ARROW
GLOBAL

BUILDING BETTER FINANCIAL FUTURES

Annual Report and Accounts 2017

ONE ARROW LIVING OUR VALUES

It's been another successful year of growth and value creation for Arrow Global.

LIVING OUR VALUES

We continue to run the business in line with our 'One Arrow' Group values, and are proud of the role Arrow Global plays in 'Building Better Financial Futures' for our stakeholders, ensuring a positive outcome for both our customers and the Group.

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Find out more about us at **www.arrowglobalir.net**

INTRODUCING THE GROUP'S **PURPOSE AND VALUES**

In October 2017, we committed to 'Building Better Financial Futures' for our stakeholders, when we formally launched the Group's purpose and values in every country, and across all businesses.

The Group has grown quickly and has been successful, steadily increasing our profit and delivered great returns for our shareholders. While we must continue to deliver against our targets and budgets, how we do this and the behaviours we adopt in doing so, are equally important. We are convinced that for any business to be successful, and to sustain this success, it has to embrace a higher purpose and have common values, whatever the local cultural nuances, local regulations and laws.

Our purpose is 'Building Better Financial Futures' and is an important step to building a 'One Arrow' culture that we believe is critical to our continued success. Building better financial futures is inspirational and aspirational.

It inspires, because it takes our outward focus to a new level; not just emphasising the importance of 'doing the right thing' for our customers or clients, but ensuring we understand their needs by putting every one of us in our customers' shoes.

It is aspirational, as it will drive us to continually do better. Everyone in the Group has a role to play and the more we use the purpose as our guiding principle, the more we will make a difference for our stakeholders.

Underpinning this is a set of common values; our framework for how we all agree to behave and treat each other – as individuals and as a business. The values were shaped by colleagues in each country, through workshops and meetings.

Alongside the values, we introduced a Group employee recognition scheme to all companies in the Group. This gives everyone in the Group the opportunity to recognise those colleagues who are living the values in their day-to-day roles, going above and beyond what is required, and demonstrating how they are helping to build better financial futures.

Our purpose should guide all that we do. The Group's values should become the behaviours and actions we will live by. Our actions will become stories. And it is the stories that will make us who we are.

We see many examples of our colleagues in all countries embracing our purpose and values and truly acting as One Arrow, and it is this that will inspire us all to a new level of excellence.

LIVING OUR VALUES

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.

STRATEGIC REPORT

HIGHLIGHTS 2017

DELIVERING GROWTH

FINANCIAL HIGHLIGHTS

- 24% underlying EPS growth
- Strong underlying ROE growth
- Increased capital-light asset management revenues
- 84-month and 120-month ERC growth
- Strengthened balance sheet: continue to reduce cost of funding and extend duration

Profit before tax
£50.6m
(2016: £31.4m)

Full-year dividend
11.3p
(2016: 9.1p)

Underlying profit after tax
£56.6m
(2016: £45.6m)

Total purchased loan portfolios and loan notes
£951.5m
(2016: £804.1m)

Total revenue
£319.0m
(2016: £235.9m)

OPERATIONAL HIGHLIGHTS

- Diversified portfolio purchases by geography and asset class
- Continued to outperform underwriting forecasts; performance at 103%
- Maintained stable returns across all geographies
- 'One Arrow' investment programme launched driving future efficiency gains and sustainable growth

Assets under management
€53.4bn

Customer accounts
9.8m

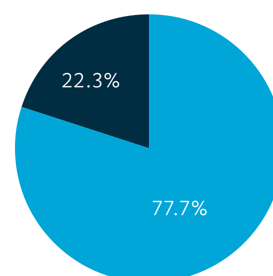
Colleagues
1,464

Different geographies
6

Diversified revenue streams

22.3%
asset management

77.7%
debt purchase



Important notes:

IFRS, cash metrics and underlying results are important to understand the key drivers of the business. The reconciliations and commentary on pages 24 and 25 have been prepared to aid this understanding, which helps to support the commentary of the financial review for the year.

A glossary of the terms can be found on pages 138 to 140.

STRATEGIC REPORT

CHAIRMAN'S STATEMENT

FURTHER GROWTH & CONSISTENT DELIVERY

"Arrow Global's stated mission is to 'Build Better Financial Futures' and I believe that the strides the Company has made this year put it in a stronger position to do this than ever before."

Another strong year of growth and delivery

I am pleased to be able to present another strong set of financial results during a year which saw the Company continue to register significant growth and add another market to our geographical footprint.

We have continued to diversify our earnings, with further growth in our high quality, capital light income from our asset management business, which grew revenues by 53.5%. We are a more diversified Group than ever before, growing the geographical and asset class mix of our debt purchase business by investing 36.7% of our capital in the UK, 24.7% in Portugal, 18.9% in Italy and 19.7% in Benelux. During the year, we completed the acquisitions of Zenith in Italy and Mars Capital in the UK and Ireland, significantly enhancing our European capabilities.

Profit after tax increased by 51.7% to £39.9 million giving an increase in basic earnings per share of 51.0% to 22.8p. Financially, we have again delivered against our guidance, with underlying basic earnings per share increasing 24.1% to 32.4p and underlying return on equity increasing by 3.8 percentage points to 32.9%.

This strong performance enables us to propose a final 2017 dividend of 8.1p, bringing the full year dividend to 11.3p (2016: 9.1p) which is at the top of our payout range. Once again, balance sheet strength and management is key to the business' success and earlier in the year we undertook a highly successful refinancing, securing a material reduction in our cost of funding with our weighted average cost of debt falling below 4.0% at the same time as extending duration.

The evolution of our model

Our strategy of building top three positions in our chosen European markets has remained on track throughout 2017. The servicing capabilities we have continued to build, underpinned by the strong relationships we have with institutional investors, has meant our asset management division has been the fastest growing part of the Group. The highly cash generative nature of this business has further improved the quality of the Company's earnings stream. We have a clear plan in place to continue to grow this business as we identify further high value niches within our large markets where Arrow's superior technology, data and relationships provide us with a competitive advantage.

Group governance

The Group operates in a number of countries with strong local management teams that have responsibility for their operations. This structure has been enhanced by the appointment of Dave Sutherland as Group chief operating officer, who the country management teams now report to. The appointment of our new Group chief risk officer, Clodagh Gunnigle, earlier in the year has also brought greater structure and diligence to our risk and governance procedures, with Group wide risk and compliance teams all reporting to her. This revised structure has allowed management at the Group level to focus on strategy, origination and capital allocation. Overseen by our Group chief executive officer and Group chief financial officer, I believe that this is the most efficient structure for the Group's governance and consider the company very well positioned to perform optimally at the operational level.

The Board

The Arrow board is a strong group of highly experienced individuals who all bring valuable experience and skills to bear in Arrow's thinking and strategy. Last year, we announced that we had appointed Paul Cooper as our new Group chief financial officer. His strong financial services experience and track record of driving operational change through large companies, means he is a great addition to the team. Our previous Group chief financial officer, Rob Memmott, left us at the end of February 2018, and I would like to thank Rob on behalf of the Board for his dedication and the important role he has played in successfully growing the Company. Our Group chief executive officer, Lee Rochford, continues to deliver effectively on the Group's strategic objectives. Lee leads a strong Executive team comprising a mix of established members and new hires. Their energy, commitment and focus on key strategic deliverables have had a marked impact on our results.

► For more information see our corporate governance report on **page 46**

One Arrow – fostering a culture that underpins our values

Arrow's mission statement is to 'Build Better Financial Futures' for our customers across all the markets in which we operate. In order to continue to build and improve on this goal, throughout the course of the year we launched each of our four Group values: 'We succeed together', 'We're trusted and valued', 'We're brave and creative' and 'We do the right thing'. In order to embed these into our Company DNA and Group-wide approach to our operations, the management team embarked on a series of roadshows around all countries in the Group to present their vision for the business and get feedback from employees. I am pleased to say that feedback to this initiative from across the Group has been overwhelmingly positive, and it is a great source of pride for us that our employees are so committed to a positive working culture focused on excellent customer experience and outcomes.

Looking forward

I am pleased that Arrow has registered another year of strong growth and that so much has been achieved to integrate the business more fully, ensuring we are well positioned to continue to deliver the consistent financial performance we have registered since IPO.

We are well positioned for 2018: the market opportunity for the business remains compelling and I believe we have the strategy, management team and employee base to continue to deliver on market expectations.

Finally, I would like to thank my fellow board members, the senior leadership team and all colleagues for their hard work and commitment in 2017, and our shareholders for their ongoing support as we continue to evolve Arrow's differentiated business model. I look ahead with a great deal of confidence for the business. The opportunities for Arrow are significant and I believe we have the right skill set at all levels of the Company to capitalise on them and continue to deliver growth and value.

Jonathan Bloomer
Chairman
1 March 2018

STRATEGIC REPORT

AT A GLANCE

OUR BUSINESS TODAY

OUR PURPOSE

BUILDING BETTER
FINANCIAL FUTURES

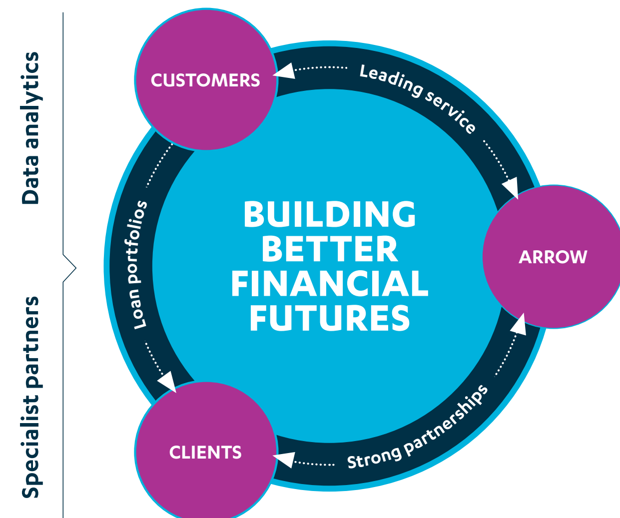
OUR AIM

To be the most sophisticated purchaser and specialist asset manager of debt portfolios across all of our markets.

OUR CORE BUSINESS MODEL

1. Debt purchase
We buy debt at a discount to face value and use our data, analytics, and collections expertise to provide our customers with flexible payment plans, resulting in collections significantly above cost of acquisition.

2. Specialist asset management
We advise on, manage and collect debt portfolios, generating fee income from clients. Often, we will co-invest alongside clients, ensuring our interests are fully aligned. Our model consists of both primary servicing (where we service the debt directly for clients) and master servicing (where we provide oversight on behalf of our clients to ensure their portfolio is placed with the best primary servicer to deliver their investment targets).



► Read more about our Business model on **page 08**

OUR BUSINESS

Debt purchase
A year of strong collections growth

Core Collections
£342.2m (+19.7%)

Asset management
Another record year of revenue growth

Revenue
£71.1m (+53.5%)

► Read more about our financial performance on **page 20**

MULTI ASSET CLASSES

Credit cards

CRE

Retail

Personal loans

REOs

Telco

CQS

Motor

Buy-to-let

Student loans

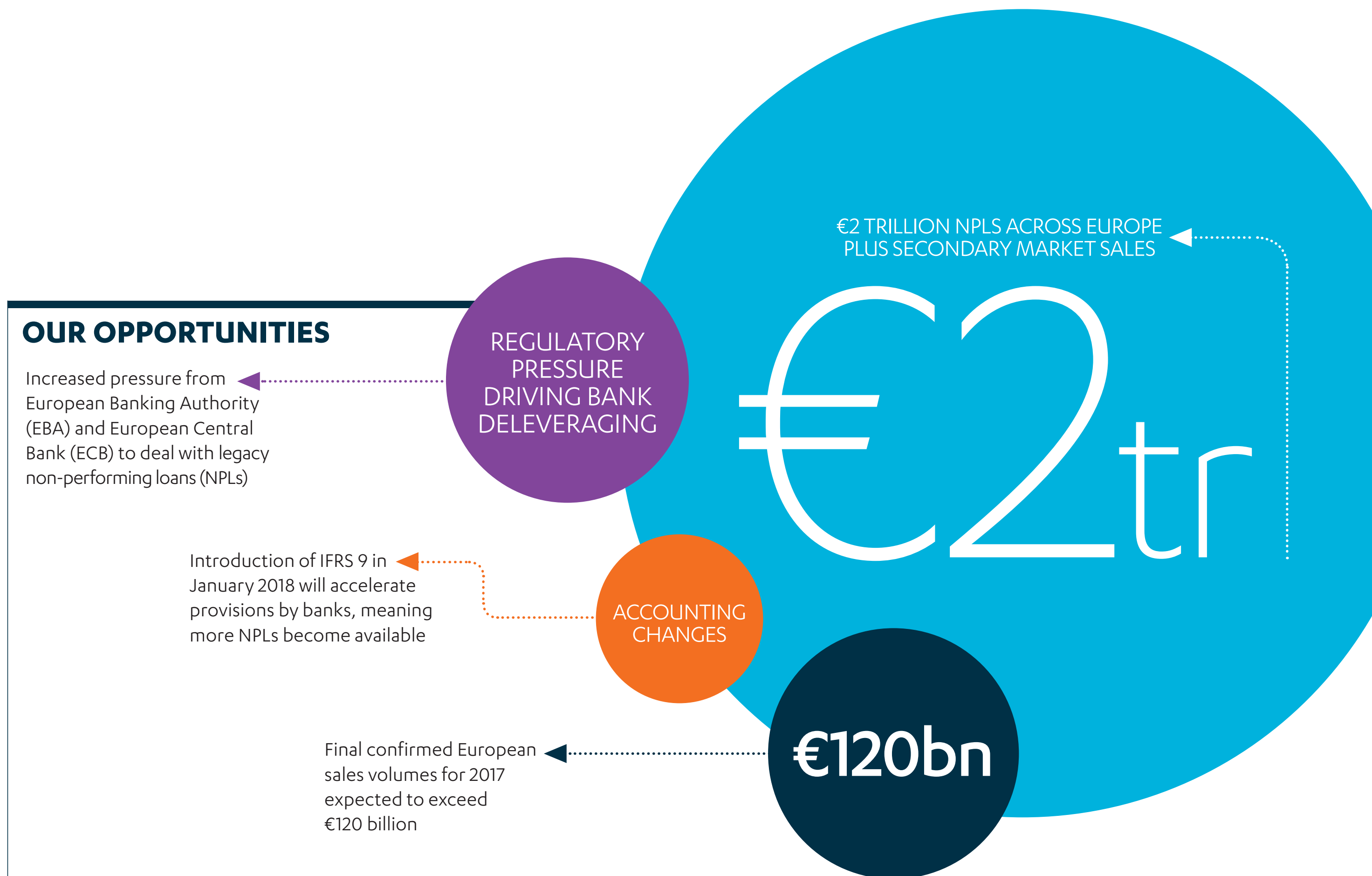
SME

Residential

1st Liens

Utilities

2nd Liens



OUR MARKETS

United Kingdom and Ireland

Assets under management

€16.0bn

► To read about UK and Irish operations see **pages 28-29**

Portugal

Assets under management

€6.8bn

► To read about Portuguese operations see **page 30**

Benelux

Assets under management

€5.0bn

► To read about Benelux operations see **page 31**

Italy

Assets under management

€25.6bn

► To read about Italian operations see **page 32**

OUR STRATEGY

1. To be a leading player and operator in our chosen markets
2. To build a diversified risk-weighted investment portfolio
3. To grow our specialist asset management business
4. To transform the customer journey within our industry
5. To attract and retain the best talent

► To read about our strategy see **page 14**

STRATEGIC REPORT

BUSINESS MODEL

BUILDING BETTER FINANCIAL FUTURES

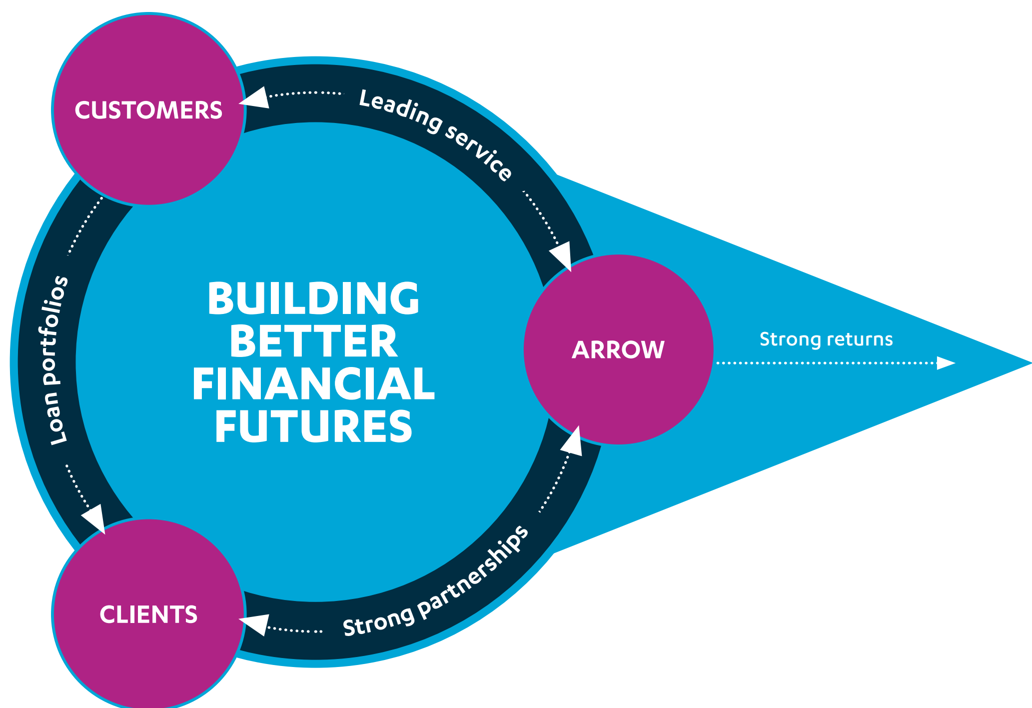
Customer-focused approach, underpinned by sophisticated debt portfolio investment and specialist asset management

DATA ANALYTICS

We have a unique data tool that allows us to match debt portfolios efficiently. This has been compiled since the Company's inception in 2005 and consists of over 35 million records. The richness of the data assets we hold informs our investment decisions and collections strategy, allowing us to accurately value potential portfolios and optimise servicing. Crucially, it also positions us well to provide the best treatment for our customers as we are able to understand their financial position and needs.

SPECIALIST PARTNERS

We have over 110 client relationships. Having started as a capital investor ourselves, we are unique in how we approach relationships with third-party credit investors. As a preferred partner of institutional investors, we assist with valuation, co-invest alongside them (if the portfolio's characteristics align with our targets) and manage the acquired assets as part of an ongoing asset management agreement focused on achieving required returns. As we are a logical buyer of these familiar portfolios once the assets investor decides to exit, we will often purchase the tails of these, providing our balance sheet with predictable, cash-generative assets.



Turn page to find out more about how we work with our customers, clients and how we deliver excellence

DELIVERING VALUE

Our customers
We understand that debt is a prominent issue and aim to work with customers to help them improve their financial situation. We work with credit charities and other organisations that provide free impartial services to ensure our customers get the best advice available. By using our industry-leading data and customer segmentation systems, we are able to better understand our customers and their financial situations, enabling us to 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 currently unavailable to them.

Our clients
We have exceptionally strong relationships with financial institutions and institutional investors. This means we are able to assist financial institutions to deleverage by acquiring portfolios from them (our debt purchase business), and are strongly positioned to help our investment partners value and service their own portfolio acquisitions (our asset management business).

This means we make many of our portfolio investments off market – either in a bilateral trade with an institution, or the purchase of an asset tail from an exiting credit investor on our servicing platform – helping us to mitigate pricing pressure and giving us greater visibility on returns.

Our colleagues
Our people provide the essential talent and energy to fulfil our purpose and goals. We rely on them to consistently 'do the right thing' in order to drive great customer service and deliver excellent customer outcomes. Our employees share in the Company's success through our share options/purchase schemes, while remuneration across the Company is linked to a mixture of Group performance and personal success against our One Arrow values scorecards. This means their financial futures are aligned to ours and those of our other stakeholders.

Our communities
We believe in working with the communities where we operate, ensuring that we do all we can to have a positive influence through supporting local charities and initiatives. We have a clear strategy to support charities that focus on financial education and financial support and, more generally, we work closely with Citizens Advice (CA), as well as a range of debt charities, including StepChange, Payplan and Christians Against Poverty.

Our shareholders
We believe that if we fulfil our obligations to our customers, clients, colleagues and communities, our shareholders are the ultimate beneficiaries. We aim to deliver strong returns to our shareholders, targeting return on equity in the mid-twenties percentage and EPS growth in the high-teens percentage over the medium term. This consistency is further underpinned by good balance sheet management that prioritises stable, long-term funding.

BUILDING BETTER FINANCIAL FUTURES FOR:

CUSTOMERS
by improving their financial situation

CLIENTS
through strong relationships

COLLEAGUES
by valuing and rewarding our talent

COMMUNITIES
by working together for positive change

SHAREHOLDERS
by creating value

STRATEGIC REPORT
BUSINESS MODEL CONTINUED

OPERATIONAL EXCELLENCE

We have built a strong track record of underwriting discipline, ensuring we acquire portfolios in line with our target returns and risk management framework. Cumulatively, we have collected 103% of our pre-purchase underwriting forecast, and have a track record of outperformance.

PUTTING OUR CUSTOMERS FIRST

Continual improvements 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 receive optimised service. In the UK, our collections colleagues are rewarded based on the customer outcomes they achieve, rather than the amount they collect.

In 2016, we launched our UK digital customer portal and saw an immediate increase in online payments of over 60%. The flexibility this system provides has continued to prove popular with customers, making it easy for them to engage with us and stay in control of their payments.

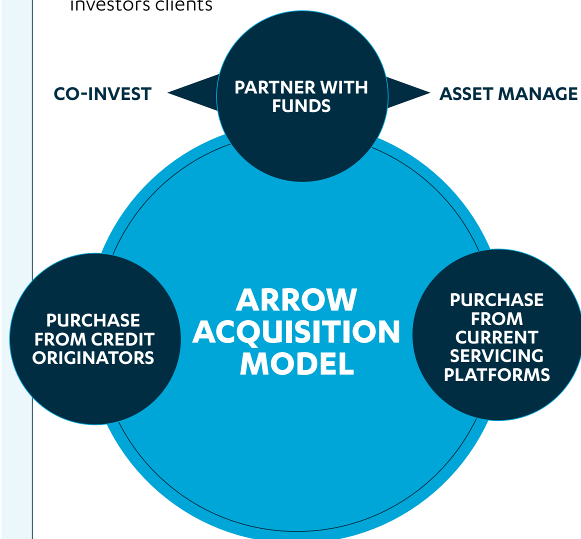
We are continuing to focus on enhancing the fully integrated UK customer service platform and introducing the same approach across the Group. This gives us greater flexibility to work across multiple asset classes, performing and non-performing loans, allowing us to develop a true single customer view 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.

ORIGINATION EXPERTISE

Our focus on customer outcomes and strong track record means that we are a preferred purchaser from financial institutions. We will either purchase portfolios – often bilateral trades with the vendor – or, for larger acquisitions, will purchase via a consortium structure alongside our institutional investor fund partners. Our strong relationships with large institutions means we perform the majority (over 70% in 2017) of our portfolio acquisitions off market, rather than as part of an auction process; this offers increased contractual stability. Our servicing business also provides purchasing opportunities as credit investors utilising our servicing platforms look to recycle their capital.

How we acquire loan portfolios and servicing assets – strong client relationships

- Partner with third-party funds to acquire large portfolios – can then service the assets
- Majority of portfolio purchases made off market – trusted buyer
- Able to purchase assets from own servicing platforms – prior knowledge enhances performance
- Focus on customer service and positive outcomes makes Arrow a preferred buyer from credit originators
- Strength of asset management platform means Arrow is the first choice portfolio manager for many institutional investors clients



FINANCIAL EXCELLENCE

The combination of our debt purchase and asset management businesses provides good flexibility between a high-return, capital intensive operation and an asset-light cash-generative operation. A balanced, long-duration capital structure, with low weighted average cost of debt (3.9%), provides a robust financial position.

Arrow's business model is highly differentiated

- Arrow is a sophisticated investor and asset manager, not a bulk buyer of loans
- Approach driven by strong client relationships
- Co-investment structure aligns with client interests for servicing
- Majority of portfolio purchases transacted off-market, avoiding auction pressure
- Taking incremental steps towards discretionary asset management model
- Aim to be a top three player in chosen markets; do not target geographic growth for its own sake

Corporate acquisitions

Excellence of execution

- Specialise at identifying high value niches and then expanding into them
- Strong track record of buying synergistic bolt-on businesses at sensible valuations
- Retain and incentivise quality management teams with a strong cultural fit
- Expertise in scaling acquired businesses into desirable platforms for clients
- Considerable success with rapidly growing AUM of acquired businesses

STRATEGIC REPORT

MARKET

SIGNIFICANT OPPORTUNITY

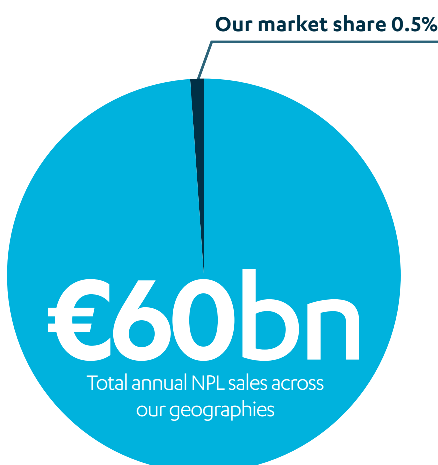
Arrow is a well positioned credit management services provider when considering wider market trends of deleveraging financial institutions and increasing consumer debt

PwC estimates that European banks currently hold €2.3 trillion of non-performing loans and non-core assets on their balance sheets. In order for the European banking system to fully recover from the 2008 financial crisis, and for the banks to start lending efficiently again, the majority of these assets will need to be divested over time.

This divestment programme is beginning to be accelerated by strong European Central Bank action, to encourage banks to recognise and provide for NPLs much faster than they previously have done. We are already seeing the effect this is having on the NPL market, with total portfolio sales in 2017 expected to conclude nearly €30 billion ahead of 2016. Across Arrow Global's six geographies, we see approximately €60 billion of NPL sales a year, and only purchase just over £200.0 million.

Generally, the favoured method of divestment is by selling large pools of non-core and non-performing assets. With Arrow Global's strong client relationships allowing us to partner with large institutional investors, co-invest alongside them and then service the entire asset on our servicing platform. There continue to be exciting long-term opportunities for us to grow both our debt purchase and asset management businesses.

We operate across an increasing and diversified range of geographies and asset classes, affording us a degree of protection from the economic cycle of any one market or business segment. Our strong position in each country provides greater opportunities for the Group to evaluate transactions, enabling us to deploy increasing levels of capital, whilst maintaining investment discipline.



WELL POSITIONED BUSINESS

Our debt purchase and asset management businesses are both well positioned to capitalise on prevailing market trends

Debt purchase

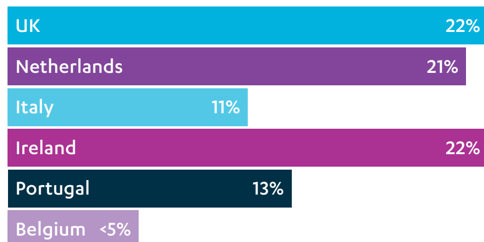
- Set up to help banks deleverage by purchasing their loan portfolios
- Customer-focused model and well regulated business activities attractive to vendor banks
- Logical purchaser of asset tails from own platform as credit fund clients look to realise investments
- Strong balance sheet able to fund future growth

Asset management

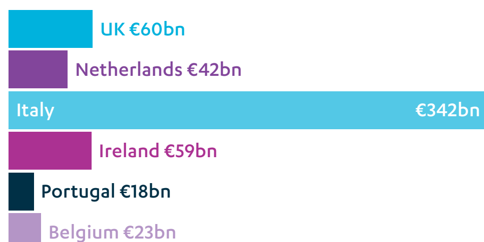
- Strong institutional investor relationships make Arrow a preferred servicing partner
- Italian market knowledge and expertise significantly enhanced by Zenith acquisition
- Mars Capital acquisition has provided further secured servicing capability in the UK and new opportunities in the attractive Irish market
- Increased capabilities will facilitate transition to discretionary asset management

ADDRESSABLE MARKET

Stage of market maturity – propensity to sell[1]



€500bn+ outstanding NPL



Source: Deloitte's Deleveraging Europe H1 2017, PwC's Portfolio Advisory Group Market Update Q1 2017.

1 Calculated as NPL sales/face value of NPLs.

ARROW INDUSTRY POSITIONING

- €500 billion+ addressable NPL market for Arrow today
- These assets will continue to see secondary and tertiary sales over many years
- Achieved through leadership positions in 6 large markets
- 5/6 markets at a relatively early stage of industry development
- Arrow Global is positioning itself as an essential long-term utility for the European financial system
- Unique position to deliver significant growth given:
  - Relationships and service offering to industry investor participants
  - Expertise in portfolio carve-outs
  - Excellence in data

BANKING SYSTEM ASSETS

- European banking market much larger than US counterpart[1]
- European capital markets still underdeveloped vs. US
  - 80% of corporate debt in Europe is bank lending
  - Remainder from corporate bond markets (reverse of US)[2]
- Capacity shortfall in European capital markets estimated at €1 trillion on like-for-like comparison[2]

1 Source: Fed and company estimate.

2 Source: Open Markets 'How U.S. and EU Capital Markets are Different' http://openmarkets.cmegroup.com/10431/how-u-s-and-eu-capital-markets-are-different.

STRATEGIC REPORT

OUR STRATEGY

CLEAR STRATEGIC PRIORITIES

Focused on achieving objectives to drive growth and value

	1 TO BE A LEADING PLAYER AND OPERATOR IN OUR CHOSEN MARKETS	2 TO GROW OUR DIVERSIFIED RISK WEIGHTED INVESTMENT PORTFOLIO
Approach	• We aim to buy and build businesses which have market-leading operations and management • We have therefore acquired leading servicing platforms in each of our chosen markets to enable us to increase asset management capability, supporting consortium transactions • We are an increasingly diversified business by both geography and asset class and are able to invest at target returns while maintaining investment discipline • We are regulated in all of our jurisdictions and actively participate in industry bodies that help lead change in legislation and best practice • Our strong reputation and relationships make us a favoured buyer of portfolios, enabling us to engage in a greater number of off-market transactions	• We have continued to enter new geographies and scale our presence in current markets • We have an established approach of purchasing 'pilot' portfolios in new geographies and asset classes across Europe to understand the market and potential returns before making acquisitions • We have a strong underwriting track record and governance framework to ensure portfolios are acquired in line with our risk-adjusted target returns • We have low-cost, long-duration funding that allows us to capitalise on potential opportunities
2017 progress	• Acquisition of Mars Capital in UK and Ireland • Strategic partnership signed with Oaktree • Acquisition of Zenith in Italy • Purchased loan portfolios and loan notes of £223.9m and increased 84-month ERC by £177.8m	• Invested £223.9 million in a record number of portfolio purchases • Expanded the Group to cover six geographies • Ended the year with our 2017 vintage geographic split of: UK 36.7%, Portugal 24.7%, Benelux 19.7% and Italy 18.9% • 40.7% of our investment was in secured assets • Further progress in growing asset management revenue towards 30% of Group total
Key priorities in 2018	• Continue to drive operational excellence throughout the business • Focus on incorporating recent acquisitions into the Group structure • Continue to identify attractive bolt-on acquisitions in high-value niches	• To continue to invest in loan portfolios that meet our strict returns criteria • To grow prudently our exposure to the newer geographies

3

TO GROW OUR SPECIALIST ASSET MANAGEMENT BUSINESS

- Our specialist asset management business focuses on the servicing of loan portfolios for our clients
- Purchasing primary servicing businesses in new geographies allows us to build our knowledge before deploying our own capital
- We service portfolios for institutional investors, often co-investing our own capital alongside, which ensures interests are aligned

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- Grew assets under management (AUM) from €41.3 billion to €53.4 billion
- Zenith, our master servicing business, was fully integrated, increasing its AUM by 72% over the course of the year and providing a deep insight into the Italian market
- Acquired Mars Capital, which provided expertise in UK secured assets and entry into the Irish market
- Strategic partnership agreed with Oaktree Capital, one of the largest credit fund investors worldwide, as part of the Mars Capital deal

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- Grow our AUM across all geographies
- Consider further bolt-on acquisitions of leading primary servicing businesses at sensible prices
- Continue to evolve the business towards a discretionary model

4

TO TRANSFORM THE CUSTOMER JOURNEY WITHIN OUR INDUSTRY

- We understand that debt can be a challenging issue for our customers and aim to work with them to help them Build Better Financial Futures for themselves
- By using our industry-leading data and analytics, we can better understand our customers' financial situations and tailor our interactions with them on an individual basis
- Our goal is to enable customers to rehabilitate their finances, improve their credit file and gain access to mainstream credit markets again
- We work with credit charities and other organisations that provide free impartial services to ensure that customers get the best possible advice

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- We have continued to see increased customer engagement though our digital customer platform
- Our in-house operations continued to deliver excellent customer outcomes
- We won two awards at the Credit Strategy Collections & Customer Service Awards 2017 for 'Debt Purchaser of the Year' (for the fourth year running) and 'Vulnerable Customer Support Initiative'
- Continued to develop a strong relationship with Citizens Advice
- Worked closely with and funded StepChange, Playplan and Christian Against Poverty on consumer debt issues

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- Continue to place the customer experience and outcomes at the heart of everything we do
- Further enhance systems to offer customers more flexibility
- Continue to reward staff based on positive customer outcomes

5

TO ATTRACT & RETAIN THE BEST TALENT

- We support our people through accessible career planning and training, valued incentives and recognition programmes and a collaborative and customer orientated culture
- We recognise that the ongoing commitment to build leadership strength is vital to our continued growth
- 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 strong advocates for our Group values

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- Launched Group values and purpose programme with Group-wide management roadshows
- Strengthened country leadership teams
- Added 145 employees to the Group following Mars Capital and Zenith acquisitions

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- Continue to cultivate a rewarding and enjoyable working atmosphere and provide competitive packages to attract the best talent
- Further develop our culture of 'Doing the right thing' for our customers and colleagues

STRATEGIC REPORT

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

A TRANSFORMATIONAL YEAR

"It has been another excellent year of growth and financial performance."

2017 review

2017 has been another exciting year for the business. We have expanded our European footprint and client offering further across attractive markets where the Group targets leadership positions. When viewed alongside our diversified investment portfolio and expanding asset management business, it has been another excellent year of growth and financial performance.

Strong financial performance

Total revenue grew 35.2% to £319.0 million (2016: £235.9 million), driven by core collections 19.7% higher at £342.2 million (2016: £286.0 million). Profit after tax increased by 51.7% to £39.9 million (2016: £26.3 million). Adjusted EBITDA increased 10.2% to £230.6 million (2016: £209.2 million). We continue to see an increase in the contribution from the capital-light asset management business, with revenues increasing by 53.5% year on year; our aim is to continue to grow this business over the medium-term, both organically and via acquisitions.

Strong performance across the business enabled us to deliver a significant increase in underlying profit after tax, up 24.1% to £56.6 million (2016: £45.6 million), and underlying return on equity (ROE) now stands at 32.9% (2016: 29.1%).

Basic EPS increased by 51.0% to 22.8p (2016: 15.1p) with underlying basic EPS increasing by 24.1% to 32.4p (2016: 26.1p). The business has a track record of strong cash generation and this enables us to deliver excellent returns to shareholders, while simultaneously investing for future growth. As a result, the full-year dividend, including the proposed final dividend of 8.1p, will increase to 11.3p, representing an increase of 24.2% and a 35.0% payout ratio – the top of our guided range.

Debt purchasing - strong portfolio investment

2017 was another strong year for investment. We acquired a record number of loan portfolios and loan notes with a face value of £2.4 billion for a purchase price of £223.9 million. Of the purchase price invested, 40.7% related to secured accounts. Additionally, over 70% of portfolio purchases were off-market – a record for the Group – largely driven by our unique model of purchasing the tails of asset portfolios already being serviced on our platforms.

Our investment portfolios across the Group continue to be well diversified by both geography and asset class, providing us with good resilience against adverse conditions in any country or market.

Our specialist asset management business, focusing on the servicing of loan portfolios for our clients, continues to be an important growth area for the Group, with revenues from this business growing strongly in 2017.

Asset management – continued revenue growth

When moving into new markets, we have a strong track record of acquiring leading servicing businesses. By working to retain skilled management teams, we are able to acquire earnings-accretive operations and gather deep data and insight – allowing us to deploy more of our own capital at strong returns in that market in the future. We expect to repeat this model with our acquisition of Mars Capital. This provided us with a strategic entry into Ireland – a new market for the Group, offering a €59 billion NPL opportunity – and significantly enhanced our servicing capabilities for mortgages in the UK. The acquisition is already delivering value and we closed our first deal on the new platform in December. As part of the acquisition, we also announced a strategic partnership with Oaktree, a leading global asset manager with over USD$100 billion under management.

The strategic partnership with a tier one institutional investor and the two Italian acquisitions we have announced, represent another important step in the evolution of our asset management business as we move closer towards our ambition of managing discretionary funds on behalf of our clients.

Our aspirations for the asset management business continue to be high, and we are aiming to continue to grow significantly the business' contribution to Group revenues.

The Italian opportunity

Italy is a core strategic market for us. The large size of its NPL market, with over €300 billion of NPLs on bank balance sheets and extended asset tails, provides significant long-term opportunities. Its specific characteristics mean that we have entered the country with diligence and discipline. The team took two years to analyse the market before deciding that Zenith, the master servicing business we purchased in 2017, was the right entry point. This acquisition has exceeded our expectations in all respects: AUM has grown by over 70% and the deep insight it has given us into the Italian market's characteristics has allowed us to invest our own capital ahead of forecasts, and at excellent returns. Importantly, all investments were originated in off-market deals from the Zenith platform and are, therefore, assets on which we have excellent performance visibility.

Having made a successful start, and established strong foundations, we believe that now is the right time to expand the business. Market activity is high, as regulatory pressure to deal with Italian bank balance sheets has started to take effect and asset sales rose from €34.0 billion in 2016 to a projected €64.0 billion in 2017. The market potential remains considerable and we are seeing strong demand from Arrow's clients in the alternative asset space for us to deploy the same capability in Italy that we have successfully offered them elsewhere, offering our cross-asset class special servicing capabilities in high level niches we understand well, and where we are prepared to invest our own money. This targeted approach is key to our success; we will not attempt to cover the entire Italian market, but only the parts where we can develop an edge and generate solid returns.

In other markets, we have built the leading servicing platform for both ourselves and third-party investors through a combination of acquisitions and organic build. We believe that this strategy will serve us well in Italy too given our long-term commitment to the market.

Our track record demonstrates that we are able to achieve the following:

- identify the right management teams, which fit with Arrow's culture and bring local expertise;
- buy platforms at attractive prices in off-market deals, where value accretes to our shareholders; and
- grow acquired platforms swiftly after acquisition by tapping into Arrow's broad origination footprint across a wide range of financial institutions and alternative asset manager clients.

The two new bolt-on acquisitions of Parr Credit – a specialist servicer for sophisticated financial investors that has diversified into small ticket utilities and telecoms servicing – and Europa Investimenti – an expert investor in non-performing corporate and SME business – are consistent with this approach. In addition, investment will be required in order to build out our credit platform offering for clients. Expanding asset class offerings (notably secured), systems, governance and risk infrastructure and adding management depth will involve a two-year programme of investment. This will contribute to our ability to grow our investment portfolio conservatively, with continued underwriting discipline, and to our stated ambition to grow asset management revenues materially by the end of 2018 and beyond.

Strengthened funding

During the year, we took the opportunity to strengthen and secure our long-term funding. In March, the Group issued €400 million senior secured floating rate notes due 2025, at a coupon of E+2.875%.

This has meant that the Group's weighted average cost of debt has been significantly reduced to 3.9% (2016: 4.9%) and the weighted average maturity of the Group's debt at 31 December 2017 was 6.1 years (2016: 5.8 years) with no facility maturing before March 2022. This positions us well to continue to run the balance sheet efficiently and capitalise on opportunities presented by market conditions.

We continue to be open to further opportunities to reduce our weighted average cost of debt and extend its duration.

Investing for growth - One Arrow

While the runway for growth provided by our significant market opportunity remains substantial, our strategy centres on controlled growth of our balance sheet, allowing us to maintain underwriting discipline and returns within our balanced capital structure.

The combination of our origination strengths, client relationships and servicing platforms means that we are well positioned to take advantage of the potential to grow capital-light asset management revenues. To achieve this in a safe, disciplined and sustainable way, we took the decision earlier in the year to invest further in our core capabilities.

This will see us strengthening governance and Group capabilities, using our knowledge and expertise from certain geographies in order to improve efficiency across the board. Areas of focus will be in our core centres of excellence: Origination, Data & Analytics, Portfolio Management, Risk Management and Change & IT Functions. In addition, we are increasing investment in our servicing and operating platforms across the Group to improve customer journeys through enhanced digital capabilities, which in turn, will produce improvements in our productivity.

We have outlined an investment and restructuring programme totalling £22.0 million across 2017 and 2018. On completion we will have more scalable, resilient platforms, optimised to support future growth.

STRATEGIC REPORT

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

Our people

We have continued to grow welcoming new colleagues during the year. At the Group executive level, our Group chief financial officer, Rob Memmott, decided to step down following nearly seven years of excellent service. I would like to thank Rob for his huge contribution to the growth of the Company, and wish him the very best for the future. We announced in October last year that Paul Cooper would be joining us as Group chief financial officer in January 2018, and I look forward to working closely with Paul as we continue to steer the business along a strong growth trajectory in the coming years. The way in which the business develops and operates will be key to its success and we welcomed Clodagh Gunnigle as our new Group chief risk officer earlier in the year. Clodagh has significant experience driving risk strategy at large financial companies and will play a pivotal role in ensuring that Arrow continues to grow prudently. Most recently, we announced the appointment of Dave Sutherland as our new Group chief operating officer. His experience will add considerably to our management expertise at a time when we are continuing to grow our operations and ensure we maintain and strengthen our leading management capabilities.

Following these appointments at the Group executive level, we streamlined the management structure. The country heads now report directly into Dave Sutherland, which will ensure that we share best practice and drive operational excellence across the business.

As ever, I would like to take the opportunity to thank the wider Arrow Global team for all their hard work this year. Good culture is such an important part of any organisation, and I am proud to see the ongoing commitment from all my colleagues to Arrow's commitment to 'Building Better Financial Futures' for all of our stakeholders. I'm excited about what we can all achieve together in the coming year, as we continue to place our values at the heart of the business.

Outlook

I continue to be optimistic about the potential for the business in a growing market. Focus on the health of financial institutions' balance sheets continues to increase. Indeed, this year saw the European Central Bank being particularly vocal on the issue, suggesting banks must provision for non-performing loans much faster than they currently do. Combined with the European Banking Authority's focus on reducing the stock of NPLs, this is likely to lead to increased volumes of asset sales across Europe, generating opportunities for Arrow to purchase and manage more portfolios, feeding both our debt purchase and asset management businesses.

Consensus regarding forecasts for UK and European GDP growth remains positive, but we remain well positioned to capitalise on any market opportunities presented by a turn in the economic cycle. This is supported by our resilient back book of paying customers and the ensuing front book opportunities that would arise from a portfolio pricing perspective in a downward cycle. As previously guided, we do not expect Brexit to impact our ability to operate and purchase portfolios in Europe, since we are individually licensed in all of our jurisdictions and are not reliant on the UK's continuing membership of the EU.

We believe that regulatory oversight will continue to evolve in European markets and view this as favourable for businesses such as Arrow that have scale, strong funding structures and a focus on the right customer outcomes. We constantly evaluate and evolve risk and compliance activities across the entire Group, regardless of geography, and, wherever possible, share best practice.

Increasingly, our clients look for respected partners which comply with regulatory requirements and have strong reputations for dealing fairly with customers. At Arrow Global, we are committed to achieving the right outcomes for our customers and I believe we are well positioned to continue to take advantage of the opportunities this presents.

We remain neutral on pricing in each of our markets. While competition is evident across all jurisdictions, our model of purchasing the majority of our portfolio acquisitions off-market provides us with a degree of protection. The fact that we purchase only around half a per cent on an annual basis of all NPLs sold across the markets in which we operate means that we can be highly selective, only acquiring portfolios where we are confident we can achieve our required returns. Our diversification across geographies and asset classes on portfolios where our data and analytics can provide us with an advantage gives me great confidence about our future performance.

We remain relatively well insulated against the potential for interest rate rises when viewed alongside our strengthened funding position and reduced weighted average cost of debt fixed over a long duration. Moreover, over 60% of our unsecured customers do not have a mortgage, the asset most geared towards interest rate hikes, meaning we would not expect to see a material increase in payment breakage rates should interest rates rise. Furthermore, over two thirds of our balance sheet is hedged against rate rises.

In the coming year, we will remain focused on the strategic advantages afforded by our unique business model. We will:

- purchase specialist portfolios where we have a data advantage;
- maintain our strong relationships with primary lenders and our institutional investor clients to continue to buy off-market as a preferred purchaser;
- target acquisitions that provide a strategic fit;
- continue to scale up our presence in geographies that fit our investment criteria; and
- focus on our partner relationships with institutional investors to continue to expand our asset management business.

We therefore remain confident in our ability to deliver on our targets of achieving 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
1 March 2018

LIVING OUR VALUES

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.

BUILDING BETTER FINANCIAL FUTURES **FOR OUR CUSTOMERS**

Louise takes back control
Louise works in the public sector. Her circumstances improved, and she was earning more money each month. Previously, she had run up debts with different providers and she had taken the decision to appoint a debt management company to work on her behalf. This can be a useful way of dealing with creditors, but the debt management company charged a monthly fee and Louise realised the substantial amount she had paid in fees over many years.

With her improved situation, Louise decided to take control of her finances and called Arrow Global directly to discuss her current and future repayments.

Our agent took time to discuss Louise's income and expenditure and it was identified that Louise could afford to increase her repayments from £52 per month to £100 per month. This would significantly reduce the time it would take Louise repay her debt.

After further discussion, Louise wanted to retain some flexibility on her disposable income in case of emergencies, so Louise agreed to increase her repayments to £80 per month. A further review was scheduled for six months, as Louise felt her circumstances may improve again.

In this case, our agent was helpful throughout the call, appropriately signposting the free money advice services that are available, but after it was apparent Louise wanted to take control of her repayments to us, we supported her to ensure we found the most appropriate outcome for Louise's circumstances.

Read more online
www.arrowglobal.net

STRATEGIC REPORT

GROUP CHIEF FINANCIAL OFFICER'S REVIEW

STRONG RETURNS FOR 2017

"The business has produced another good set of numbers, delivering strong returns and with a robust capital structure."

I am pleased to present another good set of results for 2017. They demonstrate strong returns together with high growth, underpinned by operational and financial excellence across the business contributing to sustainable, profitable growth and enhanced 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.

Profit after tax increased

Profit after tax for the Group for 2017 has risen by 51.7% to £39.9 million (2016: £26.3 million). The growth in earnings has been driven by increased revenues from both our debt purchase business and our asset management business. Collections performance has been strong (ahead of our ERC forecast) across the Group. Our capital-light asset management revenues have increased by £24.8 million from £46.3 million to £71.1 million driven by the Zenith acquisition completed in April 2017 and a full-year effect of the Vesting acquisition completed in May 2016. Capital-light asset management revenue is now 22% of Group revenues, and we aim to increase this further in 2018.

The 2017 profit after tax of £39.9 million (2016: £26.3 million) includes £2.4 million of acquisition costs and £27.4 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 at a lower finance cost, ensuring the financial position is sufficiently well structured to support and fund the continued growth plans of the Group.

In October 2017, we completed the sale of our 15% economic interest in MCS Groupe. The disposal generated a pre-tax gain of £14.7 million and proceeds of £18.1 million. The proceeds will be reinvested in the Mars Capital acquisition and the One Arrow programme.

Strong returns and increased dividend delivered

The underlying return on equity (ROE) for the Group in 2017 is 32.9%, up from 29.1% last year, and well above our target of 'mid-20s underlying ROE'. This metric is a key driver of shareholder value.

Basic EPS for 2017 is 22.8p compared to 15.1p in 2016, with the increase largely due to the growth in revenue. Underlying basic EPS has increased 24.1% to 32.4p (2016: 26.1p). The Group has established a progressive dividend policy. The strong cash result for the year, supported by the continued 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 8.1p for 2017 will increase to 11.3p, up 24.2%, and represents a 35% payout of underlying profit after tax.

Strong portfolio purchases

Our purchased loan portfolio asset base and loan notes increased by 18.3% to £951.5 million (2016: £804.1 million), which helps to support the future flow of collections and revenue streams.

This was driven by another excellent year of organic portfolio purchases of £223.9 million, a slight increase from 2016's £223.0 million. The face value of debt portfolios acquired in the year was £2,450 million, with an average purchase price of 9.1p per £1. For the year to 31 December 2017, the 120-month expected gross money multiple for this vintage is 1.8 times (2016: 1.9 times) from the date of purchase. This is slightly below our 2.0 times target and the 2016 comparative given the proportion of secured portfolios and portfolios acquired from our asset management platforms, which we regard as lower risk within the vintage. Of the purchase price invested, 40.7% related to secured portfolios and 33.8% was acquired from our asset management business. There was a good balance of investment by geography, including a healthy level of investment in Italy.

In the year, the Group acquired debt portfolios 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 £1,339.1 million to £1,516.9 million, an increase of 13.3%. In addition, in the year we decided to allocate an additional £18.0 million of capital to legal collection costs, in order to enhance the value of the back book. This has increased collections and our ERC. As described on page 24, 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 to account for any areas of underperformance.

Core collections increased

Core collections increased to £342.2 million (2016: £286.0 million), reflecting the increase in our portfolio asset base. Collections were ahead of our ERC forecast and reflect 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. Collections on our Portuguese portfolios have improved in the second half of 2017. In the period we acquired our first portfolios in Italy; to date these portfolios have collected in line with our underwriting forecast.

As at 31 December 2017, we have cumulatively collected 103% of our original underwriting forecast (2016: 103%) excluding foreign exchange impacts, reflecting the success of our data driven approach to underwriting.

Alternative performance measures

The Group believes that the use of alternative performance measures ('APMs') for profitability, earnings per share and cash metrics, provide valuable information to the readers of the financial statements. They can provide a more comparable basis for assessing the Group's performance between financial periods, by adjusting for items that by virtue of their size, nature or incidence are not necessarily representative of the ongoing performance of the business. APMs also reflect key operating targets and are used to monitor performance by the Board. However, any APM's in this document are not a substitute for, but complement reported measures, and readers should also consider the reported measures.

	2017			2016		
	PBT £000	Tax £000	PAT £000	PBT £000	Tax £000	PAT £000
Reported profit	50,559	(10,644)	39,915	31,367	(5,061)	26,306
Acquisition costs	2,444	(267)	2,177	5,022	(156)	4,866
One Arrow costs	4,645	(896)	3,749	—	—	—
Bond refinancing costs	27,352	(5,265)	22,087	17,994	(3,599)	14,395
Gain on sale of associate	(14,696)	3,374	(11,322)	—	—	—
	70,304	(13,698)	56,606	54,383	(8,816)	45,567
Non-controlling interest			(44)			—
Underlying profit after tax			56,562			45,567

	2017		2016	
	Reported £000	Underlying £000	Reported £000	Underlying £000
Profit after tax	39,915	56,562	26,306	45,567
Opening net assets	167,391	167,391	145,356	145,356
Closing net assets	195,148	195,148	167,391	167,391
Average net assets	171,905	171,905	156,374	156,374
ROE (%)	23.2%	32.9%	16.8%	29.1%
Weighted average ordinary shares	174,768	174,768	174,373	174,373
Basic EPS (p)	22.8p	32.4p	15.1p	26.1p

STRATEGIC REPORT

GROUP CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Revenues and EBITDA increased

Total revenue for the year was £319.0 million, an increase of 35.2% from the 2016 comparative of £235.9 million. £58.3 million of the increase came from purchased loan portfolios and loan notes and £24.8 million was from asset management services. The latter was due to a full period of results for Vesting and the acquisition of Zenith in April 2017.

The increase in collections drove an increase in Adjusted EBITDA of 10.2% to £230.6 million (2016: £209.2 million). The reconciliation for the year of net operating cash flow to the cash result, including a reconciliation to Adjusted EBITDA, is provided on page 137. 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 2017 was 22.3% (2016: 19.6%) of total revenue, and we expect this to continue to grow in 2018.

As noted above, we increased our spend on litigation collections strategies in the period by £18 million; this has increased our ERC, but also our cost ratios in the period (in combination with a larger asset management business, which has higher costs to collect). Reflecting this and the enlarged business, collection costs increased by 68.6% to £118.5 million (2016: £70.3 million).

Underlying performance

Profit after tax for the year increased to £39.9 million from £26.3 million in 2016, largely due to the growth in revenue. The contribution from our minority interest in MCS Groupe reduced from £2.4 million to £1.6 million as a result of divestment of the business in October 2017. This resulted in a gain on disposal of £14.7 million.

Profit before tax was adjusted by items totalling £19.7 million which arose from; the refinancing of both the €400 million floating rate note and the Group's RCF, costing £27.4 million, 'One Arrow' costs of £4.7 million and £2.4 million from corporate acquisitions that completed in the year. These costs were partially offset by the gain on disposal of the Group's associate, MCS. Costs of the 'One Arrow' programme were split broadly evenly between the Netherlands, in respect of the office consolidation, and in the UK, where the cost covered reorganising a number of aspects of the business. All of these items are adjusted from reported profit to give an underlying profit, as the 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 £3.1 million.

The tax charge for 2017 represents an effective tax rate of 21.1% (2016: 16.1%) on profit before tax. The effective tax rate has increased due to higher expenses not deductible for tax purposes, a higher level of taxable incoming from overseas countries with higher tax rates and a chargeable gain. The effective tax rate on underlying profit was 19.5% (2016: 16.2%).

Net assets, funding and net debt

Net assets increased £27.9 million during the period, mostly reflecting the retained profit for the period of £39.9 million, foreign currency translation of £2.4 million and share-based payment movements of £3.3 million, offset by the final 2016 approved dividend and 2017 interim dividend paid totalling £16.8 million.

Net debt increased by £132.4 million to £948.4 million (2016: £816.0 million), driven by the acquisitions of Zenith and Mars Capital, organic portfolio purchases, and foreign exchange.

The Group is committed to maintaining its strong financial profile and aims to maintain the ratio of secured net debt to adjusted EBITDA between 3.5x-4.0x, achieving 3.9x in both 2017 and 2016. Similarly, cash interest cover was 5.9x, comfortably ahead of target at greater than 4.0x and ahead of 2016's 5.2x.

The ratio of net debt to 84-month ERC (LTV) was 62.5% as at 31 December 2017 (2016: 60.8%), which is significantly below our financial covenant of 75%. The secured loan to value ratio, which cannot exceed 65.0%, is 59.7% (2016: 57.0%).

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.

On 30 March 2017, the Group issued €400 million senior secured floating rate notes due 2025, at a coupon of E+2.875% (the '2025 Notes').

The proceeds of the 2025 Notes were used to redeem the existing 2021 Notes, pay the early redemption and transaction costs and repay drawings under our RCF.

The early redemption of the 2021 Notes resulted in finance costs of £27.4 million, of which £17.6 million related to the cash call premium and cancellation of interest rate hedging linked to the 2021 Notes, with the remaining £9.8 million due to a non-cash write-off of related transaction fees.

In January 2018, the Group increased the RCF by £40 million to £255 million and extended that facility to 2023, meaning that the Group has cash and RCF headroom of £136.5 million, and an average debt maturity of 6.2 years with no debt maturing before January 2023. To maintain headroom the Group has entered into a €60 million bridge facility which expires on 15 May 2018.

Summary

The financial performance of the Group for 2017 was strong. We have continued to grow our asset management business, broadened and deepened our geographical footprint and reduced our cost of capital with an extended funding maturity.

We have invested in the Group via the One Arrow programme, which will see stronger governance, improved centres of excellence and increased efficiency and productivity across the Group's operating platforms.

Paul Cooper
Group chief financial officer
1 March 2018

BUILDING BETTER FINANCIAL FUTURES **FOR OUR CUSTOMERS**

Jennifer and the impact of illness and bereavement
Jennifer is retired and suffering from a long-term illness, recently being hospitalised. The shock of the unexpected death of her grandson added to her distress and meant she was unable to keep up with her finances.

When Jennifer was discharged from the hospital, she was keen to resume her repayments to us. Her only income is her pension and pension credits, and after payment of priority bills and other outgoings, she has a modest surplus each fortnight. Her outstanding debt with Arrow is a few hundred pounds and she was keen to repay this as quickly as possible.

While we will discuss with customers the option to consider higher repayments where they can, as this will often substantially reduce the time it takes to repay their outstanding debt, in this instance our agent cautioned against not overstretching herself. After further discussion, it was agreed that a lower repayment than Jennifer initially suggested would be taken over five months, but with the provision to review if this caused her any problems.

In this instance, this is a great example of how a customer often tries to repay their debt as soon as possible; and where we need to help them strike a balance of reducing their debt, whilst not causing additional hardship. Supporting our customers to take control of their finances is important but equally understanding our customers full background and taking time to understand their circumstances can help us assist them in achieving the best outcome for them.

Read more online
www.arrowglobal.net

LIVING OUR VALUES

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.

STRATEGIC REPORT

IFRS TO CASH RESULT RECONCILIATIONS

Introduction

We provide two reconciliations between reported IFRS profit 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 reported results. The second reconciles the reported profit for the period to the cash result. For completeness we also separate out other adjusting items. A number of the terms referred to in this section are defined in the glossary on pages 138 to 140.

Our core competence is using data to identify, manage and collect non-performing purchased loan portfolios. 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.

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 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.

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 2017, we purchased portfolios and loan notes for £223.9 million, which with an 84-month GMM of 1.6 times added £352.0 million to ERC and a 120-month GMM of 1.8 times added £390.2 million to ERC.

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 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. This movement of the purchased-loan portfolios 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 result we report.

As we collect on our portfolios, the statement of financial position value, ERC and income we receive decreases over time. 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	
Loan portfolios and loan notes – 31 Dec 2016	804,107	1,339,108	1,544,535	ERC 31 Dec 16
Portfolios acquired during the year[1]	223,949	351,990	390,239	ERC acquired during the year
Collections in the year[2]	(342,210)	(342,210)	(342,210)	Collections in the year
Income from purchased loan portfolios[3]	239,575	—	—	
Fair value gain on loan notes	5,298	—	—	
Exchange and other movements	20,748	—	—	
		168,021	187,681	ERC roll forward and reforecast[4]
		1,516,909	**1,780,245**	**ERC 31 Dec 17**
Effect of discounting[5]		(565,442)		
Loan portfolios and loan notes 31 Dec 2017	**951,467**	**951,467**		
Split:				
Purchased loan portfolios	900,769			
Loan notes	50,698			
	951,467			

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 ERC.

3 Income on purchased loan portfolios is calculated with reference to the EIR of the portfolio. This income is recognised after taking account of new portfolios, collections, updated ERC forecasts, 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 the latest exchange rate and rolls forward the 84-month forecast collection period.

5 Under IFRS, the carrying value of purchased loan portfolios includes 84 months of discounted cash flows; however, 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

	Reported profit £000	Adjusting items[9] £000	Underlying profit £000	Other items £000	Cash result £000	
Revenue						
Income from loan portfolios	239,575	—	239,575	100,920	340,495	Collections in the year[2]
Profit on portfolio sales	1,329	—	1,329	(1,329)	—	
Fair value gains on loan notes	5,298	—	5,298	(5,298)	—	
Income from loan notes	1,715	—	1,715	—	1,715	
Income from asset management	71,098	—	71,098	—	71,098	Income from asset management
Total revenue[6]	**319,015**	**—**	**319,015**	**94,293**	**413,308**	
Total operating expenses	**(213,071)**	**7,089**	**(205,982)**	**14,726[7]**	**(191,256)**	**Cash operating expenses**
Operating profit	**105,944**	**7,089**	**113,033**	**109,019**	**222,052[10]**	
Net financing costs	(71,660)	27,352	(44,308)	5,324[8]	(38,984)	
Share of profit in associate	1,578	—	1,578	5,655	7,233[10]	Share of profit in associate
Disposal of intangible asset	—	—	—	1,332	1,332[10]	
Gain on sale of associate	14,697	(14,697)	—	—	—	
Profit before tax	**50,559**	**19,744**	**70,303**	**121,330**	**191,633**	
Taxation charge on ordinary activities	(10,644)	(3,053)	(13,697)	4,099	(9,598)	
Profit after tax	**39,915**	**16,691**	**56,606**	**125,429**	**182,035**	
					(9,021)	Capital expenditure
					(125,314)	Replacement rate[11]
					47,700	**Cash result**

6 Total revenue is largely derived from income from purchased loan portfolios (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 purchase loan portfolios arising from collections which are not allocated to revenue. Amortisation plus income from purchase loan portfolios equates to core collections.

7 Includes non-cash items including depreciation and amortisation, share-based payment charges and FX.

8 Non-cash amortisation of fees and interest.

9 The cash result is viewed on an underlying basis which excludes certain items; see APM table on page 21. These items have been excluded to provide a more comparable basis for assessing the Group's performance between financial periods. Details of the adjusting items are provided in the Group chief financial officer's review on page 21.

10 The sum of these balances is the adjusted EBITDA for the business of £230.6 million, which is a key driver to the cash result. This measure allows us to monitor the operating performance of the Group. See the additional information provided on page 137 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 2018 to maintain the 2017 average 84-month ERC.

STRATEGIC REPORT
EXECUTIVE MANAGEMENT TEAM

1. Lee Rochford
Group chief executive officer

Skills and experience
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. Lee has a degree in Philosophy, Politics and Economics from Oxford University.

2. Paul Cooper
Group chief financial officer

Skills and experience
Paul has over 20 years' experience in financial services roles both within the UK and overseas. He joins Arrow from leading global insurance business Sompo Canopius Group, where he has been in a variety of senior executive roles since 2013. Previously, Paul was a partner at Ernst & Young LLP in the Financial Services division, following five years as a Finance Director at the quoted insurer Hiscox. Paul is a Chartered Accountant, having trained at PwC.

3. Zachary Lewy
Founder and Group chief investment officer

Skills and experience
Zachary is the founder and Group chief investment officer of Arrow Global. He was the CEO of the business from its inception, before moving to his current role.

Prior to Arrow, Zachary was an officer of Sallie Mae, a director of Vertex (the BPO division of United Utilities) and a founder and executive director of 7C (a UK BPO company acquired by Vertex). Zachary has previously chaired SCOR and was also the Chair of the UK Debt Buyers Association. He was named an Ernst and Young Entrepreneur of the Year in 2010.

Zachary is on the board of the English National Ballet, the English National Ballet School, and the organising committee for the Marie Curie Charity fundraiser. He graduated from Princeton University with a BA in Economics with Honours and a Certificate in Applied and Computational Mathematics with Honours.

4. Tracy French
Group HR director

Skills and experience
Tracy has over 25 years' experience in Human Resources with expertise in the areas 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. Prior to that, she has worked as a senior human resources professional predominantly in the service sector supporting a broad range of private equity, corporate and privately owned organisations from retail banking, insurance, mobile, utilities and food services to undertake large change and transformation programmes. Tracy holds an honours degree in Business from the University of Central England.

5. Dave Sutherland
Group chief operating officer

Skills and experience
Before joining Arrow Global in January 2018, Dave was the UK managing director at Neilson Financial Services (NFS). Before joining NFS, he spent four years as Chief operating officer at TD Wealth International and was responsible for Customer Services, Global Trading, Operations, Technology, Shared Services and Business Change.

He has also previously worked as COO for Santander Cards UK, COO and Transformation Director of GE Money's UK Card Services, and Regional Director for Boots plc.

Dave has an MSc. in IT and Management from Sheffield Hallam University and a MBA from the University of Leeds.

6. Stewart Hamilton
General counsel and company secretary

Skills and experience
Stewart has over 13 years experience as a solicitor in corporate and commercial law. He joined the Company from Addleshaw Goddard in 2011. During this time he worked principally on private company acquisitions and disposals and public fund raising, as well as gaining direct experience with the Clydesdale Bank plc and healthcare company, Assura Group Limited.

Stewart holds an M.A. (Hons) in economics and law from the University of Edinburgh and trained at Linklaters LLP.

7. Clodagh Gunnigle
Group chief risk officer

Skills and experience
Clodagh joined Arrow Global in May from GE Capital, where she spent 17 years in various risk roles including chief risk officer of GE's UK business and chief credit officer of GE Capital's Global Consumer Finance business. Clodagh is a qualified Chartered Accountant and has a depth of experience in managing all aspects risk including credit, conduct, operational, financial and enterprise across European portfolios, but in particular in the UK, Ireland, Portugal, France, Italy and the Netherlands.

STRATEGIC REPORT

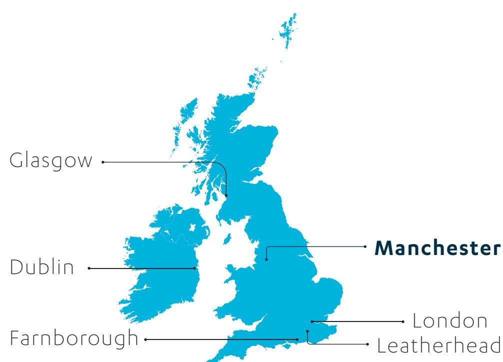
COUNTRY REVIEW

UNITED KINGDOM & IRELAND

"The acquisition of Mars Capital has broadened our secured servicing offering and provided access to the attractive Irish market."

Lee Pearson
Chief commercial officer and Co-Head, Arrow UK

Oliver Stratton
Chief operating officer and Co-Head, Arrow UK



Assets under management

€16.0bn

Colleagues

626

Locations

6

Regulated by

FCA and CBI

Key 2017 highlights

- Appointment of Oliver Stratton and Lee Pearson as co-heads of UK business, strengthening the UK leadership team
- Successful deployment of operational strategies, proprietary tracing tools and dialler optimisation, driving strong collections outperformance of the UK back book
- Cost to collect improvements driven by further rationalisation of the external servicing panel and internal operational efficiencies
- Completed the acquisition of Mars Capital, enhancing our secured servicing capabilities and providing entry into Ireland
- All operating systems migrated to a single platform, decommissioning of legacy front office system, outsourcing of UK infrastructure to a single managed service provider and continued investment in digital capability
- Bespoke asset management partnership with a major UK client to service customers in specialist circumstances
- Industry thought leadership including contribution to StepChange Debt Charity's 2017 Impact Report, 'Tackling Problem Debt'
- Winner of 2017 UK Credit Strategy Awards for 'Debt Purchaser of the Year' and 'Vulnerable Customer Support Initiative'
- Year-on-year increase in UK portfolio purchases in line with target return hurdles, including successes in UK bank auctions, off-markets trades and purchases of loan books from our asset management business
- £82.1 million of purchased loan portfolios and loan notes acquired (2016: £72.6 million)

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.

The UK debt purchasing and servicing landscape remained competitive in 2017. To remain successful, Arrow Global relies on its deep client relationships, disciplined approach to underwriting and data analytics, operational excellence and scale. Reputation and track record are both critical considerations for financial institutions considering an outright sale of a portfolio or the choice of a servicing partner.

Outlook

We expect to see a continued supply of debt sale volumes across unsecured and secured markets, but with strong competition for assets in 2018. Unsecured consumer lending grew at near double-digit rates in 2017 and the secured retail debt sale market has grown significantly in recent years. The secured asset class in particular is forecast to remain strong and, with the acquisition of Mars Capital, Arrow Global is now well placed to benefit from this.

While the competitive environment will remain challenging, we have a healthy pipeline entering into 2018 including a number of investments already contracted.

Ireland

The acquisition of Mars Capital completed in December 2017. It is a leading UK and Irish credit servicing company and provides servicing for residential, buy-to-let and SME commercial mortgages.

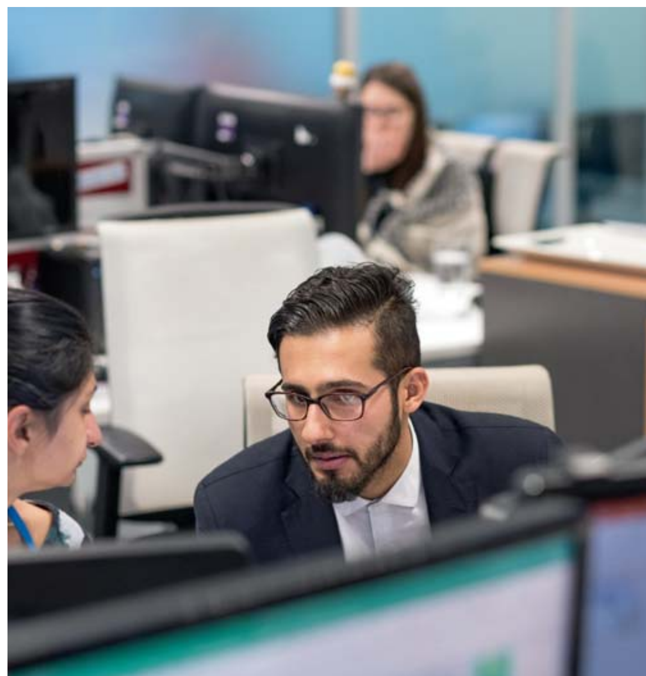
The acquisition strengthens Arrow Global's asset management capabilities and reinforces its leading position in the UK, but also provides strategic entry into Ireland, a new market for the Group offering significant debt purchasing and servicing potential.

In addition, we also announced the establishment of a strategic partnership in the UK and Ireland with Oaktree Capital Management, L.P. ('Oaktree'), a leading global asset manager with around USD$100 billion under management. The strategic partnership with Oaktree provides significant portfolio investment and asset management opportunities going forward in the UK and Ireland, strengthening Arrow Global's highly visible earnings stream.

Market overview and outlook

Ireland is a large NPL market at €59 billion, and as such offers significant deal flow.

Ireland has a growing economy, falling unemployment and recovering house prices, and Irish banks have improved their capital positions and have high propensity to sell NPLs. In the last five years we have seen around €63 billion of sales to Arrow Global's stable of institutional investor relationships, which gives us confidence in the future potential for the market.



STRATEGIC REPORT

COUNTRY REVIEW CONTINUED

PORTUGAL

"We maintained our market leading asset management position and returns continue to be strong."

Joao Bugalho
Chief executive officer

Assets under management
€6.8bn

Colleagues
359

Locations
2

Regulated by
CMVM

Key 2017 highlights

- Whitestar won the servicing for the €271 million secured loans in the Évora securitisation, the first public securitisation of NPLs in Portugal
- Maintained our market-leading asset management position having acquired six additional NPL portfolios with a face value of €612 million
- €63.1 million of purchased loan portfolios and loan notes acquired
- Strong collections throughout the year aided by improving economy

Market overview

The European Banking Authority estimates that as at Q2 2017, NPLs in Portugal totalled €35 billion, from around €41 billion the previous year. This does not account for other non-performing assets (NPAs) inside banks' balance sheets and others sitting in real estate funds, nor for restructured loans.

The Portuguese banking sector has stabilised in 2017, mainly because of the extension of the maturity of loans granted to the Resolution Fund, capital increases by some of the main banks and completion of the sale of Novo Banco. However, the banking system remains threatened by low profitability and weak asset quality (NPL ratio of 17.5% according to the EBA estimate), particularly concentrated in the corporate sector.

The central bank expects economic activity in Portugal to continue to expand, at a pace close to that projected for the Euro area. Gross domestic product (GDP) is estimated to grow by 2.6% in 2017, 2.3% in 2018 and 1.9% in 2019.

Outlook

In line with other European markets, the Bank of Portugal is maintaining pressure on banks to reduce the volume of NPLs and non-core assets, as agreed with the Single Supervisory Mechanism, especially given the need to access international financial markets to meet regulatory requirements.

However, in 2017, NPL sales were somewhat slower than the prior year. 2018 should bring more debt portfolio sales as the banks continue the deleveraging process.

BENELUX

"We commenced our consolidation into one office and continue to see exciting opportunities for the business."

Madiha Mouchtak
Chief executive officer

Assets under management
€5.0bn

Countries
2

Colleagues
402

Locations
5

Regulated by
AFM

Key 2017 highlights

- Madiha Mouchtak joined as Chief executive officer for Benelux in January 2018
- 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 mortgage bank
- €50.8 million of purchased loan portfolios and loan notes acquired
- Start of pilot end-to-end consumer credit servicing for a non-Dutch bank
- Centralisation of Dutch offices to Amersfoort will finalise in Q2 2018

Market overview

While non-performing and performing loans sales historically have been less common in Benelux 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.

In 2016, sales of non-performing loans in The Netherlands reached €9.5 billion mainly from Commercial Real Estate and secured retail portfolios. As at Q3 2017, sales were less at €3.2 billion, and while secured retail sales again feature, we also saw the emergence of Corporate and Small and Medium Size Enterprise (SME) loans being sold. Financial services dominate non-performing loans, but telecoms, utilities and consumer loans are also being sold in the Dutch market.

The financial services industry and utilities dominates the Belgian debt sale market. However, with other industries, such as telecoms and health services becoming interested in this opportunity, we expect an increase of debt sale projects.

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 NPL market continues to accelerate from its current take-off phase.

STRATEGIC REPORT
COUNTRY REVIEW CONTINUED

ITALY

"The completion of the Zenith acquisition marked our entry into Italy and we are building on this with further acquisitions and organic growth."

John Calvão
Chief executive officer

Assets under management
€25.6bn

Colleagues
77

Locations
2

Regulated by
BANK OF ITALY

Key 2017 highlights

- Significant growth year-on-year in AUM, up €10.7 billion to €25.6 billion for the year ending 2017
- Positive annual review with Standard & Poor's that resulted in an upgrade to Zenith´s Master Servicing rating to 'Strong', the highest rating available from Standard & Poor's
- Enhanced operational capabilities in order to accompany strong in-year growth
- Further investment in staff, systems and processes dedicated to the salary-assignment loan servicing
- Three significant and market facing NPL securitisations totalling €8.5 billion executed in 2017
- Mandated in all the GAC transactions executed in the Italian market to date (Carige, Creval and BP Bari) as monitoring agent

Market overview

Italy is Europe's largest NPL market and its extended asset tails provide significant long-term opportunities. In 2017, the Italian banking sector was very dynamic and characterised by the efforts of many banks to actively address the NPL issues. Such issues were represented by high volumes of non performing exposures (NPE) still sitting on the banks' balance sheets and the difficulty to find the right measures to properly manage the NPE life-cycle in line with the guidelines of the regulator.

Outlook

Although the market was active in 2017, the banks still retain a large volume of NPLs that need to be resolved, €300 billion as of 30 June 2017 vs. €324 billion as of the end of 2016. Many Italian banks are still addressing the ECB guidelines; however, pro-forma figures as of 31 December 2017 are equal to €250 billion (including the NPL disposal of Unicredit (€17.7 billion - Project Fino) and Banca Popolare di Vicenza/Veneto Banca (€16.8 billion), which were not deconsolidated in the 30 June 2017 figures).

To remain successful, Zenith relies on its deep client relationships, tailor-made service and strong market positioning. Reputation and track record are both critical considerations for financial institutions and investment funds when choosing a servicing partner.

BUILDING BETTER FINANCIAL FUTURES
FOR OUR CUSTOMERS

James and Leanne are having a baby
James and Leanne are expecting their first baby. He works full time and Leanne works part time. They have an outstanding debt that Capquest is collecting and which they have been making monthly repayments towards.

A missed payment is often an indicator of changed circumstances. Our team contacted James who revealed that in anticipation of the baby's arrival, they have started to discuss what money they would need to put aside for baby essentials. We also learned that the couple had moved into bigger rented accommodation.

Life changes such as this are not uncommon, and so understanding how it impacts on longer-term finances is important. Our agent took time to discuss in detail the new monthly income and expenditure that would apply and identified there were now no longer other outstanding creditors. While some of their priority bills had increased slightly, and they needed to consider additional outgoings related to the baby, they still had an increase in disposable income.

James was keen to get things back on track, cover the missed payment and establish a new regular direct debit. Given the improved circumstances, the benefit of increasing the monthly repayment and reducing the balance more quickly was considered. James agreed, and a higher monthly repayment was set, meaning the balance will now be repaid within 14 months.

This a is an interesting example of how everyday developments can change our customers' circumstances. Our agents handle hundreds of similar calls every day and in them, supporting our customers to build better financial futures is our priority. Taking time to understand their position can help us assist them in achieving the best outcome for them giving them control and comfort on what they can afford to repay.

Read more online
www.arrowglobal.net

LIVING OUR VALUES

We're brave and creative

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

STRATEGIC REPORT

OUR PEOPLE

SUPPORTING OUR COMMUNITIES

"The Arrow Global Community Champions help support our local communities and provide social and sporting opportunities to our colleagues."

Supporting debt charities

We support the activities of a number of debt charities. We have a place on the Citizens Advice Advisory Group and are responsible for developing its 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 had a very successful 2017. The Arrow Global Community Champions help support our local communities and provide social and sporting opportunities to our colleagues. One of the key aims this year was to provide increased awareness and charity donation initiatives across all of our UK sites. This included International Women's Day, Stress Awareness Month, Mental Health Awareness Week, National Walking Month with free pedometers, Jeans for Genes Day and Breast Awareness Month with pink ribbons.

Some of the main charity donations are summarised below:

- Arrow Global donated £15,000 to the We Love Manchester Emergency Fund;
- Arrow Global colleagues collected £2,555 for Children in Need; and
- Arrow Global colleagues collected £1,008 for Macmillan Coffee Morning.

In Glasgow, we supported our chosen charity, Brightest Star, through dress down days and summer events. In doing so we raised £3,060. We also hosted a DKMS donor event and registered 43 employees on the stem cell donor database and, in Farnborough, we have raised £5,435 supporting national charities like Save the Children, Children in Need and Macmillan.

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.

Financial education

According to Money Advice Service research, just four in ten young people in the UK say they have received financial education designed to teach children how to handle their finances confidently. This is despite 90% who had received financial education lessons saying they found them very useful.

We continue to see this gap in education manifest itself through the challenges our customers face on a daily basis, and so, 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. Initially, we sponsored a local Manchester secondary school, Oakwood Academy, supporting it in attaining national accreditation as a 'Centre of Excellence' for the provision of financial education to its students. In 2016, we expanded our reach to more young people in our local Manchester community through the delivery of financial education. This was achieved through the 'Money Matters' workshop, designed to educate and inspire young people to take ownership of their finances.

This year, we have built upon the successes of the provision of financial education in local schools in the Manchester area by supporting young people in the local communities in our Farnborough and Glasgow office locations as well. There are workshops taking place in Farnborough, Glasgow and Manchester so that by February 2018, over 80 colleagues will have been involved in delivering financial education workshops. Arrow Global colleagues delivering financial capability workshops are 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 invites volunteers to teach skills in local schools. Vesting Finance also participates in the Finance Run, an annual running event where colleagues run 5 or 10 kilometres to raise money for Stichting LEF.

In Portugal, Whitestar sponsors a Mozambican school, Ilocone, providing financial support to ensure the effective delivery of education programmes to children aged between three and six years old. The company also started a market analysis in order to implement a financial literacy programme for children starting in 2018. In addition, Whitestar sponsored various initiatives for people with special needs.

Volunteering and mentoring with City Year

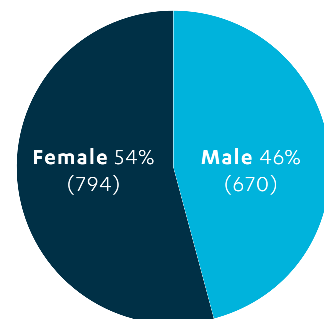
City Year seeks to address the important issues of academic underachievement of children from deprived backgrounds and the risk of 'no experience, no job' for young people entering the employment market.

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. The relationship has gone from strength to strength, and 2017 was a fantastic year with all areas of our participation with the charity growing. We now have 11 volunteers involved in the Bridge Building programme, whereby one volunteer from Arrow Global mentors a City Year volunteer for six months. We also designed and delivered a Money Management workshop which focused on educating the City Year volunteers about personal financial management. This was exceptionally well received and is paving the way for further workshops being developed.

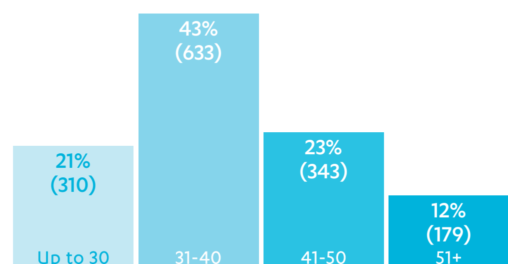
As with previous years, we shall continue our role in playing host to the Interview Skills Day. On Friday 19th May 2017, Arrow Global colleagues hosted an Interview Skills Day for City Year volunteer mentors at the Arrow Global offices.

Our people

Staff split: By gender
(at 31 December 2017)
Total: 1,464



Staff split: By age
(at 31 December 2017)
Total: 1,464



STRATEGIC REPORT

SUSTAINABILITY

INDUSTRY ENGAGEMENT

We actively contribute to a wide range of initiatives across the collections and debt advice sectors, to help Build Better Financial Futures for our customers

"Helping a customer who is struggling with their debt makes all the hard work worthwhile."

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.

In 2017, we held a number of important industry positions:

- After an extended three-year presidency of the Credit Services Association (CSA) we retained a board seat for Public and European Affairs, 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.
- First Chair, then a continuing member 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 lobbying resulted in significant changes to the final wording of the forthcoming EU General Data Protection Regulation (GDPR), and we now hold the FENCA portfolio of developing Codes of Conduct for GDPR as it relates to collections, and then for pan-European collections as a whole. The Code for GDPR is currently in development, and will be in place by May 2018 when GDPR comes into force. This Code will help provide a level playing field for the European consumer and clarity on the GDPR regulation for our industry, and may forestall further regulation from Brussels which could adversely affect Arrow Global and our customers.
- Through FENCA, we have also contributed to consultations on the NPL secondary market, and attended meetings with high-ranking officials across DG Just and DG FISMA.
- 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.
- In 2016, 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 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 PAP came into effect in October 2017, and has been well adopted by the sector.

- In addition to our various CSR initiatives at Group and country level, specialising in financial education and data philanthropy, we have supported a number of debt charities during the year, including assisting Citizens Advice to implement its Debt Management Service trial. We were also delighted to help Christians Against Poverty (CAP) toward its successful matched funding target, and made FairShare contributions to CAP, StepChange and Payplan.

We have continued to actively engage at numerous trade body events and conferences during 2017, and we chaired and presented regularly at non-performing loan and industry events and conferences throughout the year. We have a constructive and open relationship with the FCA, and have contributed to recent projects on due diligence for debt purchase, common misconceptions in CONC, CCA retained provisions and remediation, and the ongoing authorisation of fee-charging debt management firms. We also contributed to the Money Advice Service Debt Advice Operational Group, considering the future funding of debt advice, resulting in Peter Wyman's recent report, and contributing a well-regarded case study indicating the benefits of free financial advice to our customers.

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.

Following on from the success of our Debt Britain report in 2016, later in the year we will be publishing new findings based on the latest OBR figures and our own customer research.

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.

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 acquisitions made in the last two years, 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 and Skype for business facilities; and
- only booking travel for essential business reasons.

"It's great to be able to help people with their financial situations and give them options for the future."

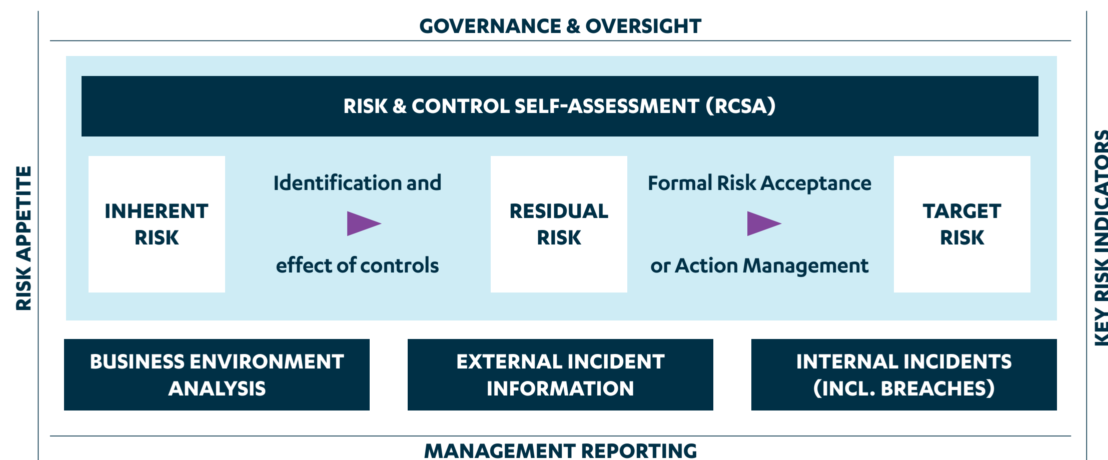
STRATEGIC REPORT

PRINCIPAL RISKS & UNCERTAINTIES

OUR APPROACH TO RISK MANAGEMENT

Risk management framework

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 continue to invest in people and tools to enhance and embed our Enterprise-Wide Risk Management Framework based on the following approach.



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. The investment that we are making in key areas supports the management of these risks and greater consistency across the Group.

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 operates a 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, operational and financial. The disclosures below 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.

Key risk	Key mitigation actions

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.

Key risk	Key mitigation actions
EXTERNAL ENVIRONMENT Changes in the competitive, economic or political (including Brexit) 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.	• Management monitors the competitive, economic and political environments in which we operate to influence future strategy. The board regularly carries out reviews of the markets and strategy, with impacts managed through our governance activities and by operating in accordance with regulatory requirements and industry best practice in each jurisdiction. • We have specifically considered the risks associated with Brexit, including the potential disruption in the UK political landscape. Our analysis indicates that we do not anticipate material adverse consequences to arise from Brexit and remain well positioned to capitalise on any market opportunities, whilst our increased geographic diversification provides further protection.
INTERNAL ORGANISATION Ineffective organisational structure, technological strategy, strategic relationships, culture and values could impact our ability to maintain competitive advantage.	• Cross-functional and cross-geographic forums are in place to achieve best practice across the business, with Group-wide policies to ensure alignment of key business principles and behaviours. The organisation structure has been developed to provide functional alignment across the Group, a common set of values has been defined and rolled out and culture assessments are being undertaken. Strong relationships have been developed with our creditor client base and investment funds in order to maintain competitive advantage.

Financial risk

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

Key risk	Key mitigation actions
MARKET RISK The risk of losses in portfolios due to changes in foreign exchange rates and the level of interest rates.	• 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 & LIQUIDITY RISK The risk that the Group is unable to meet its obligations as they fall due.	• Funding and liquidity risk is managed through matching the maturity of our funding facilities with the maturity of our assets by forecasting funding requirements, 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. In addition, appropriate currency liquidity management and scenario planning is in place.
PORTFOLIO CREDIT RISK The risk of returns adverse to forecast as a result of inadequate portfolio purchase analysis and consequent mispricing, or inadequate portfolio performance, therefore affecting ERC.	• Portfolio credit 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, with portfolio stress testing and reporting being developed.
COUNTERPARTY CREDIT RISK The risk to earnings or capital arising when a client or counterparty defaults on its contractual obligations, including failure to perform obligations in a timely manner.	• 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 mitigated through warranties. Counterparty risk relating to our cash balances is mitigated by spreading balances across multiple banks, subject to maximum exposure limits based on assessment of risk.

STRATEGIC REPORT

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

Key risk	Key mitigation actions
Financial risk continued	
TAX RISK Tax compliance risks arise from the complex nature of tax legislation and practice.	• Tax risk is addressed through the use of in-house and external tax specialists who advise the Group on its tax compliance obligations, application of tax legislation, and the transactions and activities undertaken by the Group.
PENSION RISK The risk that the Group is unable to meet its payment liabilities to former employee beneficiaries.	• Our exposure to liabilities arising from pension risk is negligible as employees are on defined contribution schemes. A number of employees of Vesting Finance were entitled to pension benefits that the Company insured, an arrangement which met the definition of a defined benefit plan. During 2017 we moved this to a defined contribution scheme and agreed settlement with the scheme members, resulting in the derecognition of the defined benefit scheme.

Operational risk

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

Key risk	Key mitigation actions
REGULATORY RISK Risk of non-compliance with regulatory obligations, increased regulatory scrutiny and inappropriate conduct and customer treatment.	• We operate in a highly regulated environment, particularly in the UK and increasingly in other European countries, with any action that leads to poor customer outcomes or customer detriment and 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 and we have established increased governance over our remediation activities to address instances of customer detriment, including on behalf of clients. • 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. • Regulatory conduct and Treating Customers Fairly (TCF) are at the heart of our business, our purpose being to Build Better Financial Futures. 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.
IT RISK Risk of IT failures as a result of inadequate IT infrastructure, security and/or systems and applications.	• 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. • 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. We are investing significantly in consolidating our IT infrastructure and systems across all geographies, enabling us to be more efficient, automate processes and manage data more effectively.

Key risk	Key mitigation actions
Operational risk continued	
DATA & INFORMATION RISK Risk of deficiencies in data quality and documentation impacting areas such as pricing through modelling techniques through to customer communications.	• There is 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. • Due diligence is undertaken on prospective investment purchases to identify potential data quality and documentation weaknesses (see portfolio credit risk section above). • We are also exposed to risks relating to data protection and the way in which we manage data, including its deletion. The General Data Protection Regulation (GDPR) has provided further guidance on how data should be managed and more stringent consequences in the event that we fail to meet these regulatory requirements. We have instigated a major programme across the Group to ensure that we appropriately protect and manage data and expect to have made significant progress by implementation of GDPR in May 2018.
LEGAL RISK Risk that the Group does not comply with local legislation or contracting requirements.	• Our legal team is involved in all purchases, with contractual terms and warranties used to manage contracting risks and provide acceptable protection against legacy issues. We actively manage contractual relationships with third parties and provide board visibility on material litigation activity. Specialist legal teams are also in place across all Group geographies to ensure compliance with local legislation and contracting requirements. External legal advice is taken where required.
SUPPLIER RISK Risk that suppliers are not adequately sourced, managed and terminated.	• We choose 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 which 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. We undertake ongoing oversight of our suppliers, including third-party partners involved in the collection of payments from customers. This oversight includes their treatment of customers, compliance with regulation, information security and business continuity arrangements. We monitor industry consolidation activity and have a diversified panel of partners to ensure that we are not reliant on any particular third-party servicer. Exit plans have been developed for critical suppliers, covering impact assessments, timescales for exit and alternative suppliers. • Consistent standards for supplier management will be deployed across all countries.
BUSINESS CONTINUITY RISK Risk that processes and procedures are not in place to manage unforeseen business disruption.	• Business continuity arrangements are managed on a country-by-country basis, with a view to adopting a Group-wide approach to the governance and management of business disruption to provide a consistent methodology. Disaster recovery plans are in place to mitigate against unexpected disruptions to our core infrastructure, with regular testing of plans.
PEOPLE RISK The risk of inadequate employee engagement, ability and capacity impacts on performance and behaviours.	• We believe that people are our greatest asset, and as such invest in employee training through further education and continuous professional development programmes, using both internal and external resources. We monitor employee engagement levels through employee satisfaction surveys and take steps to address key themes. • We have a strong sense of cultural alignment across the Group, with Group values in place across all Group geographies.

STRATEGIC REPORT

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

Key risk	Key mitigation actions
Operational risk continued	
PROCESS EXECUTION RISK Risk that poorly executed processes and transactions result in financial loss and/or poor customer outcomes.	• Where established, we have a quarterly Risk & Control Self-Assessment (RCSA) process to identify and assess key operational risks, including process execution risk. Our risk assessment processes are trained out to acquired businesses to develop consistency across the Group. 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. • Process execution failures are managed through our incident process, with clearly defined reporting, escalation and governance in place. Incidents are assessed against a severity matrix which considers the impact from both a business, customer and third-party perspective, ensuring that we reduce these impacts where possible. We seek to learn from all instances of process failures; undertaking root-cause analysis in order that we can learn, take appropriate action to resolve the incident and make improvements to avoid repeated failings. With the expansion of the Group, we are investing to improve process execution in all countries and seeking opportunities to enhance efficiency through application of consistent Group-wide approaches.
CHANGE RISK Risk of inadequately executed change activities.	• Change governance is in place across all Group geographies, with change committees charged with ensuring that change and associated benefits are delivered on time and budget. We are standardising the governance and management of change across the Group, with a consistent change methodology facilitated by a programme management office.
FINANCIAL CRIME RISK The risk of internal/external fraud, theft and money laundering.	• All colleagues complete Financial Crime Training within their induction period (or within 30 days of joining the Company) and subsequently on an annual basis. Any suspicion or knowledge of money laundering, fraud, theft or misappropriation of Group assets, finances, intellectual property or confidential data/information is reported through a governance structure described in the Group Financial Crime policy. We are enhancing our anti-money laundering processes in line with this policy. Where we experience financial crime or we have inadvertently subjected our customers to increased risk of financial crime, we have taken appropriate steps to address those risks, for example registering customers with CIFAS at our expense.
GOVERNANCE RISK Risk of inappropriate governance and oversight arrangements.	• We have a rigorous oversight framework, focused on compliance, independent assurance, performance, and customer outcomes across both our in-house operations and third-party 'partner' network, with a continuous programme of reporting and reviews. • Governance and oversight are supported by the three lines of defence structure, including a second line risk and compliance function across the Group and risk committee structure, at Group and country level. The 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. We are embedding these structures into our acquired businesses to deliver an effective and consistent approach across the organisation. Risk exposures are also managed and monitored against the board's risk appetite and the process by which we set and manage this is being enhanced across the Group.
REPORTING RISK Risk of inaccurate/untimely internal and external reporting.	• Alongside our governance framework sits a reporting calendar, to ensure that reporting remains accurate, up to date, and is produced on time. Specialist teams are responsible for different aspects of internal and external reporting, many of these sitting at Group level, including Corporate Communications, Investor Relations, Finance and Risk. Financial reporting and regulatory returns are subject to high levels of focus and challenge, and follow set governance and approval processes.

STATEMENT OF VIABILITY

The directors have assessed the prospects and viability of the Group over a three-year period of assessment. The directors have given this matter due consideration through a review of forecast cash flow models and scenarios and current cash availability

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 plan which command the greatest focus and have the greater certainty over the forecasting assumptions used. 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 the period of assessment 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 2020. 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 38 to 42.

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. In 2016 we asked Jaywing Consulting to consider and challenge our analysis. This has not been repeated as its analysis remains valid and has helped inform some of our stress testing performed this year.

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

Approval of strategic report

The strategic report for the year ended 31 December 2017 has been approved by the board and was signed on its behalf by:

Lee Rochford
Group chief executive officer
1 March 2018

GOVERNANCE REPORT

BOARD OF DIRECTORS

1. Jonathan Bloomer MBE

Non-executive Chairman

Appointment

5 October 2013

Committee membership

Nomination (Chair) and remuneration

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, board membership of the Geneva Association and membership of the code committee of the Takeover Panel.

External appointments

Jonathan is currently chairman of Shepherd Direct Ltd, non-executive director of Morgan Stanley International and director of Change Real Estate Limited.

Contribution in 2017

Jonathan led the board through a significant period of growth and diversification in the Group's history, highlights being the acquisition of Zenith in Italy and the Mars Capital companies in the UK and Republic of Ireland, together with the continued evolution of the Company's asset management revenue stream. As chair of the nomination committee, Jonathan oversaw the recruitment of Paul Cooper as Group chief financial officer.

2. Lee Rochford

Group chief executive officer

Appointment

3 January 2017

Committee membership

Disclosure (Chair)

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. Lee has a degree in Philosophy, Politics and Economics from Oxford University.

External appointments

None.

Contribution in 2017

Lee has led the Group through a significant year of growth and financial performance in the Group's history, highlights include: revenue growth of 35.2%, growth in underlying profit after tax of 24.2% and underlying return on equity now standing at 32.9%. Lee was instrumental in the development of the One Arrow programme, which centred on investing in infrastructure and the Group's core capabilities for future growth, and the expansion of the executive management team following the appointments of Paul Cooper (Group chief financial officer), Clodagh Gunnigle (Group chief risk officer) and Dave Sutherland (Group chief operating officer).

3. Paul Cooper

Group chief financial officer

Appointment

1 January 2018

Committee membership

Disclosure

Skills and experience

Paul has over 20 years' experience in financial services roles both within the UK and overseas. Paul joined the Company from leading global insurance business, Sompo Canopius Group, where he had been in a variety of senior executive roles since 2013. Previously, Paul was a partner at Ernst & Young LLP in the Financial Services division, following five years as a Finance Director at the quoted insurer, Hiscox. Paul is a Chartered Accountant, having trained at PwC.

External appointments

None.

Contribution in 2017

Paul joined the business in January 2018.

4. Iain Cornish

Non-executive director and senior independent director

Appointment

15 October 2013 (Iain became senior independent director on 4 June 2015)

Committee membership

Senior independent director, audit, disclosure, nomination, remuneration and risk (Chair)

Skills and experience

Iain has a wealth of experience in the financial services industry having spent over 20 years in senior leadership roles, until 2011, at the 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 and trustee and treasurer of Macmillan Cancer Support.

Contribution in 2017

As chair of the risk committee, during the year Iain oversaw the strengthening and development of the Group's risk management framework to align with the growth, scale, diversity and complexity of the business. Iain also led the committee through the oversight of the risks associated with the acquisition and integration activity in relation to Zenith in Italy and Mars Capital in the UK and Republic of Ireland. Iain has continued to support the Chairman in his role as senior independent director and was involved in the recruitment of Paul Cooper as Group chief financial officer.

5. Lan Tu

Non-executive director

Appointment

9 March 2015

Committee membership

Remuneration (Chair), audit, nomination and risk

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 Aberdeen PLC, non-executive director of Kings College London and non-executive director of Maudsley Learning at Work.

Contribution in 2017

As chair of the remuneration committee, Lan oversaw the remuneration proposals in respect of Rob Memmott stepping down as Group chief financial officer and Paul Cooper's appointment. Lan has also been instrumental in leading the committee through the review of the Company's remuneration policy in the context of the increase in the Company's size and complexity and developments in best practice, which is being put to shareholders for approval at the 2018 annual general meeting.

6. Maria Luís Albuquerque

Non-executive director

Appointment

7 March 2016

Committee membership

Audit and risk

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 in 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 2017

Maria Luís brings a wealth of international and financial expertise to the board and throughout the year provided insight and challenge to the board on the Group's geographic expansion and diversification, particularly in the context of European financial stability, and the Group's long-term funding strategy. As a member of the risk committee, Maria Luís was involved in the review of the risks associated with the acquisition and integration activity related to the Zenith acquisition in Italy and the Mars Capital acquisition in the UK and Republic of Ireland.

7. Andrew Fisher

Non-executive director

Appointment

9 December 2016

Committee membership

Audit (Chair), remuneration, risk and disclosure (alternate)

Skills and experience

Andrew, a chartered accountant, is currently the finance director of Provident Financial plc, having been appointed in 2006. He has spent over 20 years as a 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 2017

Andrew brings a wealth of international and financial sector knowledge and experience to the board and provides particular insight and challenge on the Group's long-term funding and strategy. As chair of the audit committee, Andrew has led the committee through the review of the integrity and effectiveness of the financial reporting process, together with the going concern review and approval of the long-term viability statement for recommendation to the board. Andrew also led the committee through the review of the Group's approach to the implementation of IFRS 9, a key piece of the committee's work throughout the year.

8. Stewart Hamilton

General counsel and company secretary

Appointment

24 September 2013

Committee membership

Disclosure

Skills and experience

Stewart has over 15 years' experience as a solicitor in corporate and commercial law, having joined the Company from Addleshaw Goddard in 2011. Stewart qualified as a solicitor with Linklaters in 2002 before working for Baker & McKenzie in London.

External appointments

None.

GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

"The board is responsible for the long-term success of the Group; its strategy, values and governance."

Compliance statement

This corporate governance report, together with the reports of the audit committee, risk committee, nomination committee and the directors' remuneration report, provides a description of how the main principles of the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in April 2016 (the 'Code') have been applied by the Company in 2017. 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 board currently comprises seven members, including me, as Chairman, two executive directors (Lee Rochford and Paul Cooper) 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 4 and 5, we announced in October 2017 that Rob Memmott would be stepping down as Group chief financial officer and would be replaced by Paul Cooper with effect from 1 January 2018.

Iain Cornish is the Company's senior independent director. The board is satisfied that Iain is independent in character and judgement and has 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 recommendations of the Code.

Biographical details of all the directors are set on pages 44 and 45. 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 2018 annual general meeting. Paul Cooper will offer himself for election by the shareholders for the first time at the 2018 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 is vital to the success of the business. Further details regarding these engagements are set out on page 50.

Jonathan Bloomer
Non-executive Chairman
1 March 2018

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; and
- approval of external reporting.

Specific key considerations of the board in 2017 also included:

- the acquisition of Mars Capital in the UK and Republic of Ireland;
- the acquisition of Zenith in Italy;
- Euro bond refinancing;
- RCF refinancing;
- the appointment of Group chief financial officer, Paul Cooper;
- European expansion considerations; and
- investment in the One Arrow programme.

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 44 and 45.

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 Vesting offices in March 2017 and the Whitestar offices in September 2017.

Board attendance

The board held ten scheduled meetings in 2017. 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
Lee Rochford (appointed 3 January 2017)	10	10
Rob Memmott[1]	10	9
Iain Cornish	10	10
Lan Tu	10	10
Maria Luís Albuquerque[1]	10	9
Andrew Fisher	10	10
Tom Drury (stepped down 3 January 2017)[2]	0	1

1 Rob Memmott and Maria Luís Albuquerque were unable to attend certain board meetings due to prior commitments.

2 Tom Drury was invited by the Chairman to attend the January meeting of the board.

Ad hoc conference calls and meetings 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, ensures new directors receive a full, formal and tailored induction upon joining the board, including full briefing packs.

GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT CONTINUED

Effectiveness continued

Continued professional development undertaken during the year continued

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.

Paul Cooper undertook a thorough induction process leading up to his appointment on 1 January 2018 and throughout the 'handover' period during January and February 2018 with Rob Memmott.

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 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 2016 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 are being acted upon, including: greater engagement with external advisors from a training and insight perspective and increased focus on operational and regulatory challenges 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.

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 2018 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 to an acceptable level based on the Group's appetite for risk, which takes into consideration the expectations of our shareholders. The board has approved an appropriate suite of policies on risk management and 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 internal audit 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 38 to 42 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, based on the Group's defined risk appetite. 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.
- A strong risk and compliance framework supported by the risk management framework, risk committees and maintenance of the Group, country and departmental risk registers.
- Regular monitoring of portfolio performance, overseen by the portfolio review committees, which considers actual versus forecast results, focusing on significant individual portfolio variances, reforecasts 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 business operations, the treatment of customers, regulatory compliance, the Group's reputation and the financial results.

Comprehensive reporting to the audit and risk committees and the board on the above activities took place throughout the year. The audit 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 2017 provided a broad assessment of risk management across the Group, including the Group's subsidiaries in Portugal, the Benelux countries and Italy. For 2018, there will be oversight of the respective risk management and internal control systems within the recently acquired Mars Capital companies.

No new or open high-risk observations were identified by the external auditor, KPMG, during the interim audit for 2017. The risk management framework provides assurance and evidence that the Group's risks are understood and are being appropriately managed. With continued growth in both new and existing geographic territories, and exposure to increasing levels of client expectation and regulatory scrutiny, the expected standards of risk management continue to increase.

The audit 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, however, the committee noted the need to continue to develop and embed a consistent and robust approach across the Group for all categories of risk. It was further noted that, as well as investment in second-line risk resource across the Group, the Company's culture is being matured to support effective risk management and embed the Company's values. Based on the audit 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 external auditor

The provision of non-audit services by the external auditor is monitored throughout the year; any such work must be authorised in accordance with the Group's non-audit services policy. Further detail of the non-audit services policy is set out on page 55.

Non-audit services performed by the external auditor during the year included mandatory work performed in relation to the issuance of the €400 million senior secured floating rate notes due 2025. Additionally, the external auditors performed a controls report for Vesting in its capacity as a service organisation, undertook monitoring work on a securitisation issue on which a Group company acts as servicer and administration agent, and undertook an audit for the demerger of certain assets and liabilities from Vesting related to the co-investment in the €1.7 billion portfolio of secured real-estate assets sold by RNHB Hypotheekbank in the Netherlands. The level of non-audit fees and audit related assurance services provided by the external auditor for the year can be seen in note 10 on page 104.

The audit committee has concluded that the provision of non-audit services to date has not compromised external auditor independence and objectivity.

Internal audit function

The audit committee was responsible for monitoring and reviewing the effectiveness of internal audit activities in 2017. The formerly combined audit and risk committee approved the appointment of an outsourced internal audit provider, Deloitte LLP, in October 2015, which has a Group-wide remit. There are also in-house internal audit teams at Whitestar and Vesting.

Conflicts of interest

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 23.

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 130 transactions per year, with approximately 30 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 2017, the board approved, amongst others, the acquisition of the Mars Capital companies in the UK and Republic of Ireland.

GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT CONTINUED

Accountability continued

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 to be approved at the 2018 annual general meeting, can be seen on pages 60 to 78.

Relations with shareholders

Dialogue with shareholders, bondholders and revolving credit facility providers

In 2017, the Chairman, the Group chief executive officer and the Group chief financial officer 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 senior independent director 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 page 82 for information on the 2018 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 Lee Rochford, who chairs the committee, Paul Cooper, Iain Cornish and Stewart Hamilton. 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 committee

Details regarding the audit committee and its responsibilities can be seen on pages 51 to 55.

Risk committee

Details regarding the risk committee and its responsibilities can be seen on pages 56 to 57.

Nomination committee

Details regarding the nomination committee and its responsibilities can be seen on pages 58 to 59.

Remuneration committee

Details regarding the remuneration committee and its responsibilities can be seen on pages 60 to 78.

The terms of reference for the disclosure committee, audit committee, risk committee, nomination committee and remuneration 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
1 March 2018

AUDIT COMMITTEE REPORT

"The committee continues to focus on those matters it considers to be important by virtue of their size, complexity, subjectivity or impact."

Dear Shareholder
I am pleased to provide a report of the audit committee's activities in 2017.

As reported in the 2016 annual report, the committee has operated independently from the risk committee since 25 January 2017, which the board, supported by the nomination committee, considered to be appropriate in light of the Group's increased geographic footprint, the complex regulatory environments in which the Group operates and the consequent impact on risk exposures. The committee does, however, continue to maintain close links with the risk committee, with the chair of each committee being a member of the other. This cross-membership facilitates effective communication between both committees. The committee also works with the remuneration committee to ensure that risk is appropriately considered when setting the Group's remuneration policy. I am also a member of the remuneration committee.

The principal issues on which the committee focused in 2017 are set out in this report. The key areas of judgement and estimation that the committee reviewed were in relation to the carrying value of purchased loan portfolios and loans, and the fair value of intangible assets acquired as part of the acquisitions of Zenith and Mars Capital during the year. A further key piece of the committee's work was to review and monitor planning for the implementation of IFRS 9. The committee received regular updates from management and has approved the detailed work undertaken to date, ahead of implementation in 2018. Management were supported by external providers, PwC, in this work. KPMG has reviewed and agreed the approach taken by management and has provided assurance to the committee in relation to the IAS 8 disclosures in this regard. More disclosures regarding this are set out on page 54.

The committee reviewed the accounting with regards to the two corporate acquisitions completed in the year, focusing on the more judgmental areas of those transactions.

During the year, a review of the performance of the external auditor 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.

A review of the performance of the internal audit function took place during the year. Deloitte LLP, who was appointed as the Group's internal auditor in 2015, had replaced the original internal audit provider in the UK and supplemented the in-house internal audit teams that existed in our Portuguese and Benelux businesses. The committee concluded that Deloitte LLP's performance as internal auditors was satisfactory, but a further review of the Group's entire internal audit function would take place in mid-2018.

In accordance with best practice and the non-audit services policy, the committee has continued to keep the provision of non-audit services under review. Fees of £263,000 were paid to our external auditor for non-audit services in the year. Further details of the work carried out can be seen on page 49. We anticipate the ratio of the Group's non-audit fees to audit fees to reduce in 2018 and to continue to be low in future reporting periods.

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 the anticipated improvements, following the formal separation of the audit and risk committees, had been realised.

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.

Andrew Fisher
Chair of the audit committee
1 March 2018

GOVERNANCE REPORT

AUDIT COMMITTEE REPORT CONTINUED

The committee's responsibilities are set out in its terms of reference. They include responsibility for external and internal audit, financial reporting and monitoring and assessing the effectiveness of the Group's internal controls and risk management systems. 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 as well as monitoring and reviewing the Group's external and internal audit functions and reviewing and recommending approval of the annual report and half-year statements to the board.

The committee met five times in 2017 at the appropriate times in the financial reporting and audit cycle. The attendance of our members is shown in the table opposite.

During 2017, 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 committee comprises at least two members who are independent non-executive directors and includes one member with recent and relevant financial experience. The Code also requires the audit committee to have competence relevant to the sector in which the Company operates. In addition, the Disclosure Guidance and Transparency Rules (DTR 7.1.1) provide that at least one member of the audit committee must have competence in accounting or auditing, or both.

For meetings held in 2017, the committee was comprised of the following members:

Andrew Fisher as Chair, Iain Cornish, Lan Tu and Maria Luís Albuquerque. All are independent non-executive directors and therefore satisfy the Code's requirements. 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 also has recent and relevant 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 44.

Arrow Global has an experienced audit committee where all four members have considerable expertise of the financial services sector. This can be seen from the biographies set out on pages 44 to 45 and the Company's website. The board, on the recommendation of the nomination committee which had carried out an assessment, concluded that the audit committee had competence relevant to the sector in which the Company operates. The board based its decision on the experience of the members of the audit committee and the practice at other listed companies.

Committee members	Eligible to attend	Attended
Andrew Fisher (chair)	5	5
Iain Cornish	5	5
Lan Tu	5	5
Maria Luís Albuquerque	5	5

Separation of audit and risk committees

As stated in the audit committee chairman's statement on page 51, 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

Work of the committee

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

Reporting	• Monitor the 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 and make appropriate recommendations to the board • Continuing appropriateness of and changes to accounting policies and the use of estimates and judgements as noted in the Group's report and accounts • Review key judgements and estimates included in preparation of the financial statements • Going concern review and approval of longer-term viability statement for recommendation to the board • Fair, balanced and understandable concept in respect of the 2017 report and accounts • Reviewed accounting in respect of the two corporate acquisitions completed in the year • Review and monitoring of IFRS 9 implementation plan and approval of methodologies and judgements
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 the external auditor (at planning and reporting stages) with further private meetings held without executive directors and management present • Changes to the regulatory framework in respect of external audit tendering and recommending reappointment of the external auditor 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 • Reviewing policy on the supply of non-audit services by the external auditor to avoid any threats to auditor objectivity and independence and ensuring compliance with this policy • Approving the terms of engagement of the external auditor at the start of the audit and agreeing its remuneration for both audit and non-audit services
Risk management and internal controls	• Monitoring and effectiveness review of risk management and internal control systems (including financial, operational and compliance) across the Group and approving the statements to be included in the annual report regarding such effectiveness • Reviewing and approving the statements to be included in the annual report concerning the principal risks facing the Group and how they are being managed along with the assessment of the Company's prospects
Whistleblowing and prevention of bribery	• Reviewing Whistleblowing Policy • Reviewing procedures for preventing bribery and fraud
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 • FRC and governance update • Group tax update • Reviewing current and future funding structures

GOVERNANCE REPORT
AUDIT COMMITTEE REPORT CONTINUED

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 judgements 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. The committee also reviewed and discussed with the external auditors their report on management's key assumptions.

Fair value of net assets acquired as part of business combinations

During the year, the Group acquired the entire issued share capital of Zenith and Mars Capital. 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 determination of the fair value of acquired net assets requires the exercise of management judgement, 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. The committee reviewed the appropriateness of management's fair value considerations and recognition of assets and liabilities on acquisition and approved management's methodology.

Other areas considered by the committee

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 acquired in the year and the judgements 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 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 portfolios by reference to cash flow models.

Goodwill impairment review

The year-end balance sheet includes goodwill of £153 million. The committee reviewed the carrying value of goodwill with reference to the values attributable to each cash generating unit, the expected value-in-use based on projected cash flows and the key economic assumptions related to growth rates and discount values. The committee also considered the work undertaken by the external auditor in testing the projections. The committee discussed the appropriateness of the assumptions and challenged both the discount rates and the factors used to consider whether a reasonable change in assumptions may indicate impairment. After discussion, it was satisfied that the assumptions were reasonable and no impairment was required.

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 investment 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 committee.

The committee also received reports on the Group's preparations for and approach to IFRS 9, covering the classification and measurement of the loan portfolios and determination of loan portfolio impairment provisions.

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 judgemental 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 2017:

- 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: and
- 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 LLP as internal auditor, and KPMG as external auditor.

External auditor

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

- considered and approved the proposed materiality and audit plan prepared;
- 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, its approach, fulfilment of the agreed audit plan, their handling of key accounting and audit judgements, 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;
- reviewed the Group's policy on the provision of non-audit services by the external auditor; and
- 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 2018 annual general meeting.

The external auditor, KPMG, was appointed in July 2014 following a comprehensive and 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.

All appointments made in 2017 are in line with the Group's non-audit fees policy.

Internal audit

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

In 2017, 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 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; and
- met with the lead internal audit partner on four 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. A review of the internal audit function by the committee will take place in 2018. 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 48 and 49 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 committee chair's statement on page 51, 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

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

Andrew Fisher
Chair of the audit committee
1 March 2018

GOVERNANCE REPORT
RISK COMMITTEE REPORT

"The Group has made a substantial investment in strengthening and developing its risk management framework during the year."

Dear Shareholder
I am pleased to provide a report of the risk committee's activities in 2017.

As reported in the 2016 annual report, the committee has operated independently from the audit committee since 25 January 2017, which the board considered to be appropriate in light of the Group's increased geographic footprint, the complex regulatory environments in which the Group operates and the consequent impact on risk exposures. The committee does, however, continue to maintain close links with the audit committee, with the chair of each committee being a member of the other. This cross-membership facilitates effective communication between both committees. The committee also works with the remuneration committee to ensure that risk is appropriately considered when setting the Group's remuneration policy. I am also a member of the remuneration committee.

The Group has made a substantial investment in strengthening and developing its risk management framework during the year in line with the growing scale, diversity and complexity of the business. This work has been led by Clodagh Gunnigle, who was appointed as the Group's chief risk officer in May 2017. Clodagh joined us from GE Capital, where she spent over 15 years in various global risk and compliance roles. She is a qualified accountant and has experience in managing risk across Europe, but in particular in the UK, Ireland, Portugal, the Netherlands and Italy. We are committed to high standards of risk management across all categories of risk and we will continue our programme of investment in the risk management framework in 2018 under the oversight of the committee.

The committee's agenda in respect of the financial year ended 31 December 2017 has once again been full. In addition to its primary role of reviewing the Group's risk management systems and assisting the board in its oversight of risk across the Group, the committee has overseen various activities undertaken by management to further embed the systems of risk management across the enlarged Group. The committee visited the Group's operations in the UK, the Netherlands and Portugal during the year and met with the local risk officers, with further visits scheduled to take place in 2018, in addition to visiting the Group's operations in Italy and Ireland.

The principal issues on which the committee focused in 2017 are set out in the report. As is to be expected given the expansion and diversification of the Group, the committee has focused on a wide range of issues. However, the committee is confident that through the risk management and other governance processes which we have in place, we have been able to identify and manage risks appropriately and the board receives accurate and timely reports on the risk environment which allows us to oversee risks effectively.

In April 2017, the Group received authorisation from the Bank of Italy in respect of the acquisition of Zenith, followed by approval from the Financial Conduct Authority and the Central Bank of Ireland in November 2017 for the acquisition of the Mars Capital companies in the UK and Ireland. The risk committee was actively involved in overseeing the due diligence programmes in respect of these acquisitions, and in ensuring that the respective integration programmes include adequate focus on the development of the local risk and control frameworks, so that they will meet Group standards and are integrated effectively into the wider Group risk framework.

As part of the overall board evaluation review, the committee reviewed the findings in relation to its own performance. While confirming its overall effectiveness, a number of areas for further improvement were identified. These related principally to the need to ensure that the committee is continuing to receive appropriate information aligned to the enhanced risk appetite framework in light of the expansion of the Group. These improvements are being addressed as part of the wider risk framework development programme.

Iain Cornish
Chair of the risk committee
1 March 2018

The committee's responsibilities and authority to carry out its responsibilities are set out in its terms of reference, which are published on the Group's investor relations website.

The committee is 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. 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 six times in 2017. The attendance of our members is shown in the table opposite. For meetings held in 2017, the committee comprised the following members:

Iain Cornish as Chair, Lan Tu, Maria Luís Albuquerque and Andrew Fisher. All are independent non-executive directors.

Committee members	Eligible to attend	Attended
Iain Cornish (Chair)	6	6
Lan Tu[1]	6	5
Maria Luís Albuquerque	6	6
Andrew Fisher	6	6

1 Lan Tu was unable to attend a meeting due to a prior commitment.

Biographies of the members of the committee are set out on pages 44 to 45.

Work of the committee

The committee has a schedule of standing items that it reviews at each meeting and a work programme including training and 'deep dive' sessions and also considers any specific matters highlighted to the committee for consideration. The committee's schedule is continuing to evolve in light of the Group's ongoing expansion and diversification.

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

Risk management	• 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 policies • Consideration of specific risk exposures and associated mitigations, including acquisitions, legal claims and litigation, tax status and customer outcomes • Review of regular reports from money laundering reporting officer, including reports on protecting against fraud and other forms of financial crime • Review and challenge due diligence on risk issues relating to material transactions and strategic proposals that are subject to board approval
Review of regulatory risk	• Review of the regulatory landscape and oversight of the management of regulatory issues • Review of reports from management on the treatment of customers including complaints handling, vulnerable customers, litigation and oversight of third-party servicers • Review of reports on compliance issues including oversight of compliance monitoring activity and findings • Training on specific regulatory topics to support effectiveness of the committee including forbearance, the General Data Protection Regulation and the Senior Managers & Certification Regime
Italian acquisition	• Oversight of the Zenith acquisition and integration activity • Consideration of the risks that exist in Italy and the Group's response to them
Mars Capital acquisition	• Oversight of the Mars Capital acquisition and integration activity
Other	• Review of the effectiveness of the committee • Review of the committee's terms of reference and work programme • Oversight of the development of the group-wide risk management framework

Overview of committee's activities for 2018

In 2018, the committee will focus on developing the group risk management framework across the enlarged Group, in particular ensuring consistency of approach and developing the Group's risk appetite statements, key risk indicators and the wider risk culture. The committee will continue to closely monitor the regulatory environments in which the Group operates and will oversee the implementation of systems, processes and procedures to meet the requirements of the General Data Protection Regulation.

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

Iain Cornish
Chair of the risk committee
1 March 2018

GOVERNANCE REPORT

NOMINATION COMMITTEE REPORT

"During the year the committee has overseen the appointment of Paul Cooper, as our new Group chief financial officer."

Dear Shareholder

I am pleased to provide a report of the nomination committee's activities in 2017.

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 role of Group chief financial officer arising from the announcement that Rob Memmott would be stepping down from this position. I am very pleased with the outcome of this process, which resulted in the appointment of Paul Cooper as Group chief financial officer. Paul's appointment was announced on 18 October 2017 and he formally took up the position on 1 January 2018.

Further detail on the recruitment process for Paul's appointment is set out on page 59.

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.

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.

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 44 to 45.

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 (Chair)	3	3
Iain Cornish	3	3
Lan Tu	3	3

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 2017 has included:

- the recruitment of Paul Cooper as Group chief financial officer;
- 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 the approach to the 2018 board and committee performance evaluation and recommending that an externally facilitated revaluation be undertaken in 2018;
- reviewing the composition of the audit committee;
- recommending to the board that Lan Tu be invited to serve an additional three-year term with effect from 9 March 2018; and
- recommending to the board the re-election/election of the entire board at the forthcoming annual general meeting.

Recruitment of directors

The appointment of Paul Cooper followed an extensive search and a rigorous selection process. For the position, the committee assessed the skills and experience required to fulfil the role and a role description detailing the capabilities required for the appointment was prepared accordingly. The executive search firms, Spencer Stuart and JCA Heidricks, were retained in relation to the appointment of Paul Cooper. Neither firm has any other connection with the Company.

The recruitment process for the role of Group chief financial officer resulted in suitable candidates being shortlisted for interview. Interviews with candidates were conducted by me and the executive and non-executive directors. Each candidate also undertook an in-depth assessment with business psychologists. A number of informal meetings, conference calls and discussions also took place between committee members, search consultants and potential candidates throughout the recruitment process.

The committee unanimously approved the recommendation of the appointment of Paul Cooper to the board and as the Group's chief financial officer. The board unanimously approved Paul Cooper's appointment, which was announced on 18 October 2017. Paul formally joined the Company on 1 January 2018.

Audit committee composition

As stated on page 52, the committee undertook a detailed review of the composition of the audit committee and concluded that the composition of the audit committee was compliant with the relevant requirements of the Code and the Disclosure Guidance and Transparency Rules throughout 2017.

Further detail of the work of the audit committee is set out within its report on pages 51 to 55.

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 2018.

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 and updated in 2017, 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.

A key policy statement of the Company's equality and diversity policy is to promote equality of opportunity for all. The policy is applicable to all colleagues within the Group and is made available to all colleagues. Each colleague is responsible for upholding the policy and the roles and responsibilities of the board, the executive committee, the human resources department, management and colleagues are clearly defined.

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% (2016: 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 two female members, who represent 29% (2016: 11%) of the executive committee's membership.

Board evaluation

Although the Company currently sits outside the FTSE 350 and is therefore not required to undertake an externally facilitated board evaluation, the committee recommended to the board that an externally facilitated review take place in 2018. The board supported the recommendation, it being recognised that this would be the first externally facilitated review since the Company's IPO in 2013. It is anticipated that the review will take place in mid-2018.

Effectiveness

In 2017, the committee carried out an evaluation of its effectiveness by way of 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 structure, size and composition of the board, particularly in the context of diversity and skill-sets given the expansion and diversification of the group; and
- continuing to enhance the succession planning programme.

The board, based on the outcome of the evaluation exercise, concluded that the committee was considered to be effective in fulfilling its role throughout 2017.

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

Jonathan Bloomer
Chair of the nomination committee
1 March 2018

GOVERNANCE REPORT
DIRECTORS' REMUNERATION REPORT

"The director's remuneration continues to support the Company's strategic goals and encourages and rewards the right behaviours."

The report complies with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), 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 the directors' remuneration policy for which shareholder approval will be sought at the 2018 annual general meeting. The directors' remuneration report (excluding the directors' remuneration policy) will be subject to an advisory vote at the 2018 annual general meeting. The directors' remuneration policy will be subject to a binding vote at that meeting.

Annual statement

On behalf of the board, I am pleased to present our directors' remuneration report for the year ended 31 December 2017. In accordance with the applicable legislation, the Company is required to seek approval for a new directors' remuneration policy at the 2018 annual general meeting. I have set out below a summary of the approach that we have adopted in formulating the new policy.

Remuneration policy and link to strategy

Our previous directors' remuneration policy was approved at the 2015 annual general meeting, with 100% of the votes in favour of it. During 2017 the remuneration committee ('the committee') reviewed the policy approved in 2015 in the context of the increase in the Company's size and complexity and developments in best practice. The increase in the size and complexity of the Group has seen its market capitalisation rise from approximately £420 million at the end of 2014 (based on a three-month average to 31 December 2014) to approximately £713 million (based on a three-month average to 31 December 2017), with an increase in the number of employees to approximately 1,500, compared with 157 at the end of 2014, and an increase in the number of countries in which the Group operates from one to six. The increases reflect both the acquisitions undertaken since flotation (including Whitestar (Portugal) in April 2015, Vesting (Benelux) in May 2016, Zenith (Italy) in April 2017 and Mars Capital (UK and Ireland) in December 2017) as well as the continued execution of strategy of diversifying by geography, asset class and revenues.

The committee's conclusion was that the overall structure of the directors' remuneration continues to support the Company's strategic goals and encourages and rewards the right behaviours. Accordingly, we concluded that a radical overhaul of the policy was not required. However, changes have been made to the policy, as follows, which include increases to the variable pay maxima recognising that the current maxima were set at flotation, since when the Group has grown significantly:

Pension	The 2015 policy permitted pension contributions (or cash allowance) of up to 18% of basic salary, although in practice a 15% of salary limit was applied. The committee has capped the maximum in the new policy at 15% of basic salary.
Annual bonus	We have increased the maximum bonus opportunity to 140% of salary from 125% of salary. That increased opportunity will apply for Lee Rochford for 2018, but Paul Cooper's opportunity for 2018 will remain at 125% of salary. Our previous practice has been to defer, for three years, 33% of any bonus earned. Where a bonus opportunity in excess of 125% is offered (including, therefore, Lee Rochford's bonus opportunity for 2018), the deferral arrangements will be adjusted such that any bonus above that which would have been earned for an opportunity of 125% of salary will be deferred into shares. Subject to approval of the new directors' remuneration policy, 40% of any bonus earned by Lee Rochford for 2018 will be deferred into shares. This means that any additional bonus earned as a result of increasing his opportunity to 140% will be delivered in shares rather than cash.
LTIP	No change is proposed to the policy maximum of 200% of salary. Awards for 2018 will remain at 150% of salary in line with our previous practice. Subject to the continued strong performance of the Group, with effect from 2019, we propose to increase the award level to 200% of salary for Lee Rochford and 175% for Paul Cooper. In advance of implementing any increase, we will review the level of stretch in the performance targets to ensure that they are commensurate with any increased opportunity. Our intention is that the amount that is paid for threshold performance (as a percentage of salary) will not be increased. This will ensure executives do not receive more for delivering threshold performance, notwithstanding the proposed increase in the LTIP maximum in 2019. Reflecting best practice, LTIP awards granted from 2019 onwards will be subject to an additional two-year holding period.
Shareholding guidelines	In line with best practice, we have formally incorporated our shareholding guidelines within the policy and have increased the guidelines to 200% of salary for all executive directors with effect from 1 January 2018.
Other changes	Other amendments have been made to the policy to aid its administration, to reflect the changes referred to above and to reflect changes in practice since the policy was last approved.

At the end of this statement, we have summarised how key aspects of our directors' remuneration policy relate to our overall corporate strategy.

Performance and variable pay outcomes for the year ended 31 December 2017

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 24.1% to £56.6 million
Underlying basic EPS	Increased to 32.4p, representing growth of 24.1%
Underlying ROE	32.9% ROE delivered
Strategic developments	The executive directors and their teams have successfully integrated the Zenith acquisition, overlaying continued growth from attractive organic investments. Integration with the Mars Capital business in UK and Ireland, following completion of its acquisition, will form an important programme of work in 2018.

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

- Lee Rochford: £451,563; and
- Rob Memmott: £289,366.

Further rationale for these payments can be found on pages 64 to 66.

Recognising that Rob Memmott was employed for the whole of 2017, the committee has awarded him a bonus based on the achievement of the applicable performance conditions. As with Lee Rochford, 33% of that bonus will be delivered in the form of deferred shares; further information is set out on page 64.

The LTIP awards granted in June 2015 are scheduled to vest in June 2018 based on performance to 31 December 2017 assessed against earnings per share (EPS) as regards 50% of each award, return on equity (ROE) as regards 25% of each award and total shareholder return (TSR) as regards 25% of each award. Since Rob Memmott 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. Following an assessment of these performance conditions by the committee, the awards will vest as to 100%. Further details can be found on page 66.

Before approving the level of variable remuneration for 2017, the remuneration committee sought the views of the Group chief risk officer and the risk committee chair on the effectiveness of the executive's management of conduct and risk during the year.

Base salary increases for 2017

As outlined in our remuneration report last year, Lee Rochford's salary was set at £425,000 on his appointment and Rob Memmott's salary was increased to £319,300 with effect from 1 March 2017, a 3% increase in line with increases awarded to the wider workforce.

Executive director changes

Group chief executive officer

Lee Rochford was appointed as Group chief executive officer and executive director with effect from 3 January 2017. At that time, Tom Drury stepped down from the board, leaving the business on 28 February 2017. Remuneration arrangements in relation to Lee joining and Tom leaving the business were described in the 2016 directors' remuneration report. Where applicable, further information is included in this year's annual report on remuneration.

Group chief financial officer

As announced on 18 October 2017, Rob Memmott stepped down as Group chief financial officer and as a director of the Company on 1 January 2018 and left the business on 28 February 2018. Paul Cooper joined the Company as Group chief financial officer on 1 January 2018.

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

- Rob will be entitled to a bonus for 2017 and to his 2015 LTIP award subject to the performance conditions, recognising that he was in service for the whole of the applicable performance periods;
- Rob's 2016 and 2017 LTIP awards have lapsed; and
- Rob has retained his existing deferred share awards, which will vest on the originally anticipated dates, recognising his contribution over the applicable bonus periods and that the awards were not subject to further performance conditions.

The remuneration arrangements for Paul Cooper, which are in line with the shareholder approved directors' remuneration policy, are described on pages 70 and 71. Paul Cooper's base salary of £365,000 was determined with regard to the size of the role, internal relativities and affordability and in line with the overarching principle of not paying more than is necessary to secure senior executives of the appropriate calibre to execute the strategy. Paul Cooper's annual bonus and LTIP opportunity for 2018 will be 125% of salary and 150% of salary respectively, in line with the arrangements that applied for executive directors in 2017.

We agreed to compensate Paul Cooper for awards he forfeited as a result of his resignation from his former employer, and details of the awards are set out on pages 70 and 71.

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.

Overall, given the Group's performance, I am comfortable that the 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 2017, together with our plans for 2018.

We consulted with shareholders in advance of finalisation of the new policy and were pleased with both the level of engagement and the positive feedback received.

Lan Tu
Chair of the remuneration committee
1 March 2018

GOVERNANCE REPORT

DIRECTORS' REMUNERATION REPORT CONTINUED

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 approach to remuneration 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. In connection with the increase in Lee Rochford's annual bonus opportunity, we have increased the deferral as described in the statement from the committee chair on page 60.
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 2017 and 2018: • 50% is based on underlying basic EPS, aligned to the Company's strategy to deliver earnings growth; • 25% is based on underlying 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 levels 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 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. These guidelines require each executive director to acquire shares with a value equal to 200% of salary and have been formally incorporated in the new policy in line with best practice.

Annual report on remuneration

Directors' remuneration (audited information)

Details of the executive directors' remuneration are as follows:

	Salary and fees £000		Taxable benefits[1] £000		Performance-related bonus[2] £000		Long-term incentives[3] £000		Pension-related benefits[4] £000		Total compensation £000	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Director												
Lee Rochford[5]	**424**	N/A	**2**	N/A	**452**	N/A	**N/A**	N/A	**64**	N/A	**942**	N/A
Rob Memmott	**318**	306	**3**	2	**289**	296	**692**	458	**46**	46	**1,348**	1,108
Former director												
Tom Drury[6]	**N/A**	389	**N/A**	4	**N/A**	389	**N/A[7]**	581	**N/A**	58	**N/A**	1,421
Total	**742**	695	**5**	6	**741**	685	**692**	1,039	**110**	104	**2,290**	2,529

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 2017 is provided on pages 64 to 66.

3 Long-term incentives reflect the value of the awards vesting by reference to performance where the performance period ended in the relevant year.
In the 2016 directors' remuneration report, the value of the LTIPs scheduled to vest in March 2017 was calculated, in accordance with the applicable regulations, by reference to the average share price over the three-month period ending 31 December 2016 (£2.9468). In the table above, these values have been restated to reflect the share price on 10 March 2017, the last dealing day before the date of vesting on 11 March 2017 (£3.2415).
The value of the LTIP for 2017 reflects the LTIPs scheduled to vest in June 2018 based on performance over the three years to 31 December 2017.
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 2017 (£4.0687), plus the value of dividends to be paid to Rob Memmott in respect of the period from grant to vesting (£31,516). The LTIP award granted to Rob Memmott included a tax advantaged option over 11,400 shares at a per share exercise price of £2.6315 per share. The option was subject to the same performance conditions as applied to the LTIP award. If the tax advantaged option is exercised at a gain, the number of shares that may be acquired under the LTIP is reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award is not increased by the grant of the tax advantaged option; accordingly, the tax advantaged option is ignored when calculating the single figure value. Further information is provided on page 61.

4 Each executive 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.

5 Lee Rochford was appointed as Group chief executive officer on 3 January 2017.

6 Tom Drury stepped down from the board on 3 January 2017. Payments made to him in 2017 are described on page 69.

7 Tom Drury's LTIP award granted in 2015 lapsed on 28 February 2017.

GOVERNANCE REPORT

DIRECTORS' REMUNERATION REPORT CONTINUED

Additional disclosures to the single figure table

2017 annual bonuses (audited information)

For 2017, 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 2017 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'); and
- 50% was based on a balanced range of financial, strategic, personal and other key Group objectives ('strategic business/ personal objectives').

The bonus payouts for 2017 are detailed in the table below. Further details on 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		
	Monetary out-turn based on 75% of opportunity vesting for financial element	Overall performance rating	% of opportunity vesting and corresponding monetary out-turn	Monetary out-turn for strategic business / personal objectives element	% of salary	% of maximum opportunity	£
Lee Rochford	£199,219	Above and beyond	95%	£252,344	106%	85%	451,563
Rob Memmott	£149,672	Exceeds expectations	70%	£139,694	91%	73%	289,366

For both Lee Rochford and Rob Memmott, 33% of the bonus earned will be deferred into shares for a period of three years.

Financial element – out-turn

The financial element of the 2017 annual bonus was based on achieving underlying profit for the year attributable to equity shareholders, in accordance with the schedule below.

The committee reviewed the vesting schedule for the financial element of the bonus for the executive directors. Taking into account the level of stretch built into achieving an underlying profit for the year of £56.6 million (which represents year-on-year growth of 24.1% on prior year underlying profit of £45.6 million), the committee determined that 75% of the financial element would vest for achieving this stretching target.

	Threshold[1]	Stretch Target[1]	Maximum vesting target[1]	Actual[2]
Performance level	£52.26m	£56.6m	£59.33m	£56.6m
Vesting (% of financial element)	20%	75%	100%	75%

1 Straight-line vesting between the points.

2 This is underlying profit for the year attributable to equity shareholders.

Strategic business/personal objectives element – 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 following factors were considered in the round by the committee in determining the executive directors' level of performance in 2017 and out-turn of the strategic business/personal objectives element:

- the relative importance and impact of each of the objectives;
- performance against the objectives, taking into account external market influences over the course of 2017; and
- the views of the Group chief risk officer and the risk committee chair on the effectiveness of the executive's management of conduct and risk during the year.

The objectives, targets and relevant achievements are summarised opposite.

Strategic business/personal objectives element – out-turn continued

Objective	Achievements
Financial	
• Maintain credit rating of at least BB- to maintain weighted average cost of debt	• Ba3 rating upgrade from Moody's confirmed in February 2017. • €400 million bond issue in March 2017 was the best execution in our sector and reduced the weighted average cost of debt to below 4%.
• Progressive dividend policy to budget	• Total 11.3p dividend for 2017 proposed, which is at the top end of our guided pay-out ratio and a 24.2% uplift on 2016.
• High teens underlying basic EPS growth	• Underlying basic EPS continues to perform well and grew by 24.1% in 2017.
• Deliver underlying ROE in excess of 25%	• Underlying ROE similarly performed well and delivered 32.9% in 2017.
• Build asset management revenue in line with strategic objective	• Asset management revenues were ahead of budget and 53.5% up on 2016.
• Deliver against our collection targets	• Collections were ahead of target.
• Management of cost base according to budget	• A strong improvement in cost and projected cost profile.
Market	
• Develop capability in secured and unsecured assets in all our core markets	• Significant progress in all geographies via organic and inorganic growth. Examples include RNHB in the Netherlands and the Mars Capital acquisitions in the UK and Ireland.
• Build further presence in Western Europe and continue collaboration with credit funds in line with strategy	• Italy represents a significant market opportunity for the Group following the Zenith acquisition in April 2017. Entry into the Irish secured market was a key step. Collaboration and expansion of relationships with credit funds has continued in 2017.
• Invest in line with Group purchasing target and target gross money multiple	• Group purchasing target achieved which was broadly in line with returns hurdles, reflecting the diversified asset base and high-quality books of debt acquired.
• Develop coherent Brand architecture	• The successful roll out of the 'One Arrow' programme, under-pinned by common purpose and values across the Group has had a meaningful impact both internally and externally.
Regulator/society	
• Continue to develop effective relationships with regulatory bodies	• We are fully regulated in all our markets.
• Continue to build out a Europe-wide risk management framework – to include financial risk analysis	• Substantial investment in strengthening and developing the risk management framework has been undertaken during the year in line with the growing scale, diversity and complexity of the business. The Group risk function has been strengthened during the year and a new Group CRO appointed. The Group risk team are delivering on the Group risk plan that will continue to evolve and mature the enterprise-wide risk management framework and culture across the Group.
• Continue to develop the Group's CSR agenda with focus on financial education, relationships with debt charities and the promotion of the financial health and rehabilitation of customers leading to better financial futures being built through work in the community	• 2017 saw the formation of a working group of CSR champions drawn from across the Group. Examples of work done in the community include volunteering in the UK to deliver financial education workshops in schools alongside the Young Enterprise charity, and similar in the Netherlands alongside the Stichting LEF, a foundation that strives to reduce debt problems in society by increasing financial awareness amongst young people.
Customer	
• Successful execution of IT and change programme across all countries	• Strong progress was made towards year end to achieve key wins across various Group IT projects.
• Execute on plans for operational excellence	• A large organisation design exercise took place in 2017, part of which includes a focus on strengthening operational performance, including the creation of a new dedicated Portfolio team. Longer term, the recruitment of a Group COO is designed to address operational improvements, sharing best practices and a focus on improved customer outcomes.

GOVERNANCE REPORT

DIRECTORS' REMUNERATION REPORT CONTINUED

Strategic business/personal objectives element – out-turn continued

Objective	Achievements
Customer continued	
• Continue to develop and build market leading digital strategy	• Good progress is being made across the Group in extending our digital footprint. In the UK, the major development was the development for Erudio of the application to enable deferment online. Ongoing IT change programmes across the Group are also expected to deliver further improvement in 2018.
• Improve the quality of our databases and maximise use of performance data in each country	• There has been data source expansion in all our geographies. The new organisation design, combining analytics and portfolio management, is showing early signs of progress.
People	
• Identify centres of excellence and build capability across the group through effective organisation design	• A new organisation design was introduced in 2017 as mentioned above. Key strategic hires were made during the year, including a new Group CFO, Group COO and Group CRO who are continuing to build capability in their respective functions, with new talent introduced into every country management team.
• Talent strategy to attract, retain and develop with attention on key/early talent and gender	• In 2017, we launched a top talent development programme, 'Succeeding Together', with participants drawn from across the Group. We also launched our 'Women in Management' agenda, setting a target of 30% female representation in leadership roles by the end of 2020, which has seen progress across the management levels.
• Communicate and embed group purpose, 'building better financial futures'	• The Group Purpose and Values were launched across all geographies in Q4 2017.
• Embed group values across all geographies – group recognition scheme	• In terms of embedding, the Group colleague recognition scheme – awarded by reference to the Values - is now operational across all countries in the Group.
• Employee engagement levels of at least national benchmark across the group	• Group Values and recognition schemes have been communicated to all parts of the Group. A Group wide engagement survey was undertaken in December 2017. The results show areas where improvements have been made, with several areas of focus for 2018.

LTIPs vesting by reference to performance in 2017 (audited information)

LTIP awards were granted on 15 June 2015 which are due to vest on 15 June 2018. The performance conditions, performance achieved and vesting outcomes are summarised below:

Performance condition	Targets	Vesting amount	Actual performance	Actual vesting
Underlying basic EPS growth per annum (50% of the award)	10% 20%	25% 100%	Underlying basic EPS: Base year – 17p 2017 – 32.4p Annual growth of 23.8%	100%
Underlying ROE (three-year average) (25% of the award)	20% 26%	25% 100%	29.5%	100%
TSR[1] (25% of the award)	Median upper quartile	25% 100%	Above upper quartile	100%
Overall LTIP 2015 vesting				100%

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

Director	Shares subject to award	Vested shares	Vested value[1]
Rob Memmott	162,454	162,454	£692,493

1 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 2017 (£4.0687) plus the value of dividends to be paid to Rob Memmott in respect of the period from grant to vesting (£31,516). The LTIP award granted to Rob Memmott included a tax-advantaged option over 11,400 shares at a per share exercise price of £2.6315 per share. The option was subject to the same performance conditions as applied to the LTIP award. If the tax-advantaged option is exercised at a gain, the number of shares that may be acquired under the LTIP is reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award is not increased by the grant of the tax-advantaged option; accordingly, the tax-advantaged option is ignored when calculating the single figure value.

Non-executive directors' remuneration (audited information)

Details of the non-executive directors' remuneration are as follows:

	Salary and fees £000		Taxable benefits £000		Performance-related bonus £000		Vesting remuneration £000		Pension-related benefits £000		Total compensation £000	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Director												
Jonathan Bloomer	**170**	160	**—**	—	**—**	—	**—**	—	**—**	—	**170**	160
Iain Cornish	**75**	60	**—**	—	**—**	—	**—**	—	**—**	—	**75**	60
Lan Tu	**65**	46	**—**	—	**—**	—	**—**	—	**—**	—	**65**	46
Maria Luís Albuquerque[1]	**55**	37	**—**	—	**—**	—	**—**	—	**—**	—	**55**	37
Andrew Fisher[2]	**65**	4	**—**	—	**—**	—	**—**	—	**—**	—	**65**	4
Former director												
Robin Phipps[3]	**N/A**	44	**N/A**	—	**N/A**	—	**N/A**	—	**N/A**	—	**N/A**	44
Total	**430**	351	**—**	—	**—**	—	**—**	—	**—**	—	**430**	351

1 Maria Luís Albuquerque was appointed to the board on 7 March 2016.

2 Andrew Fisher was appointed to the board on 9 December 2016.

3 Robin Phipps stepped down from the board on 27 October 2016.

2017 LTIP awards (audited information)

The table below outlines LTIP awards made to executive directors during 2017:

Date of grant	Participant	Basis of award	Number of shares	Face value of award £[1]	Performance period
31 March 2017	Lee Rochford[2]	150% of salary	184,248	637,498	1 January 2017 to 31 December 2019
31 March 2017	Rob Memmott[3]	150% of salary	138,424	478,947	1 January 2017 to 31 December 2019

1 Based on the average closing middle market quotation price during the five business days ending on the business day before the award date being £3.46.

2 Lee Rochford was also granted a tax advantaged option over 8,670 shares at a per share exercise price of £3.46. The option is subject to the same performance conditions as apply to the LTIP award. If the tax advantaged option is exercised at a gain, the number of shares that may be acquired under the LTIP is reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award is not increased by the grant of the tax advantaged option.

3 Rob Memmott's award lapsed on 28 February 2018 when he left the business.

The performance conditions attaching to the 2017 LTIP awards are the same as for the awards granted in 2016.

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

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

GOVERNANCE REPORT

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' shareholdings (audited information)

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 Group chief executive officer). Subject to the approval of the new directors' remuneration policy at the 2018 annual general meeting, the guideline will increase to 200% of salary for all executive directors. The actual shareholdings of our executive directors in office at the end of 2017 are: 186% of salary for Lee Rochford and 2910% of salary for Rob Memmott.

Paul Cooper has already taken a significant step towards satisfaction of the guideline, acquiring 64,697 shares on 6 December 2017, meaning that his holding for the purposes of the guidelines was 70% of his starting salary based on the closing share price at 31 December 2017.

a. Executive directors – share ownership

Director	Shares owned	Shares owned – value £000[1]	% of salary[2]
Lee Rochford	199,738	792,460	186
Rob Memmott	2,342,020	9,291,964	2910

1 Based on the closing share price on 31 December 2017 of £3.9675.

2 Based on the salary applying from 1 March 2017.

b. Executive directors – share plan interests

Director	Plan	Award date	Number of shares at 1 January 2017	Granted during the year	Lapsed during the year	Exercised during the year	Number of shares at 31 December 2017	Status	Performance period
Lee Rochford	LTIP	31 March 2017[1]	—	184,248	—	—	**184,248**	Unvested, subject to performance condition	1 January 2017–31 December 2019
	SIP[2]	—	—	580	—	—	**580**	Unvested	N/A
Rob Memmott	LTIP	11 March 2014	157,004	—	(21,918)	135,086	**—**	Exercised	1 January 2014–31 December 2016
	LTIP	15 June 2015[3]	162,454	—	—	—	**162,454**	Unvested[4]	1 January 2015–31 December 2017
	LTIP	8 April 2016	174,304	—	—	—	**174,304**	Unvested, subject to performance condition[5]	1 January 2016–31 December 2018
	LTIP	31 March 2017	—	138,424	—	—	**138,424**	Unvested, subject to performance condition[5]	1 January 2017–31 December 2019
	DSBP	9 April 2015	13,170	—	—	—	**13,170**	Unvested[6]	N/A
	DSBP	8 April 2016	28,373	—	—	—	**28,373**	Unvested[7]	N/A
	DSBP	31 March 2017	—	28,257	—	—	**28,257**	Unvested[8]	N/A
	SIP	30 December 2014	218	—	—	—	**218**	Vested[9]	N/A

1 On the same day, Lee Rochford was granted a tax advantaged option subject to the same performance conditions over 8,670 shares at an exercise price of £3.46 per share on the basis that if the tax advantaged option is exercised at a gain, the number of shares that may be acquired under the LTIP is reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award is not increased by the grant of the tax advantaged option.

2 Pursuant to a regular monthly instruction, Equiniti Share Plans Trustees Limited acquires Partnership shares using a fixed contribution from Lee Rochford's gross salary. The Company gives Lee Rochford one matching share for each Partnership share bought on his behalf. The matching shares are subject to a three-year forfeiture period. 156 shares have been allocated to Lee Rochford under the SIP, post year end.

3 On the same day, Rob Memmott was granted a tax advantaged option subject to the same performance conditions over 11,400 shares at an exercise price of £2.6315 per share on the basis that if the tax advantaged option is exercised at a gain, the number of shares that may be acquired under the LTIP is reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award is not increased by the grant of the tax advantaged option.

4 This award is scheduled to vest on 15 June 2018.

5 These awards lapsed on 28 February 2018.

6 This award is scheduled to vest on 9 April 2018.

7 This award is scheduled to vest on 8 April 2019.

8 This award is scheduled to vest on 31 March 2020.

9 This award vested on 30 December 2017.

Directors' shareholdings (audited information) continued

c. Non-executive directors – share ownership

Non-executive directors	Shares owned
Jonathan Bloomer	30,896
Iain Cornish	—
Lan Tu	23,309
Maria Luís Albuquerque	—
Andrew Fisher	—

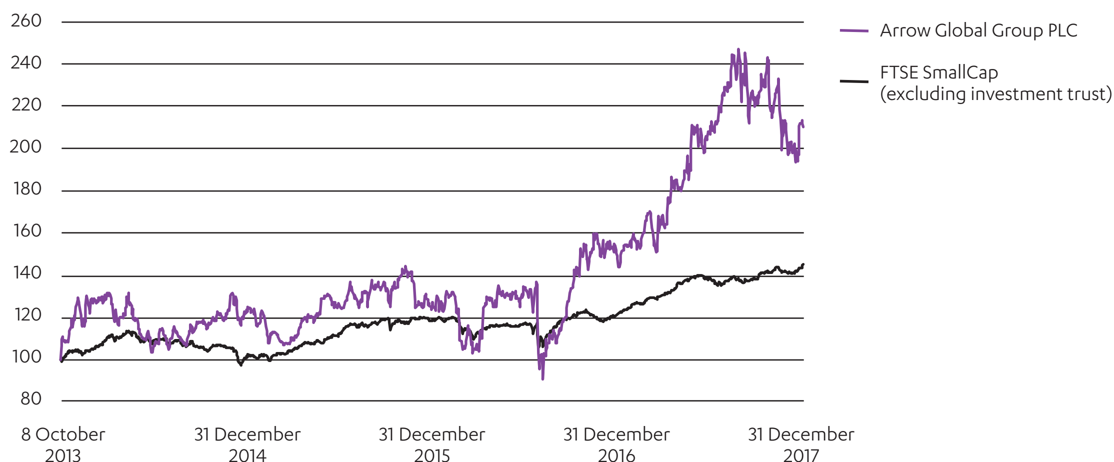
There were no changes in the interests of executive or non-executive directors between 31 December 2017 and 1 March 2018, other than the SIP allocation to Lee Rochford under his monthly allocation for January and February 2018 as referred to on page 68.

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

Tom Drury stepped down from the board on 3 January 2017 and left the business on 28 February 2017. His remuneration between 3 January and 28 February was £75,837 (consisting of salary, benefits and cash allowance in lieu of pension contributions). Tom Drury's bonus for 2016 was disclosed in the 2016 Directors' remuneration report, along with the vesting of his 2014 LTIP award (which vested on 11 March 2017).

TSR performance

The graph below shows TSR performance of the Company from IPO to 31 December 2017 compared with the FTSE SmallCap index. Throughout the year ended 31 December 2017, 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.



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.

	CEO single figure £000	CEO bonus (as a % of maximum) £000	CEO LTIP vesting (as a % of maximum)
2017 (Lee Rochford)	942	85.0	N/A[1]
2016 (Tom Drury)	1,421[2]	80.0	86
2015 (Tom Drury)	722	70.3	—
2014 (Tom Drury)	631	62.5	—
2013 (Tom Drury)	154	80.0	—

1 Lee Rochford became Group chief executive officer in 2017 and did not hold an LTIP which was capable of vesting by reference to performance in that year.

2 In the 2016 directors' remuneration report, this value included the value of the LTIP scheduled to vest in March 2017 calculated, in accordance with the applicable regulations, by reference to the average share price over the three-month period ending 31 December 2016 (£2.9468). In the table above, this value has been restated to reflect the share price on 10 March 2017, the last dealing day before the date of vesting on 11 March 2017 (£3.2415).

GOVERNANCE REPORT

DIRECTORS' REMUNERATION REPORT CONTINUED

Chief executive officer disclosures continued

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 2016 and 2017 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	9%	(42)%	16%
Workforce	10%	4%	6%

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[1] £000	Shareholder distributions £000
2017	42,954	16,797
2016	30,649	14,123
Difference	12,305	2,674

1 For total employee remuneration, please see note 11.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
Paul Cooper	18 October 2017	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 2018 AGM.

Implementation of remuneration policy in 2018

Details of Paul Cooper's remuneration arrangements which are effective from 1 January 2018 are as follows:

Service contract	Notice period of 12 months.
Salary	£365,000 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 in respect of 2018.
Shareholding	Required to acquire a shareholding equivalent to 200% of salary. Until the requirement has been met, Paul Cooper must retain 50% of all vested LTIP and deferred bonus awards (net of tax).
Pension	Contribution of up to 15% of salary.
Buy-out awards	The Company agreed to compensate Paul Cooper for awards he forfeited as a result of his resignation from his former employer. A summary of the awards is set out overleaf.

Implementation of remuneration policy in 2018 continued

The awards are subject to continued employment to the vesting date and malus/clawback provisions consistent with the Company's ordinary variable remuneration arrangements and to a specific clawback provision if Paul Cooper gives notice before 1 January 2020; a summary of the awards is set out below. The vesting dates reflect the vesting/payment dates of the awards forfeited by Paul Cooper.

Bought out award	Value of bought out award and approach to buy out.	Form of buy-out award	Vesting date of buy-out award
2017 cash bonus	£142,000 This is the value of the 2017 bonus that Paul Cooper forfeited. Although the bonus would have been paid in cash, we agreed with Paul Cooper to buy it out with Company shares to strengthen alignment with shareholders and reflect future Group performance.	Share award over 36,178 shares[1]	50% April 2018 50% April 2019
2016 LTIP award	£500,249 The forfeited 2016 LTIP was valued based on its accrued value as at the date Paul Cooper agreed to join. We agreed with Paul Cooper that the buy-out award would be delivered in Company shares to strengthen alignment with shareholders and reflect future Group performance.	Share award over 127,451 shares[1]	25% April 2019 55% April 2020 20% April 2021

1 The number of shares subject to each share award has been calculated by reference to the market value of a share on 2 January 2018 (£3.925), the date on which Paul Cooper joined the Company.

Subject to, where relevant, the approval of the new directors' remuneration policy at the 2018 annual general meeting, the approach to directors' remuneration will be as follows:

(a) Base salaries

Lee Rochford's salary for 2018 has been increased to £437,750 with effect from 1 March 2018, a 3% increase which is in line with the average increase across the wider workforce. As noted above, Paul Cooper's salary for 2018 has been set at £365,000.

(b) Annual bonus

Subject to the approval of the new directors' remuneration policy, Lee Rochford's bonus opportunity for 2018 will be 140% of salary. Paul Cooper's bonus opportunity will be 125% of salary. As for 2017, the 2018 annual bonus will be based on:

- underlying profit for the year attributable to equity shareholders as regards 50% of the opportunity; and
- an assessment against a balanced range of financial, strategic and other key Group objectives as regards 50% of the opportunity.

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 payout delivered relates to performance against the targets on a retrospective basis.

33% of any bonus earned by Paul Cooper for 2018 will be deferred into shares. Subject to the approval of the new directors' remuneration policy, 40% of any bonus earned by Lee Rochford will be deferred into shares, recognising the additional opportunity.

(c) LTIP

The maximum LTIP opportunity for 2018 will remain at 150% of salary.

The 2018 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 2017 LTIP awards, as referred to on page 67, save that the maximum vesting level target for underlying ROE will increase from 26% to 30%. Each performance condition will be measured over a three-year performance period from 2018 to 2020.

GOVERNANCE REPORT
DIRECTORS' REMUNERATION REPORT CONTINUED

The remuneration committee
Throughout the year, the committee consisted of Lan Tu (as chair), Iain Cornish and Andrew Fisher, each of whom is an independent non-executive director. In addition, the Company Chairman, Jonathan Bloomer, who was considered independent on appointment, is a member of the committee.

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
Lan Tu	3	3
Jonathan Bloomer	3	3
Iain Cornish	3	3
Andrew Fisher	3	3

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

Advisor
During the year, the committee was assisted in its work by Deloitte LLP, which was appointed as advisor in July 2014, following a comprehensive competitive tender. Deloitte LLP is a member of the Remuneration Consultants Group and, as such, voluntarily operates under that Group's Code of Conduct in relation to executive remuneration consulting in the UK. The total fees paid to Deloitte LLP for providing remuneration advice were £27,000 for the year ended 31 December 2017. Deloitte LLP 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 LLP remains appropriate or should be put out to tender.

The Group 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 2017 AGM, the annual report on remuneration was approved by shareholders with the following votes:

% of votes for	% of votes against	Number of votes withheld
99.40	0.60	0

Remuneration policy
This part of the directors' remuneration report sets out the directors' remuneration policy which, subject to shareholder approval at the 2018 annual general meeting, shall take binding effect from the close of that meeting.

Shareholders last approved the Company's directors' remuneration policy at the 2015 annual general meeting, with 100% of votes cast in favour of it. That policy took effect from the close of the 2015 annual general meeting. In accordance with the applicable legislation, the Company is required to seek approval for a new policy at the 2018 annual general meeting. During the course of 2017, the committee has reviewed the policy approved in 2015 in the context of the increase in the Company's size and complexity and developments in best practice. While the committee did not conclude that a radical overhaul of the policy was required, changes have been made and these are described in the annual statement from the chair of the committee on pages 60 and 61.

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

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

Consideration of shareholder views
The committee is committed to an open and transparent dialogue with shareholders on the issues of executive remuneration. Where appropriate, the committee will actively engage with shareholders and shareholder representative bodies, seeking views which may be taken into account when making any decisions about changes to directors' remuneration policy. The committee chair is available to answer questions at the annual general meeting. The committee chair consulted with shareholders in respect of the new directors' remuneration policy and the final policy has been determined having regard to feedback received.

Remuneration structure – executive directors

The following table sets out the elements which are included in the remuneration package for executive directors and explains how each element of the package operates:

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity

Salary
Provides core remuneration for the role at a level to recruit and retain executive directors with the required skills and experience.
	• Positioned within a broad range around the mid-market level for the role.
	• Paid monthly and ordinarily reviewed annually.
		• Base salaries are ordinarily reviewed annually, though not necessarily increased, having regard to market conditions 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 (in percentage of salary terms). 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; and
		  • significant market movement.
		• Such increases may be implemented over such period as the committee deems appropriate.

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 Provides a competitive level of long-term retirement saving for executives.	• Contribution to a defined contribution pension arrangement or monthly cash allowance in lieu of pension (or a combination of contribution and cash allowance).	• 15% of basic salary.
Annual bonus Rewards the achievement of annual objectives whilst encouraging a long-term focus through the use of deferred shares, awarded as nil-cost share options, conditional awards or restricted shares.	• Performance targets set annually. • Payouts determined by the committee following the end of the performance period. • Up to 50% of the bonus earned is deferred into shares for up to three years, subject, ordinarily, to continued employment during the vesting period. Deferred share awards may be settled in cash at the election of the committee. • The 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, as described below this table.	• Maximum bonus opportunity of 140% of annual base salary per year. However, for 2018 Paul Cooper's bonus opportunity will be at the level of 125% of salary. • Split between financial and strategic/personal 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. • Vesting of the bonus in respect of strategic or personal measures will be between 0% and 100% based on the committee's assessment of the extent to which the measure has been achieved.

GOVERNANCE REPORT

DIRECTORS' REMUNERATION REPORT CONTINUED

Remuneration structure – executive directors continued

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity
LTIP Rewards 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 0performance conditions. • Awards granted from 2019 onwards will be subject to an additional two-year holding period following the end of the performance period, and will only be "released" to the participant following the end of that period. The holding period may be implemented so that the participant is not entitled to acquire shares until the end of it. Alternatively, it may be implemented on the basis that shares can be acquired following the vesting of the award but that, other than as regards sales to cover tax liabilities and any exercise price, the participant is not able to dispose of shares acquired until the end of the holding period. • The 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 on the exercise of the tax-advantaged option. • The committee may make a dividend equivalent payment to reflect dividends that would have been paid, on shares that vest, over the period to vesting and over any holding period. This payment 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, as described below this table.	• Maximum award of 200% of annual base salary per year. For 2018 awards will be at the level 150% of annual base salary. • Tax qualifying options 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.
Share incentive plan (SIP) Promotes alignment with shareholders across Group's entire employee base.	• In the UK, a tax qualifying plan permitting the award of free, partnership or matching shares. Dividends paid on plan shares may be delivered in the form of additional dividend shares. • Operated on a broadly equivalent basis for employees (including, if relevant, any executive directors) outside the UK. • Minimum three-year vesting period. • Open to all employees generally.	• No performance targets. • Under the UK plan, maximum awards and matching share ratio reflect the limits in the applicable tax legislation from time to time (as at the date of approval of this policy in any year up to £3,600 free share award; up to £1,800 partnership share acquisition; and a matching share ratio of up to 2:1 based on partnership shares acquired, in each case). • Broadly equivalent limits apply under the plan for employees outside the UK.
Save as you earn plan ('sharesave') 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 under the sharesave. • The limits will reflect those in the applicable tax legislation from time to time (as at the date of approval of this policy a participant may save up to £500 per month over three or five years to exercise an option granted with an exercise price at a discount of up to 20% to the value of a share when invited to participate).

Notes to the policy table

Annual bonus – performance metrics

The annual bonus is assessed against both financial performance measures and a balanced range of specific strategic, personal and other key Group objectives determined by the committee. This incentivises executives to focus on delivering the key financial goals of the Company as well as specific strategic objectives which are aligned to delivering the overall business strategy and to encourage behaviours which facilitate profitable growth and the future development of the business.

The precise choice of measures and the weightings between them will be reviewed by the committee year on year. Performance targets will be set at the beginning of each year, and bonus payouts are determined by the committee after the end of the performance period, based on performance against targets.

LTIP awards – performance metrics

Performance is based on financial performance targets, such as EPS growth, return on equity and total shareholder return measured over three years.

The committee will review these performance conditions when determining LTIP awards in each year, in order to reflect changes in the outlook of the sector and the Group, and to ensure that the measures remain appropriate and that the targets remain challenging.

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

Adjusting performance measures and operation of share plans

The committee retains the ability to adjust or set different performance measures if events occur (such as a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions), which cause the committee to determine that the measures are no longer appropriate and that amendment is required so that the original purpose of the performance measures is achieved.

Awards may be adjusted in the event of a variation of capital, demerger, special dividend or other transaction which will materially affect the value of shares.

The committee may exercise operational and administrative discretions under the relevant plan rules as set out in those rules.

Malus and clawback

All cash bonuses paid are subject to potential malus and clawback, at the committee's discretion, for a period of three years from the date of payment where there are exceptional circumstances, such as a material misstatement of the published results of the Group, any error in the calculation of any performance condition linked to the calculation of a bonus, material risk failure or gross misconduct. The committee will also operate malus and clawback if there is a major regulatory issue including significant regulatory risk failure. In any of the above clawback circumstances, the committee has discretion to operate malus provisions on share-based incentive plans (other than any HM Revenue & Customs qualifying plans) operated by the Group instead of pursuing clawback on the cash bonuses.

The LTIP and deferred bonus awards are subject to malus provisions such that, at the discretion of the committee, unvested awards may lapse where there has been a material inaccuracy or misleading results, or there has been a loss to the Group's business which could have been reasonably risk managed by the participant. In addition, malus may take place where there is conduct, capability or performance of a participant which would make the operation of malus appropriate, or where the committee deems there to be exceptional circumstances which appear relevant. The committee will operate malus if there is a major regulatory issue including significant regulatory risk failure.

The LTIP and deferred bonus include a clawback facility where, at the discretion of the committee, during a three-year period post vesting, shares acquired may be forfeited or unexercised awards may lapse where there has been a material inaccuracy or misleading results, or there has been a loss to the Group's business which could have been reasonably risk managed by the participant. In addition, clawback may take place where there is conduct, capability or performance of a participant which would make such transfer appropriate, or where the committee deems there to be exceptional circumstances which make such a forfeiture or lapse appropriate. The committee will operate clawback if there is a major regulatory issue including significant regulatory risk failure. In any of the above circumstances, in place of pursuing clawback on the LTIP and deferred bonus, the committee has discretion to operate malus provisions on share based incentive plans (other than any HM Revenue & Customs qualifying plans) operated by the Group.

Clawback will apply to HM Revenue & Customs qualifying plans to the extent permitted by HM Revenue & Customs.

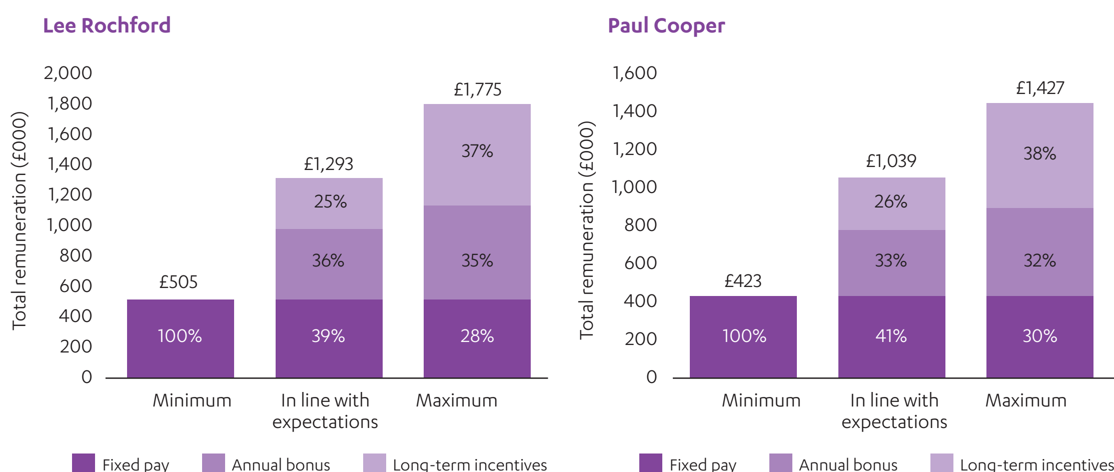
Shareholding guidelines

To align the interests of executive directors with those of shareholders, the committee has adopted formal shareholding guidelines. Each executive director is required to acquire shares with a value equal to 200% of salary. Until such time as the required holding has been achieved, the director must retain 50% of all shares acquired under the LTIP or deferred bonus arrangements (in each case net of tax). Shares subject to awards which have vested but not been released (i.e. LTIP awards which are subject to a holding period) or which are exercisable but have not been exercised count towards the guidelines on a net of assumed tax basis.

GOVERNANCE REPORT
DIRECTORS' REMUNERATION REPORT CONTINUED

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

Illustration of the application of the remuneration policy



The charts above illustrate the total remuneration, in line with the remuneration policy, that could arise for each executive director under three different performance levels.

The figures are calculated as follows:

- Fixed pay is basic salary and pension benefits as at 1 March 2018, plus the assumed value of benefits based on:
  - the 2017 benefits figure in the case of Lee Rochford; and
  - the 2017 benefits figure for the Company's former Chief financial officer in the case of Paul Cooper.
- Annual bonus includes any deferred bonus, based on the maximum potential award (140% of salary for Lee Rochford and 125% of salary for Paul Cooper).
- Long-term incentives represents the potential value of the LTIP, based on the maximum potential award for 2018 of 150% of salary.
- In line with expectations is the level required to deliver a stretch bonus target which, for the purposes of the above illustrations, is 75% of the maximum annual bonus (105% of salary in the case of Lee Rochford and 93.75% of salary in the case of Paul Cooper) and 50% of the maximum LTIP (75% of salary in the case of each executive director).
- Maximum performance would result in the maximum annual bonus (140% of salary in the case of Lee Rochford and 125% of salary in the case of Paul Cooper) and full vesting of the LTIP (150% of salary in the case of each executive director).

The chart relating to Paul Cooper does not include the 'buy-out' award granted to him, as referred to on page 71.

Discretion

The committee retains discretion to grant variable performance remuneration outside of the approved policy where this discretion is required to comply with applicable legislation or regulation. However, that discretion would not be exercised in a manner that would exceed the maximum opportunity noted in the policy table and the committee will endeavour to consult with shareholders ahead of such exercise as well as clearly disclosing and explaining the details in the annual report.

Executive director service contracts

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

Termination policy	
Notice period/pay in lieu	• Rolling contracts with 12-month notice periods. • Payment in lieu of notice at Group discretion – monthly instalments with appropriate reductions for mitigation. Payment calculated by reference to base salary and the cost to the Group of providing contractual benefits (including pension contributions/cash in lieu of pension contributions), but excludes bonus. As an alternative to making a payment in respect of the costs of providing benefits, the committee may continue to provide the benefits for the duration of the notice period that would otherwise have applied.
Long-term incentives	**Unvested awards:** • Lapse on cessation of employment, unless 'good leaver' circumstances (ill health, injury, disability, retirement, transfer of employing company or undertaking, redundancy or at the discretion of the committee). • If good leaver, generally award to vest on normal vesting date following application of performance targets and subject to a pro-rata reduction for proportion of vesting period elapsed. Where applicable, the award will generally remain subject to the originally anticipated holding period. • The committee retains discretion, in appropriate circumstances, to vest awards sooner, to vary or disapply the pro-rata reduction and/or to vary or disapply the holding period. **Unreleased awards (i.e. awards which have vested but which remain subject to a holding period):** • Awards generally subsist, although will lapse/be forfeited in the event of cessation due to summary dismissal. • Awards which subsist will generally remain subject to the originally anticipated holding period, although the committee retains discretion, in appropriate circumstances, to vary or disapply the holding period.
Annual bonus	• This will be reviewed on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of the executive director's departure and his or her contribution to the business during the bonus period in question. Any bonus payment would typically be pro-rated for time in service to termination and paid at the usual time (although the Committee retains discretion to pay the bonus earlier in appropriate circumstances). • Any bonus earned for the year of departure or preceding year may be paid wholly in cash, with no deferral into shares.
Deferred share bonus awards	• Lapse on cessation of employment, unless good leaver. • If good leaver, generally vest on normal vesting date unless exceptional circumstances considered.

Where deemed suitable, the committee reserves the right to agree additional exit payments where they are in the best interests of the Group and shareholders and are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a director's office or employment. Any discretion exercised by the committee would be reported to shareholders in the subsequent annual report. The Group, in any settlement agreement recording the terms of the termination, may include provisions as to outplacement counselling, the payment of the director's reasonable legal costs up to an agreed amount and other reasonable payments of a similar nature.

If a 'buy-out' or other recruitment award is made, the 'leaver' provisions would be determined at or before the date of the award.

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

GOVERNANCE REPORT

DIRECTORS' REMUNERATION REPORT CONTINUED

Approach to recruitment remuneration

Where a new executive director is appointed, the principles outlined above in relation to the structure, components and maximum opportunities of the existing executive directors' remuneration package and service contract terms will also apply to any newly appointed director, although the committee retains discretion to vary the performance measures, performance period, vesting period, deferral period and holding period of the annual bonus and LTIP if the committee determines that the circumstances of the recruitment merit such an alteration. Salaries for new hires will be set to reflect their skills and experience, the Group's intended pay positioning and the market rate for the role. Existing incentive arrangements will be used where possible and guaranteed bonuses will not be offered. The level of pay will be what is necessary to recruit the new executive director.

The committee will have the discretion to determine additional remuneration which constitutes compensation for the forfeiture of awards under variable remuneration arrangements with any previous employer. The committee will determine the terms of any such 'buy-out' award having regard to the terms of the forfeited award (e.g. any performance conditions to which that award was subject, its time horizon and expected value). The committee may also make payments in respect of relocation or similar expenses. Similarly, the committee will have discretion to retain existing contractual arrangements for employees who are internally promoted to board level. In addition, in exceptional circumstances, the committee reserves the right to grant additional remuneration which it feels is appropriate, taking into account the specific circumstances of the individual in order to facilitate such recruitment, provided that the total variable pay (excluding any buy-out awards) for the first year will not exceed 400% of salary (i.e. an additional 60% of salary above maximum in the policy table).

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

Components and structure of remuneration – non-executive directors

The board reviews non-executive directors' fees periodically in 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. **Benefits** Non-executive directors may be eligible for benefits such as the use of secretarial support, travel costs or other benefits.	• A base fee is paid for holding the office of non-executive director or Chairman. • Additional fees may be paid to reflect extra responsibilities such as committee chair 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. • Benefits are provided that are appropriate to the performance of the role.	Fees are reviewed periodically to comparable companies' pay. If benefits are provided to non-executive directors, they are provided at an appropriate level taking into account the individual circumstances.

Non-executive directors' letters of appointment

The terms of appointment of independent non-executive directors (including the Chairman) are contained in letters of appointment rather than under service contracts. The duration of the appointment is usually three years, and it is anticipated that the period will be extended for a second term of three years with the agreement of the board and the non-executive director, although a reappointment is not automatic.

Either party may terminate on one month's written notice. The reappointment of all non-executive directors is subject to election by the Group's shareholders at the first annual general meeting, and re-election at any subsequent annual general meeting where they are due for re-election.

Legacy remuneration arrangements

The committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed:

- before the policy set out above came into effect, provided, if relevant, that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or
- at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the Company.

For these purposes 'payments' includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

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

Lan Tu
Chair of the remuneration committee
1 March 2018

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 2017. The corporate governance report set out on page 46 to 50 forms part of this report. The Company's principal subsidiaries are listed in note 24.

The following information is set out in the strategic report on pages 3 to 42:

- particulars of post balance sheet events of the Company and its subsidiaries; and
- indication of likely future developments in the business of the Company and its subsidiaries.

Results and going concern

The Group's results are discussed in the Strategic report starting on page 3, including the Chairman's statement, Group chief executive officer's review and Group chief financial officer's review on pages 4, 16 and 20 respectively, which are incorporated into this report by reference.

Consideration of going concern can be seen on page 43. After making their assessment, the directors are satisfied that the Company and the Group have adequate resources to continue to operate as a going concern for a period in excess of 12 months. 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 2016 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 8.1p per ordinary share for the financial year ended 31 December 2017 (2016: 6.4p) to be paid (assuming shareholder approval is obtained) on 6 July 2018 to ordinary shareholders on the register on 1 June 2018. The ex-dividend date for the final dividend is 31 May 2018 and the DRIP election date is 15 June 2018. The recommended final dividend, together with the interim dividend of 3.2p per share (2016: 2.7p) paid on 3 October 2017, brings the total dividend declared and proposed for the year to 11.3p per share (2016: 9.1p).

The Company held £47.3 million distributable reserves at 31 December 2017, sufficient to pay the dividend.

Share capital

As at 31 December 2017, the Company had 175,266,624 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 21 to the Group financial statements on page 112. The information in note 21 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 2017 annual general meeting, shareholders authorised the Company to make market purchases of up to 17,526,662 ordinary shares representing 10% of the issued share capital at that time, and to allot up to an aggregate nominal amount of £1,168,444.16. These authorities expire at the 2018 annual general meeting. During the year ended 31 December 2017, no shares were repurchased. Resolutions to renew these authorities will be proposed at the 2018 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.

The Company operates an independent employee benefit trust for future benefit to employees of the Group. Estera Trust (Jersey) Limited is the trustee of the Arrow Global Group 2016 Employee Benefit Trust (the 'Estera Trust'). On 9 March 2018, 827,598 shares were allotted by the Company to the Estera Trust, which was announced by RNS announcement on 10 March 2017. RNS announcements will be made in accordance with the Disclosure, Guidance and Transparency Rules when future allotments occur.

During the financial year, the Estera Trust transferred shares to LTIP participants and also 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 2017, the Estera Trust held 257,337 ordinary shares (2016: 66,277 shares) representing 0.15% (2016: 0.04%) of the Company's issued share capital. The Trust deed contains a dividend waiver provision in relation to these shares. During the year, the Estera Trust purchased 415,000 shares for future benefit to employees of the Group.

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.

GOVERNANCE REPORT
REPORT OF THE DIRECTORS CONTINUED

Transfer of securities continued

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

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

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

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

Substantial shareholdings

As at 31 December 2017, the Company had been notified under Rule 5 of the Disclosure, Guidance and Transparency Rules of the Financial Conduct Authority, 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
Jupiter Asset Management Limited	27,101,097	15.46
Schroders Plc	17,477,696	9.97
Kairos Investment Management Limited	5,249,949	3.01

The following changes to the above voting rights have been notified to the Company under Rule 5 of the Disclosure, Guidance and Transparency Rules from 1 January 2018 up until 1 March 2018:

Shareholder	No. of ordinary shares/voting rights notified	% of ordinary share capital/ voting rights notified
Jupiter Asset Management Limited	27,659,939	15.78

Directors

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

Director	Position	Service in the year ended 31 December 2017
Jonathan Bloomer	Chairman	Served throughout the year
Lee Rochford	Group chief executive officer	Appointed 3 January 2017
Rob Memmott	Group chief financial officer	Served throughout the year (stepped down 31 December 2017)
Iain Cornish	Senior independent non-executive director	Served throughout the year
Lan Tu	Independent non-executive director	Served throughout the year
Maria Luís Albuquerque	Independent non-executive director	Served throughout the year
Andrew Fisher	Independent non-executive director	Served throughout the year
Tom Drury	Former Group chief executive officer	Stepped down 3 January 2017

Biographical details of the directors of the Company during the year and to the date of this report can be seen on pages 44 and 45. With effect from 3 January 2017, Lee Rochford replaced Tom Drury as Group chief executive officer and as an executive director of the Company. Rob Memmott stepped down as Group chief financial officer and as executive director on 31 December 2017 and was replaced by Paul Cooper with effect from 1 January 2018.

Directors continued

Further details relating to board and committee composition are disclosed in the corporate governance report and committee reports on pages 46 to 78.

The directors are aware of the retirement by rotation provisions in the Code that apply to FTSE 350 companies and have adopted these provisions. Paul Cooper offers himself for election by shareholders for the first time at the 2018 annual general meeting. All other directors will offer themselves for re-election at the 2018 annual general meeting.

Directors' interests

The directors' interests in the share capital of the Company at 31 December 2017 are set out on pages 68 and 69.

Directors' indemnities

During the financial year ended 31 December 2017 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 2017 annual report and notice of annual general meeting 2018 will be distributed electronically again and via the Company's website to shareholders who have consented, or 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 employee engagement forum, 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, the detail of which is set out at note 29.

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 and Skype for business facilities;
- supporting cycling to work through a cycle to work scheme; and
- travel should only be booked for essential business reasons.

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.

GOVERNANCE REPORT

REPORT OF THE DIRECTORS CONTINUED

Carbon reporting – methodology continued

The reporting period aligns to the financial period (i.e. the year ended 31 December 2017) and the Group's carbon reporting falls under three scopes:

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 2	Business travel

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

Activities that the Group was responsible for led to 2,127.3 tonnes of annual CO_2 emissions in 2017 (2016: 1,621.8 tonnes) as documented below:

Scope	CO_2 emissions (tonnes) per annum 2017	CO_2 emissions (tonnes) per annum 2016
1	**438.6**	488.3
2	**1,194.4**	715.9
Total scope 1 and 2	**1,633.0**	1,204.2
3	**494.3**	417.6
Total	**2,127.3**	**1,621.8**
Tonne of CO_2 per employee (using average number of employees for the year)	**1.5**	1.4

CO_2 emissions have increased during the year due to the acquisition of Zenith, a full-year inclusion of Vesting and the agreed purchase of Mars Capital. 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.

Branches outside of the UK

As detailed on pages 28 to 32 of the strategic report, the Group operates in various offices and branches in the UK and overseas.

Risk management

Please refer to the strategic report, on pages 38 to 42.

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:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- 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 has indicated its willingness to accept reappointment as auditor of the Company. Resolutions to reappoint KPMG LLP as independent auditor to the Company and to authorise the directors to determine its 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 Tuesday 22 May 2018 at 2.30pm. Notice of the annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appears in the document accompanying this annual report and accounts.

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

Stewart Hamilton
Company secretary
1 March 2018

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 judgements and estimates that are reasonable, relevant and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

By order of the board:

Paul Cooper
Group chief financial officer
1 March 2018

Lee Rochford
Group chief executive officer
1 March 2018

Independent auditor's report

to the members of Arrow Global Group plc

1. Our opinion is unmodified

We have audited the financial statements of Arrow Global Group PLC ("the Company") for the year ended 31 December 2017 which comprise the Consolidated Statement of profit and loss and other comprehensive income, Consolidated and Parent Company Statements of financial position, Consolidated and Parent Company Statements of changes in equity, Consolidated and Parent Company Statements of cash flows and the related notes, including the accounting policies in note 3.

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 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 2 July 2014. The period of total uninterrupted engagement is the 4 years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: group financial statements as a whole	£2.8m (2016:£1.9m) 4.4% (2016: 3.5%) of normalised profit before tax
Coverage	100% (2016:100%) of group profit before tax

Risks of material misstatement		vs 2016
Recurring risks	Estimation of future cash collections from purchased loan portfolios and loan notes	◀▶
Event driven	Fair value of net assets acquired as part of business combinations	◀▶
Recurring risks	Recoverability of parent company's investment in subsidiaries and intra-group debtor balance due from Group entities	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2016), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	The risk	Our response
Carrying value of purchased loan portfolios and loan notes (£951.5 million; 2016: £804.1million) *Refer to page 54 (Audit Committee Report), page 100 (accounting policy) and page 109 (financial disclosures).*	**Forecast-based valuation:** The Group's estimate of the future cash collections from the loan portfolios and the loan notes is the key variable in determining the Effective Interest Rate ('EIR') of loan portfolios, any subsequent revenue adjustments and the fair value of loan notes. Given the nature of the Group's debt portfolios and loan notes, the estimation of the 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 or at a portfolio level. These estimates are subject to ongoing review by the Group to assess reasonableness, comparing actual performance against previous forecasts. Estimates of future cash flows are impacted by the Group's approach to managing the portfolios (e.g. changes in collection policies or use of specialist collectors). Where the Directors believe changes in the approach to managing the 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: — **Control observation:** We assessed the design and operating effectiveness of controls over data used in the cash flow forecasting models, including monitoring of debt servicer collections, reconciliations of cash collections per the system to supporting documentation, and general IT controls over the collection systems driving the estimated future cash flows; — **Control design:** We assessed the design and implementation of approval controls such as the portfolio review committee that covers the outputs of the models, and manual adjustments, to obtain evidence that these have been authorised by appropriate personnel; — **Our sector experience:** We assessed the modelled cash flows by portfolio to identify those portfolios where more judgement has been exercised (for example due to changes in approach by the Directors to managing the portfolios) and/or we consider greater risk existed (for example due to under/over-performance against historic forecasts). We also inspected the code used in the primary statistical cash flow model to consider, in conjunction with our testing on the forecast cash flows, whether there is risk of model error. Taking into account these risk factors, on a sample basis we critically assessed the cash flow forecasts and any manual adjustments made by the Group with reference to actual historic collections performance and our understanding of the Group and industry through benchmarked performance and methodology analysis; and — **Historical comparisons:** On a sample basis, we critically assessed the assumptions in the cash flow forecasts including the impact of the use of collection strategies (such as litigation) 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. **Our results** — We found the resulting carrying value of purchased loan portfolios and loan notes to be acceptable (2016: acceptable).
Fair value of net assets acquired as part of business combinations (£7.8 million) *Refer to page 54 (Audit Committee Report), page 97 (accounting policy) and page 131 (financial disclosures).*	**Forecast-based valuation:** During the year ended 31 December 2017, the Group acquired Zenith Services S.p.A and its subsidiary in Italy and five Mars Capital entities in the UK and Ireland, with the assets and liabilities purchased being accounted for at fair value at the date of acquisition.	Our procedures included: — **Our sector experience:** We challenged the completeness of the acquired net assets and associated assumptions with reference to our business understanding of the acquired entities and testing of the Directors' assessments. We challenged the assumptions, including value, probability and timing of cash flows, made in calculating the fair value assigned to the acquired intangibles with reference to the business plan, existing customer contracts and actual performance achieved.

2. Key audit matters: our assessment of risks of material misstatement (cont.)

Key audit matter	The risk	Our response
Fair value of net assets acquired as part of business combinations (cont.)	**Forecast-based valuation (cont.):** The Group prepared the acquisition balance sheets based on estimates of the fair value of assets and liabilities acquired. In particular, the Group prepared discounted cash flow models to arrive at its estimates of the acquired intangible assets including customer relationships. This required it to exercise judgement in determining the expected cash flows from the assets and the discount rates to be applied.	Our procedures included (cont.): — **Benchmarking assumptions:** We assessed whether the discount rate used in calculating the fair value of the customer relationship intangible reflected market conditions based on our knowledge of the industry and country of acquisition. — **Sensitivity analysis**: We performed sensitivity analysis on the Group's key assumptions, being the forecast cash flows and discount rate applied to help us assess their reasonableness and identify areas of potential additional focus; — **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the fair value. **Our results** — We found the fair value of the acquired net assets to be acceptable.
Recoverability of parent company's investment in subsidiaries and intra-group debtor balance due from Group entities (£395.9 million; 2016: £388.3m) *Refer to page 97 (accounting policy) and page 116 (financial disclosures).*	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries and intra-group debtor balance due from group entities represents 100% (2016: 100%) of the company's total assets. Their recoverability is not at high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: — **Tests of detail:** We compared the carrying amount of the investments, representing 100% (2016: 100%) of the total investment balance; with the relevant subsidiaries' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. — **Tests of detail:** We assessed 100% of group debtors to identify, with reference to the relevant debtors' draft balance sheets, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making. — **Assessing subsidiary audits:** We assessed the work we performed on those subsidiaries and their profits and net assets and considered the results of that work. — **Our sector experience:** For the investments where the carrying amount exceeded the net asset value, we compared the carrying amount of the investment with the expected value of the business based on the expected cash flows of the underlying subsidiaries. **Our results :** — We found the Group's assessment of the recoverability of the parent company's investment in subsidiaries and intra-group debtor balance to be acceptable (2016: acceptable).

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 £2.8 million (2016: £1.9 million), determined with reference to a benchmark of Group profit before taxation normalised to exclude £27.3 million expense in relation to the Group's bond refinance and £14.7 million gain on disposal of associate set out on pages 104 and 116 respectively, in order to reduce volatility in the benchmark. The group team performed procedures on the items excluded from normalised group profit before tax. The materiality represents 4.4% (2016:3.5%) of the Group's reported profit before taxation as normalised.

Materiality for the parent company financial statements as a whole was set at £1.4m (2016: £1m), determined with reference to a benchmark of company total assets, of which it represents 0.4% (2016: 0.3%).

We report to the audit committee any corrected or uncorrected identified misstatements exceeding £140,000 (2016: £95,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Normalised profit before tax
£63.2m (2016: £54.4m)

Group Materiality
£2.8m (2016: £1.9m)

Profit before tax
Group materiality

£2.8m
Whole financial statements materiality (2016: £1.9m)

£2.2m
Range of materiality at 6 components (£1.4m-£2.2m) (2016: £1.4m)

£0.14m
Misstatements reported to the audit committee (2016: £0.1m)

How we scoped our audit:

Audits for group reporting purposes were performed on all six (2016: four) reporting components, which were:

- Group holding company;
- UK operating and non-operating subsidiaries;
- The Portuguese operating and non-operating subsidiaries;
- The Benelux operating and non-operating subsidiaries which include entities in Netherlands and Belgium;
- The Italian operating and non-operating entities which include Zenith Services S.p.A; and
- The Mars Capital operating and non-operating entities in the UK and Ireland.

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 (2016: 100%).

The audit of the Portuguese, Benelux and Italian components was performed by component audit teams in Portugal, Netherlands, Belgium, and Italy. The audit of the Group holding company, UK operating and non-operating subsidiaries, the acquired Mars Capital 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 range of between £1.4 million and £2.2 million (2016: £1.0 million), having regard to the size and risk profile of the components.

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

During the audit the Group audit team held regular telephone calls and face-to-face discussions with the component audit teams to challenge audit risks and audit strategy. 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 component auditors.

In addition, the Group audit team participated in the audit close out meetings of the component teams to ensure all material issues affecting the Group were identified and communicated back to Arrow Global Group Plc. We challenged and reviewed audit approaches to revenue and cash collections.

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 3 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 79 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation in the statement of viability on page 43 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the statement of viability of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether 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 period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the statement of viability. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

KPMG

Based solely on our work on the other information described above:

— in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

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

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

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 83, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One St Peter's Square
Manchester
M2 3AE
1 March 2018

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Continuing operations			
Total revenue	5	**319,015**	235,930
Operating expenses:			
Collection activity costs		**(118,468)**	(70,261)
Other operating expenses	11	**(94,603)**	(70,637)
Total operating expenses		**(213,071)**	(140,898)
Operating profit		**105,944**	95,032
Finance income	8	**9**	813
Finance costs	9	**(71,669)**	(66,841)
Share of profit in associate net of tax	24	**1,578**	2,363
Gain on sale of associate	24	**14,697**	—
Profit before tax		**50,559**	31,367
Taxation charge on ordinary activities	12	**(10,644)**	(5,061)
Profit after tax	7	**39,915**	26,306
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
FX translation difference arising on revaluation of foreign operations		**2,431**	5,954
Movement on hedging reserve		**289**	670
Items that will not be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		**(25)**	(10)
Total comprehensive income		**42,610**	32,920
Profit after tax attributable to:			
Owners of the Company		**39,871**	26,305
Non-controlling interest		**44**	1
		39,915	26,306
Basic EPS (£)	13	**0.23**	0.15
Diluted EPS (£)	13	**0.22**	0.15

CONSOLIDATED & PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

Assets	Note	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Non-current assets					
Goodwill	14	**152,779**	128,081	**—**	—
Other intangible assets	15	**43,493**	39,144	**—**	—
Property, plant and equipment	16	**10,168**	3,584	**—**	—
Investment in subsidiary undertakings	24	**—**	—	**307,500**	307,500
Investment in associate	24	**—**	10,371	**—**	—
Deferred tax asset	20	**7,780**	3,692	**—**	—
Total non-current assets		**214,220**	184,872	**307,500**	307,500
Current assets					
Cash and cash equivalents		**35,943**	23,203	**9**	8
Trade and other receivables	18	**56,885**	35,484	**88,544**	80,906
Purchased loan portfolios	17	**900,769**	782,792	**—**	—
Loan notes	17	**50,698**	21,315	**—**	—
Total current assets		**1,044,295**	862,794	**88,553**	80,914
Total assets		**1,258,515**	1,047,666	**396,053**	388,414
Equity					
Share capital	21	**1,753**	1,744	**1,753**	1,744
Share premium	21	**347,436**	347,436	**347,436**	347,436
Retained earnings		**118,710**	92,327	**47,333**	37,509
Hedging reserve		**(343)**	(632)	**—**	—
Other reserves		**(272,408)**	(273,484)	**(3,291)**	(1,936)
Total equity attributable to shareholders		**195,148**	167,391	**393,231**	384,753
Non-controlling interest		**173**	—	**—**	—
Total equity		**195,321**	167,391	**393,231**	384,753
Liabilities					
Non-current liabilities					
Senior secured notes	30	**763,740**	681,158	**—**	—
Trade and other payables	19	**16,569**	—	**—**	—
Deferred tax liability	20	**21,940**	14,859	**—**	—
Defined benefit liability	25	**—**	1,721	**—**	—
Total non-current liabilities		**802,249**	697,738	**—**	—
Current liabilities					
Trade and other payables	19	**81,790**	76,261	**1,405**	2,966
Derivative liability	27	**2,865**	1,433	**—**	—
Current tax liability		**4,528**	5,469	**1,417**	695
Revolving credit facility	30	**153,036**	74,169	**—**	—
Bank overdrafts	30	**1,332**	7,698	**—**	—
Other borrowings	30	**10,724**	12,077	**—**	—
Senior secured notes	30	**6,670**	5,430	**—**	—
Total current liabilities		**260,945**	182,537	**2,822**	3,661
Total liabilities		**1,063,194**	880,275	**2,822**	3,661
Total equity and liabilities		**1,258,515**	1,047,666	**396,053**	388,414

Approved by the board of directors on 1 March 2018, signed and authorised for issue on its behalf by:

Paul Cooper
Group chief financial officer
Company number: 08649661

Lee Rochford
Group chief executive officer

FINANCIAL STATEMENTS

CONSOLIDATED & PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Group	Ordinary shares £000	Share premium £000	Retained earnings £000	Hedging reserve £000	Own share reserve[1] £000	Translation reserve[1] £000	Merger reserve[1] £000	Total £000	Non-controlling interest £000	Total £000
Balance at 1 January 2016	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 hedges	—	—	—	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
Profit after tax	—	—	39,871	—	—	—	—	39,871	44	39,915
Exchange differences	—	—	—	—	—	4,301	—	4,301	—	4,301
Recycled to profit after tax	—	—	—	—	—	(1,870)	—	(1,870)	—	(1,870)
Net fair value losses – cash flow hedges	—	—	—	348	—	—	—	348	—	348
Tax on hedged items	—	—	—	(59)	—	—	—	(59)	—	(59)
Remeasurements of the defined benefit liability	—	—	(25)	—	—	—	—	(25)	—	(25)
Total comprehensive income for the year	—	—	39,846	289	—	2,431	—	42,566	44	42,610
Share-based payments	—	—	3,334	—	—	—	—	3,334	—	3,334
Shares issued	9	—	—	—	—	—	—	9	—	9
Repurchase of own shares	—	—	—	—	(1,355)	—	—	(1,355)	—	(1,355)
Dividend paid	—	—	(16,797)	—	—	—	—	(16,797)	—	(16,797)
Dividend paid by NCI	—	—	—	—	—	—	—	—	(58)	(58)
Non-controlling interest on acquisition	—	—	—	—	—	—	—	—	187	187
Balance at 31 December 2017	1,753	347,436	118,710	(343)	(3,291)	7,844	(276,961)	195,148	173	195,321

1 Other reserves total £272,408,000 deficit (2016: £273,484,000 deficit).

Company	Ordinary shares £000	Share premium £000	Retained earnings £000	Own share reserve £000	Total £000
Balance at 1 January 2016	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
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
Profit after tax	—	—	23,287	—	23,287
Total comprehensive income for the year	—	—	23,287	—	23,287
Shares issued	9	—	—	—	9
Repurchase of own shares	—	—	—	(1,355)	(1,355)
Share-based payments	—	—	3,334	—	3,334
Dividend paid	—	—	(16,797)	—	(16,797)
Balance at 31 December 2017	1,753	347,436	47,333	(3,291)	393,231

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 2017, the Company held 257,337 ordinary shares of 1p each, held in an employee benefit trust. This represents 0.15% of the Company share capital at 31 December 2017.

CONSOLIDATED & PARENT COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Net cash (used in)/generated by operating activities	35	**(27,478)**	(26,217)	**18,144**	14,115
Investing activities					
Purchase of property, plant and equipment		**(4,885)**	(525)	**—**	—
Purchase of intangible assets		**(9,112)**	(7,412)	**—**	—
Proceeds from disposal of intangible assets and property, plant and equipment		**1,319**	643	**—**	—
Dividends received from associate		**7,233**	6,820	**—**	—
Additional investment in associate		**—**	(1,305)	**—**	—
Disposal of associate		**18,143**	—	**—**	—
Acquisition of subsidiaries, net of cash acquired		**(8,201)**	(62,465)	**—**	—
Acquisition of subsidiary, deferred consideration		**(8,888)**	(14,998)	**—**	—
Net cash used in investing activities		**(4,391)**	(79,242)	**—**	—
Financing activities					
Net proceeds from additional loans		**66,327**	12,193	**—**	—
Proceeds from senior notes (net of fees)		**340,546**	169,712	**—**	—
Redemption of senior notes		**(290,867)**	—	**—**	—
Early repayment of bond		**(17,631)**	(8,664)	**—**	—
Repayment of interest on senior notes		**(31,119)**	(36,915)	**—**	—
Repurchase of own shares		**(1,355)**	—	**(1,355)**	—
Issue of share capital		**9**	—	**9**	—
Bank interest received		**9**	—	**—**	—
Receipt of loan notes		**—**	938	**—**	—
Bank and other similar fees paid		**(4,274)**	(4,389)	**—**	—
Payment of dividends		**(16,855)**	(14,123)	**(16,797)**	(14,123)
Payment of deferred interest		**(610)**	(1,071)	**—**	—
Settlement of non-controlling interest		**—**	(415)	**—**	—
Net cash flow generated by/(used in) financing activities		**44,180**	117,266	**(18,143)**	(14,123)
Net increase/(decrease) in cash and cash equivalents		**12,311**	11,807	**1**	(8)
Cash and cash equivalents at beginning of year		**23,203**	10,183	**8**	16
Effect of exchange rates on cash and cash equivalents		**429**	1,213	**—**	—
Cash and cash equivalents at end of year		**35,943**	23,203	**9**	8

FINANCIAL STATEMENTS

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 back cover. The financial statements are presented in Pounds Sterling and rounded to the nearest thousand.

The Company's subsidiaries, both direct and indirect, at this date are listed in note 24.

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 2017 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. Accounting standards

New standards

The following new standards and interpretations are mandatory for the year beginning 1 January 2017:

- Disclosure Initiative (Amendments to IAS 7);
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12); and
- Annual Improvements to IFRSs 2014-2016 Cycle – various standards (Amendments to IFRS 12).

During 2017, these new standards and interpretations had an insignificant effect on the consolidated financial statements of the Group, apart from including changes in liabilities arising from financing activities, including both cash and non-cash changes, as a result of amendments to IAS 7.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a significant impact on the Group's financial statements in the period of initial application:

a. Estimated impact of the adoption of IFRS 9 and IFRS 15

The Group is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 (see b.) and IFRS 15 (see c.) will have on its consolidated financial statements.

b. IFRS 9 Financial Instruments

IFRS 9 is effective from 1 January 2018 and the Group has adopted it from that date. As a result, there is no impact arising from this standard on the accounts for the year ended 31 December 2017.

The standard is the new standard for recognising and measuring financial assets and liabilities. It replaces the existing standard IAS 39 'Financial Instruments: Recognition and Measurement', and covers three main areas:

- classification and measurement;
- impairment; and
- hedging.

The Group is not obliged to restate comparatives on the initial adoption of IFRS 9. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018. This assessment is preliminary because not all transition work has been finalised, therefore the actual impact may change because:

- assumptions and judgements are subject to change until finalisation of the financial statements for the year ending 31 December 2018;
- the Group is still refining its models and methodology for expected credit loss calculation ('ECL') calculation; and
- the governance and implementation of internal controls required for implementation are in the process of refinement and finalisation.

The following is a summary of some of the more significant items that are likely to be important in understanding the impact of the implementation of IFRS 9 on the Group:

i. Classification and measurement

The Standard introduces new requirements to determine the measurement basis of financial assets and liabilities.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through the profit or loss. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

2. Accounting standards continued

Standards issued but not yet effective continued

b. IFRS 9 Financial instruments continued

i. Classification and measurement continued

A financial asset is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through the profit or loss. A financial asset is classified into one of these categories on initial recognition. The Group's business model(s) are required to be assessed based on the way the business is managed and information is provided to management.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

For the Group, the impact of this standard is largely in relation to purchased loan portfolios and loan notes, involving the cash flow characteristics of assets and the business models under which they are managed. Accordingly, the basis of measurement for the Group's portfolios and loan notes may change. It is not expected that there will be a transition effect on cash and cash equivalents or trade and other receivables and other current and non-current receivables.

The Group has considered the business model objective for each category of financial assets, for the Group this is largely the Group's portfolios and loan notes, requiring a designation, by portfolio. For the vast majority of assets, the objective is to hold the asset to collect the contractual cash flows. The Group has also made an assessment of the cash flow characteristics of its financial assets to conclude if these are solely payment of principal and interest, in order to assess whether the assets can be recognised at amortised cost or fair value through profit or loss under IFRS 9.

As a result of these assessments it has been concluded there will not be a material change to the classification and measurement of the Group's financial assets, and the vast majority will continue to be accounted for as at amortised cost. There will be a small number of purchased loan portfolios and loan notes with an estimated carrying value of approximately £60 million that may be reclassified to being accounted for as at fair value through profit or loss as a result of the Group's assessment of the cash flow characteristics.

ii. Impairment

IFRS 9 replaces the incurred loss impairment model of IAS 39 with a forward-looking expected credit loss ('ECL') model. This has the effect of recognising impairment of purchased loan portfolio and loan notes earlier than at present. The estimation of ECL's requires considerable judgement since they should include an assessment of forward-looking economic assumptions which are determined on a probability-weighted basis based on reasonable and supportable forecasts. The Group will leverage off its existing cash flow models to inform these ECLs.

The key concepts for IFRS 9 in relation to impairment provisioning include the following categories:

- no significant increase in credit risk since origination ('Performing'); or
- a significant increase in credit risk has occurred since origination ('Underperforming'); or
- credit impaired such that losses are incurred ('Credit impaired'); or
- the asset is considered purchased or originated credit impaired on initial recognition ('POCI').

Due to the characteristics of the Group's purchased loan portfolios they will all be classified as POCI as the assets are considered purchased originated credit impaired. ECL is not recognised on initial recognition. Instead, lifetime ECL is incorporated into the calculation of effective interest rate. Any changes in lifetime ECL after initial recognition are recognised in profit or loss. ECL calculation for POCI assets is always based on an ECL over the expected life of the asset.

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluation of a range of possible outcomes that incorporates forecasts of future economic conditions. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

In determining ECLs, the Group has considered three economic scenarios, including assumptions on unemployment, GDP and CPI, and weighted these according to their likely occurrence. The scenarios include a central scenario, based on the current economic environment, an upside scenario and a downside scenario. The estimation and application of this forward-looking information will require significant judgement and be subject to appropriate internal governance and scrutiny.

Based on 31 December 2017 data and current implementation status, we estimate that the adoption of IFRS 9 will lead to a reduction in shareholders' equity of approximately £17 million before tax (£14 million after tax) relating to a reduction in expected cash flows on the purchased loan portfolios and loan notes, as a result of the application of the probability weighted, economic scenarios being incorporated in the lifetime ECL. This results in a reduction of this amount in purchased loan portfolios shown in the statement of financial position and an increase in deferred tax assets of £3 million. This impact is driven by the impairment requirements of IFRS 9. We continue to refine and monitor certain aspects of our impairment process which may change the actual impact on adoption.

iii. Hedge Accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group has decided to exercise this accounting policy choice.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Accounting standards continued

Standards issued but not yet effective continued

c. IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective from 1 January 2018 and the Group has adopted it from that date. As a result, there is no impact arising from this standard on the accounts for the year ended 31 December 2017.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The standard introduces a five-step approach to recognising revenue:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract(s)
3. Determine the transaction price
4. Allocate transaction price to performance obligations
5. Recognise revenue when (or as) the entity satisfies each performance obligation

The Group's asset management revenue is within the scope of IFRS 15. The Group recognises asset management revenue on portfolios managed for third parties. The key contract obligations include debt collection servicing and master servicing. The nature of the compensation for debt collection services and subsequent revenue recognised is contingency collection fees, which are received either as a fixed fee, or as a percentage of collections or a percentage of the outstanding portfolio asset value. The nature of the compensation for master servicing is an agreed upon fee for the provision of various services that are available on demand.

The Group has considered the revenue recognition policies in the context of the requirements of IFRS 15. As a result of the assessment, it has been concluded there will not be a material change resulting from the implementation of IFRS 15. The following is a summary of some of the more significant considerations that are important in understanding the impact of the implementation of IFRS 15 on the Group:

i. Asset management revenue - debt collection servicing

Under IFRS 15, revenue will be recognised over time with the relevant measure of progress against performance obligations being time, due to these services being on demand for when customers require them. Based on the Group's assessment and analysis carried out to date, current revenue recognition policies are consistent with this approach. Therefore, the Group does not expect the application of IFRS 15 to result in significant differences in the revenue recognition for these services.

ii. Asset management revenue - master servicing

Under IFRS 15, revenue will be recognised over time with the relevant measure of progress against performance obligations being time, due to these services being on demand for when customers require them. Based on the Group's assessment, current revenue recognition policies are consistent with this approach. Therefore, the Group does not expect the application of IFRS 15 to result in significant differences in the revenue recognition for these services.

iii. Transition

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

d. 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:

- 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.

In relation to leases, IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The standard is effective for annual periods beginning on or after 1 January 2019.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment.

So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of office buildings.

3. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with IFRS adopted by the European Union and the Group financial statements also 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 certain loan notes 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 2017 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 have undertaken a thorough review of forecast cash flow models and scenarios for a period in excess of 12 months from the date of approval of these accounts. Following this review, and in the light of current cash availability, economic conditions and information available about future risks and uncertainties, they have concluded that it is appropriate to prepare the Group financial statements on a going concern basis.

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.

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 14.

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.

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% and 50% 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.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

Revenue recognition and effective interest rate method (EIR)

Income from purchased loan portfolios continued

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. Any subsequent reversals to write-ups are 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 from that described above.

Recognition of loan notes as portfolios

When the Group purchases 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.

Impairment of purchased loan portfolios and loan notes

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. Objective evidence of impairment is considered to be where the carrying value is less than the original purchase price less revenue recognised.

Revenue on assets under management

The Group receives asset management revenue on portfolios managed for third parties in the UK, Ireland, Portugal, Italy, the Netherlands and Belgium. 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 calculated at the contractually agreed period, which is usually monthly. The Group also receives master servicing fees which are recognised over time on measure of progress against performance obligations as the services are on demand when customers require them.

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 17). Interest income is recognised throughout the year using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life.

Retirement benefit costs

Payments to defined contribution retirement schemes are charged as 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 were entitled to pension benefits that the company had insured through a contract with an insurance company. The arrangement met the definition of a defined benefit plan and the insurance policy represented qualifying plan assets of the scheme. In the current year, Vesting Finance agreed a compensation plan for employees for the change of their defined benefit pension scheme into a defined contribution scheme. Accordingly, a settlement has been processed and there is no plan liability at 31 December 2017 (note 25).

The Group's net obligation in respect of the defined benefit plan was 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.

3. Significant accounting policies continued

Retirement benefit costs continued

The calculation of the defined benefit obligation was 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 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 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 on the date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on 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. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. All other leases are classified as operating leases.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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.

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.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

Taxation continued

Deferred tax continued

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 in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Purchased loan portfolios and secured loan notes measured at amortised cost

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.

Loan notes measured at fair value

The Group's loan notes measured at fair value are non-derivative financial assets. The loan notes are designated at fair value through profit or loss, as they are managed on a fair value basis.

The loan notes are initially recorded at their fair value, being their acquisition price, and are subsequently measured at fair value using a discounted cash flow model.

3. Significant accounting policies continued

Fair value measurements

The fair value of financial instruments is determined in accordance with IFRS 13 and IAS 39 in the manner described in note 27.

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 profit or loss. 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 profit or loss as part of finance costs. Amounts accumulated in equity are recognised in profit or loss when the income or expense on the hedged item is recognised in profit or loss.

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; or
- the derivative expires, or is sold, terminated or exercised; or,
- the underlying hedged item matures or is sold or repaired.

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. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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.

Other reserves

Other reserves include the own share reserve, the translation reserve and the merger reserve. These reserves are further explained in the consolidated statement of changes in equity on page 92.

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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.

a. Fair value of net assets acquired as part of business combinations

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.

b. Carrying value and EIR of purchased loan portfolios and loan notes

The carrying value of purchased loan portfolios is £900.8 million and loan notes is £50.7 million at 31 December 2017. These carrying values are based on 84-month cash flow forecasts that are prepared for each portfolio. 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 historical 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.

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 2017 by +/- £8,845,000 (2016: +/- £7,044,000). 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 2017 by +/- £26,534,000 (2016: +/- £21,131,000).

5. Revenue

	2017 £000	2016 £000
Income from purchased loan portfolios	239,575	188,914
Profit on portfolio sales	1,329	701
Income from loan notes	1,715	—
Fair value gain on loan notes designated at FVTPL (note 17)	5,298	—
Total revenue from portfolios and loan notes	247,917	189,615
Income from asset management	71,098	46,315
Total revenue	319,015	235,930

6. Segmental reporting

The Group represents a single reportable segment. The Group head office is in the UK, with subsidiaries also based in wider Europe.

Management has concluded that discrete financial information is not available because no measure of segment profit or loss by service line is supplied to the chief operating decision maker. The chief operating decision maker does not have sufficient information to assess performance and make resource allocation decisions by product and, due to the nature of the Group's activities, considers geography to be inappropriate.

	2017 £000	2016 £000
Total revenue	**319,015**	235,930
Collection activity costs	**(118,468)**	(70,261)
Other operating expenses	**(94,603)**	(70,637)
Operating profit	**105,944**	95,032
Finance income	**9**	813
Finance costs	**(71,669)**	(66,841)
Share of profit in associate	**1,578**	2,363
Gain on sale of associate	**14,697**	—
Profit before tax	**50,559**	31,367
Taxation	**(10,644)**	(5,061)
Profit after tax	**39,915**	26,306

	2017 £000	2016 £000
Purchased loan portfolios	**900,769**	782,792
Investments in associate	**—**	10,371
Statement of financial position		
Total segment assets	**1,250,735**	1,043,974
Total segment liabilities	**(1,041,254)**	(865,416)
Segment net assets	**209,481**	178,558
Unallocated assets which comprise deferred tax balances	**7,780**	3,692
Unallocated liabilities which comprise deferred tax balances	**(21,940)**	(14,859)
Consolidated net assets	**195,321**	167,391

Geographical information	UK entities 2017 £000	Foreign entities 2017 £000	Intra-group trading 2017 £000	Total 2017 £000
Total revenue	**212,134**	**118,295**	**(11,414)**	**319,015**
Non-current assets	**203,701**	**10,519**	**—**	**214,220**

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

7. Profit after tax

Profit after tax has been arrived at after (charging)/crediting:	Note	2017 £000	2016 £000
Net foreign exchange gains		**611**	1,510
Operating leases – properties		**(2,531)**	(2,102)
Depreciation and amortisation	15, 16	**(11,729)**	(8,658)
Staff costs	11.b	**(42,954)**	(30,649)

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8. Finance income

	2017 £000	2016 £000
Bank interest	9	7
Deferred consideration adjustment	—	806
	9	813

9. Finance costs

	2017 £000	2016 £000
Interest and similar charges on bank loans	6,047	5,370
Interest on senior secured notes	34,616	39,968
Interest rate swap and forward exchange contract hedge costs	2,095	2,778
Other interest	1,562	731
Bond refinancing costs	27,349	17,994
Total finance costs	71,669	66,841

In 2017, Bond refinancing costs comprised £27,349,000 incurred on the early redemption of the €335 million notes due 2021, of which £17,631,000 was a cash cost related to the call premium and cancellation of interest rate hedging linked to the 2021 Notes. The remaining £9,718,000 was due to a non-cash write-off of related transaction fees, in connection with the 2021 Notes.

In 2016, Bond refinancing costs comprised £15,026,000 incurred on 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. Also in 2016, 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.

10. Auditor's remuneration

The analysis of auditor remuneration is as follows:	2017 £000	2016 £000
Fees payable for audit services – Company	65	65
Fees payable for audit services – subsidiaries	820	663
Total fees payable for audit services	885	728
Fees payable for audit-related assurance services – Company	52	59
Total fees payable for audit-related assurance services	52	59
Fees payable for other assurance services	211	310
Total fees payable for non-audit services	263	369
Total fees payable	1,148	1,097

11. Staff costs and other operating expenses

a. Other operating expenses

	Note	2017 £000	2016 £000
Staff costs	11.b	42,954	30,649
Other staff related costs		7,255	4,071
Premises		7,353	4,678
IT		9,213	7,033
Depreciation and amortisation		11,729	8,658
Net foreign exchange gains		(611)	(1,510)
Other operating expenses		16,710	17,058
Total other operating expenses		94,603	70,637

In 2017, £7,240,000 of the other staff related costs relates to temporary labour, recruitment and training (2016: £3,700,000).

11. Staff costs and other operating expenses continued

b. Staff costs

	2017 £000	2016 £000
Wages, bonuses and salaries	**33,352**	23,778
Pension costs (see note 25)	**2,154**	809
Social security costs	**3,674**	3,001
Share-based payments	**3,334**	3,061
Staff restructuring	**440**	—
	42,954	30,649

The total directors' personnel remuneration (including non-executive directors) during the year was £2,720,000 (2016: £2,790,000), and including £110,000 in relation to pension costs (2016: £104,000). See the remuneration report for more disclosure of directors' remuneration.

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

	2017	2016
Collections	**784**	672
Data and analytics	**86**	49
Finance, pricing and legal	**211**	145
IT and change	**139**	111
Management	**34**	18
Risk	**44**	39
Support services	**166**	101
	1,464	1,135

12. 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 2017 is higher than the standard rate of corporation tax in the UK at 19.25% (2016: 20.00%). The differences are as follows:

	2017 £000	2016 £000
Profit before tax	**50,559**	31,367
Tax charge at standard UK corporation tax rate	**9,733**	6,273
Utilisation of tax losses previously unrecognised	**—**	(2,754)
Adjustment in respect of prior years	**(724)**	(46)
Expenses not deductible for tax purposes	**454**	1,391
Share in profit in associate reported net of tax	**(304)**	(472)
Differences in corporate tax rates	**186**	(329)
Differences on hedging arrangements	**—**	—
Differing overseas tax rates	**1,327**	1,259
Movements in unrecognised deferred tax	**(572)**	(469)
Chargeable gains	**544**	208
Tax charge	**10,644**	5,061
Effective tax rate relating to continuing operations	**21.1%**	16.1%
Standard UK corporation rate for the year	**19.25%**	20.0%
Effective tax rate higher/lower than standard UK corporation rate for the year	**Higher**	Lower

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12. Tax continued

	2017 £000	2016 £000
Tax charge for the year consists of:		
Current tax charge:		
UK and foreign corporation tax based on profit after tax	8,947	7,055
Adjustment in respect of prior years	(825)	(2,871)
Total current tax charge	8,122	4,184
Deferred tax charge:		
Origination and reversal of temporary differences	2,806	1,234
Adjustment in respect of prior years	102	441
Movement in deferred tax previously not recognised	(572)	(469)
Differences in tax rates	186	(329)
Total tax charge	10,644	5,061

In the current year, the tax charge is inflated by an increase in expenses not deductible for tax purposes largely due to current year subsidiary acquisition costs, a higher level of taxable income from overseas countries with higher tax rates and a chargeable gain. This is offset by the recognition, through deferred tax, of a previously unrecognised deferred tax asset in relation to prior year losses, along with profits of an associate accounted for net of tax.

Deferred tax

The Group has not recognised a deferred tax asset in respect of £11,455,000 (2016: £14,335,000) 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.

13. Earnings per share (EPS)

	2017 £000	2016 £000
Profit after tax attributable to shareholders	39,871	26,305
Weighted average ordinary shares	174,768	174,373
Potential exercise of share options	4,344	4,041
Weighted average ordinary shares (diluted)	179,112	178,414
Basic earnings per share (£)	0.23	0.15
Diluted earnings per share (£)	0.22	0.15

Refer to table of alternative performance measures on page 21 for details of underlying earnings per share.

14. Goodwill

	£000
Cost	
At 1 January 2016	81,799
Goodwill on acquisition of subsidiary	40,371
Exchange rate differences	8,220
At 31 December 2016	130,390
Goodwill on acquisition of subsidiary	20,911
Exchange rate differences	3,787
At 31 December 2017	**155,088**
Amortisation and impairment	
At 31 December 2016 and 31 December 2017	**2,309**
Net book value	
At 31 December 2017	**152,779**
At 31 December 2016	128,081

14. Goodwill continued

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 six 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 six CGUs identified are Benelux, comprising 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, Arrow Global Receivables Management Limited ('AGRML'), Zenith Service S.p.A ('Zenith') and Mars Capital Acquisition Limited ('Mars Capital'). The Benelux, Capquest, Portugal, Zenith and Mars Capital 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:

	2017 £000	2016 £000
Benelux	**42,614**	40,921
Capquest	**45,608**	45,608
Portugal	**41,225**	39,584
AGRML	**1,968**	1,968
Zenith	**10,525**	—
Mars Capital	**10,839**	—
	152,779	128,081

An impairment review was carried out at 31 December 2017 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.

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 6.11% (2016: 6.09%) was determined for the AGRML and Capquest CGUs, a rate of 8.50% (2016: 6.84%) was determined for the Portuguese CGU, a rate of 6.00% (2016: 6.34%) was determined for the Benelux CGU and a rate of 6.57% (2016: N/A) for the Italian 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 CGU's 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 cash flow reduction of	A discount rate increase of
Capquest	19%	3%
Portugal	6%	1%
AGRML	3%	1%
Benelux	37%	4%
Zenith	55%	20%

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Intangible assets

	Customer intangibles £000	Contractual rights £000	IT platform £000	Software licences £000	Total £000
Cost					
At 1 January 2016	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
Assets acquired on acquisition of a subsidiary	5,010	—	444	74	5,528
Exchange differences	903	97	139	208	1,347
Additions	—	16	6,738	2,358	9,112
Reclassifications	—	—	873	(873)	—
Disposals	—	(1,514)	—	(53)	(1,567)
At 31 December 2017	**25,686**	**944**	**30,001**	**9,831**	**66,462**
Accumulated amortisation					
At 1 January 2016	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
Exchange differences	184	19	24	279	506
Amortisation charge for the year	4,540	245	2,746	2,282	9,813
Reclassifications	—	—	674	(674)	—
Disposals	—	(248)	—	—	(248)
At 31 December 2017	**7,998**	**485**	**7,347**	**7,139**	**22,969**
Carrying amount					
At 31 December 2017	**17,688**	**459**	**22,654**	**2,692**	**43,493**
At 31 December 2016	16,499	1,876	17,904	2,865	39,144

16. Property, plant and equipment

	Land & Buildings £000	Leasehold improvements £000	Computer equipment £000	Furniture £000	Vehicles £000	Total property, plant and equipment £000
Cost						
At 1 January 2016	—	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
Assets acquired on acquisition of a subsidiary	2,976	53	177	41	2	3,249
Exchange differences	132	57	114	37	4	344
Additions	6	3,402	955	522	—	4,885
Reclassifications	—	(2)	2	—	—	—
Disposals	—	—	(8)	—	(40)	(48)
At 31 December 2017	**3,114**	**6,517**	**3,621**	**2,079**	**7**	**15,338**
Accumulated depreciation						
At 1 January 2016	—	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
Exchange differences	3	(92)	42	14	3	(30)
Disposal	—	—	—	—	(40)	(40)
Reclassifications	—	(2)	2	—	—	—
Charge for the year	60	1,034	492	319	11	1,916
At 31 December 2017	**63**	**2,020**	**2,081**	**1,005**	**1**	**5,170**
Carrying amount						
At 31 December 2017	**3,051**	**4,497**	**1,540**	**1,074**	**6**	**10,168**
At 31 December 2016	—	1,927	836	807	14	3,584

The Group leases a property under a finance lease, which was held within Zenith at the date of acquisition (see note 32 (a)). At 31 December 2017, the net carrying amount was £3,051,000 (2016: £nil).

17. Financial assets

	2017 £000	2016 £000
Expected falling due after 1 year:		
Purchased loan portfolios	**713,358**	595,352
Loan notes	**44,755**	17,763
	758,113	613,115
Expected falling due within 1 year:		
Purchased loan portfolios	**187,411**	187,440
Loan notes	**5,943**	3,552
	193,354	190,992
Total	**951,467**	804,107

Purchased loan portfolios

The Group recognises income from purchased loan portfolios in accordance with IAS 39. At 31 December 2017, the carrying amount of the purchased loan portfolio asset was £900,769,000 (2016: £782,792,000).

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17. Financial assets continued

Purchased loan portfolios continued

The movements in purchased loan portfolio assets were as follows:

	2017 £000	2016 £000
As at the year brought forward	**782,792**	609,793
Portfolios acquired during the year	**195,579**	224,640
Purchased loan portfolios to be resold	**—**	(23,519)
Portfolios acquired through acquisition of a subsidiary	**—**	35,343
Collections in the year	**(333,567)**	(285,960)
Income from purchased loan portfolios	**239,575**	188,914
Exchange gain on purchased loan portfolios	**15,535**	32,880
Profit on disposal of purchased loan portfolios	**1,329**	701
Purchase price adjustment relating to prior year	**(474)**	—
	900,769	782,792

There was no impairment recognised in respect of purchased loan portfolios or loan notes in 2017 (2016: £nil).

The movements in loan notes were as follows:

	2017 £000	2016 £000
As at the year brought forward	**21,315**	—
Loan notes acquisition expenditure	**30,155**	21,315
Changes in fair value	**5,298**	—
Collections in the year	**(8,643)**	—
Income from loan notes	**1,715**	—
Exchange gain on loan notes	**858**	—
	50,698	21,315

See note 27 for an analysis of those loan notes measured as fair value through the income statement.

18. Trade and other receivables

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade receivables	**49,297**	26,041	**—**	—
Other receivables	**4,355**	5,720	**—**	—
Due from subsidiary undertakings	**—**	—	**88,430**	80,794
Prepayments	**3,233**	3,723	**114**	112
	56,885	35,484	**88,544**	80,906

19. Trade and other payables

Current	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade payables	**19,634**	13,536	**—**	14
Deferred consideration on acquisition of subsidiary	**6,618**	9,230	**—**	—
Deferred consideration on purchased loan portfolios	**10,830**	26,171	**—**	—
Taxation and social security	**152**	121	**—**	—
Due to subsidiary undertaking	**—**	—	**1,405**	2,952
Other liabilities and accruals	**44,556**	27,203	**—**	—
	81,790	76,261	**1,405**	2,966

Vesting Finance vacated an office building in December 2017 as part of its office consolidation. The property has an unexpired lease term of 6 years and a provision of £1,169,000 is included in trade and other payables at 31 December 2017. It has been assumed that sub-lease rental income of £656,000 will be received to reduce the overall gross liability.

19. Trade and other payables continued

Non-current	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade payables	3,509	—	—	—
Deferred consideration on acquisition of subsidiary	8,581	—	—	—
Deferred consideration on purchased loan portfolios	4,479	—	—	—
	16,569	—	—	—

Zenith

The employees in the Zenith business are part of a statutory indemnity scheme, compulsory by law, that entitles them to deferred pay, typically at the end of their employment, the 'Trattamento di fine rapport' (TFR). A liability is recognised to reflect that the indemnity will be paid in the future when the employees leave employment. As at 31 December 2017 the estimated liability is €715,000 (£635,000) and is included within non-current trade and other payables on the statement of financial position. The liability is calculated by an independent expert through an actuarial valuation, the key assumptions used are detailed below:

	2017	2016
Discount rate	1.3%	1.6%
Annual inflation rate	1.5%	1.0%
Wage inflation	3.5%	3.0%
Probability of leaving employment for reasons other than retirement (employees aged 18-60)	10.0% per annum	15.0% per annum

20. Deferred tax

	2017			2016		
	Assets £000	Liabilities £000	Total £000	Assets £000	Liabilities £000	Total £000
Fixed assets	303	—	303	404	—	404
IFRS transitional adjustments	—	(1,748)	(1,748)	—	(2,052)	(2,052)
Share schemes	1,225	—	1,225	1,129	—	1,129
Hedging reserve	70	—	70	129	—	129
Chargeable gains	—	—	—	—	(425)	(425)
Losses	5,432	—	5,432	1,561	—	1,561
Fair value adjustment on acquisition of subsidiaries	750	(20,192)	(19,442)	469	(12,382)	(11,913)
	7,780	(21,940)	(14,160)	3,692	(14,859)	(11,167)

The following table reconciles from the 2016 to the 2017 net deferred tax position:

	1 January 2017 £000	Transferred in on acquisition £000	Movements to goodwill £000	Recognised in statement of profit or loss and other comprehensive income £000	Recognised in statement of changes in equity £000	Foreign exchange £000	31 December 2017 £000
Fixed assets	(404)	—	—	101	—	—	(303)
IFRS transitional adjustments	2,052	—	—	(304)	—	—	1,748
Share schemes	(1,129)	—	—	109	(205)	—	(1,225)
Hedging reserve	(129)	—	—	59	—	—	(70)
Chargeable gains	425	—	—	(425)	—	—	—
Losses	(1,561)	—	—	(3,771)	—	(100)	(5,432)
Other temporary differences	(115)	(810)	(155)	378	—	(48)	(750)
Fair value adjustment on acquisition of subsidiaries	12,028	1,114	—	6,429	—	621	20,192
	11,167	304	(155)	2,576	(205)	473	14,160

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21. Share capital

Issued, fully paid and authorised	2017 £000	2016 £000
175,266,624 (2016: 174,439,026) ordinary shares of 1p each	**1,753**	1,744
	1,753	1,744
Offset by own shares	**(3)**	(1)
	1,750	1,743

Total consideration for the shares was £349,189,000 (2016: £349,180,000), giving rise to a share premium of £347,436,000 (2016: £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.

22. Operating leases

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:

	2017 £000	2016 £000
Less than 1 year	**3,688**	2,469
1–5 years	**12,780**	5,620
5+ years	**8,297**	561
	24,765	8,650

23. 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 2017 and 2016:		
Trade	—	—
	—	—

Remuneration for directors has been disclosed in note 11 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 7.

Summary of transactions

Key management, defined as permanent members of the executive committee, received the following compensation during the year.

Remuneration	2017 £000	2016 £000
Salaries and performance-related bonus	**4,555**	4,080
Pension-related benefits	**222**	184
	4,777	4,264

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 £000	Arrow Global Limited £000	Arrow Global Finance Plc £000	Arrow Global One Limited £000	Capquest Debt Recovery Limited £000	Vesting Finance Detachering B.V. £000	Total £000
As at 31 December 2017							
Due from subsidiary undertakings	**—**	**—**	**—**	**88,390**	**—**	**40**	**88,430**
Due to subsidiary undertakings	**(1,358)**	**(50)**	**—**	**—**	**—**	**—**	**(1,408)**
	(1,358)	**(50)**	**—**	**88,390**	**—**	**40**	**87,022**

23. Related party transactions continued

Company continued

	Arrow Global Group Holdings Limited £000	Arrow Global Limited £000	Arrow Global Finance Plc £000	Arrow Global One Limited £000	Capquest Debt Recovery Limited £000	Vesting Finance Detachering B.V. £000	Total £000
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

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.

24. Investments in subsidiaries and associate

Details of the Company's subsidiaries at 31 December 2017 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

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24 Investments in subsidiaries and associate continued

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
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	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L
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
Mars Acquisition Limited (MAL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGIHL
Mars Capital Management Limited	UK – England and Wales	Ashcombe House, 5 The Crescent, Leatherhead, Surrey KT22 8DY	100	Trading	MAL
Mars Capital Finance Limited	UK – England and Wales	Ashcombe House, 5 The Crescent, Leatherhead, Surrey KT22 8DY	100	Trading	MAL
Mars Capital Management Ireland DAC	Republic of Ireland	Ashcombe House, 5 The Crescent, Leatherhead, Surrey KT22 8DY	100	Trading	MAL
Mars Capital Finance Ireland DAC	Republic of Ireland	Grand Canal House, 1 Grand Canal Street Upper, Dublin 4 D04Y7R5	100	Trading	MAL
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. (AGIHIS)	Italy	Via Tortona n.25 20144, Milan, Italy	100	Trading	AGIHL
Zenith Service S.p.A. (ZSS)	Italy	Via Guidubaldo del Monte, No 61 - 00197 Rome, Italy	100	Trading	AGIHIS
Structured Finance Management - Italy S.R.L.	Italy	Via Alessandro Pestalozza, No 12 - 20131 Milan, Italy	50	Trading	ZSS
Strzala Sp. z o.o.	Poland	Al. Jerozolimskie nr 148, 02-326, Warszawa	100	Dormant	AG(H)L/AGL

24 Investments in subsidiaries and associate continued

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
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	Dormant	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	Edifício Dom Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, Oeiras, 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 Dom Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, Oeiras, Portugal	100	Trading	AGHLPIH
Hefesto STC, S.A.	Portugal	Edifício Dom Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, Oeiras, Portugal	100	Trading	AGHLPIH
Amstelveste Vastgoed B.V.	the Netherlands	Van Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHB/VFS
Arrow Global Investments Holdings Benelux B.V. (AGIHB)	the Netherlands	Van Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHL
Focum Groep B.V. (FG)	the Netherlands	Van Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHB
Focum Solutions B.V.	the Netherlands	Van Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	FG
Fiditon Holding B.V. (FH)	the Netherlands	Van Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHB
Focum Commerce B.V.	the Netherlands	Van Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	FG
Focum Finance B.V.	the Netherlands	Van Asch van Wijckstraat 55F, 3811 LP Amersfoort, 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	Van Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	VFH
Vesting Finance Holding B.V. (VFH)	the Netherlands	Van Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHB
Vesting Finance Incasso B.V.	the Netherlands	Van Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	VFH

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24 Investments in subsidiaries and associate continued

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Vesting Finance Servicing B.V. (VFS)	the Netherlands	Naritaweg 199-207 (1043 CB) Amsterdam, the Netherlands	100	Trading	AGIHB
Arrow Global Benelux (Holdings) B.V. (AGBH)	the Netherlands	Naritaweg 199-207 (1043 CB) Amsterdam, the Netherlands	100	Trading	AGIHB
Spark Hypotheken B.V.	the Netherlands	Naritaweg 199-207 (1043 CB) Amsterdam, the Netherlands	100	Trading	AGLH
KU88 B.V.	the Netherlands	Naritaweg 199-207 (1043 CB) Amsterdam, the Netherlands	100	Trading	AGLH
Arrow Global Luxembourg (Holdings) S.á.r.l. (AGLH)	Luxembourg	5, rue Guillaume Kroll, L-1882 Luxembourg	100	Trading	AGBH
Principal Residential Operating Platform Evaluating Receivables 1 S.á.r.l.	Luxembourg	5, rue Guillaume Kroll, L-1882 Luxembourg	100	Trading	AGLH
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

All subsidiaries are included in the Group consolidation.

Company: investment in subsidiaries	Arrow Global One Limited £000	Total £000
At 31 December 2016 and 31 December 2017	307,500	307,500

The investments in subsidiaries are all stated at cost less accumulated impairment.

The 15% interest in the Company's associate, Promontoria MCS Holding SAS (MCS), was sold on 18 October 2017. The Group had acquired an indirect 15% economic interest in 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. The associate was 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 until the date of disposal:

	£000
Interest in the net assets of the associate as at 1 January 2017	10,371
Foreign exchange differences	497
Share of profit in associate during the year	1,578
Dividends received from associate	(7,233)
Interest in the net assets of the associate as at 18 October 2017	**5,213**

The sale generated a gain on sale, which was calculated as follows:

	£000
Interest in the net assets of the associate as at 18 October 2017	(5,213)
Proceeds	18,143
Foreign exchange gain	1,870
Disposal costs	(103)
Gain on disposal	**14,697**

25. Defined benefit liability

	2017 £000	2016 £000
Net defined benefit liability	—	1,721

A number of employees of Vesting Finance were entitled to pension benefits that the company had insured through a contract with an insurance company. The arrangement met the definition of a defined benefit plan.

In the year under review, Vesting Finance agreed on a compensation plan for employees for the change of their defined benefit pension scheme into a defined contribution scheme. The change became effective during the reporting period and has been processed as a settlement, which resulted in the derecognition of the defined benefit obligations from the balance sheet, 31 December 2017 £nil (31 December 2016: £1,721,000).

25. Defined benefit liability continued

The following table shows the movement in the plan from the date of acquisition until 31 December 2016:

	Defined benefit obligation £000	Fair value of plan assets £000	Net defined benefit liability £000
Balance at 1 January 2016	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
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

26. 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 2017 (2016: £nil).

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 2017, the Group's senior secured notes and revolving credit facility had an average period to maturity of 6.1 years (2016: 5.8 years). Total undrawn facilities as at 31 December 2017 were £60,575,000 (2016: £103,721,000).

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26. Risks arising from financial instruments continued

Risk management continued

Liquidity risk continued

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 2017	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Amounts due to:					
Non-interest bearing					
Trade and other payables	81,790	4,999	10,450	1,120	98,359
Interest bearing					
€400 million secured senior note (2.875% plus 3 month EURIBOR)	10,352	10,439	39,598	390,616	451,005
€230 million secured senior note (4.75% plus 3 month EURIBOR)	9,835	9,884	34,425	208,318	262,462
£220 million secured senior note (5.125%)	11,275	11,275	33,825	239,261	295,636
Non-recourse facility	4,560	4,805	—	—	9,365
Finance lease	171	171	514	1,377	2,233
Bank overdrafts	1,332	—	—	—	1,332
Revolving credit facility[1]	5,997	6,730	172,361	—	185,088
Total	125,312	48,303	291,173	840,692	1,305,480

1 Reflects all drawings at 31 December 2017 being held to the facility maturity date of 30 March 2022.

Group As at 31 December 2016	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Amounts due to:					
Non-interest bearing					
Trade and other payables	76,261	—	—	—	76,261
Interest bearing					
€335 million secured senior notes (5.25% plus 3 month EURIBOR)	14,280	14,280	326,113	—	354,673
€230 million secured senior notes (4.75% plus 3 month EURIBOR)	9,444	9,444	28,358	208,647	255,893
£220 million secured senior notes (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

Company As at 31 December 2017	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Amounts due to:					
Non-interest bearing					
Trade and other payables	1,405	—	—	—	1,405

Company As at 31 December 2016	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Amounts due to:					
Non-interest bearing					
Trade and other payables	2,528	—	—	—	2,528

26. Risks arising from financial instruments continued

Risk management continued

Liquidity risk continued

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 £2,506,000 (2016: £12,309,000) 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:

	2017		2016	
	Outflow £000	**Inflow £000**	Outflow £000	Inflow £000
Not later than one month	**46,644**	**46,361**	39,518	39,660
Later than one month and not later than six months	**74,450**	**72,139**	126,594	124,755
Later than six months and not later than one year	**55,072**	**54,343**	26,583	25,567
Later than one year and not later than two years	**342**	**220**	482	737
Later than two years and not later than five years	**—**	**—**	—	—
	176,508	**173,063**	193,177	190,719

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.

The above table shows the gross cash flows receivable and payable on our derivative financial instruments. Our derivative financial instruments are held across a number of counterparties; the largest net cash flow exposure to a single counterparty at 31 December 2017 is £1.2 million (2016: £1.0 million).

A maturity analysis of the Group's receivables and borrowing facilities as at 31 December 2017 is presented below:

As at 31 December 2017	**Purchased loan portfolio £000**	**% of total £000**	**Borrowing £000**	**% of total £000**
Less than one year	**187,411**	**20.8**	**168,080**	**17.6**
Later than one year	**713,358**	**79.2**	**785,750**	**82.4**
	900,769	**100.0**	**953,830**	**100.0**

As at 31 December 2016	Purchased loan portfolio £000	% of total £000	Borrowing £000	% of total £000
Less than one year	187,440	23.9	107,560	13.4
Later than one year	595,352	76.1	696,290	86.6
	782,792	100.0	803,850	100.0

This demonstrates the headroom on the Group's borrowings at 31 December 2017 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 2017 is £1,462 million (2016: £1,339 million).

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 has an exposure to interest rate risk arising on changes in interest rates on its borrowings, principally on the floating rate 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.

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. Risks arising from financial instruments continued

Interest rate risk continued

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

	2017 £m	2016 £m
Fixed rate instruments		
Financial liabilities	220.0	220.0
	220.0	220.0
Variable rate instruments		
Financial assets	(35.9)	(23.2)
Financial liabilities	715.1	558.6
Effect of interest rate swaps	(399.5)	(285.6)
Net Variable Rate	279.7	249.8

If interest rates across all countries of operation increased by 50 basis points this would have the following impact:

	2017 £000	2016 £000
Increase in fair value of derivatives taken to equity	1,048	2,570
Reduction in profit before taxation	(874)	(656)

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.

If foreign exchange rates had been 10% stronger 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	2017 £000	2016 £000
Currency		
Euro (EUR)	6,728	3,506
	6,728	3,506

Net profit	2017 £000	2016 £000
Currency		
Euro (EUR)	2,932	2,328
	2,932	2,328

The above 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).

26. Risks arising from financial instruments continued

Currency risk continued

Income statement exposure continued

If foreign exchange rates had been 10% weaker 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	2017 £000	2016 £000
Currency		
Euro (EUR)	**(5,505)**	(2,869)
	(5,505)	(2,869)

Net profit	2017 £000	2016 £000
Currency		
Euro (EUR)	**(2,399)**	(1,904)
	(2,399)	(1,904)

The above 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).

Credit risk

The Group's principal activity is the acquisition and management of underperforming consumer debt portfolios. This includes purchased loan portfolios and loan notes. 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.

Loan notes are measured at amortised cost or fair value through the profit or loss. They are measured at fair value if the Group manages them as such.

The Group's most significant credit risk exposure is to debt portfolios. At 31 December 2017 the carrying value by geography is:

	2017 £m	2016 £m
UK	**474.1**	444.2
Portugal	**299.1**	257.6
Netherlands	**95.5**	81.0
Italy	**32.1**	—
	900.8	782.8

Additionally, the Group has credit risk exposure on loan notes of £50,698,000 at 31 December 2017 (2016: £21,315,000).

We constructed our own proprietary data repository in 2005 and have added additional historic data on credit performance in the markets in which we operate. It now has tens of millions of records. This is used to inform our collections strategies and to help establish affordable repayment plans and settlements with our customers across all geographies.

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.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. Risks arising from financial instruments continued

Credit risk continued

No collateral or credit enhancements are held in respect of any financial derivatives. The maximum exposure to counterparty risk is as follows:

	2017 £000	2016 £000
Cash and cash equivalents	35,943	23,203
	35,943	23,203

The table represents a worst-case scenario of the counterparty risk that the Group is exposed to. The 31 December 2017 balance is spread across a number of counterparties with the top 5 accounting for 58% of the total (2016: 70%). The maximum exposure to one counterparty is £7.1 million (2016: £9.9 million).

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 2017 was:

	2017 £000	2016 £000
Ordinary share capital and premium	349,189	349,180
Other reserves	(154,041)	(181,789)
Total equity and reserves	195,148	167,391

27. 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.

27. Financial instruments continued

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.

	2017 £000	2016 £000
Liabilities:		
Foreign currency contracts	2,543	187
Interest rate swaps	322	1,246
	2,865	1,433
Level 3		
Assets:		
Loan notes	30,889	21,315
	30,889	21,315

There have been no transfers in or out of level 2 or level 3.

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 2017.

Reconciliation of Level 3 fair values

	2017 £000	2016 £000
As at the year brought forward	21,315	—
Loan notes acquisition expenditure	11,058	21,315
Changes in fair value	5,298	—
Collections in the year	(8,464)	—
Income from loan notes	710	—
Exchange gain on loan notes	972	—
	30,889	21,315

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

- estimated future cash flows, derived from management forecasts;
- the application of an appropriate exit multiple; and
- discounting using a rate appropriate to the investment and the anticipated rate of return.

The most significant loan note accounted for at fair value has a carrying value of £20.8 million at 31 December 2017. A +/- 3% movement in estimated future cash flows used in the 31 December 2017 cash flow model would result in a change of the fair value of +/- £0.6 million.

The Company did not hold any financial instruments at fair value (2016: none).

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. All of the Group's financial instruments not measured at fair value fall into hierarchy level 3.

Level 3	2017 £000	2016 £000
Assets		
Purchased loan portfolios	900,769	782,792
Loan notes	19,809	—
Total assets	920,578	782,792

There have been no transfers in or out of level 3.

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. Financial instruments continued

Financial instruments not measured at fair value - fair value hierarchy continued

The statement of financial position value of the Group's purchased loan portfolios and loan notes not measured at fair value, is derived from discounted cash flows generated by an 84-month ERC model. The inputs to the ERC model are historical portfolio collection performance data. This ERC model 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 covering 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, 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 and loan notes can be seen in note 17.

The Company did not hold any other financial instruments not measured at fair value for which a fair value needs to be calculated (2016: 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 September 2019. The effect on the statement of profit or loss and other comprehensive income will also be within these periods. An amount of £348,000 has been charged to equity for the Group in the period in respect of cash flow hedges (2016: £827,000). 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 £399,534,000 (2016: £571,243,000). In 2017, these interest rate swaps covered current borrowings, being 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 their fair value has been recognised in the hedging reserve. All interest rate swaps are categorised as highly effective, so no charge has been made to the statement of profit or loss and other comprehensive income in the year (2016: a credit of £297,000).

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 2017**	**Maturity date**	**Fair value 2017 £000**	Weighted average interest rate 2016	Maturity date	Fair value 2016 £000
Euro	**(0.07%)**	**Mar 2019**	**(322)**	(0.04%)	Jun 2018	(1,246)

The Company did not hold any interest rate swaps at 31 December 2017 (31 December 2016: £nil).

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 2017 is £127,800,000 (2016: £186,600,000). These comprise foreign currency contracts to sell sterling for a total notional of £127,800,000 (2016: £186,600,000). These contracts have maturity dates to October 2018. 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 October 2018.

As at 31 December 2017 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 (2016: £nil gain).

During the year, £1,804,000 (2016: £1,680,000) 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 2017 (31 December 2016: £nil).

28. Financial assets and financial liabilities

Financial assets	2017 £000	2016 £000
Purchased loan portfolios	**900,769**	782,792
Loan notes	**50,698**	21,315
Cash and cash equivalents	**35,943**	23,203
Other receivables	**56,885**	35,484
	1,044,295	862,794

Financial liabilities	2017 £000	2016 £000
Senior secured notes (excluding fees)	**779,347**	701,720
Revolving credit facility (excluding fees)	**155,757**	76,925
Bank overdrafts (excluding fees)	**1,332**	7,698
Other borrowings	**8,908**	12,077
Senior secured note interest	**6,670**	5,430
Finance lease	**1,816**	—
Derivative liabilities	**2,865**	1,433
Trade and other payables	**98,359**	76,261
Current tax liabilities	**4,528**	5,469
	1,059,582	887,013

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 2017 £000	Book value 2017 £000	Fair value 2016 £000	Book value 2016 £000
Purchased loan portfolios	**900,769**	**900,769**	782,792	782,792
Loan notes	**50,698**	**50,698**	21,315	21,315
Cash and cash equivalents	**35,943**	**35,943**	23,203	23,203
Other receivables	**56,885**	**56,885**	35,484	35,484
	1,044,295	**1,044,295**	862,794	862,794

	Fair value 2017 £000	Book value 2017 £000	Fair value 2016 £000	Book value 2016 £000
Senior secured notes (excluding fees)	**784,166**	**779,347**	724,065	701,720
Revolving credit facility (excluding fees)	**155,757**	**155,757**	76,925	76,925
Bank overdrafts (excluding fees)	**1,332**	**1,332**	7,698	7,698
Other borrowings	**8,908**	**8,908**	12,077	12,077
Senior secured note interest	**6,670**	**6,670**	5,430	5,430
Finance lease	**1,816**	**1,816**	—	—
Derivative liabilities	**2,865**	**2,865**	1,433	1,433
Trade and other payables	**98,359**	**98,359**	76,261	76,261
Current tax liabilities	**4,528**	**4,528**	5,469	5,469
	1,064,401	**1,059,582**	909,358	887,013

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 Group, there is no difference between the carrying value and fair value of financial assets and financial liabilities.

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. Share-based payments – Group and Company

Share incentive plan (SIP)

In 2017 (and previously April 2016, 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 previous year, with restrictions attached to these shares ceasing to have effect from vesting date.

Long-term incentive plan (LTIP)

LTIP Awards 2015, 2016 and 2017

On 31 March 2017, 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 also granted to eligible Dutch employees on 31 March 2017 and 19 May 2016. The LTIP awards vest at the end of three years, being 31 March 2020 and 8 April 2019 respectively, 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.

On the 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 set out below.

CSOP options were granted to eligible UK employees on 15 June 2015.

For each eligible employee, 50% of the LTIP awards are subject to underlying basic EPS growth criteria and vest 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

29. Share-based payments – Group and Company continued

Long-term incentive plan (LTIP) continued

LTIP Awards 2014

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. These vested on 11 March 2017 at a level of 86.04%.

For each eligible employee, 75% of the LTIP awards are subject to underlying basic EPS growth criteria and vest 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. A conditional LTIP 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.

Restricted share awards

Restricted share awards were made on 31 March 2017, 19 May 2016 and 15 June 2015. These awards vest on 31 March 2019 and 1 May 2018 respectively, subject to continuity of employment. The awards made on 15 June 2015 vested on 11 May 2017.

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 31 March 2017, 8 April 2016 and 9 April 2015. See page 61 for details of the bonus delivered in the form of deferred shares for the financial year 2017. The deferred shared granted on 9 April 2015 will vest on 9 April 2018. Awards granted to Tom Drury on 8 April 2016 and 31 March 2017 vest on 31 December 2018.

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. Share-based payments – Group and Company continued

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
Equity settled award – LTIP	Equity	1,430,117	3 years	31 March 2020
Equity settled award – LTIP	Equity	74,052	3 years	31 March 2020
Equity settled award – restricted	Equity	202,312	2 years	31 March 2019
Equity settled award – SIP	Equity	50,106	3 years (rolling)	May – June 2020
Equity settled award – DSBP	Equity	65,374	3 years	31 March 2020

The following table shows the weighted average exercise prices (WAEP) and number of options movements during the year.

	2017		2016	
	WAEP	Number of options	WAEP	Number of options
Outstanding at the beginning of the year	**£2.57**	**4,296,354**	£2.52	2,801,622
Granted during the year	**£3.48**	**1,821,961**	£2.64	2,207,173
Forfeited during the year	**£3.00**	**(819,078)**	£2.60	(663,702)
Exercised during the year	**£2.47**	**(1,090,533)**	£2.33	(48,739)
Expired during the year	**£2.46**	**(132,609)**	—	—
Outstanding at 31 December	**£2.90**	**4,076,095**	£2.57	4,296,354
Exercisable at 31 December	**£2.29**	**197,851**	£2.05	29,731

The weighted average share price at the date of exercise of share options exercised during the year was £3.44 (2016: £2.92). The share options outstanding at 31 December 2017 have a weighted average contractual life of 1.2 years (2016: 1.3 years). The weighted average fair value of options granted during the year was £3.21 (2016: £2.28). The majority of options granted to date are nil-cost options (2016: 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. The inputs to the models used to determine the valuations fell within the following ranges:

	2017	2016
SIP		
Expected life of options (years)	**3**	3
Share prices at date of grant	**£3.46**	£2.57
LTIP and restricted awards		
Expected life of options (years)	**2–3**	2–3
Share prices at date of grant	**£3.46–£4.06**	£2.57–£2.67
Expected share price volatility (%)	**30.72%–31.09%**	31.85%
Risk free interest rate (%)	**0.24%**	0.19%

29. Share-based payments – Group and Company continued

Grant information continued

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

	2017 £000	2016 £000
Equity settled share-based payment expense spread across vesting period	3,334	3,061
Total equity settled share-based payment expense recognised in the statement of comprehensive income	3,334	3,061

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.

Please see the directors remuneration report for further information about directors' share options.

30. Borrowings and facilities

Borrowing at amortised cost	2017 £000	2016 £000
Senior secured notes (net of transaction fees of £15,607,000, 2016: £20,562,000)	763,740	681,158
Revolving credit facility (net of transaction fees of £2,721,000, 2016: £2,756,000)	153,036	74,169
Senior secured notes interest	6,670	5,430
Bank overdrafts	1,332	7,698
Finance lease	1,816	—
Non-recourse facility	8,908	12,077
	935,502	780,532
Total borrowings:		
Amount due for settlement within 12 months	165,360	87,297
Amount due for settlement after 12 months	770,142	693,235

Senior secured notes

On 30 March 2017, the Group issued €400 million senior secured floating rate notes due 2025 (the '2025 Notes') at a coupon of EURIBOR +2.875% per annum with EURIBOR being not less than 0%. Interest is paid quarterly in arrears. The 2025 Notes can be redeemed in full or in part on or after 1 April 2019 at the Group's option. Prior to 1 April 2019 the Group may redeem, at its option, some or all of the 2025 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 proceeds from the 2025 Notes were used to redeem the existing €335 million 2021 Notes, pay the early redemption and transaction fees payable in respect of the €335 million 2021 Notes and repay drawings under the RCF.

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 costs of £15.0 million, details of which are included within finance costs (see note 9).

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.

The Euro senior notes and Sterling senior notes are secured by substantially all of the assets of the Group.

Revolving credit facility

On 24 February 2017 the commitments under the RCF were increased from £180 million to £215 million. Upon the redemption of the €335 million 2021 Notes on 30 March 2017, the maturity of the facility was extended to 31 March 2022. On 8 January 2018 the RCF was increased by £40 million and maturity extended to January 2023. The margin on the RCF was also reduced to 2.5%.

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.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. Borrowings and facilities continued

Revolving credit facility continued

On 21 July 2016, the Group cancelled its existing revolving credit facility (the 'Original Revolving Credit Facility'). Upon cancellation the Group incurred costs of £3.0 million, these costs are included within finance costs (see note 9).

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.

Finance lease liabilities

Due to the acquisition of Zenith Service S.p.A. the Group's liabilities now include a finance lease in relation to a property. This is payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payment	
	2017 £000	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Less than one year	**171**	—	**57**	—	**114**	—
Between one and five years	**685**	—	**192**	—	**493**	—
More than five years	**1,377**	—	**168**	—	**1,209**	—
Total payable	**2,233**	—	**417**	—	**1,816**	—

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Senior secured notes £000	Senior secured notes interest £000	Revolving credit facility £000	Other borrowings (a) £000	Total liabilities relating to cash flow from financing activity £000	Interest rate swap liabilities and forward exchange contracts £000	Total £000
Balance at 31 December 2016	681,158	5,430	74,169	29,258	790,015	1,433	791,448
Changes from financing cash flows							
Net proceeds from additional loans	—	—	77,384	(11,057)	66,327	—	66,327
Proceeds from senior notes (net of fees)	340,546	—	—	—	340,546	—	340,546
Redemption of senior notes	(290,867)	—	—	—	(290,867)	—	(290,867)
Early repayment of bond	(17,631)	—	—	—	(17,631)	—	(17,631)
Repayment of interest on senior notes	—	(31,119)	—	—	(31,119)	—	(31,119)
Payment of deferred interest	—	—	—	(610)	(610)	—	(610)
Bank and other similar fees paid	—	—	—	(4,274)	(4,274)	—	(4,274)
Total changes from financing cash flows	32,048	(31,119)	77,384	(15,941)	62,372	—	62,372
Changes arising from obtaining or losing control of subsidiaries or other businesses	—	—	—	16,500	16,500	—	16,500
The effect of changes in foreign exchange rates	21,207	101	1,410	1,069	23,787	(694)	23,093
Changes in fair value	—	—	—	—	—	(349)	(349)
Other changes							
Liability-related							
Interest expense on senior secured notes	—	32,258	—	—	32,258	—	32,258
Amortisation of capitalised transaction fees -Bond	2,358	—	—	—	2,358	—	2,358
Interest on senior secured notes	2,358	32,258	—	—	34,616	—	34,616
Interest expense and similar charges on bank loans	—	—	—	5,289	5,289	—	5,289
Amortisation of capitalised transaction fees -RCF	—	—	758	—	758	—	758
Interest and similar charges on bank loans	—	—	758	5,289	6,047	—	6,047
Bond refinancing costs	26,969	—	—	—	26,969	380	27,349
Interest rate swap and forward exchange contract hedge costs	—	—	—	—	—	2,095	2,095
Other interest including interest on finance lease	—	—	—	1,562	1,562	—	1,562
Capitalised transaction fees	—	—	(686)	—	(686)	—	(686)
Acquisition of subsidiary, deferred consideration	—	—	—	(8,888)	(8,888)	—	(8,888)
Total liability-related other changes	29,327	32,258	72	(2,037)	59,620	2,475	62,095
Balance at 31 December 2017	**763,740**	**6,670**	**153,035**	**28,849**	**952,294**	**2,865**	**955,159**

30. Borrowings and facilities continued

Other borrowings

	2017 £000	2016 £000
Other borrowings	**10,724**	12,077
Bank overdrafts	**1,332**	7,698
Other liabilities relating to cash flow from financing activity	**16,793**	9,483
	28,849	29,258

31. Dividend

Dividends paid of £16,797,000 have been included in these financial statements, being the 2016 final dividend of 6.4p per share and the 2017 interim dividend of 3.2p per share. A final dividend for 2017 has been proposed of 8.1p per share, taking the total declared and proposed dividends for the year ended 31 December 2017 to 11.3p, 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 2017 interim dividend was declared at 50% of the 2016 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 31 May 2018 with a record date of 1 June 2018 and a payment date of 6 July 2018. Shareholders will have the opportunity to elect to reinvest their cash dividend and purchase existing shares in the Company through a dividend reinvestment plan ('DRIP') with an election date of 15 June 2018.

32. Acquisition of subsidiary undertaking

Current year acquisitions

a. Zenith Service S.p.A.

On 28 April 2017, the Group acquired 100% of the ordinary share capital of Zenith Service S.p.A. ('Zenith'). Zenith has a similar principal activity to that of the Group and is a leading master servicer in the Italian structured finance market, and provider of various structuring and securitisation services.

The Group paid cash consideration of €11,327,000 (£9,630,000) together with deferred consideration of €7,551,200 (£6,420,000). Deferred consideration is payable on the one-year anniversary of the transaction and has been included at its fair value leading to an overall consideration of €18,588,000 (£15,803,000).

Effect of the acquisition

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

	Total £000
Intangible assets	2,517
Property, plant and equipment	3,087
Deferred tax asset	965
Cash and cash equivalents	4,555
Other receivables	3,803
Trade and other payables	(7,610)
Deferred tax liability	(672)
Current tax liability	(727)
	5,918
Minority interest	(187)
	5,731
Goodwill on acquisition	10,072
	15,803
Consideration:	
Cash	9,630
Deferred consideration	6,173
	15,803
Cash impact of acquisition in the period:	
Cash consideration	9,630
Cash and cash equivalents acquired	(4,555)
	5,075

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

32. Acquisition of subsidiary undertaking continued

Current year acquisitions continued

a. Zenith Service S.p.A. continued

An intangible asset of €2,872,000 (£2,442,000) has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from contractual customer relationships. Goodwill of €11,847,000 (£10,072,000) was created as a result of this acquisition. The primary reasons for the acquisition were to enter the Italian market via the acquisition of an existing well-established company, and to create scale and servicing capabilities across multiple asset classes.

Trade and other payables in the acquired entity include a finance lease liability of €2,054,000 (£1,746,000) in relation to a property.

In the period from acquisition to 31 December 2017, Zenith contributed revenue of £8,681,000 and profit after tax of £1,055,000 to the consolidated results for the period. If the acquisition had occurred on 1 January 2017, Group total revenue would have been an estimated £331,942,000 and profit after tax would have been an estimated £41,498,000.

The minority interest, relating to a non-controlling interest in Zenith's subsidiary, Structured Finance Management – Italy S.r.l (SFM), was recorded as the non-controlling party's proportionate interest in the fair value of the identifiable assets of SFM at the acquisition date.

b. Hefesto

On 31 March 2017, the Group acquired 100% of the ordinary share capital of Hefesto STC. Hefesto is a regulated Portuguese special purpose vehicle for the securitisation of loans and receivables. Whitestar acts as servicer and administrator of Hefesto. The Group paid cash consideration of €743,000 (£636,000) which was equal to the fair value of the net assets acquired. The assets and liabilities acquired comprised €1,880,000 (£1,608,000) of cash, €1,181,000 (£1,010,000) of trade and other liabilities and €44,000 (£38,000) of other receivables. These figures are after fair value adjustments totalling €66,000 (£56,000).

c. Mars Capital

On 30 November 2017, the Group acquired 100% of the ordinary share capital of Mars Capital Finance Limited ("Mars Capital").

Mars Capital is the leading UK and Irish mortgage servicing business and will strengthen the Group's asset management capabilities and reinforce its leading position in the UK, while providing strategic entry into Ireland.

The Group will pay £4,178,000 in cash together with deferred cash consideration of £10,000,000. The deferred consideration is payable on the four-year anniversary of the transaction. There is an amount of the deferred consideration contingent on the timing of the commencement of a new servicing contract. The deferred consideration has been included at its fair value, £8,581,000, taking into account management's best estimate of the contingent amount payable. This gives an overall consideration of £12,759,000.

Effect of the acquisition

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

	Total £000
Intangible assets	3,011
Property, plant and equipment	162
Cash and cash equivalents	80
Other receivables	3,214
Trade and other payables	(3,937)
Deferred tax liability	(462)
Current tax liability	(148)
	1,920
Goodwill on acquisition	10,839
	12,759
Consideration:	
Cash	4,178
Deferred consideration	8,581
	12,759
Cash impact of acquisition in the period:	
Cash consideration	4,178
Cash and cash equivalents acquired	(80)
	4,098

An intangible asset of £2,568,000 has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from contractual customer relationships. Goodwill of £10,839,000 was created as a result of this acquisition. The primary reasons for the acquisition were to enter the Irish market, which offers significant debt purchasing and servicing potential via the acquisition of an existing well-established company, whilst enhancing the Group's asset management capabilities.

32. Acquisition of subsidiary undertaking continued

Current year acquisitions continued

c. Mars Capital continued

In the period from acquisition to 31 December 2017, Mars Capital contributed revenue of £696,000 and profit after tax of £79,000 to the consolidated results for the period. If the acquisition had occurred on 1 January 2017, Group total revenue would have been an estimated £327,315,000 and profit after tax would have been an estimated £41,915,000.

Prior year acquisitions

a. 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 to that of the Group and 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 was paid on the one-year anniversary of the transaction and was included at its fair value, at the amount contractually agreed. The contingent consideration was based on the previous shareholders fulfilling their service responsibilities for 12 months post-acquisition; management deemed this to be highly probable at the previous 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 therefore was 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 seven-year period arising from contractual and non-contractual customer relationships discounted appropriately. A deferred tax liability was recognised, in relation 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.

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

32. Acquisition of subsidiary undertaking continued

Prior year acquisitions continued

a. InVesting continued

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. Other receivables in the acquired entities comprise gross contracted amounts of £3,675,000. The minority interest was recorded at fair value at the acquisition date.

b. 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 to that of 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 make 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 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 in 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.

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 2018 half year results of the Group.

33. Commitments

In December 2017, the Group entered into three binding contracts to buy purchased loan portfolios and loan notes for £57,000,000. Adjustments may be made to both the purchase price and the makeup of the portfolios and loan notes being acquired, by agreement between both parties, this is estimated to have a maximum potential impact on the purchase price of +/- £1.0 million. As payment has not been made and title has not yet passed, the portfolios and loan notes and associated purchase price liability have not been recognised within the financial reporting period.

34. Events occurring after the reporting period

The Group announced on 1 March that it has agreed terms for two acquisitions which strengthen the Group's investment and asset management capabilities and reinforce its growing presence in Italy.

The first is for 100% of Parr Credit S.r.l. ("Parr"), a leading Rome-based servicer of Italian non-performing loans for an equity value of €20 million. There are no regulatory required approvals for the transaction and the acquisition will complete on 1 March.

The second is for Europa Investimenti S.p.A. ("Europa"), a leading originator and manager of Italian distressed debt investments, for an equity value of €62 million. This equity value includes the Group making an equity injection of €11.5m. While the core Europa business is not regulated, due to Europa owning a 74% stake in an Italian real estate fund management company, Vegagest SGR S.p.A., the transaction is subject to a regulatory change of control approval by the Bank of Italy and is expected to complete in mid-2018. The acquisitions will be funded in cash from existing Group resources.

35. Notes to the cash flow statement

Cash flows from operating activities	**Group Year ended 31 December 2017 £000**	Group Year ended 31 December 2016 £000	**Company Year ended 31 December 2017 £000**	Company Year ended 31 December 2016 £000
Profit before tax	**50,559**	31,367	**23,944**	23,601
Adjusted for:				
Collections in the year	**342,210**	285,960	**—**	—
Income from purchased loan portfolios and loan notes	**(241,290)**	(188,914)	**—**	—
Profit on disposal of purchased loan portfolios	**(1,329)**	(701)	**—**	—
Share in profit in associate	**(1,578)**	(2,363)	**—**	—
Fair value gain on loan notes	**(5,298)**	—	**—**	—
Gain on sale of associate	**(14,697)**	—	**—**	—
Depreciation and amortisation	**11,729**	8,658	**—**	—
Net interest payable	**71,660**	66,028	**—**	—
Foreign exchange gains	**(611)**	(1,510)	**—**	—
Equity settled share-based payment expenses	**3,334**	3,061	**—**	—
Operating cash flows before movement in working capital	**214,689**	201,586	**23,944**	23,601
(Increase) in other receivables	**(13,224)**	(9,243)	**(2)**	(29)
Increase in amounts due from subsidiary undertakings	**—**	—	**(5,848)**	(9,024)
Increase/(decrease) in trade and other payables	**5,915**	7,305	**(14)**	5
Cash generated by operations	**207,380**	199,648	**18,080**	14,553
Income taxes and overseas taxation (paid)/received	**(9,598)**	(2,850)	**64**	(438)
Net cash flow from operating activities before purchases of loan portfolios and loan notes	**197,782**	196,798	**18,144**	14,115
Purchase of purchased loan portfolios	**(195,579)**	(201,700)	**—**	—
Purchase price adjustment relating to prior year	**474**	—	**—**	—
Purchase of purchase of loan notes	**(30,155)**	(21,315)	**—**	—
Net cash (used in)/generated by operating activities	**(27,478)**	(26,217)	**18,144**	14,115

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ADDITIONAL INFORMATION (UNAUDITED)

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

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

	31 December 2017 £000	31 December 2016 £000
Continuing operations		
Revenue	**319,015**	235,930
Operating expenses		
Collection activity costs	**(117,638)**	(70,261)
Other operating expenses	**(88,344)**	(65,615)
Total operating expenses	**(205,982)**	(135,876)
Operating profit	**113,033**	100,054
Finance income	**9**	813
Finance costs	**(44,317)**	(48,847)
Share of profit in associates	**1,578**	2,363
Underlying profit before tax	**70,303**	54,383
Taxation charge on underlying activities	**(13,697)**	(8,816)
Underlying profit after tax	**56,606**	45,567
Non-controlling interest	**(44)**	(1)
Underlying profit attributable to the owners of the Company	**56,562**	45,566
Underlying Basic EPS (£)	**0.32**	0.26
Underlying tax rate	**19.5%**	16.2%

Reconciliation of reported to underlying costs

	2017			2016		
	Reported £000	Adjustments £000	Underlying £000	Reported £000	Adjustments £000	Underlying £000
Collection activity costs	**(118,468)**	**830**	**(117,638)**	(70,261)	—	(70,261)
Other operating expenses	**(94,603)**	**6,259**	**(88,344)**	(70,637)	5,022	(65,615)
Finance costs	**(71,669)**	**27,352**	**(44,317)**	(66,841)	17,994	(48,847)

Collection activity cost adjusting items relate to One Arrow costs incurred during the year.

Within other operating expenses, adjusting items are £3,815,000 (2016: £nil) of One Arrow costs and £2,444,000 of costs incurred relating to the acquisitions of Zenith Services S.p.A. in Italy and the Mars Capital companies in the UK and Ireland. In the year to 31 December 2016 £5,022,000 of costs were incurred relating to the completion of two acquisitions, Vesting in the Netherlands, Redrock in Portugal and the agreed acquisition of Zenith.

Adjusted EBITDA' means profit before interest, tax, depreciation, amortisation, foreign exchange gains or losses and other adjusting items.
The Adjusted EBITDA reconciliations for the year to 31 December are shown below:

Reconciliation of net cash flow to adjusted EBITDA	31 December 2017 £000	31 December 2016 £000
Net cash flow used in operating activities	**(27,478)**	(26,217)
Purchases of loan portfolios	**195,579**	201,700
Purchase price adjustment relating to prior year	**(474)**	—
Purchase of loan notes	**30,155**	21,315
Income taxes paid	**9,598**	2,850
Working capital adjustments	**7,309**	1,938
Amortisation of acquisition and bank facility fee	**273**	276
Dividends and interest from associate	**7,233**	2,363
Disposal of intangible asset	**1,332**	—
Acquisition costs	**2,444**	5,022
One Arrow costs	**4,645**	—
Adjusted EBITDA	**230,616**	209,247
Reconciliation of core collections to adjusted EBITDA		
Income from loan portfolios	**241,290**	188,914
Portfolio amortisation	**100,920**	97,046
Core collections (includes proceeds from disposal of purchased loan portfolios)	**342,210**	285,960
Other income	**71,098**	46,315
Operating expenses	**(213,071)**	(140,898)
Depreciation and amortisation	**11,729**	8,658
Foreign exchange gains	**(611)**	(1,510)
Amortisation of acquisition and bank facility fees	**273**	276
Dividends and interest from associate	**7,233**	2,363
Disposal of intangible asset	**1,332**	—
Share-based payments	**3,334**	3,061
Acquisition costs	**2,444**	5,022
One Arrow costs	**4,645**	—
Adjusted EBITDA	**230,616**	209,247
Reconciliation of operating profit to adjusted EBITDA		
Profit for the year	**39,915**	26,306
Underlying finance income and costs	**44,308**	48,034
Taxation charge on ordinary activities	**10,644**	5,061
Share of profit on associate	**(1,578)**	(2,363)
Gain on sale of associate	**(14,697)**	—
Adjusting finance costs	**27,352**	17,994
Operating profit	**105,944**	95,032
Portfolio amortisation	**100,920**	97,046
Depreciation and amortisation	**11,729**	8,658
Foreign exchange gains	**(611)**	(1,510)
Profit on disposal of purchased loan portfolios	**(1,329)**	(701)
Amortisation of acquisition and bank facility fees	**273**	276
Share-based payments	**3,334**	3,061
Fair value gain on loan notes	**(5,298)**	—
Disposal of intangible asset	**1,332**	—
Dividends and interest from associate	**7,233**	2,363
Acquisition costs	**2,444**	5,022
One Arrow costs	**4,645**	—
Adjusted EBITDA	**230,616**	209,247

FINANCIAL STATEMENTS

GLOSSARY

'Adjusted EBITDA' means profit before interest, tax, depreciation, amortisation, foreign exchange gains or losses and other adjusting items. The Adjusted EBITDA reconciliations for the year to 31 December are shown below: 'Adjusted EBITDA ratio' represents the ratio of Adjusted EBITDA to core collections. See page 25 for a reconciliation of the movement in purchased loan portfolios and loan notes under IFRS reconciled to cash ERC.

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

'Average net assets' is calculated as the average quarterly net assets from H1 2016 to H1 2017 as shown in the quarterly and half yearly statements. In comparative periods this was calculated as the average annual net assets.

'Cash interest cover' represents interest on senior secured notes, utilisation and non-utilisation RCF fees and bank interest to Adjusted EBITDA.

'Cash result' represents current cash generation on a sustainable basis and is calculated as Adjusted EBITDA less cash interest, income taxes and overseas taxation paid, purchase of property, plant and equipment, purchase of intangible assets and average replacement rate.

'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' means cash collections on the Group's existing portfolios and loan notes including ordinary course portfolio sales and put backs. Core collections is a key metric as it represents the Group's most significant cash inflow. It is also a key component of adjusted EBITDA which is used to monitor the Group's leverage position. The breakdown of core collections for the years ended 31 December 2017 and 31 December 2016 are as follows:

	2017 £000	2016 £000
Collections from purchased loan portfolios	333,567	285,960
Collections from loan notes	8,643	—
Core collections	**342,210**	285,960

'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 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.

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

'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. A portfolio comprises a group of customer accounts purchased in a single transaction.

‘FCA’ means the Financial Conduct Authority.

‘Free cash flow’ means Adjusted EBITDA after the effect of capital expenditure and working capital movements.

‘FVTPL’ – Financial instruments designated at fair value with all gains or losses being recognised in the profit or loss.

‘Gross money multiple’ means core collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, all divided by the purchase price for each portfolio, excluding REO purchases and purchase price adjustments relating to asset management fees.

‘IFRS’ means EU endorsed 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.

‘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 2017 is as follows:

	2017 £000	2016 £000
Cash and cash equivalents	(35,943)	(23,203)
Senior secured notes (pre-transaction fees net off)	779,347	701,720
Revolving credit facility (pre-transaction fees net off)	155,757	76,925
Secured bank overdrafts	—	6,419
Secured net debt	899,161	761,861
Deferred consideration	30,509	35,401
Senior secured loan notes interest	6,670	5,430
Bank overdrafts	1,332	1,279
Other borrowings	10,724	12,077
Net debt	**948,396**	816,048

‘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. In the year ended 31 December 2017, organic purchases of loan portfolios included cash paid for portfolios and loan notes acquired during the year of £195,579,000 and £30,155,000 respectively, less capitalised portfolio and loan note acquisition expenditure of £1,785,000.

‘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 resold/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.

FINANCIAL STATEMENTS

GLOSSARY CONTINUED

'RCF' means revolving credit facility.

'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. Average equity attributable is calculated as the average quarterly equity from H1 2016 to H1 2017 as shown in the quarterly and half yearly statements. In the comparative period this is calculated as the average annual equity attributable.

'Secured loan to value ratio' represents the drawn RCF, senior secured notes and bank overdrafts (all pre-transaction 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 certain adjusting items. The Group presents underlying profit after tax because it excludes the effect of items (and the related tax on such items) which are not considered representative of the Group's ongoing performance, on the Group's profit or loss for a period and forms the basis of its dividend policy.

'Underlying return on equity' represents the ratio of underlying profit after tax attributable to equity shareholders, to average shareholder equity.

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BN99 6DA

Financial calendar for 2018
- Announcement of 2017 full-year results
  1 March 2018
- Announcement of the 3 months to 31 March 2018 results
  10 May 2018
- Annual general meeting
  22 May 2018
- Ex-dividend date for 2017 final dividend
  31 May 2018
- Record date for 2017 final dividend
  1 June 2018
- Close of DRIP elections
  15 June 2018
- Payment date of 2017 final dividend
  6 July 2018
- Announcement of 2018 half-yearly results
  30 August 2018
- Announcement of the 9 months to 30 September 2018 results
  8 November 2018
- Full-year end
  31 December 2018

Annual general meeting
The forthcoming annual general meeting of the Company will take place at the Midland Hotel, Peter Street, Manchester M60 2DS on Tuesday, 22 May 2018 at 2.30pm. 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 & accounts.

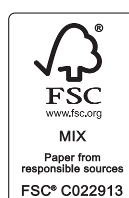
Shareholder information and website
Equiniti Limited is our registrar, and they offer many services to make managing your shareholding easier and more efficient. You can find out further information about the Group and view this annual report & accounts, results, other announcements and presentations,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

Shareview
If you wish to receive electronic communications and manage your shareholding online please visit the website of our Registrar, Equiniti Limited, at www.shareview.co.uk and click to register at the top of the page.

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

By phone:
UK: 0371 384 2030
From overseas: +44 121 415 7047
Lines are open from 08.30 to 17.30, Monday to Friday, excluding public holidays in England and Wales.

By post:
Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.



The Group's commitment to environmental issues is reflected in this annual report which has been printed on ArcoPrint, made from an FSC® certified and ECF (Process Chlorine Free) material. Printed in the UK by Pureprint Group using their environmental printing technology. Both manufacturing mill and the printer are registered to the Environmental Management System ISO14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified.

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