS

5 Segmental reporting (continued)

Geographical information	UK entities 2015 £000	Foreign entities 2015 £000	Intra group trading 2015 £000	Total 2015 £000
Total revenue	154,553	12,964	(2,063)	**165,454**
Non-current assets	77,962	39,479	–	**117,441**

6 Profit after tax

Profit after tax has been arrived at after (charging)/crediting:	Note	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Net foreign exchange gains		1,510	592
Operating leases – properties		(2,102)	(744)
Depreciation and amortisation	14, 15	(8,658)	(4,176)
Staff costs	10.b	(30,649)	(19,217)

7 Finance income

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Finance income		
Bank interest	7	7
Loan note interest	806	145
	813	**152**

8 Finance costs

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Finance costs		
Interest and similar charges on bank loans	5,370	8,991
Interest on senior secured notes	42,746	27,032
Other interest	731	737
Non-recurring interest and costs	17,994	–
Total finance costs (including non-recurring items)	**66,841**	**36,760**
Non-recurring finance costs	(17,994)	–
Recurring finance costs	**48,847**	**36,760**

Finance costs include a non-recurring cost of £17,994,000 relating to refinancing activity during the period. This comprised £15,026,000 incurred upon the early redemption of the £220 million notes due 2020, of which £8,664,000 was a cash cost related to the call premium and £6,362,000 a non-cash cost related to the write-off of previous transaction fees. In addition, upon the cancellation of the previous revolving credit facility £2,968,000 non-cash costs were incurred relating to the write-off of previous transaction fees.

NOTES TO THE FINANCIAL STATEMENTS

9 Auditor's remuneration

The analysis of auditor remuneration is as follows:	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Fees payable for audit services – Company	65	62
Fees payable for audit services – subsidiaries	663	288
Total fees payable for audit services	**728**	**350**
Fees payable for audit-related assurance services – Company	59	25
Total fees payable for audit-related assurance services	**59**	**25**
Fees payable for other assurance services	310	158
Total fees payable for non-audit services	**310**	**158**
Total fees payable	**1,097**	**533**

10 Staff costs and other operating expenses

a) Other operating expenses

	Note	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Staff costs	10.b	30,649	19,217
Other staff related costs		4,071	4,428
Premises		4,678	2,326
IT		7,033	2,594
Depreciation and amortisation		8,658	4,176
Net foreign exchange gains		(1,510)	(592)
Acquisition of subsidiaries		5,022	1,491
Other operating expenses		12,036	4,874
Total other operating expenses (including non-recurring items)		**70,637**	**38,514**
Non-recurring items:			
Costs arising from the acquisition of subsidiary		(5,022)	(1,491)
IPO related costs		–	(1,366)
Company integration		–	(1,452)
Total non-recurring items		**(5,022)**	**(4,309)**
Recurring other operating expenses		**65,615**	**34,205**

In 2016, £3,700,000 of the other staff related costs relates to temporary labour, recruitment and training (2015: £3,700,000).

In the year to 31 December 2016, £5,022,000 of costs were incurred relating to the completion of two acquisitions, Vesting Finance in the Netherlands and Redrock in Portugal and the agreed acquisition of Zenith Services S.p.A. in Italy.

In the year to 31 December 2015, £1.5 million of costs were incurred relating to the completion of two acquisitions, Gesphone and Whitestar. £1.4 million of staff costs were incurred as a result of the share option charges in relation to the share options issued as part of the IPO in 2013. £1.5 million of costs have been incurred due to Capquest integration.

NOTES TO THE FINANCIAL STATEMENTS

10 Staff costs and other operating expenses (continued)

b) Staff costs

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Wages, bonuses and salaries	23,778	13,830
Pension costs	809	367
Social security costs	3,001	1,607
Share based payments	3,061	2,577
Staff restructuring	–	836
	30,649	**19,217**

The total directors' personnel remuneration (including non-executive directors) during the year was £2,790,000 (2015: £1,806,000), and including £104,000 in relation to pension costs (2015: £110,000). See the remuneration report for more disclosure of directors' remuneration.

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

	Year ended 31 December 2016	Year ended 31 December 2015
Collections	672	347
Data and analytics	49	60
Finance, pricing and legal	145	83
IT and change	111	75
Management	18	24
Risk	39	24
Support services	101	136
	1,135	**749**

NOTES TO THE FINANCIAL STATEMENTS

11 Tax

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax. The effective tax rate for the year ended 31 December 2016 is lower than the standard rate of corporation tax in the UK at 20.0% (2015: 20.25%). The differences are as follows:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Profit before tax	**31,367**	**39,272**
Tax charge at standard UK corporation tax rate	6,273	7,952
Utilisation of tax losses previously unrecognised	(2,754)	–
Adjustment in respect of prior years	(46)	(862)
Expenses not deductible for tax purposes	1,391	473
Share in profit in associate reported net of tax	(472)	(252)
Differences in corporate tax rates	(329)	23
Differences on hedging arrangements	–	18
Differing overseas tax rates	1,259	171
Movements in unrecognised deferred tax	(469)	–
Chargeable gains	208	–
Tax charge	**5,061**	**7,523**
Effective tax rate relating to continuing operations	**16.1%**	**19.2%**
Standard UK corporation rate for the year	**20.0%**	**20.25%**
Effective tax rate higher/lower than standard UK corporation rate for the year	**Lower**	**Lower**

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Tax charge for the year consists of:		
Current tax charge:		
UK and foreign corporation tax based on profit after tax	7,055	8,691
Adjustment in respect of prior years	(2,871)	(642)
Total current tax charge	**4,184**	**8,049**
Deferred tax charge/(credit):		
Origination and reversal of temporary differences	1,234	(329)
Adjustment in respect of prior years	441	(220)
Movement in deferred tax previously not recognised	(469)	–
Differences in tax rates	(329)	23
Total tax charge	**5,061**	**7,523**

In the current year, we have recognised through current tax, a previously unrecognised deferred tax asset in relation to prior year losses been recognised, which with profits in associate accounted for net of tax, deflates the current year tax charge. This is offset by an increase in expenses not deductible for tax purposes largely due to current year subsidiary acquisition costs, a higher level of taxable income coming from overseas countries with higher tax rates and a chargeable gain.

Deferred tax

The Group has not recognised a deferred tax asset in respect of £14,335,000 (2015: £28,168,000) of tax losses carried forward, due to uncertainties over the future utilisation of the losses including the future profitability of the relevant subsidiaries. These losses may be available for offset against future profits and have no expiry date.

The Finance Act 2016, which was substantively enacted in September 2016, included provisions to reduce the rate of UK corporation tax from 20% to 19% from 1 April 2017 and 17% from 1 April 2020. Deferred taxation is measured at the tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the statement of financial position date. Accordingly, deferred tax balances have generally been calculated using a rate of 17% in these accounts, apart from balances on overseas companies that are recognised at the relevant rate applicable in the appropriate jurisdictions.

Non-recurring tax

We have identified non-recurring items in the year amounting to £23,016,000 (2015: £4,309,000), with a £3,755,000 (2015: £657,000) associated tax impact.

NOTES TO THE FINANCIAL STATEMENTS

12 Dividend

Dividends of £14,123,000 have been included in these financial statements, being the 2015 final dividend of 5.4p per share and the 2016 interim dividend of 2.7p per share. A final dividend for 2016 has been proposed of 6.4p per share taking the total declared and proposed dividends for the year ended 31 December 2016 to 9.1p, being 35% of underlying profit after tax. The proposed final dividend is subject to approval at the annual general meeting and has, therefore, not been included as a liability in these financial statements.

The 2016 interim dividend was declared at 50% of the 2015 final dividend with the subsequent final dividend being proposed based on the underlying profit after tax for the year.

The ex-dividend date for the final dividend is 8 June 2017 with a record date of 9 June 2017 and a payment date of 6 July 2017. Shareholders will have the opportunity to elect to reinvest their cash dividend and purchase existing shares in the Company through a dividend reinvestment plan.

13 Goodwill

Cost	**£000**
At 1 January 2015	49,932
Goodwill on acquisition of subsidiary	30,920
Exchange rate differences	947
At 31 December 2015	81,799
Goodwill on acquisition of subsidiary	40,371
Exchange rate differences	8,220
At 31 December 2016	**130,390**
Amortisation and impairment	
At 31 December 2015 and 31 December 2016	**2,309**
Net book value	
At 31 December 2016	**128,081**
At 31 December 2015	79,490

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to four aggregated CGUs on the basis that these represent the lowest level at which goodwill is monitored for internal management purposes, and are not larger than the single operating segment defined under IFRS 8 (Operating Segments). In relation to goodwill, the four CGUs identified are Benelux, comprising of all the Group companies acquired in the Vesting acquisition, Capquest group, comprising all group companies acquired in the Capquest acquisition, Portugal, comprising of all the Group companies acquired in the Whitestar, Gesphone and Redrock acquisitions, and Arrow Global Receivables Management Limited ('AGRML'). The Benelux, Capquest and Portugal CGUs, represent the cash flows generated principally from collections on acquired purchased loan portfolios and management of third party debt, and the AGRML CGU represents the cash flows generated principally from collections on purchased loan portfolios.

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows:

	Year ended 31 December 2016 £000	**Year ended 31 December 2015 £000**
Benelux	40,921	–
Capquest	45,608	45,608
Portugal	39,584	31,914
AGRML	1,968	1,968
	128,081	**79,490**

An impairment review was carried out at 31 December 2016 that resulted in no impairment to goodwill. The goodwill was assessed to be appropriately stated. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGUs is determined as the higher of fair value less cost to sell and value in use. The key assumptions for the value in use calculations are those regarding the discount rate and forecast cash collections net of direct collection costs, and allowable forecast synergies.

NOTES TO THE FINANCIAL STATEMENTS

13 Goodwill (continued)

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The starting point for determining the discount rates for each CGU was to use the Group's weighted average cost of capital ('WACC'), and adjust this for specific factors for each of the CGUs to derive a market participant's rate. The factors took into account the risks inherent in each of the CGUs, such as currency, regulatory, and economic risks and the different operations in the CGUs were also considered. As a result of applying the various risk factors noted above to the Group's WACC, a market participant rate of 6.09% was determined for the AGRML and Capquest CGUs, a rate of 6.84% was determined for the Portuguese CGU, and a rate of 6.34% was determined for the Benelux CGU.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows into perpetuity. The forecasts assume growth rates in collection activity which in turn drive the forecast collections and cost figures. These assumptions are in keeping with the directors' expectations of future growth. Appropriate tax rates are applied to the cash flow forecasts for each CGU.

The Group has conducted a sensitivity analysis on the impairment test of the CGUs carrying value. The CGUs would become impaired based on an unlevered post tax cash flow noted below, or based on an increase in the discount rate noted below.

Impairment in each CGU, would happen with –	– a cashflow reduction of –	– a discount rate increase of –
Capquest	16%	3%
Portugal	14%	3%
AGRML	7%	2%
Benelux	54%	8%

14 Intangible assets

	Customer intangibles £000	Contractual rights £000	IT platform £000	Software licences £000	Total £000
Cost					
At 1 January 2015	–	–	9,612	3,360	12,972
Assets acquired on acquisition of a subsidiary	3,721	–	–	340	4,061
Exchange differences	–	–	9	37	46
Additions	–	2,579	5,367	672	8,618
At 31 December 2015	3,721	2,579	14,988	4,409	25,697
Assets acquired on acquisition of a subsidiary	14,257	–	1,297	1,241	16,795
Exchange differences	1,795	405	157	420	2,777
Additions	–	–	5,365	2,047	7,412
Disposals	–	(639)	–	–	(639)
At 31 December 2016	**19,773**	**2,345**	**21,807**	**8,117**	**52,042**
Accumulated depreciation					
At 1 January 2015	–	–	–	1,929	1,929
Amortisation charge for the year	371	258	1,781	675	3,085
Exchange differences	–	–	9	31	40
At 31 December 2015	371	258	1,790	2,635	5,054
Exchange differences	67	39	65	275	446
Amortisation charge for the year	2,836	172	2,048	2,342	7,398
At 31 December 2016	**3,274**	**469**	**3,903**	**5,252**	**12,898**
Carrying amount					
At 31 December 2016	**16,499**	**1,876**	**17,904**	**2,865**	**39,144**
At 31 December 2015	3,350	2,321	13,198	1,774	20,643

NOTES TO THE FINANCIAL STATEMENTS

15 Property, plant and equipment

Cost	Leasehold improvements £000	Computer equipment £000	Furniture £000	Vehicles £000	Total property, plant and equipment £000
At 1 January 2015	1,825	1,302	605	–	3,732
Assets acquired on acquisition of a subsidiary	376	247	260	42	925
Exchange differences	19	38	9	3	69
Additions	549	162	209	–	920
Disposals	–	(6)	(1)	(1)	(8)
At 31 December 2015	2,769	1,743	1,082	44	5,638
Assets acquired on acquisition of a subsidiary	–	388	195	–	583
Exchange differences	187	248	67	15	517
Additions	123	249	153	–	525
Disposals	(72)	(247)	(18)	(18)	(355)
At 31 December 2016	**3,007**	**2,381**	**1,479**	**41**	**6,908**
Accumulated depreciation					
At 1 January 2015	429	249	173	–	851
Exchange differences	8	32	3	8	51
Disposal	–	(4)	–	–	(4)
Charge for the year	242	686	152	11	1,091
At 31 December 2015	679	963	328	19	1,989
Exchange differences	90	213	68	14	385
Disposal	(72)	(202)	(18)	(18)	(310)
Charge for the year	383	571	294	12	1,260
At 31 December 2016	**1,080**	**1,545**	**672**	**27**	**3,324**
Carrying amount					
At 31 December 2016	**1,927**	**836**	**807**	**14**	**3,584**
At 31 December 2015	2,090	780	754	25	3,649

16 Financial assets

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Expected falling due after 1 year:		
Purchased loan portfolios	595,352	464,996
Loan notes	17,763	862
	613,115	**465,858**
Expected falling due within 1 year:		
Purchased loan portfolios	187,440	121,278
Loan notes	3,552	–
Purchased loan portfolios due to be resold	–	23,519
Total	**804,107**	**610,655**

Purchased loan portfolios

The Group recognises income from purchased loan portfolios in accordance with IAS 39. At 31 December 2016, the carrying amount of the purchased loan portfolio asset was £782,792,000 (2015: £609,793,000).

NOTES TO THE FINANCIAL STATEMENTS

16 Financial assets (continued)

The movements in purchased loan portfolio assets were as follows:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
As at the year brought forward	609,793	477,513
Portfolios acquired during the year*	224,640	177,716
Purchased loan portfolios to be resold	(23,519)	23,519
Portfolios acquired through acquisition of a subsidiary	35,343	3,970
Collections in the year	(285,960)	(218,515)
Income from purchased loan portfolios	188,914	150,238
Exchange gain/(loss) on purchased loan portfolios	32,880	(5,151)
Disposal of purchased loan portfolios	701	503
As at the year end	**782,792**	**609,793**

*Inclusive of portfolio expenditure and recoverable litigation expenditure of £22,940,000 (2015: £1,406,000)

17 Other receivables and prepayments

	Note	Group Year ended 31 December 2016 £000	Group Year ended 31 December 2015 £000	Company Year ended 31 December 2016 £000	Company Year ended 31 December 2015 £000
Prepayments		3,723	5,344	112	80
Due from subsidiary undertakings	22	–	–	80,794	71,742
Other receivables		23,590	29,370	–	3
Deposits		8,171	67	–	–
		35,484	**34,781**	**80,906**	**71,825**

18 Trade and other payables

Current	Note	Group Year ended 31 December 2016 £000	Group Year ended 31 December 2015 £000	Company Year ended 31 December 2016 £000	Company Year ended 31 December 2015 £000
Trade payables		13,536	9,408	14	9
Deferred consideration on acquisition of subsidiary		9,230	14,278	–	–
Deferred consideration on purchased loan portfolios		26,171	28,223	–	–
Deferred consideration on portfolio to be resold		–	23,519	–	–
Taxation and social security		121	121	–	–
Due to subsidiary undertakings	22	–	–	2,952	6,163
Other liabilities and accruals		27,203	8,357	–	–
		76,261	**83,906**	**2,966**	**6,172**

NOTES TO THE FINANCIAL STATEMENTS

18 Trade and other payables (continued)

Non-current	Group Year ended 31 December 2016 £000	Group Year ended 31 December 2015 £000	Company Year ended 31 December 2016 £000	Company Year ended 31 December 2015 £000
Deferred consideration on acquisition of subsidiary	–	7,648	–	–
	–	**7,648**	**–**	**–**

19 Deferred tax

	2016			2015		
	Assets £000	**Liabilities £000**	**Total £000**	**Assets £000**	**Liabilities £000**	**Total £000**
Fixed assets	404	–	404	–	(7)	(7)
IFRS transitional adjustments	–	(2,052)	(2,052)	30	(2,643)	(2,613)
Share schemes	1,129	–	1,129	324	–	324
Hedging reserve	129	–	129	285	–	285
Chargeable gains	–	(425)	(425)	–	–	–
Losses	1,561	–	1,561	–	–	–
Fair value adjustment on acquisition of subsidiaries	469	(12,382)	(11,913)	–	(1,746)	(1,746)
	3,692	**(14,859)**	**(11,167)**	**639**	**(4,396)**	**(3,757)**

The following table reconciles from the 2015 to the 2016 net deferred tax position:

	Year ended 31 December 2015	Transferred in on acquisition	Movements to goodwill	Recognised in statement of profit or loss and other comprehensive income	Recognised in statement of changes in equity	Foreign exchange	Year ended 31 December 2016
Fixed assets	7	–	–	(411)	–	–	(404)
IFRS transitional adjustments	2,662	–	–	(610)	–	–	2,052
Share schemes	(324)	–	–	(645)	(160)	–	(1,129)
Hedging reserve	(285)	–	–	–	156	–	(129)
Chargeable gains	–	–	–	425	–	–	425
Losses	–	(3,481)	450	1,470	–	–	(1,561)
Other temporary differences	(49)	(94)	–	28	–	–	(115)
Fair value adjustment on acquisition of subsidiaries	1,746	6,077	3,227	622	–	356	12,028
	3,757	**2,502**	**3,677**	**879**	**(4)**	**356**	**11,167**

NOTES TO THE FINANCIAL STATEMENTS

20 Share capital

Issued, fully paid and authorised	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
174,439,026 ordinary shares of 1p each	1,744	1,744
	1,744	**1,744**
Offset by own shares	(1)	(4)
	1,743	1,740

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

The shareholders have the right to receive notice of and to attend and vote at all general meetings of the Company.

21 Lease commitments

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

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Less than 1 year	2,469	866
1-5 years	5,620	3,444
5+ years	561	1,976
	8,650	**6,286**

22 Related party transactions

Group

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

	Key management personnel £000	Total £000
As at 31 December 2016 and 2015:		
Trade	–	–
	–	**–**

Remuneration for directors has been disclosed in note 10 along with the statement of profit or loss and other comprehensive income charges in the year and in the remuneration report. The statement of profit or loss and other comprehensive income charges for other balances are disclosed in note 6.

NOTES TO THE FINANCIAL STATEMENTS

22 Related party transactions (continued)

Summary of transactions

Key management, defined as permanent members of the executive committee, received the following compensation during the year.

Remuneration	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Salaries and performance-related bonus	4,080	2,487
Pension-related benefits	184	160
	4,264	**2,647**

Non-executive director, Iain Cornish, was appointed Chairman of Shawbrook Group Plc during 2015. Shawbrook was part of the consortium of our revolving credit facility lenders up until July 2016. There have been no related party transactions with Shawbrook during this period.

Company

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

	Arrow Global Group Holdings Limited £000s	Arrow Global Limited £000s	Arrow Global Finance Plc £000s	Arrow Global One Limited £000s	Capquest Debt Recovery Limited £000s	Vesting Finance Detachering B.V. £000s	Total £000s
As at 31 December 2016							
Due from subsidiary undertakings	–	–	–	80,587	167	40	80,794
Due to subsidiary undertakings	(1,367)	(1,585)	–	–	–	–	(2,952)
	(1,367)	**(1,585)**	**–**	**80,587**	**167**	**40**	**77,842**

	Arrow Global Group Holdings Limited £000s	Arrow Global Limited £000s	Arrow Global Finance Plc £000s	Arrow Global One Limited £000s	Total £000s
As at 31 December 2015					
Due from subsidiary undertakings	–	–	1,021	70,721	71,742
Due to subsidiary undertakings	(1,367)	(4,796)	–	–	(6,163)
	(1,367)	**(4,796)**	**1,021**	**70,721**	**65,579**

Balances relate to intercompany loans that are repayable on demand and are therefore held as current liabilities or assets. No other transactions occurred between the related parties, excluding those disclosed above.

During the year there were no other related party transactions other than discussed above.

NOTES TO THE FINANCIAL STATEMENTS

23 Investments in subsidiaries and associate

Details of the Company's subsidiaries at 31 December 2016 are as follows:

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Arrow Global (Holdings) Limited (AG(H)L)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGIHL
Arrow Global Accounts Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGL
Arrow Global Europe Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGIHL
Arrow Global Finance Plc	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGIHL
Arrow Global Guernsey Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L
Arrow Global Investments Holdings Limited (AGIHL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGGHL
Arrow Global Legh Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L
Arrow Global Limited (AGL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AG(H)L
Arrow Global Luna Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AG(H)L
Arrow Global Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L
Arrow Global Massey Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L
Arrow Global One Limited (AGOL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGGP
Arrow Global Portugal Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AG(H)L
Arrow Global Portugal Investments Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGL
Arrow Global Receivables Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AG(H)L
Capquest Asset Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Capquest Debt Recovery Limited (CDRL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	CGL
Capquest Debt Recovery Services Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Capquest Group Limited (CGL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	QNL
Capquest Investments Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	CGL
Capquest Investments 2 Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Capquest Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Capquest Mortgage Servicing Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	CGL
Capquest UK Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Care Debt Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Data Verification Services Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Erudio Customer Management Limited (formerly Arrow Global Egerton Limited)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L

NOTES TO THE FINANCIAL STATEMENTS

23 Investments in subsidiaries and associate (continued)

Details of the Company's subsidiaries at 31 December 2016 are as follows:

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Quest Bidco Limited (QBL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	QTL
Quest Newco Limited (QNL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	QBL
Quest TopCo Limited (QTL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGIHL
Arrow Global Debt Limited (AGDL)	Guernsey	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey	100	Dormant	AGGHL
Arrow Global Guernsey Limited	Guernsey	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey	100	Dormant	AGIHL
Arrow Global Guernsey Holdings Limited (AGGHL)	Guernsey	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey	100	Trading	AGOL
Arrow Global Guernsey Management Limited	Guernsey	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey	100	Dormant	AGDL
Arrow Global Investments Holdings Italia S.R.L.	Italy	Via Tortona n.25 20144 Milan, Italy	100	Trading	AGIHL
Strzala Sp. z o.o.	Poland	Al. Jerozolimskie nr 148, 02-326, Warszawa	100	Dormant	AG(H)L/AGL
Capquest Debt Recovery S.A (pty) Limited	South Africa	Office Suite 15, Canal Edge, 1, Tyger Waterfront, Carl Cronje Drive, Bellville, Western Cape, 7530, South Africa	100	Trading	CDRL
AGHL Portugal Investments Holdings, S.A. (AGHLPIH)	Portugal	Av. da República, nº 25, 1º andar, Lisbon, Portugal	100	Trading	AGIHL
Gesphone – Serviços de Tratamento e Acquisição de Dívidas, S.A.	Portugal	Avenida 5 de Outubro, nº 35, 1º andar, Lisbon, Portugal	100	Trading	AGIHL
Redrock Capital Partners, S.A.	Portugal	Edifício Q54 D. José, Rua Quinta do Quintã, nº1, Piso 0, Fracção B, Quinta da Fonte, Oeiras, Portugal	100	Trading	AGHLPIH
Sandalgreen, Assets, S.A.	Portugal	Edifício Dom Sebastião, Quinta do Quintã, nº 6, Quinta da Fonte, Oeiras, Portugal	100	Trading	AGHLPIH
Whitestar Asset Solutions, S.A.	Portugal	Edifício D. Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, Oeiras, Portugal	75	Trading	AGHLPIH
Amstelveste Vastgoed B.V.	the Netherlands	Bonairelaan 4 (1213 VH) Hilversum, the Netherlands	100	Trading	AGIHB/VFS
Arrow Global Investments Holdings Benelux B.V (AGIHB)	the Netherlands	Bonairelaan 4 (1213 VH) Hilversum, the Netherlands	100	Trading	AGIHL
Fiditon Holding B.V. (FH)	the Netherlands	Bonairelaan 4 (1213 VH) Hilversum, the Netherlands	100	Trading	AGIHB
Focum Commerce B.V.	the Netherlands	Bonairelaan 4 (1213 VH) Hilversum, the Netherlands	100	Trading	FG
Focum Finance B.V.	the Netherlands	Bonairelaan 4 (1213 VH) Hilversum, the Netherlands	100	Trading	FG
Focum Groep B.V. (FG)	the Netherlands	Bonairelaan 4 (1213 VH) Hilversum, the Netherlands	100	Trading	AGIHB

NOTES TO THE FINANCIAL STATEMENTS

23 Investments in subsidiaries and associate (continued)

Details of the Company's subsidiaries at 31 December 2016 are as follows:

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Focum Solutions B.V.	the Netherlands	Bonairelaan 4 (1213 VH) Hilversum, the Netherlands	100	Trading	FG
Incassobureau Fiditon B.V	the Netherlands	Naritaweg 199-207 (1043 CB) Amsterdam, the Netherlands	100	Trading	FH
Universum Inkasso B.V. (UI)	the Netherlands	Louis Armstrongweg 54 (1311RK) Almere, the Netherlands	100	Non-Trading	AGIHB
Vesting Finance Detachering B.V.	the Netherlands	Bonairelaan 4 (1213 VH) Hilversum, the Netherlands	100	Trading	VFH
Vesting Finance Holding B.V. (VFH)	the Netherlands	Bonairelaan 4 (1213 VH) Hilversum, the Netherlands	100	Trading	AGIHB
Vesting Finance Incasso B.V.	the Netherlands	Bonairelaan 4 (1213 VH) Hilversum, the Netherlands	100	Trading	VFH
Vesting Finance Servicing B.V. (VFS)	the Netherlands	Naritaweg 199-207 (1043 CB) Amsterdam, the Netherlands	100	Trading	AGIHB
Focum Belgium (BVBA)	Belgium	Bellevue 1-3 9050 Gent, Belgium	100	Trading	AGIHB/ VFN
Vesting Finance N.V. (VFN)	Belgium	Bellevue 1-3 9050 Gent, Belgium	100	Trading	AGIHB/UI

Gesphone Securities, Sociedade de Titularização de Créditos S.A. (previously referred to in the Company's 2015 annual report as Gesphone STC) was dissolved on 22 August 2016.

All subsidiaries are included in the Group consolidation. On 22 December 2015 the subsidiary Silver Parallel S.A. was merged into Whitestar Asset Solutions S.A.

Subsidiaries	Arrow Global One Limited £000	Total £000
At 31 December 2015 and 31 December 2016	307,500	307,500

The investments in subsidiaries are all stated at cost less accumulated impairment.

Details of the Company's associate at 31 December 2016 are as follows:

Name	Place of incorporation (or registration) and operation	Registered office	Economic interest (%)	Current status	Parent company
Promontoria MCS Holding SAS	France	256 B Rue des Pyrenees, 75020, Paris	15%	Trading	AGL

The Group acquired an indirect 15% economic interest in Promontoria MCS Holding SAS ('MCS') through a participation agreement on 15 December 2014. The terms of the participation agreement meant that the Group demonstrated significant influence over the MCS group.

MCS is a holding company of the MCS group, a specialist acquirer and manager of retail banking assets, which is seen as complementing the Group's operations and contributing to achieving the Group's overall strategy. The associate is accounted for using the equity method.

Summarised below is a reconciliation of the movements in the carrying value of the Group's interest in MCS during the year:

	£000
Interest in the net assets of the associate as at 1 January 2016	**12,158**
Additional interest in the net assets of the associate	1,305
Adjustment of foreign exchange differences	1,365
Share of profit in associate during the year	2,363
Dividends received from associate	(6,820)
Interest in the net assets of the associate as at 31 December 2016	**10,371**

NOTES TO THE FINANCIAL STATEMENTS

24 Defined benefit liability

	Year ended 31 December 2016 £000
Net defined benefit liability	1,721

A number of employees of Vesting Finance are entitled to pension benefits that the company has insured through a contract with an insurance company. The arrangement meets the definition of a defined benefit plan and the insurance policy represents qualifying plan assets of the scheme. The scheme has been recognised since the acquisition of Vesting in May 2016, therefore December 2015 comparatives are not shown.

The plan is governed by the 'Pensioenwet' (the Dutch pension act) and the minimum of vested benefits at the date of departure of an employee in a defined benefit pension plan is equal to the difference between the total benefit which would be accrued if the participant would remain a participant until the pensionable age and the benefits which can be accrued between the date of departure and the date in which the participant would reach their pensionable age. The scheme is funded by a contract with an insurance company to cover the committed pension benefits.

The defined benefit plan exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

a) Movement in the net defined benefit obligation and plan assets

	Defined benefit obligation 2016 £000	Fair value of plan assets 2016 £000	Net defined benefit liability 2016 £000
Balance at acquisition	**4,223**	**2,753**	**1,470**
Included in profit or loss			
Net service cost	289	–	289
Interest (expense)	58	–	58
Interest cost (income)	–	41	(41)
Administration costs	–	(22)	22
	347	**19**	**328**
Included in OCI			
Actuarial loss (gain) arising from:			
Demographic assumptions	29	–	29
Financial assumptions	128	–	128
Experience adjustment	–	–	–
Return on plan assets excluding interest income	–	92	(92)
Asset management costs	–	(9)	9
Premium correction	–	65	(65)
Exchange differences	355	232	123
	512	**380**	**132**
Other			
Contributions paid by the employee	13	13	–
Contributions paid by the employer	–	209	(209)
Benefits paid	(1)	(1)	–
	12	**221**	**(209)**
Balance at 31 December 2016	**5,094**	**3,373**	**1,721**
Represented by:			
Net defined benefit liability	**5,094**	**3,373**	**1,721**

The plan assets are comprised of an insurance contract, which has been defined as a qualifying insurance policy issued by an insurer that is not a related party of the Group. The proceeds of the policy can be used only to pay or fund employee benefits under the defined benefit plan and are not available to the Group's own creditors and cannot be paid to the Group, unless the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations, or the proceeds are returned to the Group to reimburse it for the employee benefits already paid.

NOTES TO THE FINANCIAL STATEMENTS

24 Defined benefit liability (continued)

b) Defined benefit obligation

Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	Year ended 31 December 2016
Discount rate	1.95%
Price inflation	1.80%
Wage inflation	1.80%
Indexation to deferred and pensioners	1.26%

	Year ended 31 December 2016
Longevity at age 67 for current pensioners	
Male	19.6
Female	21.8
Longevity at age 67 for current members aged 47	
Male	21.9
Female	24.2

At the 31 December 2016, the weighted average duration of the defined benefit obligation was 26.09 years.

Sensitivity analysis

	2016	
	Increase	Decrease
Discount rate (0.25% movement)	(318)	346
Price inflation (0.25% movement)	(36)	35
Wage inflation (0.25% movement)	138	(133)
Indexation to deferred and pensioners (0.25% movement)	257	(240)
Future mortality (1 year)	(177)	177

For 2017 the expected contributions to the pension plan are £345,000.

25 Risks arising from financial instruments

Risk management

Treasury related risks

The board approves treasury policies and the treasury function manages the day-to-day operations. The board delegates certain responsibilities to the treasury and tax committee. The treasury and tax committee, which is chaired by the chief financial officer, is empowered to take decisions within that delegated authority. Treasury activities and compliance with treasury policies are reported to the board on a regular basis and are subject to periodic independent reviews and audits, both internal and external. Treasury policies are designed to manage the main financial risks faced by the Group in relation to funding and liquidity risks, counterparty credit risk and market risks being interest rate risk and foreign currency risk. This is to ensure the Group is properly funded, that financial counterparties are of appropriate credit quality and that interest rate and currency risk is managed within set limits. Policies also set out the specific instruments that can be used for risk management.

The treasury function enters into derivative transactions, principally interest rate swaps, currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's business operations. No transactions of a speculative nature are undertaken and written options may only be used when matched by purchased options. No written options were entered into during 2016 (2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS

25 Risks arising from financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by cash or another financial asset.

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plans for growth. The treasury policy adopted by the Group serves to reduce this risk by setting a specific policy parameter that there are sufficient committed debt facilities to cover forecast borrowings plus operational headroom plus appropriate stress testing for the next 18 months on a rolling basis. Further, the aim is to ensure that there is a balanced refinancing profile with phased maturity dates, diversification of debt funding sources and no over-reliance on a single or small group of lenders. At 31 December 2016, the Group's senior secured notes and revolving credit facility had an average period to maturity of 5.8 years (2015: 5.0 years). Total undrawn facilities as at 31 December 2016 were £103,721,000 (2015: £90,000,000).

The treasury function monitors cash through daily reporting, the management accounts and periodic review meetings. Management has well established models used to predict collectability of cash receipts and this represents a key performance indicator of the business. The Group has a low fixed cost base, is highly cash generative with weekly cash receipts and portfolio purchases (except forward flows) are discretionary, which helps to mitigate liquidity risk.

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

Group As at 31 December 2016	Within 1 year £000	1-2 years £000	2-5 years £000	5 years and over £000	Total £000
Amounts due to:					
Non interest bearing					
Trade and other payables	76,261	–	–	–	76,261
Interest bearing					
€335 million secured senior note (5.25% plus 3m EURIBOR)	14,280	14,280	326,113	–	354,673
€230 million secured senior note (4.75% plus 3m EURIBOR)	9,444	9,444	28,358	208,647	255,893
£220 million secured senior note (5.125%)	11,275	11,275	33,825	250,536	306,911
Non-recourse facility	6,268	2,769	3,691	–	12,728
Bank overdrafts	7,698	–	–	–	7,698
Revolving credit facility	78,231	1,733	4,476	–	84,440
Total	**203,457**	**39,501**	**396,463**	**459,183**	**1,098,604**

Group As at 31 December 2015	Within 1 year £000	1-2 years £000	2-5 years £000	5 years and over £000	Total £000
Amounts due to:					
Non interest bearing					
Trade and other payables	91,554	–	–	–	91,554
Interest bearing					
£220 million secured senior note (7.875%)	17,325	17,325	51,975	209,798	296,423
€225 million secured senior note (5.25% plus 3m EURIBOR)	12,680	12,680	38,040	257,398	320,798
Revolving credit facility	79,575	4,575	4,575	–	88,725
Total	**201,134**	**34,580**	**94,590**	**467,196**	**797,500**

NOTES TO THE FINANCIAL STATEMENTS

25 Risks arising from financial instruments (continued)

Company As at 31 December 2016	Within 1 year £000	1-2 years £000	2-5 years £000	5 years and over £000	Total £000
Amounts due to:					
Non-Interest bearing					
Trade and other payables	**2,528**	**–**	**–**	**–**	**2,528**

Company As at 31 December 2015	Within 1 year £000	1-2 years £000	2-5 years £000	5 years and over £000	Total £000
Amounts due to:					
Non-Interest bearing					
Trade and other payables	**6,172**	**–**	**–**	**–**	**6,172**

The analysis above includes the contractual cash flow for borrowings and the total amount of interest payable over the life of the loan. Where borrowings are subject to a floating rate, an estimate of interest payable is taken. The rate is derived from interest rate yield curves at the statement of financial position date.

In addition to the above the Group has entered in to certain forward flow agreements to which it has committed to pay £12,309,000 (2015: £24,600,000) over the next five years.

The following analysis shows the gross non-discounted contractual cash flows in respect of foreign currency contract derivative assets and liabilities, and interest rate swap derivative liabilities which are all designated as cash flow hedges:

	2016		2015	
	Outflow £000	Inflow £000	Outflow £000	Inflow £000
Not later than one month	39,518	39,660	32,400	32,680
Later than one month and not later than six months	126,594	124,755	35,508	34,900
Later than six months and not later than one year	26,583	25,567	925	7
Later than one year and not later than two years	482	737	1,936	15
Later than two years and not later than five years	–	–	–	–
	193,177	**190,719**	**70,769**	**67,602**

When the amount payable or receivable is not fixed, the amount disclosed has been determined with reference to the projected interest rates as illustrated by the interest rate yield curves existing at the statement of financial position date.

A maturity analysis of the Group's receivables and borrowing facilities as at 31 December 2016 is presented below:

As at 31 December 2016	Purchased loan portfolio £000s	% of total £000s	Borrowing £000s	% of total £000s
Less than one year	187,440	23.9	102,130	12.8
Later than one year	595,352	76.1	696,290	87.2
	782,792	**100.0**	**798,420**	**100.0**

As at 31 December 2015	Purchased loan portfolio £000s	% of total £000s	Borrowing £000s	% of total £000s
Less than one year	144,797	23.7	81,832	15.1
Later than one year	464,996	76.3	460,000	84.9
	609,793	**100.0**	**541,832**	**100.0**

This demonstrates the headroom on the Group's borrowings at 31 December 2016 in comparison to the current purchased loan portfolio's estimated collections over an 84-month period. The value of purchased loan portfolio shown above is discounted to net present value. The equivalent undiscounted ERC at 31 December 2016 is £1,339 million (2015: £1,029 million).

NOTES TO THE FINANCIAL STATEMENTS

25 Risks arising from financial instruments (continued)

Market risk

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

Interest rate risk

The Group does have an exposure to interest rate risk arising on changes in interest rates on its borrowings, principally on the senior secured notes, and therefore seeks to limit this exposure. This is achieved by the use of techniques to fix interest rate costs, including fixed rate funding (predominantly longer-term bond funding), forward currency contracts used for non-functional currency funding, bank borrowing loan draw down periods and interest rate hedging instruments. These techniques are used to hedge the interest rate costs on a proportion of borrowings over a certain period of time. Most hedging is for up to three years.

If interest rates across all countries of operation increased by 50 basis points this would have the following impact:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Increase in fair value of derivatives taken to equity	2,570	2,428
Reduction in profit before taxation	(656)	(304)

This sensitivity analysis is based on the following assumptions:

- the change in market interest rates occurs in all countries where the Group has borrowings and/or derivative financial instruments;
- where financial liabilities are subject to fixed interest rates or have their interest rate fixed by hedging instruments it is assumed that there is no impact from a change in interest rates; and
- changes in market interest rates affect the fair value of derivative financial instruments.

Currency risk

The Group is subject to three types of currency risk; cash flow exposure, net asset exposure and income statement exposure.

Cash flow exposure

The Group is subject to currency risk in respect of future cash flows which are denominated in foreign currency. The policy of the Group is to hedge a large proportion of this currency risk in respect of cash flows which are expected to arise in the following 12 months. Where cash flow hedges have been entered into, they are designated as cash flow hedges on specific future transactions.

Net asset exposure

A proportion of the Group's net assets are denominated in Euro. The statement of financial position is reported in sterling and this means that there is a risk that a fluctuation in foreign exchange rates will have an impact on the net assets of the Group. The Group aims to minimise the value of net assets denominated in Euro by funding portfolio assets with Euro denominated borrowings where possible.

Income statement exposure

As with net assets, a proportion of the Group's profit is denominated in Euro, but translated into sterling for reporting purposes. The result for the period is translated into sterling at the average exchange rate. A risk therefore arises that a fluctuation in the exchange rate relative to the Euro will have an impact on the consolidated result for the period.

NOTES TO THE FINANCIAL STATEMENTS

25 Risks arising from financial instruments (continued)

Foreign currency sensitivity analysis

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

Equity and net assets	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Currency		
Euro (EUR)	3,506	2,074
	3,506	**2,074**

Net profit	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Currency		
Euro (EUR)	2,328	352
	2,328	**352**

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

Equity and net assets	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Currency		
Euro (EUR)	(2,869)	(2,534)
	(2,869)	**(2,534)**

Net profit	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Currency		
Euro (EUR)	(1,904)	(430)
	(1,904)	**(430)**

There has been significant movement in the foreign exchange rates during the year due to one-off events such as the UK Referendum results. As such 10% is considered to be reasonable in relation to general market volatility. The above also assumes that there is no impact on retained earnings or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

NOTES TO THE FINANCIAL STATEMENTS

25 Risks arising from financial instruments (continued)

The Group's principal activity is the acquisition and management of underperforming consumer debt portfolios. Most portfolios by their nature are impaired at acquisition and the Group continually monitors cash collections that in turn inform the ERC's on which the portfolio statement of financial position value is calculated. The ongoing risk is managed through a portfolio valuation process including modelling current expectations of recoverability based on historical information on debt types, also factoring in recoveries from collateral held on the secured portfolios. Further details of the forecasting process are given in Note 4 b. A pricing gateway process is in place which includes at least two members of the executive board as well as other key members from appropriate areas of the business. The Group also monitors its exposure to geographic concentration of assets.

This process is in place to scrutinise all aspects of a portfolio acquisition from reputational and regulatory risk through to the financial assumptions and maximum bid price.

All purchased loan portfolios are measured at amortised cost using the EIR method. As part of the regular monitoring process, the future cash flows in the ERCs are updated, with 'write-ups' or 'write-downs' as a result of changes to the estimated cash flows discounted at the EIR rate. An impairment is only recognised if the 'write-downs' exceed any previously recognised cumulative write-ups and revenue recognised.

As part of credit risk, the Group is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks and foreign currency and derivative financial instruments. Counterparty risk with debt sellers is managed through warranties.

The Group generally deposits cash and undertakes currency and derivative transactions with highly rated banks, with strict limits on the level of exposure to any one institution. Institutions with lower credit ratings can only be used with board approval.

No collateral or credit enhancements are held in respect of any financial derivatives. The maximum exposure to counterparty risk is as follows:

	31 December 2016 £000	31 December 2015 £000
Cash and cash equivalents	23,203	10,183
	23,203	**10,183**

The table represents a worst case scenario of the counterparty risk that the Group is exposed to.

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

Capital risk management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group is currently not required to hold regulatory capital.

The Group aims to maintain appropriate capital to ensure that it has a strong statement of financial position but at the same time is providing a good return on equity to its shareholders. The Group's long-term aim is to ensure that the capital structure results in an optimal ratio of debt and equity finance. The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, cash and cash equivalents and equity.

Management reviews the capital structure on an ongoing basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group's position as at 31 December 2016 was:

	31 December 2016 £000	31 December 2015 £000
Ordinary share capital and premium	349,180	349,180
Total reserves	(181,789)	(203,824)
	167,391	**145,356**

NOTES TO THE FINANCIAL STATEMENTS

26 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.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted market prices within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Valuation techniques include net present value and discounted cash flow models, using prices from observable current market transactions and dealer quotes for similar instruments and unobservable inputs such as historic performance data and the Proprietary Collections Bureau output. The purchased loan portfolios fair value is calculated using our 84-month ERC through our own in-house models. Derivative financial instruments are initially recognised, and subsequently measured, at fair value. The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Borrowings are initially measured at fair value and are subsequently held at amortised cost. Derivative financial instruments are initially recognised, and subsequently measured, at fair value.

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 statement of financial position.

Level 2	31 December 2016 £000	31 December 2015 £000
Assets		
Foreign currency contracts	187	(71)
Interest rate swaps	1,246	1,352
Total assets	**1,433**	**1,281**

There have been no transfers in or out of level 2.

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 31 December 2016.

The Company did not hold any financial instruments at fair value (2015: none).

NOTES TO THE FINANCIAL STATEMENTS

26 Financial instruments (continued)

Financial instruments not measured at fair value – fair value hierarchy

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 statement of financial position.

Level 3	31 December 2016 £000	31 December 2015 £000
Assets		
Purchased loan portfolios	782,792	609,793
Loan notes	21,315	862
Total assets	**804,107**	**610,655**

There have been no transfers in or out of level 3.

The statement of financial position value of the Group's purchased loan portfolios is derived from discounted cash flows generated by an 84-month ERC model. The inputs into the ERC model are historic portfolio collection performance data. This ERC is updated with the core collections experience to date on a monthly basis.

Estimates of cash flows that determine the EIR are based on the Group's 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.

Management believes the purchase price is the best indicator of fair value at acquisition. Following acquisition it is considered that given the nature of the loan portfolios, largely comprising non-performing loans, the information available and our forecasting models, the best estimate of the fair value of the purchased loan portfolios is their carrying value.

The Group has an established control framework with respect to the measurement of purchased loan portfolio values. This includes regular monitoring of portfolio performance overseen by the portfolio review committee, which considers actual versus forecast results at an individual portfolio level, re-forecasts cash flows on a semi-annual basis, reviews actual against forecast gross money multiple, signs off the latest ERC forecast and assesses the carrying value of the portfolio assets and reviews revenue recognition.

A reconciliation of the opening to closing balances for the period of the purchased loan portfolios can be seen in note 16.

The Company did not hold any other financial instruments not measured at fair value for which a fair value needs to be calculated (2015: none).

Cash flow hedges

The Group uses foreign currency contracts ('cash flow hedges') to hedge foreign currency cash flows that are highly probable to occur within 12 months of the statement of financial position date and interest rate swaps ('cash flow hedges') to hedge those interest cash flows that are expected to occur during the period to November 2017. The effect on the statement of profit or loss and other comprehensive income will also be within these periods. An amount of £827,000 has been charged to equity for the Group in the period in respect of cash flow hedges (2015: £729,000). All hedge relationships have been effective in the year and are expected to maintain effectiveness. No charge has been made to the Company's equity.

The Group has interest rate swaps in place for a notional amount of £571,243,000 (2015: £246,832,000). In 2016, these interest rate swaps covered current borrowings relating to the floating rate Euro notes.

Interest rate swaps in place at the statement of financial position date are designated, and are effective under IAS39, as cash flow hedges, and the fair value thereof has been deferred in equity within the hedging reserve. A credit of £297,000 (2015: nil credit) has been made to the statement of profit or loss and other comprehensive income in the year representing the movement in the fair value of the ineffective portion of the interest rate swaps.

The weighted average interest rate and period to maturity of the Group interest rate swaps were as follows:

Interest rate swaps at December	Weighted average interest rate 2016	Maturity date	Fair value 2016 £000	Weighted average interest rate 2015	Maturity date	Fair value 2015 £000
Euro	(0.04%)	Jun 2018	(1,246)	0.14%	Nov 2017	(1,352)

The Company did not hold any interest rate swaps at 31 December 2016 (31 December 2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS

26 Financial instruments (continued)

Forward foreign exchange contracts

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

The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2016 is £186,600,000 (2015: £67,400,000). These comprise:

- foreign currency contracts to sell sterling for a total notional of £186,600,000 (2015: £67,400,000). These contracts have maturity dates to August 2017. These contracts have been designated and are effective as cash flow hedges under IAS 39 and, accordingly, the fair value thereof has been deferred in equity and fair value will be recycled to the statement of profit or loss and other comprehensive income in August 2017.

As at 31 December 2016 the aggregate amount of net gain/loss under forward foreign exchange contracts that have been recognised in the consolidated statement of profit or loss and other comprehensive income relating to the exposure on these anticipated future transactions is £nil (2015: £nil gain).

During the year, £1,680,000 (2015: £1,257,000) was recycled from equity to the statement of profit or loss and other comprehensive income as a result of maturity of the short dated foreign exchange swaps during the year.

The Company did not hold any foreign exchanges swaps at 31 December 2016 (31 December 2015: £nil).

27 Financial assets and financial liabilities

Financial assets	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Purchased loan portfolios	782,792	609,793
Loan notes	21,315	862
Cash and cash equivalents	23,203	10,183
Other receivables	35,484	34,781
	862,794	**655,619**

Financial liabilities	Year ended 31 December 2016 £000s	Year ended 31 December 2015 £000s
Senior secured notes (excluding fees)	701,720	466,832
Revolving credit facility (excluding fees)	76,925	75,000
Bank overdrafts (excluding fees)	7,698	–
Other borrowings	12,077	–
Derivative liabilities	1,433	1,281
Trade and other payables	76,261	91,554
Current tax liabilities	5,469	3,755
	881,583	**638,422**

Fair values of financial assets and liabilities

The fair value and carrying value of the financial assets and liabilities of the Group are set out below:

	Fair value Year ended 31 December 2016 £000s	Book value Year ended 31 December 2016 £000s	Fair value Year ended 31 December 2015 £000s	Book value Year ended 31 December 2015 £000s
Purchased loan portfolios	782,792	782,792	609,793	609,793
Loan notes	21,315	21,315	862	862
Cash and cash equivalents	23,203	23,203	10,183	10,183
Other receivables	35,484	35,484	34,781	34,781
	862,794	**862,794**	**655,619**	**655,619**

NOTES TO THE FINANCIAL STATEMENTS

27 Financial assets and financial liabilities (continued)

	Fair value Year ended 31 December 2016 £000s	Book value Year ended 31 December 2016 £000s	Fair value Year ended 31 December 2015 £000s	Book value Year ended 31 December 2015 £000s
Senior secured notes (excluding fees)	724,065	701,720	481,565	466,832
Revolving credit facility (excluding fees)	76,925	76,925	75,000	75,000
Bank overdrafts (excluding fees)	7,698	7,698	–	–
Other borrowings	12,077	12,077	–	–
Derivative liabilities	1,433	1,433	1,281	1,281
Trade and other payables	76,261	76,261	91,554	91,554
Current tax liabilities	5,469	5,469	3,755	3,755
	903,928	**881,583**	**653,155**	**638,422**

The carrying value of the bank borrowings is deemed to be a good approximation of their fair value. Bank borrowings can be repaid within six months if the Group decides not to roll over for further periods up to the contractual repayment date. The impact of discounting is therefore negligible.

The fair value of the senior secured notes has been calculated by reference to broker quotes that are based on observable market inputs and therefore would be included as 'level 2' in the fair value hierarchy table should the liability have been held at fair value.

Derivative financial instruments are held at fair value, which is equal to the expected future cash flows arising as a result of the derivative transaction. For other financial assets and liabilities, which are all short-term in nature, the carrying value is a reasonable approximation of fair value.

For the Company, there is no difference between the carrying value and fair value of financial assets and financial liabilities.

28 Share-based payments – Group and Company

Share incentive plan scheme (SIP)

In April 2016 (and previously April 2015 and 2014), the Group offered to all UK employees the opportunity to participate in a 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.

On 30 December 2014, the Group provided eligible employees with a free share award worth £500, with a grant date price per share of £2.29 as part of the Arrow Global Group SIP. The free shares vest at the end of three years, with employees required to stay in employment to receive the shares.

Upon listing in October 2013, the Group provided eligible employees with a one-off award of free shares worth up to £3,000, with a grant price per share of £2.425, as part of the Arrow Global Group SIP. The value of SIP shares awarded was dependent on a linear scale of length of service. The free shares vested during the year, with restrictions attached to these shares ceasing to have effect from vesting date.

Long-term incentive plan (LTIP)

On 8 April 2016 and 19 May 2016, nil-cost share options were granted to eligible employees based on a maximum of 150% of base salary. Conditional awards were granted to eligible Dutch employees on 19 May 2016. The LTIP awards vest at the end of three years, being 8 April 2019, subject to the achievement of performance conditions. On the same dates, 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.

NOTES TO THE FINANCIAL STATEMENTS

28 Share-based payments – Group and Company (continued)

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

Performance condition	Percentage vesting
Less than 10% EPS growth per annum	0%
10% EPS growth per annum over the vesting period ('threshold performance')	25%
20% EPS growth per annum over the vesting period ('maximum performance')	100%
Between 10% and 20% EPS growth per annum over the vesting period	Between the threshold performance and maximum performance on a straight-line basis

For each eligible employee, 25% of the LTIP awards are subject to total 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 ROE criteria, and vests as follows:

Performance condition	Percentage vesting
Less than 20% average ROE over the three performance years	0%
20% average ROE growth over the three performance years ('threshold performance')	25%
26% average ROE growth over the three performance years ('maximum performance')	100%
Between 20% and 26% average ROE growth over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

On 30 June 2015 and 15 June 2015, further awards of nil-cost share options were granted to eligible employees, which vest on 15 June 2018, subject to the achievement of the same performance conditions as for the 2016 LTIP awards.

On 11 March 2014, nil-cost share options were granted to eligible employees based on a maximum of 150% of base salary. The LTIP awards vest at the end of three years, subject to the achievement of performance conditions.

For each eligible employee, 75% of the LTIP awards are subject to underlying basic EPS growth criteria and vests as follows:

Performance condition	Percentage vesting
Less than 10% EPS growth per annum	0%
10% EPS growth per annum over the vesting period ('threshold performance')	25%
20% EPS growth per annum over the vesting period ('maximum performance')	100%
Between 10% and 20% EPS growth per annum over the vesting period	Between the threshold performance and maximum performance on a straight-line basis

For each eligible employee, 25% of the LTIP awards are subject to total 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

Further nil-cost share option LTIP awards were made on 30 May 2014 and 8 December 2014, both of which vest at the same time as the 11 March 2014 LTIP awards and have the same criteria for vesting. An LTIP conditional award was made on 30 May 2014. This award vested during the year with restrictions attached to these shares ceasing to have effect from vesting date.

NOTES TO THE FINANCIAL STATEMENTS

28 Share-based payments – Group and Company (continued)

Restricted share awards

Restricted share awards were made on 19 May 2016 and 15 June 2015. These awards vest on 1 May 2018 and 1 May 2017 respectively, subject to continuity of employment.

Deferred share bonus plan (DSBP)

Up to 50% of the bonus earned by the executive directors is deferred into shares for up to three years via the DSBP, subject to continued employment during the vesting period. DSBP awards were made on 8 April 2016. See page 73 for details of the bonus delivered in the form of deferred shares for the financial year 2016.

Grant information

The terms and conditions of the grant are as follows:

	Method of settlement accounting	Number of instruments	Vesting period	Contractual life of options
Grant date/employees entitled				
Equity settled award – SIP	Equity	81,298	3 years	31 October 2016
Equity settled award – SIP	Equity	90,252	3 years	30 December 2017
Equity settled award – LTIP	Equity	1,478,751	2.3-3 years	11 March 2017
Equity settled award – LTIP	Equity	88,202	2 years	30 May 2016
Equity settled award – SIP	Equity	16,676	3 years (rolling)	30 May 2017
Equity settled award – LTIP	Equity	1,483,532	3 years	15 June 2018
Equity settled award – LTIP	Equity	32,739	3 years	15 June 2018
Equity settled award – restricted	Equity	266,008	2 years	1 May 2017
Equity settled award – SIP	Equity	55,003	3 years (rolling)	May – June 2018
Equity settled award – LTIP	Equity	1,563,299	3 years	8 April 2019
Equity settled award – LTIP	Equity	176,053	2.9 years	8 April 2019
Equity settled award – restricted	Equity	272,638	2 years	1 May 2018
Equity settled award – SIP	Equity	73,261	3 years (rolling)	April 2019
Equity settled award – DSBP	Equity	44,183	3 years	9 April 2018
Equity settled award – DSBP	Equity	77,739	3 years	8 April 2019

The following table shows the weighted average exercise prices (WAEP) and number of options movements during the year.

	2016		2015	
	WAEP	Number of options	WAEP	Number of options
Outstanding at the beginning of the year	£2.52	2,801,622	£2.22	3,115,122
Granted during the year	£2.64	2,207,173	£2.58	1,837,282
Forfeited during the year	£2.60	(663,702)	£2.46	(518,554)
Exercised during the year	£2.33	(48,739)	£2.05	(1,632,228)
Expired during the year	–	–	–	–
Outstanding at 31 December	**£2.57**	**4,296,354**	**£2.52**	**2,801,622**
Exercisable at 31 December	**£2.05**	**29,731**	**–**	**–**

The weighted average share price at the date of exercise of share options exercised during the year was £2.92 (2015: £nil). The share options outstanding at 31 December 2016 have a weighted average contractual life of 1.3 years (2015: 1.8 years).

The weighted average fair value of options granted during the year was £2.28 (2015: £2.58). The majority of options granted to date are nil cost options (2015: nil cost options).

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

NOTES TO THE FINANCIAL STATEMENTS

28 Share-based payments – Group and Company (continued)

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

	2016	2015
SIP		
Expected life of options (years)	3	3
Share prices at date of grant	£2.57	£2.58
LTIP and restricted awards		
Expected life of options (years)	2-3	2-3
Share prices at date of grant	£2.57-£2.67	£2.58
Expected share price volatility (%)	31.85%	22.90%
Risk free interest rate (%)	0.19%	0.87%

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

	2016 £000	2015 £000
Equity settled share based payment expense spread across vesting period	3,061	2,577
Total equity settled share based payment expense recognised in the statement of comprehensive income	**3,061**	**2,577**

The Company holds the obligation to settle the share options; however, the benefit arises in the subsidiaries Arrow Global Limited (AGL) and Capquest Debt Recovery Limited (CDRL) with the charge in the statement of profit or loss and other comprehensive income recharged to AGL, CDRL and the Dutch employee holding Company.

29 Borrowings and facilities

Secured borrowing at amortised cost	**Year ended 31 December 2016 £000**	**Year ended 31 December 2015 £000**
Senior secured notes (net of transaction fees of £20,562,000, 2015: £19,286,000)	681,158	447,545
Revolving credit facility (net of transaction fees of £2,756,000, 2015: £3,521,000)	74,169	71,479
Senior secured notes interest	5,430	6,832
Bank overdrafts	7,698	–
Other borrowings – non-recourse debt	12,077	–
	780,532	**525,856**
Total borrowings:		
Amount due for settlement within 12 months	**87,297**	**78,311**
Amount due for settlement after 12 months	**693,235**	**447,545**

Senior secured notes

On 1 September 2016, the Group issued £220 million senior secured notes at a fixed rate of 5.125% due 2024 (the '2024 Sterling Senior Notes'). Interest is paid bi-annually. The 2024 Sterling Senior Notes can be redeemed in full or in part on or after 15 September 2019 at the Group's option. Prior to 15 September 2019, the Group may redeem, at its option, some or all of the 2024 Sterling Senior Notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable make-whole premium.

On 1 September 2016, upon issuance of the 2024 Sterling Senior Notes, the Group redeemed the £220 million senior secured notes due 2020 (the '2020 Sterling Senior Notes') which were issued in January 2013. Upon redemption of the 2020 Sterling Senior Notes, the Group incurred non-recurring costs of £15.0 million details of which are included within finance costs (see note 8).

On 14 April 2016, the Group issued €230 million senior secured notes due 2023, at a floating rate of 4.75% over three-month EURIBOR (the '2023 Euro Senior Notes'). Interest is paid quarterly in arrears. The 2023 Euro Senior Notes can be redeemed in full or in part on or after 1 May 2019 at the Group's option. Prior to 1 May 2019, the Group may redeem, at its option, some or all of the 2023 Euro Senior Notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable make-whole premium.

NOTES TO THE FINANCIAL STATEMENTS

29 Borrowings and facilities (continued)

On 28 September 2015, the Group increased the outstanding amount of its 5.25% over three-month EURIBOR floating rate senior secured notes ('the 2021 Euro Senior Notes') by €110 million, bringing the total amount outstanding to €335 million. The Group issued the original €225 million tranche of its 2021 Euro Senior Notes on 4 November 2014. Interest is paid quarterly in arrears. Derivative contracts have been used to fix the floating rate margin of the Euro senior notes for the period through to December 2018. The 2021 Euro Senior Notes can be redeemed in full or in part on or after 1 November 2017 at the Group's option. Prior to 1 November 2017, the Group may redeem, at its option, some or all of the Euro senior notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable make-whole premium.

The Euro senior notes and sterling senior notes are secured by substantially all of the assets of the Group.

Revolving credit facility

On 21 July 2016, the Group entered into a new £180 million revolving credit facility (the 'Revolving Credit Facility') with The Royal Bank of Scotland Plc acting as security agent for a syndicate of participating financial institutions. The Revolving Credit Facility has a margin of 2.75% and a committed term to 31 July 2021. The Group is required to pay a commitment fee at a rate of 35% of the margin per annum on the undrawn portion of each Lender's commitment. The Revolving Credit Facility is secured by the same assets as the 2021 Euro Senior Notes, 2023 Euro Senior Notes and 2024 Sterling Senior Notes and ranks super senior to these. The assets that are secured are those of the Arrow Global Guernsey Holdings Limited group. On 24 February 2017 the commitments under the Revolving Credit Facility were increased from £180 million to £215 million.

On 21 July 2016, the Group cancelled its existing revolving credit facility (the 'Original Revolving Credit Facility'). Upon cancellation the Group incurred non-recurring costs of £3.0 million, these costs are included within finance costs (see note 8).

On 31 March 2015, the Group amended the Original Revolving Credit Facility to increase the commitments available under the facility from £100 million to £140 million. On 22 June 2015, the commitments were further increased to £165 million. The RCF was drawn by £75 million as at 31 December 2015. On the 9 February 2016, the commitments were further increased from £165 million to £180 million.

Under the Original Revolving Credit Facility, the Group was required to pay a commitment fee at a rate of 40% of the applicable margin per annum on the undrawn portion of each lender's commitment.

30 Earnings per share (EPS)

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Basic/diluted EPS		
Underlying profit after tax	45,567	35,401
Profit after tax attributable to shareholders including non-recurring items	26,305	31,749
Weighted average ordinary shares	174,373	174,046
Potential exercise of share options	4,041	3,794
Weighted average ordinary shares (diluted)	**178,414**	**177,840**
Underlying basic earnings per share (£)	**0.26**	**0.20**
Basic earnings per share including non-recurring items (£)	**0.15**	**0.18**
Underlying diluted earnings per share (£)	**0.26**	**0.20**
Diluted earnings per share including non-recurring items (£)	**0.15**	**0.18**

NOTES TO THE FINANCIAL STATEMENTS

31 Acquisition of subsidiary undertaking

InVesting

On 4 May 2016, the Group acquired 100% of the ordinary share capital of InVesting B.V. (subsequently renamed Arrow Global Investments Holdings Benelux B.V.). InVesting has a similar principal activity as the Group, is a leading consumer debt purchaser and third party collections provider with operations both in the Netherlands and Belgium.

The Group paid cash consideration of €76,964,000 (£60,649,000) and contingent consideration of €270,000 (£213,000), with an additional requirement to repay outstanding loans and other costs of €12,280,000 (£9,677,000). The contingent consideration is payable on the one year anniversary of the transaction and has been included at its fair value, at the amount contractually agreed. The contingent consideration is based on the previous shareholders fulfilling their service responsibilities for 12 months post acquisition; management deem this to be highly probable at the reporting date. Included within the opening net assets are debt liabilities of £18,412,000, comprising an overdraft with a facility limit of €20 million, drawn at the acquisition date to the value €11,084,000 (£8,735,000) and an intercompany loan of €12,280,000 (£9,677,000) from an entity of the previous Group. Further to this an intercompany loan of €12,280,000 (£9,677,000) was created between Arrow Global Investments Holdings Limited and InVesting.

Goodwill of €47,995,000 (£37,821,000) was created as a result of this acquisition. The primary reasons for the acquisition were to create scale and servicing capability across multiple asset classes and to create a market leader within the Benelux market.

In the period from acquisition to 31 December 2016, InVesting contributed revenue of £40,580,000 and profit of £7,729,000 to the consolidated results for the period. If the acquisition had occurred on the first day of 1 January 2016, Group total revenue would have been an estimated £250,538,000 and profit after tax would have been an estimated £27,531,000.

Effect of the acquisition

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

	Total £000
Purchased loan portfolios	35,343
Other intangible assets	16,388
Property, plant and equipment	582
Deferred tax asset	3,210
Other receivables	10,775
Cash and cash equivalents	696
Trade and other payables	(23,924)
Defined benefit liability	(1,470)
Bank overdraft	(8,735)
Deferred tax liability	(9,276)
Current tax liability	(154)
	23,435
Minority interest	(394)
	23,041
Goodwill on acquisition	37,821
	60,862
Consideration:	
Cash	60,649
Contingent consideration	213
	60,862

Goodwill of £5,410,000 previously recognised in InVesting is not an identifiable asset when applying acquisition accounting and has therefore been written off through fair value adjustments accordingly.

Purchased loan portfolios had a fair value at acquisition of £35,343,000. The fair value has been assessed using a methodology consistent with the Group's other purchased loan portfolios as described in Note 4 b. An intangible asset of £13,850,000 was recognised at acquisition being the fair value of expected cash flows over a 7-year period arising from contractual and non-contractual customer relationships discounted appropriately. A deferred tax liability has been recognised, with respect to the customer intangible asset and the difference between the fair value of the purchased loan portfolios and the seller's balance sheet carrying value.

A fair value adjustment of £400,000 arose to reduce the deferred tax asset, reflecting the uncertainty over the amounts and timing of historical tax losses.

NOTES TO THE FINANCIAL STATEMENTS

31 Acquisition of subsidiary undertaking (continued)

Other receivables in the acquired entities comprise gross contracted amounts of £3,675,000. There is doubt over the recoverability of £47,000 of this amount, being a specific provision against an overdue amount.

The minority interest was recorded at fair value at the acquisition date.

Redrock

On 29 February 2016, the Group acquired 100% of the ordinary share capital of Redrock Capital Partners, S.A. satisfied with cash of €3,200,000 (£2,515,000), together with deferred consideration of €454,000 (£357,000) being a total consideration of €3,654,000 (£2,872,000). The deferred consideration is payable on the one year anniversary of the transaction and has been included at its fair value. Redrock has a similar principal activity as the Group being the management and servicing of non-performing debt portfolios on behalf of third party clients and the Group in Portugal.

Goodwill of €3,244,000 (£2,550,000) was created as a result of this acquisition. The primary reasons for the acquisition, which makes up the goodwill, were to enable further synergy gains within the Portuguese CGU from a combination of lower servicing costs and more control over owned loan portfolios. This also allows focus on low valuation collections.

In the period from acquisition to 31 December 2016, Redrock contributed revenue of £268,000 and loss of £386,000 to the consolidated results for the period. If the acquisition had occurred on the first day of 1 January 2016, Group total revenue would have been £235,959,000 and profit after tax would have been £26,325,000.

Effect of the acquisition

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

	Total £000
Other intangible assets	407
Deferred tax asset	28
Other receivables	417
Cash and cash equivalents	3
Trade and other payables	(399)
Deferred tax liability	(134)
	322
Goodwill on acquisition	2,550
	2,872
Consideration:	
Cash	2,515
Deferred consideration	357
	2,872

An intangible asset of £407,000 was recognised at acquisition being the fair value of expected cash flows over a seven-year period arising from contractual and non-contractual customer relationships discounted appropriately. A deferred tax liability has been recognised, with respect to the customer intangible asset. The fair value of plant, property and equipment within Redrock was assessed to be nil following the relocation of the Redrock office.

Other receivables in the acquired entity comprise gross contracted amounts of £315,000. There are no provisions for overdue amounts.

NOTES TO THE FINANCIAL STATEMENTS

31 Acquisition of subsidiary undertaking (continued)

Prior year acquisitions

Gesphone

On 1 April 2015, the Group acquired 100% of the ordinary share capital of Gesphone Serviços De Tratamento E Acquisção De Dívidas S.A. and subsidiary Gesphone STC ('Gesphone'), satisfied with cash of €6,300,000 and contingent consideration of €2,000,000 for a total consideration of €8,300,000. The contingent consideration has been calculated at fair value based on a discount rate of 5.3%, being the Group's current external cost of finance, leading to an overall consideration at fair value of €8,085,000 (£5,797,000). The contingent consideration was based on Gesphone employees remaining party to a service agreement, which has been considered highly probable; therefore a 100% probability has been applied. Gesphone has a similar principal activity as the Group being the acquisition and management of underperforming portfolio of unsecured loans and servicing of debt in relation to third party contracts in Portugal.

Goodwill of €4,475,000 (£3,209,000) was created as a result of this acquisition. The primary reasons for the acquisition, which makes up the goodwill, were to create scale and servicing capability across multiple asset classes, and to strengthen the Group's position as market leader in Portugal. A large element of Gesphone's prior trade was with Arrow Global, and therefore the majority of the income earned by Gesphone is now intragroup income.

In the period from acquisition to 31 December 2015, Gesphone contributed revenue of £1,512,000 and operating profit of £674,000 to the consolidated results for the period. If the acquisition had occurred on the first day of 1 January 2015, Group total revenue would have been an estimated £166,374,000 and operating profit would have been an estimated £74,990,000.

Effect of the acquisition

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

	Total £000
Purchased loan portfolios	3,970
Property, plant and equipment	75
Other assets	7
Investments	14
Deferred tax asset	2
Trade and other receivables	115
Cash and cash equivalents	1,916
Trade and other payables	(1,150)
Bank loans	(1,560)
Deferred tax liability	(732)
	2,657
Goodwill on acquisition	3,209
	5,866
Consideration:	
Cash	4,517
Contingent consideration	1,349
	5,866

NOTES TO THE FINANCIAL STATEMENTS

31 Acquisition of subsidiary undertaking (continued)

Whitestar

On 22 April 2015, the Group acquired 33% of the share capital of Silver Parallel S.A (the holding company of Whitestar Asset Management S.A. ('Whitestar'). Voting control and economic interest passed to the Group on payment of the initial consideration on 22 April 2015, and therefore the Group has recognised 100% of Whitestar in its results, as a wholly owned subsidiary. The Group will increase its holding to 100% in two stages over two years and the total consideration will be satisfied with cash and deferred consideration for €47,833,333. The deferred consideration has been calculated at fair value based on a discount rate of 5.3%, being the Group's current external cost of finance, leading to an overall consideration of €47,783,000 (£34,263,000). Whitestar has a similar principal activity as the Group being the servicing of debt in relation to third party contracts.

Goodwill of €38,709,000 (£27,756,000) was created as a result of this acquisition. The primary reasons for the acquisition, which makes up the goodwill, were to create scale and servicing capability across multiple asset classes, and to strengthen the Group's position as market leader in Portugal.

In the period from acquisition to 31 December 2015, Whitestar contributed revenue of £9,379,000 and operating profit of £912,000 to the consolidated results for the period. If the acquisition had occurred on the 1 January 2015, Group total revenue would have been an estimated £169,320,000 and operating profit would have been an estimated £74,814,000.

In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2015.

Effect of the acquisition

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

	Total £000
Property, plant and equipment	778
Intangible assets	4,205
Other assets	1
Deferred tax asset	8
Trade and other receivables	1,907
Cash and cash equivalents	1,307
Trade and other payables	(601)
Deferred tax liability	(1,098)
	6,507
Goodwill on acquisition	27,756
	34,263
Consideration:	
Cash	14,287
Deferred consideration	19,976
	34,263

The fair value adjustment on the intangible assets arises from the fair value of existing customer relationships. An associated deferred tax liability is created being 29.5% of the fair value adjustment, the rate of Portuguese corporation tax.

Acquisition expenses

The Group incurred acquisition expenses of £5,022,000 in relation to the acquisitions of InVesting and Redrock and the agreed acquisition of Zenith, which has been charged to the statement of profit or loss and other comprehensive income and included within other operating expenses and has been disclosed as a non-recurring cost.

Measurement period

Whilst the Group believes the acquisition accounting fair value adjustments to be complete, IFRS 3 allows a measurement period of up to one year after acquisition to reflect any new information obtained about facts and circumstances that were made available to the Group at the acquisition date. If any additional material changes are required within this measurement period, these will be reflected in the 2017 half year results of the Group.

NOTES TO THE FINANCIAL STATEMENTS

32 Notes to the cash flow statement

Cash flows from operating activities	Group Year ended 31 December 2016 £000	Group Year ended 31 December 2015 £000	Company Year ended 31 December 2016 £000	Company Year ended 31 December 2015 £000
Profit before tax	31,367	39,272	23,601	22,164
Adjusted for:				
Collections in the year*	285,960	218,515	–	–
Income from purchased loan portfolios*	(188,914)	(150,238)	–	–
Profit on disposal of purchased loan portfolios	(701)	(503)	–	–
Share in profit in associate	(2,363)	(1,243)	–	–
Depreciation and amortisation	8,658	4,176	–	–
Net interest payable	66,028	36,485	–	–
Foreign exchange gains	(1,510)	(946)	–	–
Loss on fair values on derivatives	–	123	–	–
Equity settled share-based payment expenses	3,061	2,577	–	–
Operating cash flows before movement in working capital	**201,586**	**148,218**	**23,601**	**22,164**
(Increase) in other receivables	(9,243)	(16,285)	(29)	(104)
Increase in amounts due from subsidiary undertakings	–	–	(9,024)	(10,874)
Increase/(decrease) in trade and other payables	7,305	18,226	5	(896)
Cash generated by operations	**199,648**	**150,159**	**14,553**	**10,290**
Income taxes and overseas taxation paid	(2,850)	(6,624)	(438)	(26)
Net cash flow from operating activities before purchases of loan portfolios and loan notes	**196,798**	**143,535**	**14,115**	**10,264**
Purchase of loans purchased for resale	–	(23,519)	–	–
Purchase of purchased loan portfolios	(201,700)	(176,310)	–	–
Purchase of purchase of loan notes	(21,315)	–	–	–
Net cash (used in)/generated by operating activities	**(26,217)**	**(56,294)**	**14,115**	**10,264**

*Amortisation is the net of collections in the year and income from purchased loan portfolios.

GLOSSARY

'Adjusted EBITDA' means profit before interest, tax, depreciation, amortisation, foreign exchange gains or losses and non-recurring items. The Adjusted EBITDA reconciliations for the year to 31 December are shown below:

Reconciliation of net cash flow to EBITDA	31 December 2016 £000	31 December 2015 £000
Net cash flow used in operating activities	(26,217)	(56,294)
Purchases of loan portfolios	201,700	176,310
Purchase of loan notes	21,315	–
Purchases of loan portfolios to be resold	–	23,519
Income taxes paid	2,850	6,624
Working capital adjustments	1,938	(1,942)
Amortisation of acquisition and bank facility fee	276	303
Effect of exchange rates on cash and cash equivalents	–	354
Share of profit from associate	2,363	1,243
Non-recurring items	5,022	2,943
Adjusted EBITDA	**209,247**	**153,060**

Reconciliation of core collections to EBITDA	£000	£000
Income from loan portfolios	188,914	150,238
Portfolio amortisation	97,046	68,277
Core collections (includes proceeds from disposal of purchased loan portfolios)	**285,960**	**218,515**
Other income	46,315	14,713
Operating expenses	(140,898)	(90,817)
Depreciation and amortisation	8,658	4,176
Foreign exchange (gains)/losses	(1,510)	(592)
Amortisation of acquisition and bank facility fees	276	303
Share of profit on associate	2,363	1,243
Share based payments	3,061	1,210
Non-recurring items	5,022	4,309
Adjusted EBITDA	**209,247**	**153,060**

Reconciliation of operating profit to EBITDA	£000	£000
Profit for the year	26,306	31,749
Underlying finance income and costs	48,034	36,608
Taxation charge on ordinary activities	5,061	7,523
Share of profit on associate	(2,363)	(1,243)
Non-recurring items	17,994	–
Operating profit	**95,032**	**74,637**
Portfolio amortisation	97,046	68,277
Depreciation and amortisation	8,658	4,176
Foreign exchange (gains)/losses	(1,510)	(592)
Profit on disposal of purchased loan portfolios	(701)	(503)
Amortisation of acquisition and bank facility fees	276	303
Share based payments	3,061	1,210
Share of profit on associate	2,363	1,243
Non-recurring items	5,022	4,309
Adjusted EBITDA	**209,247**	**153,060**

GLOSSARY

'Adjusted EBITDA ratio' represents the ratio of Adjusted EBITDA to core collections. See page 39 for a reconciliation of the movement in purchased loan portfolios and loan notes under IFRS reconciled to cash ERC.

'Cash interest cover' represents interest on senior secured notes, utilisation and non-utilisation RCF fees and bank interest to Adjusted EBITDA.

'CGU' means cash generating unit.

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

'Core collections' or **'core cash collections'** mean collections on the Group's existing portfolios incorporating purchase price adjustments.

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

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

'CSA' means Credit Services Association.

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

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

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

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

'EBT' means employee benefit trust.

'EIR' means effective interest rate (which is based on the loan portfolio's gross internal rate of return) calculated using the loan portfolio purchase price and forecast 84-month gross ERC at the date of purchase. On acquisition, there is a short period that is required to determine the EIR, due to the complexity of the portfolios acquired.

'EPS' means earnings per share.

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

'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.

'Existing portfolios' or **'purchased loan portfolios'** are on the Group's statement of financial position and represent all debt portfolios that the Group owns at the relevant point in time.

'FCA' means the Financial Conduct Authority.

'Free cash flow' means Adjusted EBITDA after the effect of capital expenditure and working capital movements.

'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.

GLOSSARY

'IFRS' means international financial reporting standards.

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

'IPO' means initial public offering.

'ISOP' means the initial share option plan.

'Lending Code' means the voluntary code of practice issued by the Lending Standards Board and describes minimum standards of good practice for banks, building societies, credit card providers and their agents.

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

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

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

'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 taking out of the Group's assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt for the year ended 31 December 2016 is as follows:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Cash and cash equivalents	(23,203)	(10,183)
Senior secured notes (pre transaction fees net off)	701,720	466,832
Senior secured notes interest	5,430	6,832
Revolving credit facility (pre transaction fees net off)	76,925	75,000
Deferred consideration	35,401	50,149
Bank overdrafts	7,698	–
Other borrowings	12,077	–
Net debt	**816,048**	**588,630**

'Net promoter score' means a measure of customer satisfaction on a scale of 0-9.

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

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

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

'Payout ratio' represents the total amount of dividends paid out divided by the underlying profit after tax.

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

'Putback' means an account that is to be sold back or replaced with the original creditor.

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

'Purchases of loan portfolios to be resold' relates to a portfolio of assets, which has been acquired at the year end, and will shortly be resold to an investment partner. These are separately disclosed from other purchased loan portfolios, as an investment partner is intending to complete their acquisition from us.

'PwC' means PricewaterhouseCoopers.

'RCF' means revolving credit facility.

GLOSSARY

'Replacement rate' means the level 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.

'Secured loan to value ratio' represents the drawn RCF, senior secured notes and bank overdrafts (all pre transactions fees net off), less cash to 84-month ERC.

'SID' means the senior independent director of the Group.

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

'SME' means small and medium sized enterprises.

'Secured loan to value' or **'secured LTV ratio'** represents the ratio of 84-month ERC to secured debt (net debt as defined above excluding deferred consideration and interest on the senior secured notes and including the fair value of foreign currency contracts and interest rate swaps).

'TCF' means the treating customers fairly FCA initiative.

'TSR' means total shareholder return.

'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 non-recurring items. The Group presents underlying profit after tax because it excludes the effect of non-recurring items (and the related tax on such items) on the Group's profit or loss for a period and forms the basis of its dividend policy.

'Underlying return on equity' represents the ratio of underlying profit after tax to average shareholder equity.

NOTES

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