ARROW GLOBAL

ARROW GLOBAL GROUP PLC

Q1 results and trading update

14 May, 2020

Q1 highlights and trading update

Lee Rochford
Group CEO

"Throughout this difficult period, we have remained true to our purpose of Building Better Financial Futures, ensuring we offer customers affected by COVID-19 as much support as possible."

Highlights

Operationally resilient; raised a further €356m of fund management capital

1	**Operational resilience**	**100%** of our 2,500 employees are working remotely with full operational capability Production hours in contact centres stable Customer contact time has increased, alongside customer satisfaction levels
2	**IB and AMS performance robust**	Collected **92% of IB ERC** in Q1 AMS revenues **increased by 2.6%**
3	**Further fundraising success**	**€356m** of further capital commitments Total capital commitments of **€1.2bn**, with **€896m** from third party investors Highlights **strength of Arrow's business** model and the **attractiveness of our fund management strategy** to alternative investors

Robust operational performance – continued fundraising success

Supporting colleagues by staying true to our purpose and values

Wellbeing

- 100% of employees working from home with full operational capacity by the end of March
- Daily monitoring of colleagues impacted by COVID-19
  - expanded wellbeing support packages
  - enhanced communication engagement from senior leaders and ensured all colleagues enabled on Workplace
- No job losses and no pay reduction (even for furloughed staff)
- Staff engagement through April at 80%+

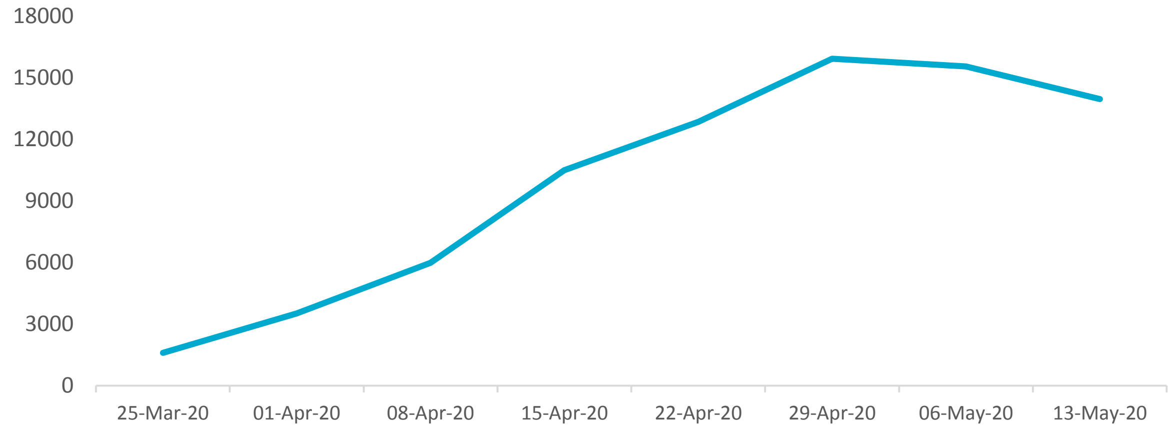
Productivity

- Right Party Contact (RPC) has increased by over 40%
- Production hours are stable
- Average call lengths have increased
- Secured collections impacted by frozen property markets and closed court systems
- Positive operational resilience and productivity mean the Group will take a cautious post-lockdown approach to returning to offices

Building better financial futures and adhering to ESG commitments

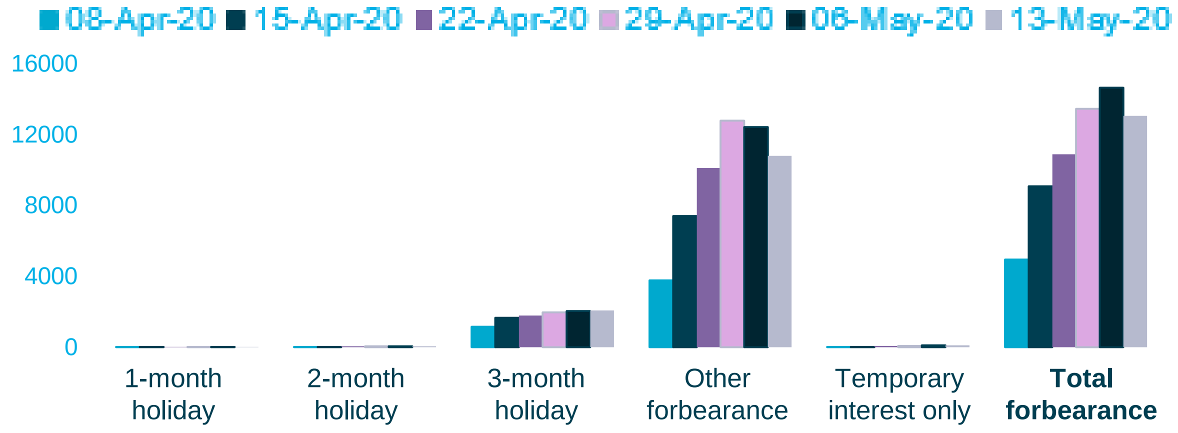
Supporting customers by staying true to our purpose and values

Week on Week customer impact from COVID-19[1]



- Fewer than 1% of customers impacted; 3% of paying accounts impacted
- Number of impacted customers has been reducing

Aggregate week on week total forbearance

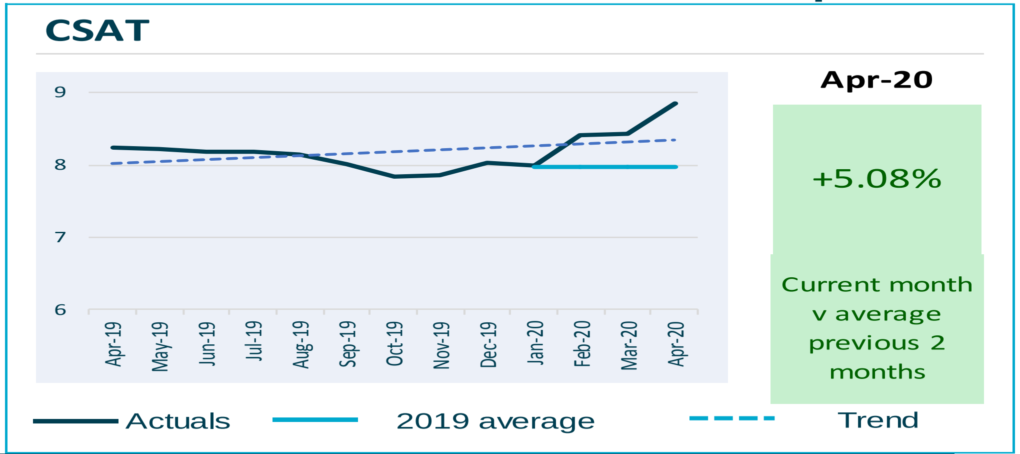


- Increased forbearance accounts for 70% of reduction in unsecured collections. Suspension of all litigation activity
- Forbearance measures have seen first WoW reduction

Customers' behaviour in March and April

- Payment rate **remains stable**
- Automated payments **remain stable**
  - Around 46% of Group ERC is automated
  - Over 80% of Northern European collections are automated
- Conversion rate reduced to 1.7% from 2.4% vs. Jan/Feb
- 30% reduction in one-off settlements vs. Jan/Feb

Customer satisfaction levels have improved



Building better financial futures and adhering to ESG commitments

1 Customers that have confirmed a direct negative impact on their lives from COVID-19

Matt Hotson
Group CFO

Financial overview

Group P&L

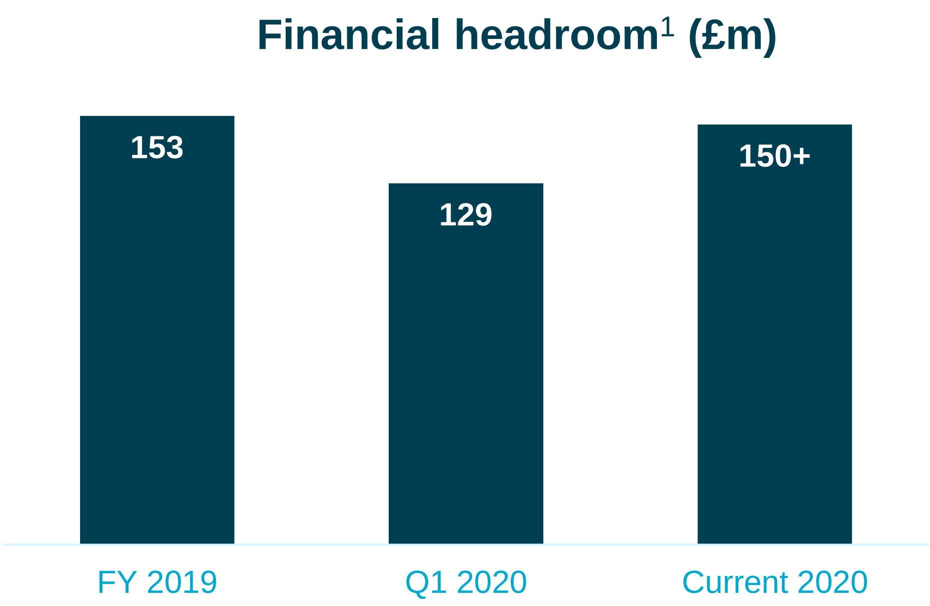
Robust cash collections; lower PBT driven by decrease in non-cash impairment gains

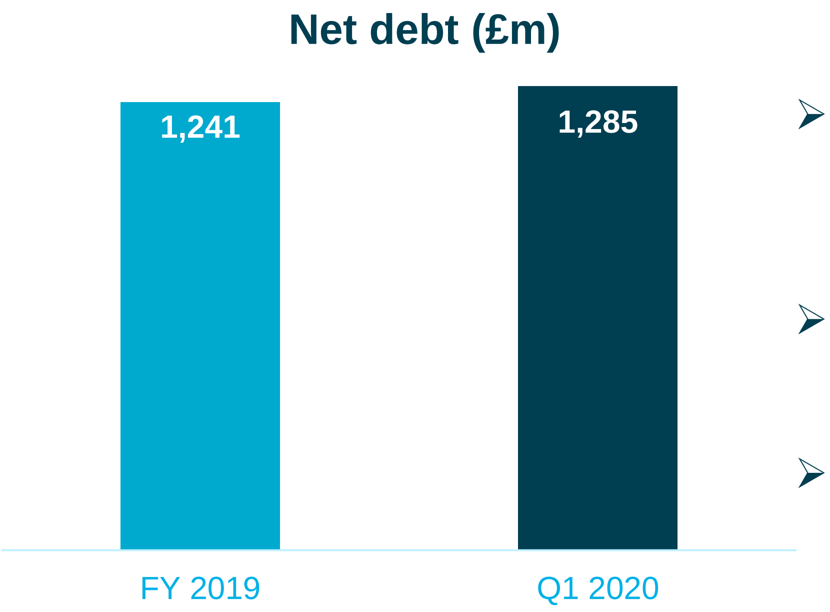
£m	Q1 2020	Q1 2019	Change
Core cash collections	85.1	105.5	-19.3%
Income from portfolios at amortised cost	45.3	44.8	+1.2%
Fair value gain on portfolio investments at FVTPL	4.1	6.6	-37.9%
Impairment gains	3.8	12.2	-68.9%
Investment Business income	***53.2***	***63.6***	***-16.4%***
Asset Management and Servicing income	***23.6***	***23.0***	***+2.6%***
Total income	**77.1**	**86.6**	**-11.0%**
Adjusted EBITDA	***59.2***	***76.9***	***-23.0%***
Profit before tax	**9.0**	**15.8**	**-43.0%**

- Q1 cash collections robust – 92% of ERC with reduction driven by delay to two secured asset collections
- Cash driven income from portfolios at amortised cost marginally increased
- Asset Management and Servicing revenues increased by 2.6%
- Adjusted EBITDA reduction due to higher collections in Q1 2019 relating to a previously disclosed one-off portfolio restructure
- PBT reduction primarily driven by the decrease in non-cash impairment gains

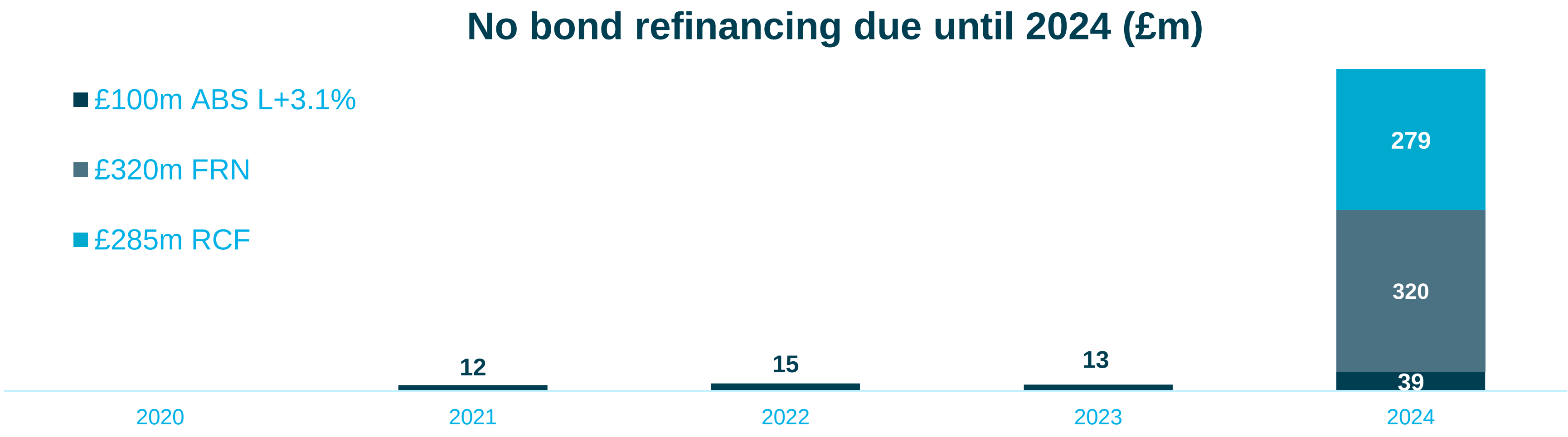
Strong balance sheet and liquidity

Continue to have good financial headroom with no bond refinancing due until 2024





- Current financial headroom has increased to over £150m from Q1 due to management actions
- Q1 net debt increase impacted by FX movements
- Long duration debt removes short-term refinancing risk

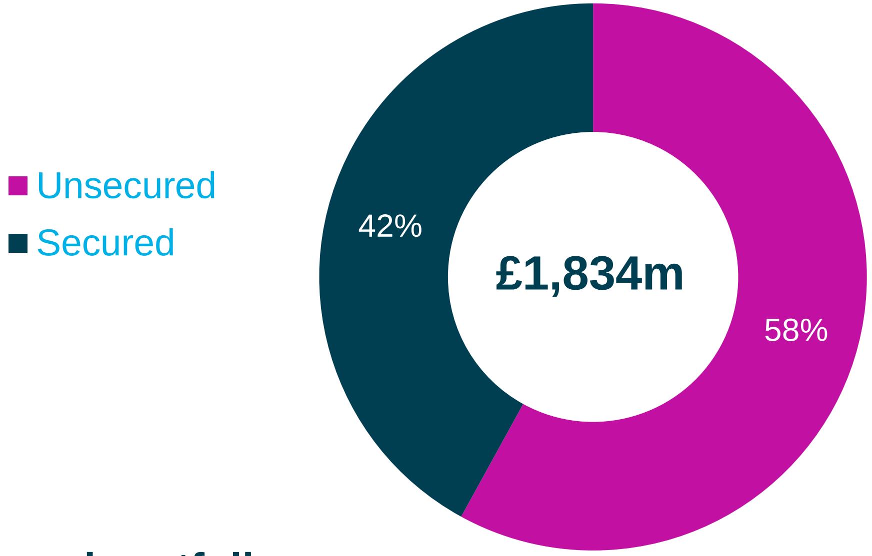


1 The Group's balance sheet cash plus headroom of the Group's committed debt facilities

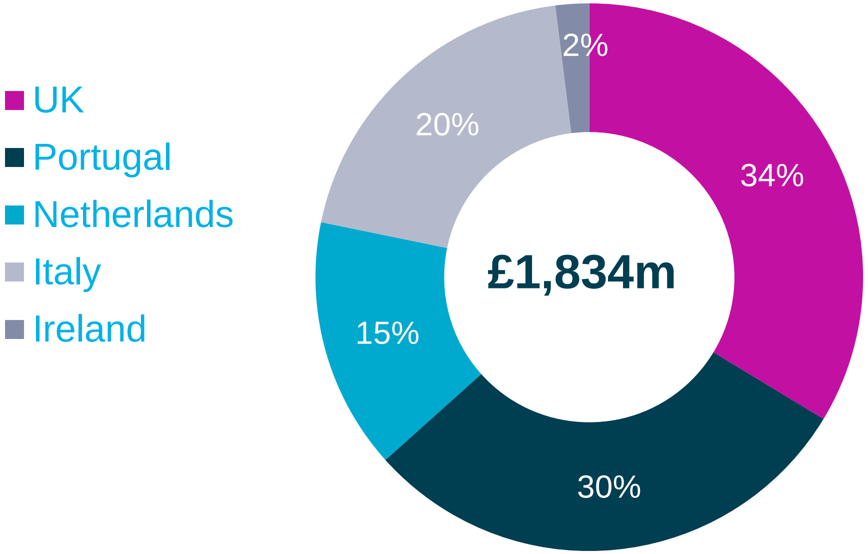
ERC exposure by country and asset class

Unsecured collections remain robust; court closures mean secured collections are delayed

84-month ERC by asset class



84-month ERC by geography



Unsecured portfolios

- Principally UK, Portugal and Netherlands
- Collections are driven by smaller, more frequent monthly cash collections
- GFC experience suggests circa 50% of lost unsecured collections are regained in subsequent years

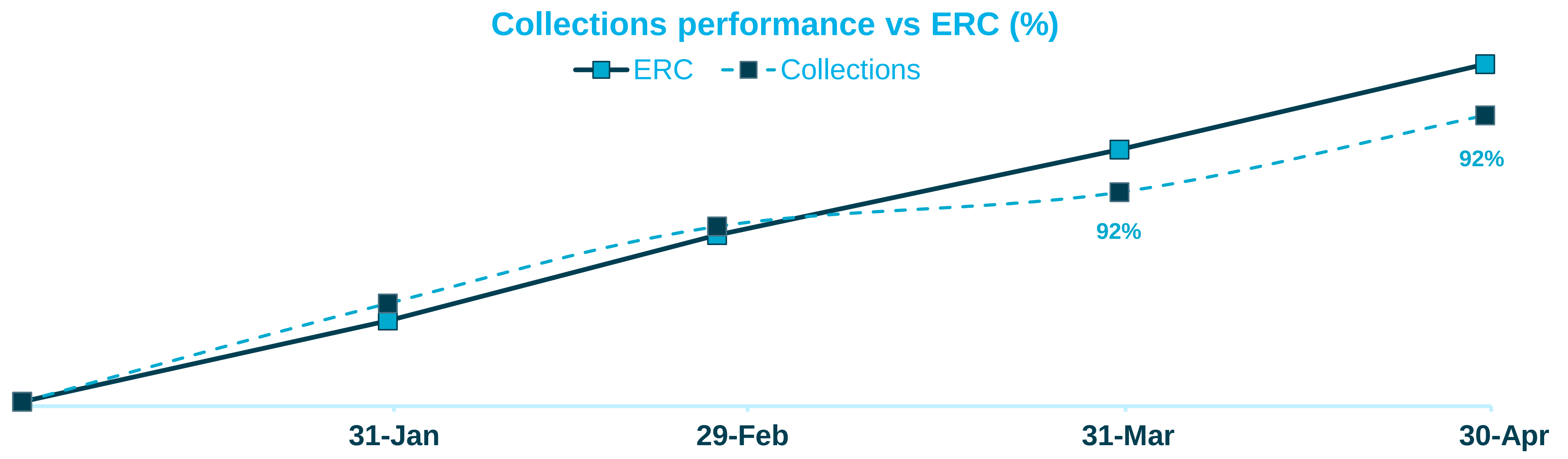
Secured assets

- Principally Portugal and Italy
- Cash collections driven by local court systems or sale of real estate sales
- These collection strategies are impacted by COVID-19 restrictions – cash collections mainly subject to timing impact

Continue to monitor operational performance impact on valuation models closely – will be reflected in the half yearly asset revaluation exercise

Cumulative collections performance against ERC

Collected 92% of estimates in Q1; underlying April performance in mid-range of modelled scenarios

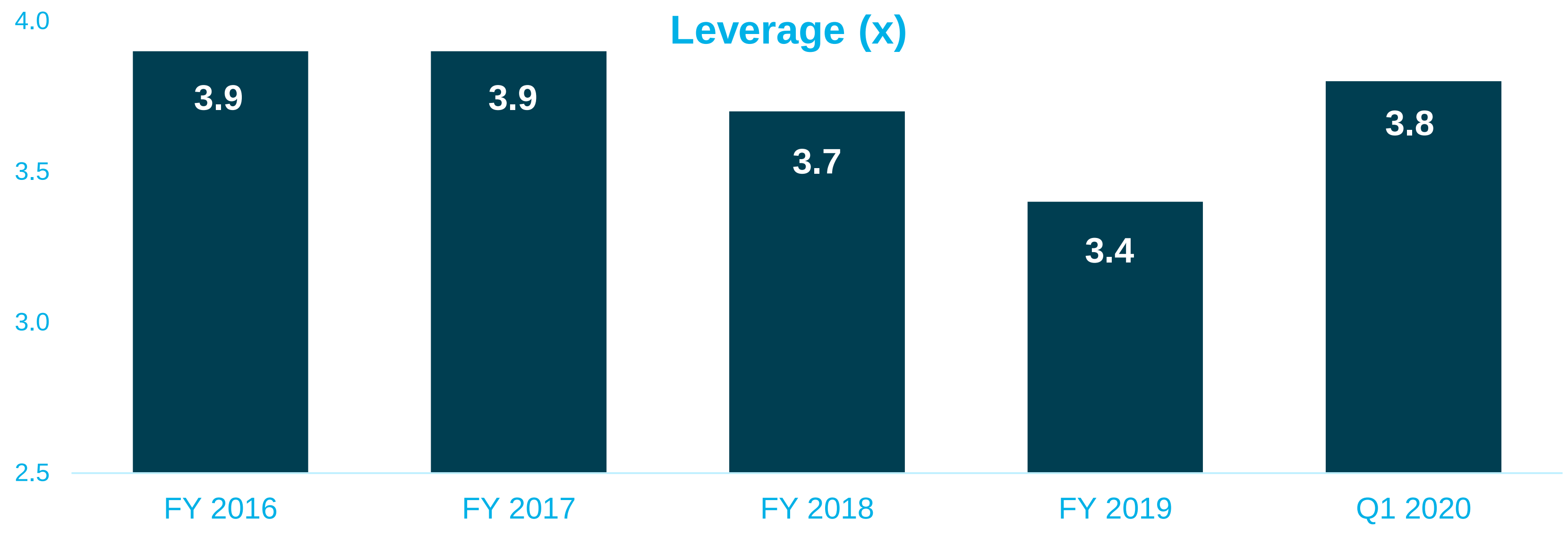


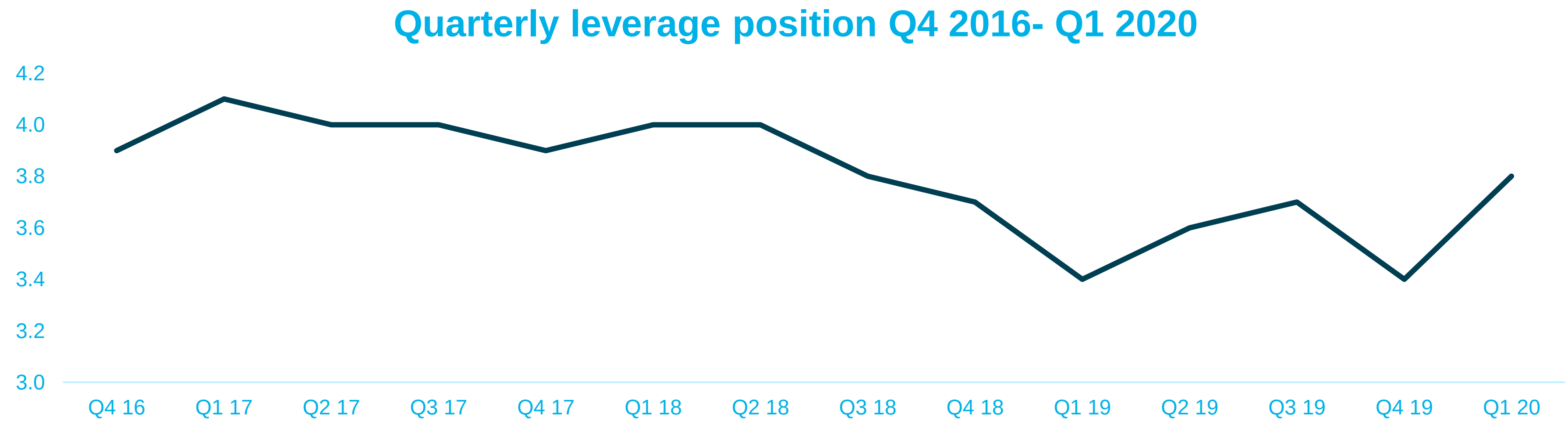
- YTD cash collections are at 92% of ERC
- April collections were at 93% of ERC – excluding one-off impact underlying collections at 75% of ERC
- April cash collections were around the mid-point of the Group's range of modelled collections scenarios – mainly a timing impact from delayed secured collections

Reopening of European court system in May/June should accelerate secured collections

Leverage increased by 0.4x to 3.8x

Remains well below RCF covenant of 4.4x





Q1 leverage increase driven by:

- FX movements
- the natural volatility in expected collections, amplified by delays to collections primarily due to court closures in our countries

Continue to monitor performance against debt covenants closely

Focus on cash preservation

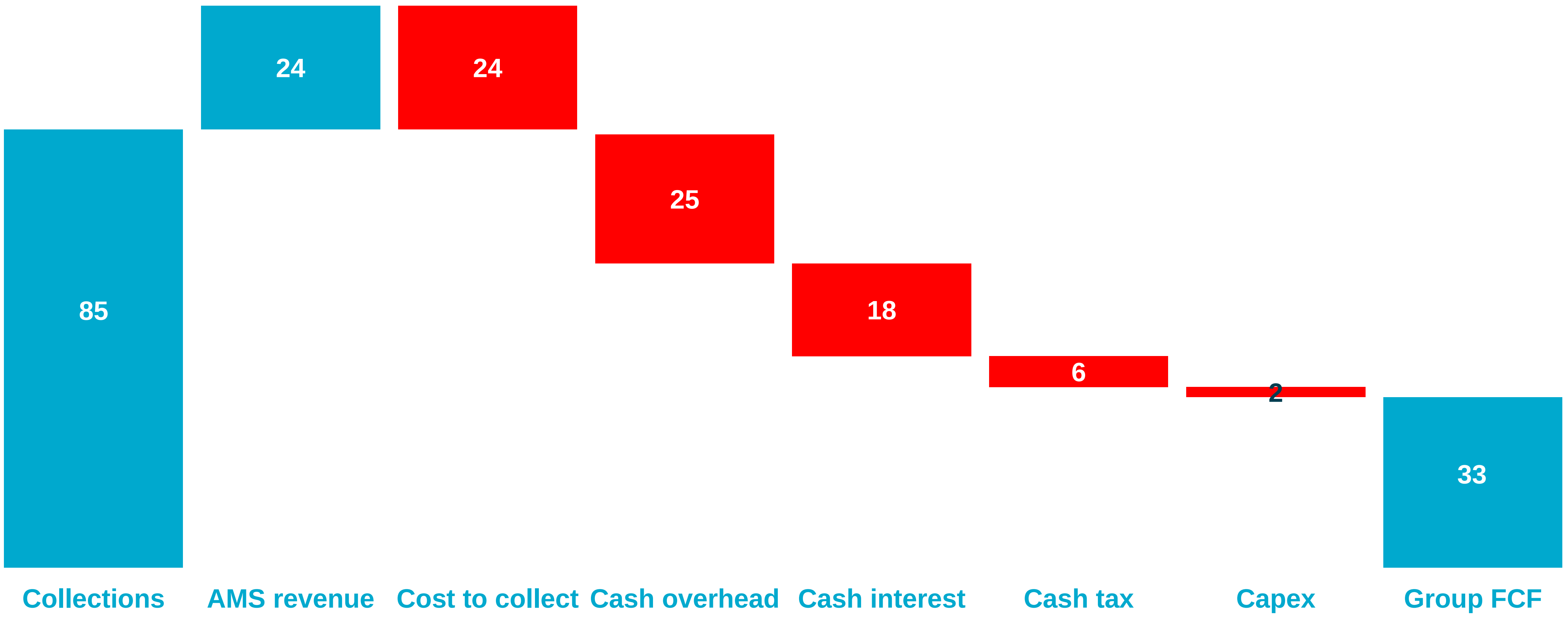
Taken actions to maximise liquidity

1	**Maximise cash resources**	Fully drawn facilities Repatriated excess cash from subsidiaries to centre
2	**Withdrew final dividend recommendation**	Preserves £15m of cash
3	**Reduced overheads and non-essential spend**	Cancelled all non-essential opex and capex Accessed government support schemes where available
4	**Deferred portfolio investment**	Minimal YTD purchases – attractive opportunities starting to emerge

The Group's liquidity position remains strong

Continued cashflow generation

Q1 FCF exceeds portfolio investment volume



2019 (£m):	**106**	**23**	**27**	**25**	**15**	**3**	**2**	**58**

Short-term priorities

1	**Maintain strong liquidity**
2	**Reduce operating expenses**
3	**Maintain IB collections resilience**
4	**Maintain AMS collections resilience**

Prudent short-term management to position the Group well for increased medium-term opportunities

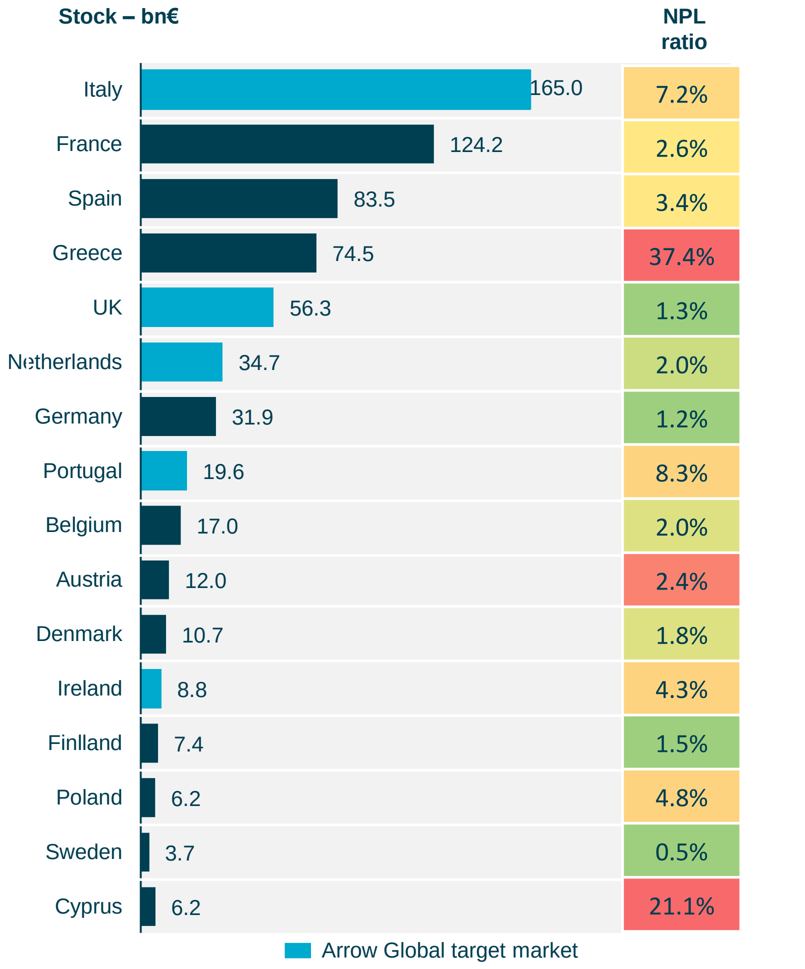
Lee Rochford
Group CEO

Investment opportunities and outlook

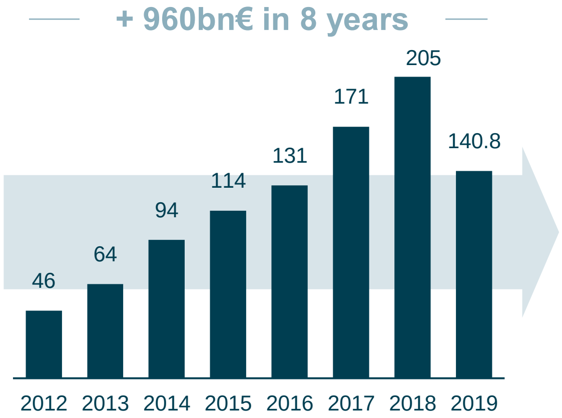
Arrow’s addressable market still has more than €500bn of unresolved assets from the prior crisis

- **Circa €2 trn** total European distressed credit market remains 10 years after the GFC
- **+€960bn of portfolio sales** acquired by global debt funds and European debt funds over the last 8 years

Top 15 countries - Stock of NPL (Sep-2019)[1]



Europe NPL Sales Trend (€bn) - Primary Market[2]

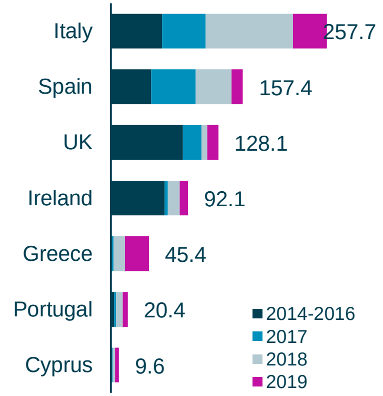


Generating secondary market:

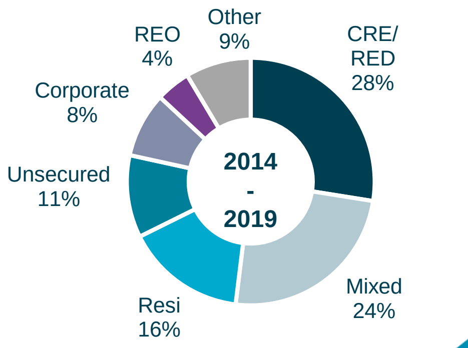
+€300bn in the next 4 years

(assuming 50% collected out, and 6yr average hold period)

Activity by country (bn€)[3]



Activity by asset class (bn€) [3]



1. Source: EBA – Risk Dashboard; Italy figures include Unlikely to Pay estimate, as per data from PwC (The Italian NPL market 2019). 2. 2012-2014 data: PwC; 2014 – 2018 data: KPMG/Debtwire; 2019 data: Deloitte. 3. Source: Deloitte and Debtwire reports

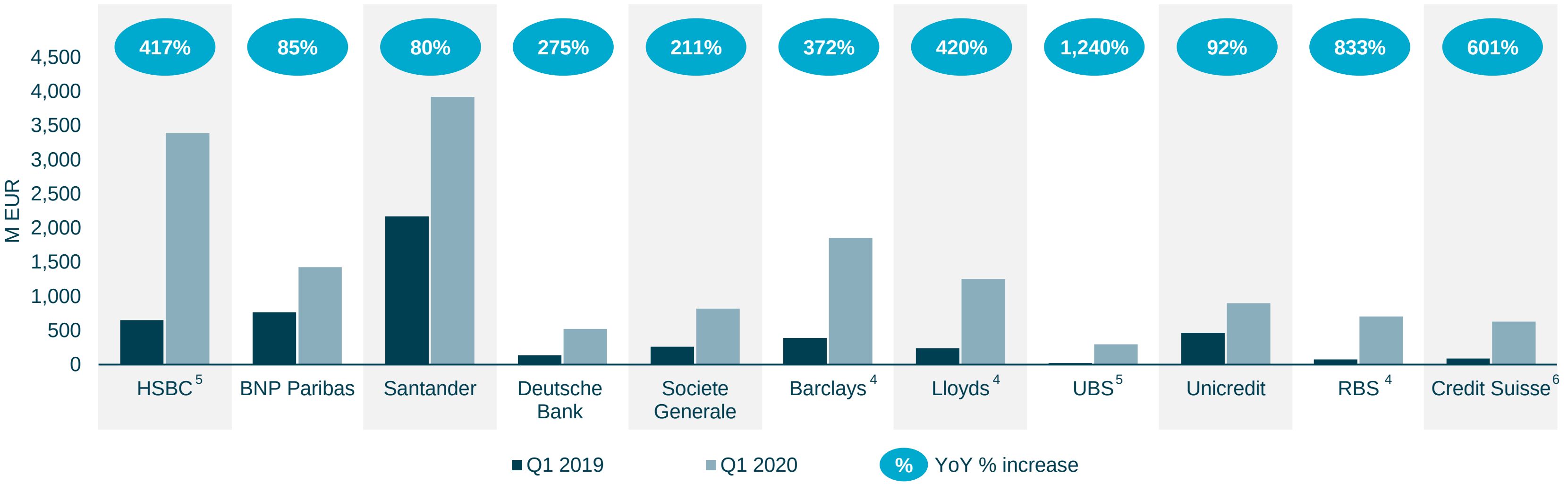
European Banks significantly increasing NPL provisions

- **Largest increase in credit loss provisions** in European and US banks in Q1 2020 **since GFC**

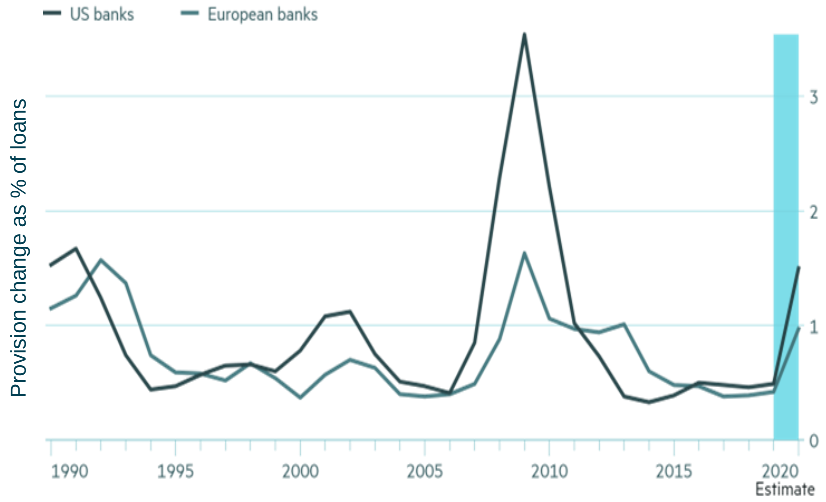
- European banks not expected to be as conservative as US banks
  - **Lower profitability** limiting their capacity to support upfront losses
  - benefitting from regulatory forbearance of recognition of IFRS 9 driven provisions - only temporary and will still result in the **eventual recognition of ultimate losses**

- Different provisioning strategies adopted as the scale of the Covid-19 impact on loan losses is still being established

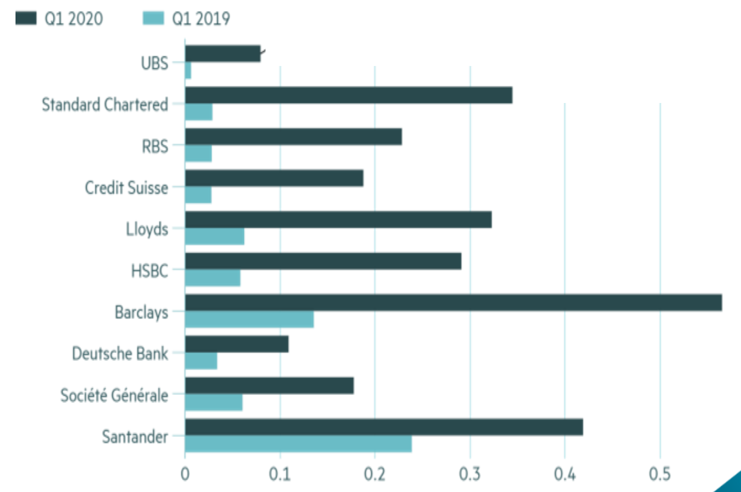
Large European Banks credit loss provisions Q1 2019 vs Q1 2020 [3]



Loan loss estimates in Europe and US[1]



Banks credit provisions as % of loan book[1]



1. Source: FT; 2. Banks' reports (CitiGroup, Bank of America, JP Morgan, Goldman Sachs, Wells Fargo); 3. Banks' Reports; 4. Exchange rate: 0.87777 GBP; 5. Exchange rate: 1.1195 USD; 6. Exchange rate: 1.1124 SFR

COVID-19 dislocation will have a significant impact on the EU NPL market

An extended market opportunity

Primary market

- **Circa €640bn of NPL stock remain** on European banks balance sheets, **plus other non-core assets** (e.g. REOs)[1]
- Regulatory NPL targets and capital requirements to continue pushing banks to **reduce the levels of NPLs**

Existing secondary market

- **Circa €1trn of NPLs** have been sold into secondary markets **over last 5 years**
- Secondary sales in Europe expected to **increase due to dislocation**

New market from COVID-19 dislocation

- **New generation of NPL** stock will be generated by the negative impact on the economy and employment
- Household and SME related loans expected to be most prevalent

1. Source: EBA – 2019

Outlook – challenging short-term operating environment; compelling opportunities for Arrow’s services

1	**Continued short-term operational uncertainty**	Removed 2020 financial guidance Cash collections performance linked to European lockdown restrictions Will continue to manage collections performance closely
2	**Selective approach to capital allocation**	Conserving liquidity in the short term Careful consideration of new investment opportunities based on view of risk-return dynamics
3	**Increased capital flexibility positions Arrow as a leading investor**	Unique combination of balance sheet and Fund Management Business capital Arrow should be on of the best positioned buyer of assets in our target market segments
4	**Compelling fund management offering and AMS opportunities**	Further fund-raising highlights the attractiveness of our strategy to alternative investors Continue to target FUM Growth Already seeing an increase in servicing opportunities as new NPLs are created

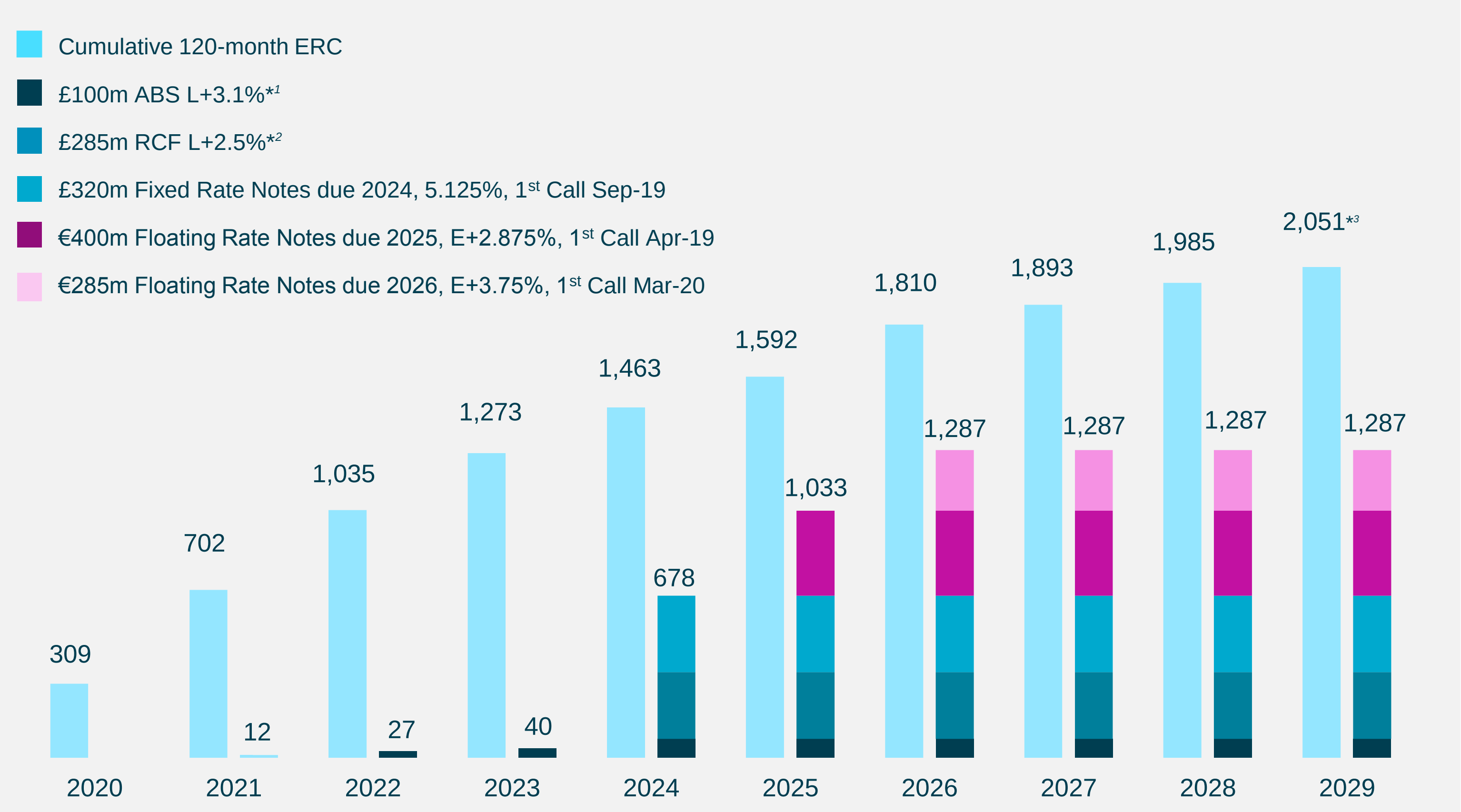
Arrow is extremely well positioned to capture future investment opportunities within its Investment Business and Fund Management Business

Appendix

Prudently managed balance sheet with long term funding

- The group maintains a prudent funding structure:-
  1. **Maintain long duration debt**
     – no maturities **until 2024** (except for amortisation under the ABS)
     – weighted average debt duration of 4.6 years, which compares favorably to shorter weighted average life assets
  2. **Significant liquidity headroom maintained –** At end of Q1 2020, headroom of £129m
  3. **Funding diversification** – The Group has three funding sources; bank facility, publicly traded bonds and an asset backed securitisation facility
- Weighted average cost of debt **3.6%**
- The launch of the fund management business provides access to third party capital
  - Increases capital allocation optimisation
  - Maintaining servicing, origination and fund management franchises not reliant on the Arrow balance sheet

Long term debt profile compared with 120-month ERC (£m)



[1] Drawn ABS revolver as at March 2020 was £79m. Arrow Global is able to draw up to £100m during the revolving period (ending May 2021) and thereafter, collections are used to repay principal and interest during the amortisation period with full repayment due by May 2024. The maturity profile shown in the chart therefore reflects £79m debt amortising based upon forecast collections at the end of the revolving period.

[2] Drawn RCF balance as at March 2020 was £279m.

[3] ERC in 2029 reflects the 120 month ERC and so covers the period until March 2030.

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