ARROW
GLOBAL

Sherwood Parentco Limited

Consolidated annual report and financial statements from 29 March 2021 to 31 December 2021

UK Registered No. 13299333

ARROW GLOBAL

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ARROW GLOBAL

Company information
Registered in England and Wales No: 13299333

Directors

Andrew Fisher	(appointed 25 October 2021)
Jonathan Mitchell	(appointed 29 March 2021)
Jonathan Rosen	(appointed 29 March 2021)
Philip Shepherd	(appointed 25 October 2021)

Corporate Secretary

Intertrust (UK) Limited (appointed 29 March 2021)
1 Bartholomew Lane
London
EC2N 2AX

Registered Office

20 Bentinck Street
London
W1U 2EU

Auditor

KPMG LLP

Strategic report

Introduction and principal activities

Sherwood Parentco Limited (SPL) owns the Arrow Global Group (AGG) (together "the Group" or "Arrow"), a leading European integrated asset manager in the non-performing and non-core assets sector. The Group's principal activities are to identify, acquire, manage and service secured and unsecured loan, real estate and other non-core investment portfolios.

Strategic review

Business model

Arrow operates a vertically integrated asset manager model with three highly synergistic businesses. These three business lines overlap to create a 'sweet spot' where the Arrow's Balance Sheet can co-invest into new assets managed by our Fund and Investment Management business. Arrow's Asset Management and Servicing business can then service the assets on behalf of both the Balance Sheet business and the Fund.

Fund and Investment Management (FIM) business

Arrow's investment team have a 15-year plus track record of successfully investing into non-performing and non-core assets. The Fund and Investment Management business currently has €4.5 billion of funds under management, including our flagship discretionary closed-end ACO 1 fund with €1.7 billion of capital commitments.

Balance Sheet business (BSB)

Arrow has undertaken a pivot towards capital-light fund management. Arrow typically co-invests its balance sheet alongside third-party investor funds, managed by the Fund and Investment Management business, on approximately a 25:75% basis.

Asset Management and Servicing (AMS) business

Arrow's pan-European local servicing platform services a significant portion of the assets for both Arrow's Balance Sheet business and its Fund and Investment Management business, as well as for third-party clients such as other investment managers and banks.

Group functions

In addition to the three business segments noted above, there is a Group functions segment, recording costs relevant to overall oversight and control of the Group's activities. See note 5 to the financial statements for detailed segmental information.

Strategy

Our strategic priorities are:

- Live and breathe our purpose and culture, supported by clear and ambitious Environmental, Social and Governance (ESG) goals
- Allocate capital dynamically to drive outsize returns while effectively managing risk
- Prioritise investments in high-value, granular niche products in our core markets whilst creating opportunities for platform servicing revenue
- Build a scalable and sustainable fund management platform with a diverse spread of global investors
- Develop industry-leading asset management and servicing expertise which support our investment ambitions, clients and customers
- Create a simple, efficient and flexible organisation by deploying agile practices, supported by strong leadership and a commitment to develop our people to reach their full potential

Group results for the period including key performance indicators

These financial statements include the results of SPL from the period of incorporation on 29 March 2021 to 31 December 2021, with the AGG Group results included from the period of acquisition, being 11 October 2021 to 31 December 2021.

Strategic report *(continued)*

Arrow is a leading integrated asset manager and 2021 represented a landmark year.

The Group was taken private through the acquisition by TDR Capital LLP (TDR) in Q4 2021. In October 2021, Arrow was acquired by Sherwood Acquisitions Limited and the shares of Arrow Global Group plc were delisted from the London Stock Exchange. Sherwood Acquisitions Limited is wholly owned by Sherwood Parentco Limited, the acquisition vehicle of TDR. Following the takeover, Zach Lewy, Founder and CIO, was appointed CEO and on 27 October 2021, the Group priced new senior secured notes of GBP equivalent £1.2 billion with the proceeds being used to prepay all existing bonds of the Group and creating over £350 million of liquidity headroom.

Under private ownership, the Group has accelerated the transition to our unique fully integrated asset manager model. The Group has realigned its organisational structure vertically to drive increased accountability within our servicing platforms and realise efficiency savings. Through the take private transaction and this realignment, we have delivered annualised costs savings of £20 million through the removal of 201 roles, with a cost to achieve of £16.1 million. ACO 1, our discretionary managed fund, deployed record levels of capital, €297 million in Q4 2021 and €804 million for the full year. Furthermore, the performance is ahead of target, with a Deal IRR (after servicing costs) of 20%, demonstrating the benefits of our off-market origination strategy (76% for ACO 1) and the focus on high quality underlying collateral (81% secured on real estate or cash in court). ACO 1 is now over 70% invested and, as such, we have now commenced the capital raise for ACO 2 in line with previous expectations of timing. We expect ACO 2 to be a circa €2.5 billion fund, with a first close anticipated during mid-2022.

On 31 December 2021, Arrow acquired a stake in Maslow Global Limited (Maslow), a real estate development finance business currently focused on the UK market. The Group has acquired an initial 49% stake, with an option to purchase the remaining 51% in the future. The investment is aligned with our capital-light strategy, and we believe we can help accelerate the growth of Maslow in an attractive segment of the market, delivering significant value.

With continued strong deployment at above target returns during the year in the Fund and Investment Management (FIM) business and a full year impact of 26 servicing mandate wins from 2020 in the Asset Management and Servicing (AMS) business, third-party AMS and FIM income is £28.6 million. 2021 was the largest ever year for AMS contract wins with 36 new wins (annualised for Arrow, including wins prior to acquisition) and Funds Under Management (FUM) is €4.5 billion.

The Balance Sheet business has seen an increasing proportion of FVTPL portfolios, reflecting the majority of new investments being made through the Fund as minority co-investments. Balance sheet collections were in line with management expectations.

Net cash flow before purchases of portfolio investments was £15.0 million and the Group has reinvested an element of these cash flows during the period (note 30). The loss before tax for the period of £67.6 million was driven by non-recurring costs incurred of £70.1 million, mostly associated with the acquisition of the Group by TDR and a strategic review, delivering annualised cost savings of £20 million.

The directors monitor the business using the following key performance indicators and highlights:

Group financial highlights	**2021**
Total income (£m)	78.3
Loss before tax (£m)	(67.6)
Profit before tax and adjusting items (£m) [1]	2.5
Net cash flow from operating activities before purchases of portfolio investments (£m)	15.0
Third-party AMS and FIM income (£m)	28.6
Balance Sheet collections (£m)	101.4
FUM (€bn)	4.5

[1] The results presented exclude adjusting items. For the reconciliation between these results and the condensed consolidated profit and loss, please see the reconciliation on page 83.

Strategic report *(continued)*

Trends and factors affecting future performance

Arrow operates 17 platforms in five European geographies. The Group's business model is designed to benefit from economic dislocation and the creation of non-core assets by loan originators, which leads to an increase in the generation of non-performing/non-core assets. Arrow's market is extremely large, with a total addressable market of around €1.0 trillion. Over half of these assets still sit on bank balance sheets and are expected to be sold over time into the capital markets, where the largest investors are often distressed debt funds. Although these assets are created all the time, non-performing loans formation is often created in large waves when economies falter. This was seen following the global financial crisis in 2007, where an extremely large number of such assets were created.

Covid-19 had a significant impact on a large array of sectors, which is expected to underpin a new wave of non-performing loans and as an experienced originator with restructuring and turnaround expertise, this may constitute an additional investment opportunity for the Fund. As well as presenting investment opportunities, this will also present significant asset servicing opportunity for Arrow's Asset Management and Servicing business.

The typical non-performing asset has a long life. A large amount of assets sold by European banks in recent years have been purchased by large distressed asset funds. These funds are the largest buyers of non-performing assets. Typically, the non-performing assets are held in a closed-end fund structure and will be sold on at the end of that fund's life. Given the high volume of assets that have been sold a large secondary market has been created. Arrow also expects a significant growth in the secondary market, considering the volume of non-performing loans and non-core asset sales closed in the last 6 years (over €700 billion at gross book value), as investors start to divest of acquired portfolios, representing a potentially significant opportunity for the Fund.

Outlook

The Group has made good progress during 2021 under private ownership. The move to a new organisational structure to better support the business in the future has also realised material annualised cost savings. Our capital-light strategy has been further augmented with the acquisition of a stake in Maslow. The business operates in a growing market segment and is expected to continue to deliver attractive returns for investors.

With the record deployment of ACO 1 at above target returns, the Group is in an excellent position to raise a second fund, ACO 2. Engagement with existing and new investors is extremely encouraging, giving the Group confidence that it will execute a sizeable first close around the middle of 2022.

Risk management

At the centre of our risk management framework is our Group's values and the culture embedded within the Group. Effective risk management is closely aligned to our goal of building better financial futures, while our three lines of defence model enables all colleagues to own and manage risk in a manner which supports well-informed decision-making with a view to mitigating risks.

The enterprise-wide risk management framework defines a common approach across the whole organisation. This framework includes:

- Embedding the three lines of defence throughout the firm
- Clarity of roles and responsibilities
- Establishment of risk appetite
- Risk management aimed at understanding risks and enabling proportionate risk mitigation plans
- Controls to address new and emerging risks, such as COVID-19 related risks
- Recognition and maintenance of operational risk and resilience plans
- Escalation and risk reporting

The framework is continually monitored and reviewed to ensure it remains suitable for the size, scale and complexity of the Arrow business.

Strategic report *(continued)*

Throughout 2021, work continued to maintain and evolve the use of the risk framework to meet the demands posed in another unprecedented year due to COVID 19. This included enhanced oversight of specific and broader strategic risk themes by the board risk committee. An example of specific risks that received, and continues to receive, focus across the firm, including at the board level, is our approach to addressing COVID-19 related risks with a focus on all stakeholders, including colleagues, clients and customers. The development and growth of our Fund and Investment Management business prompted further consideration of our risk management framework to focus on the needs of this specific activity. Arrow risk management is a dynamic, business-led process that aligns to the business environment and specific focus is placed on the COVID-19 and post-COVID-19 reality, as well as Arrow's updated strategic plan.

Upon completion of the TDR acquisition of Arrow in Q4 2021, Arrow has initiated a detailed strategic review of its business and this work continues. As part of this review, the Group has aligned itself in a vertically integrated manner. Local servicing platforms have greater accountability over the activities undertaken locally and are better able to monitor and assess the local requirements. We have retained central control in certain areas, such as underwriting, origination, treasury and tax, where there are benefits of a group wide approach. The board believe that this vertically integrated model will enable the Group to better monitor, manage and control our risks. We would expect that our risk management framework will further evolve and mature to ensure the strong and effective risk management culture that already exists will be further embedded into our business and decision making.

Delivering on our commitments relies on the ability to successfully identify, assess, respond, monitor and report on risks and opportunities. There is an ongoing focus on the top risks which could impact the business, alongside horizon scanning and monitoring of macro, geo-political and other emerging risks that may affect the business or wider sector in the future. People and infrastructure commitments are in place to support these processes, ensuring increased consistency across the Group. Our risk culture, which is aligned to Arrow's values, is a commercial differentiator and a fundamental driver of our success. Our ability to deploy Group-wide, local platform or country-specific expertise, when required, is a core element of that success

Risks and uncertainties

Principal risks are identified through the risk framework and tracked via our risk teams and committees. The following summary identifies key thematic risks and mitigants based on risk framework data, management oversight and areas of business activity.

Our principal risks are captured under the headline categories of strategic, operational and financial risk. The disclosures on the following pages should not be regarded as a comprehensive list of all the risks and uncertainties facing the Group, instead providing a summary of those key areas with the potential for material impact:

Strategic risks & mitigants:

A. Macro and Political:

Changes in the competitive, economic, regulatory and political environment could impact our ability to collect from portfolios, or competitively purchase and invest in line with our strategic objectives. The COVID-19 pandemic continues to pose risks to our business activities resulting from prolonged travel restrictions and economic uncertainty, with inflationary pressures and rising interest rates starting to impact the broader economy.

In recent years, the Group has demonstrated the effectiveness of our risk management framework. Our swift and effective response to COVID-19 focused, and continues to focus, on colleague welfare, operational resilience to support our customers and clients, and collection performance. Furthermore, we maintained close dialogue with our regulators in all markets we operate in, as the response to the pandemic evolves. With the strategic positioning of our business, we continue to benefit from investment and servicing opportunities emerging as a result of the COVID-19 pandemic. Successful vaccine roll-out efforts and the changing variants across our target geographies have been decreasing macro-economic and political pressures and we continue to closely monitor the developments, including inflationary and interest rate changes. The Group has included known economic impacts of COVID-19 on legacy collections and near-term underlying collateral valuations, while acknowledging downstream economic impacts that may yet to have been fully materialised.

Arrow's geographic and asset class diversification allows the Group to respond to market opportunities arising from possible disruption, including market downturn scenarios driven by macroeconomic factors. This is informed by in-country expertise across investments, operational execution and regulatory compliance, ensuring that both the opportunity pipeline and horizon scanning inform decision making Group-wide.

Strategic report *(continued)*

Management monitors the competitive, economic and political environments in which we operate to influence future strategy. The board regularly carry out reviews of the markets and strategy, with impacts managed through our governance activities in accordance with regulatory requirements and industry best practice in each jurisdiction.

The Group's focus on consumer portfolios and treatment of vulnerable customers continues aligning with increased regulatory requirements during the pandemic.

The Group is closely monitoring the emerging Ukraine conflict in Europe and its potential impact on our operations (such as increasing cyber threats) and ensuring such risks are proactively managed and mitigated. The Group does not have any material direct exposure to either Ukraine or Russia in terms of debtors, investors, investments or operations.

B. Target Operating Model:

Failure to fully implement our target operating model in line with the long-term strategic objectives poses a risk for the Group. There is a need to ensure enterprise-wide alignment of the operating model, including fund and investment management capabilities, to prevent gaps between plans and performance.

The strategic planning has been supported by an organisation-wide review of the target operating model to provide responsibility and accountability to the local platforms to achieve alignment with the Group's objectives. This is further supported by realignment of senior leadership team roles, responsibilities and incentives, and review of governance arrangements to ensure the three lines of defence model remains robust and aligned to the risk profile of the Group. This remains underpinned by a common set of values and a Group-wide culture, which informs our performance management process.

C. New Business:

Risks might arise from the origination, underwriting, acquisition and integration of portfolio investments and/or new platforms– such as failure to assess investments during acquisition, lack of sufficient governance and oversight aligned with broader Group principles and values resulting in negative financial outcomes and reputational damage for the Group.

Before investment committee review and approval, all investment proposals go through extensive due diligence during the acquisition process and are supported by governance and oversight plans setting clear requirements and allocation of responsibilities as part of deal documentation. Post-acquisition, investments are managed by dedicated teams on a day-to-day basis and overseen by senior leadership closely through governance forums.

Financial risks & mitigants:

A. Liquidity & Funding:

The risk that the Group is unable to meet its obligations as they fall due.

This risk has been significantly reduced in Q4 2021 upon completion of the acquisition by TDR Capital as the Group issued £1.2 billion of bonds with a longer maturity and better covenant terms to repay existing debt. Furthermore, the refinancing created additional cash liquidity to provide the business with significant buffer to be able to invest in new portfolios and grow in line with strategic plans.

B. Capital Allocation and Investment Returns:

The risk that investments generate adverse returns against forecast and/or are outside risk appetite limits due to inadequate portfolio purchase analysis and consequent mispricing, or inadequate assessment of cost to collect and/or subsequent portfolio performance impacting estimated remaining collections.

The risk is mitigated through undertaking robust due diligence and scenario testing during acquisition process, strong governance via investment and portfolio management committees, and robust capital allocation planning and monitoring. Furthermore, the Group's portfolio is well diversified across geographies, asset classes and secured investments and supported by in-depth local market expertise.

Operational risks & mitigants:

A. Regulation:

The Group operates in regulated environments and non-compliance with regulatory obligations, increased regulatory scrutiny due to the COVID-19 pandemic and inappropriate conduct and customer treatment could lead to a breach of regulations, resulting in censure, financial loss and reputational damage.

Strategic report *(continued)*

Group-wide standards continue to be applied across all jurisdictions. Policies and procedures are in place locally to guide colleagues on the required standards for customer outcomes, especially during the pandemic, where customer vulnerability is a particular focus area. Horizon scanning and industry body presence help to influence best practice across the sector and ensure our internal practices and training are updated accordingly. We maintain increasingly proactive relationships with our key regulators in all locations we operate.

B. Cyber Threats and Data Protection:

External cyber threats facing industry and supply chains are continuing to grow and evolve at a rapid rate. There is a risk that poor vulnerability management and limited advance threat monitoring capabilities, together with poor data management and integration across multiple systems and jurisdictions leads to cyber compromise, bad data quality and non-compliant data use, resulting in potential unauthorised data access, data loss, misalignment of data, negative customer outcomes, and poor third-party client delivery.

Arrow manages the growing risk of cyber threat by having a robust information security framework aligned with best practices and supported with policies, which is commensurate with a group of our size and the highly regulated sector in which we operate. Enterprise-wide information security/ cyber function provides technology gateway monitoring and threat detection services across all platforms. This is supported by provision of regular enterprise-wide employee education around cyber threat and mitigation. During 2021, the Group continued to invest and enhance its information security framework and successfully mitigated emerging external threats.

Delivery of data governance technologies and processes into all platforms to enhance data protection compliance with applicable data legislation and applicable third-party client obligations also continued in 2021.

C. Key Persons Dependencies:

The Group is reliant on a number of key individuals, in particular within the Fund and Investment Management business, to deploy funds currently under management, to manage investments and to raise further capital.

Arrow has undertaken a full market mapping of available talent and proceeded to hire several senior team members to add senior talent to the fund management team. In addition, a full market benchmarking has taken place for remuneration and plans are in place to ensure that Arrow continues to offer an attractive package to all of its employees. The board expects to continue similar exercises to ensure that this risk is monitored and, where possible, mitigated on an ongoing basis.

D. Scalability:

The opportunity to grow deployment and servicing volumes in line with plans as an integrated fund manager presents a risk that the necessary people, processes and systems may not be sufficiently scalable, which in turn could lead to risks that detract from the long-term success of the Group.

The Group is focused on developing people, process, and system capability to absorb new opportunities through deeper, broader, and more consistent methodologies. Operational resilience is an enabler for scalability, alongside a strong risk-aware culture. This enables the Group to expand whilst deploying resource and infrastructure improvements to front line services to maximise commercial opportunities that align with customer, regulator, and client expectations, whilst delivering on our financial commitments.

The Group has also focused on various initiatives such as attracting and retaining key talent, and capacity and succession planning. There are increasing opportunities for professional development across the Group, alongside the growth of our talent pool, in the context of a values-led, professional culture. The alignment as a vertically integrated asset manager ensures that the local servicing platforms have greater accountability over the activities undertaken locally and are better able to monitor and assess the local requirements arising from our growth plans. Further maturing and enhancing the organisation’s processes and systems is a key area of focus for the board.

Environmental, Social and Governance (ESG)

Our approach to sustainability is aligned to our purpose of building better financial futures. We are committed to being a responsible participant in our markets and via our business strategy as we seek to contribute to ESG matters in order to both satisfy our responsibilities and be a thought leader regarding issues of sustainability that may impact our stakeholders. We do this through the lens of our ESG framework.

Strategic report *(continued)*

Environmental, Social and Governance (ESG)

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Environmental

As an integrated asset manager operating across Europe, we recognise that our business has a direct and indirect environmental impact. Tackling the climate crisis will require innovative and bold solutions and quantifying the GHG emissions associated with our supply chain and portfolio is a foremost priority for the Group. Our board will continue to have oversight of our environmental strategy and our Sustainability and ESG Forum will review requirements for managing emissions and any potential decarbonisation strategy that may be appropriate for our business.

The scopes table below outlines our definition of material GHG emissions by source and the annual CO_2 emissions table includes our current performance.

Scope	Type	Reportable Items
1	Direct emissions by the Company	Refrigerant, natural gas and owned vehicle fleet
2	Indirect energy consumed but not owned by the Company	Electricity usage
3	Other indirect emissions not included in Scope 2	Other indirect emissions not included in Scope 2

Annual Group CO_2 emissions (annualised for Arrow, including emissions prior to acquisition)

Scope	**CO2 emissions (tonnes) per annum 2021**
1	487.1
2	436.7
Total scope 1 and 2	**923.8**
3	332.1
Total	**1,255.9**
Tonne of CO_2 per employee (using average number of employees for the year)	**0.5**

Greenhouse gas emission reporting methodology

We have followed the requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) to measure and report greenhouse gas emissions. This aligns with the disclosure requirements in The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

The financial control method, which captures the sources that fall within our consolidated financial statements, has been used. Where we operate an outsourced model working with partners, these partners do not work exclusively for the Group and, therefore, it is not deemed appropriate to include emissions outside of the Group consolidated financial statements. The reporting period aligns to the financial period (i.e. the year ended 31 December 2021) annualised for Arrow, including emissions prior to acquisition.

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Strategic report *(continued)*

Energy

In response to the Streamlined Energy and Carbon Reporting requirements, we have included within the energy consumption table below our Group and UK energy consumption for the reporting period, annualised for Arrow, including emissions prior to acquisition. Our business predominantly operates from our offices. We consider our average energy consumption to be in line with the industry and will investigate the possibility of renewable energy solutions across our offices by engaging with relevant third parties (e.g. landlords or energy providers) to determine an appropriate solution.

Energy consumption	**CO2 emissions (tonnes) per annum 2021**[1]
Group energy consumption	2,059.8
UK energy consumption	554.6
Total CO_2 from energy consumption	**436.7**
Natural gas	40.2
Electricity	2,059.8
Kwh per employee (using average number of employees for the year)	**806.8**

1 Annualised for the Arrow business, including emissions prior to acquisition

Social

Employees

Learning from the COVID-19 pandemic, our focus is on the wellbeing of our people and compliance with government guidelines, as well as providing the right equipment and support required for long-term remote working. We have adopted a hybrid home-office model to retain the benefits gained from remote working, such as increased work-life balance, no daily commute and greater flexibility.

This focus on employee welfare has also reinforced via enhanced leadership communications, dedicated wellbeing and social groups on Workplace – our internal social media platform and the publication of remote working and wellbeing guides.

Gender diversity

	Directors[1]	**Senior managers (inc. directors)**[1]	**Employees**[1]
Female	–	1	1,414
Male	4	11	1,266
Total	**4**	**12**	**2,680**

[1] *As at 31 December 2021.*

Gender pay

In accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, the gender pay reporting is publishing on the Arrow website https://www.arrowglobal.net/en/who-we-are/corporate-governance/gender-pay-report.html. The 2020 report is available currently.

Customers

We have always sought to ensure the fair treatment of customers. To help us achieve this, our customer forums continued to bring together the best practices from around the Group with the aim of improving the customer outcomes. As well as reviewing customer feedback and customer satisfaction scores, the teams review a series of KPIs from within each country's operations allowing positive change to be implemented where it is most effective and helping to ensure we deliver consistent customer treatment using data and learned customer behaviours to guide future strategies and service enhancements. Our customer net promoter score averaged 7.9 (out of 9).

Strategic report *(continued)*

With so much emphasis on the customer we were delighted, therefore, to win awards for our customer-service operations. Following the success of being awarded the Credit Strategy 'Best Outsourcing and Partnership' Initiative for Onboarding and Customer Engagement for our work with Virgin Money in 2020, our UK team followed this by winning 'Best Contact Centre Team' at the 2021 Credit Strategy Collections & Customer Service Awards. We were also a finalist in the 'Agent of the Year' and 'Excellence in Training' categories.

<u>Communities</u>

Arrow is also mindful of the role it plays in society and we have continued to support Junior Achievement Europe (JAE), Europe's largest non-profit provider of educational programmes for financial literacy and entrepreneurial skills for young people, amongst other community ventures.

Although Arrow operates in the highly specialised alternative investments sector, our social commitments help us be a responsible business, purpose led and an important part of the European financial ecosystem. Identifying and assessing these ESG considerations, and maintaining transparency with our investors, is a core part of our long-term view on delivering value and return to our investors. In 2021, Arrow volunteers supported 9,833 students across Europe via a mixture of in-classroom or virtual events as our locations adapted to the changing requirements of the pandemic.

Governance

<u>Responsible investment</u>

We focus on the core ESG principles in a systematic manner into all aspects of our investment decisions. As part of our commitment to being a responsible investor, we work across functions to assess key ESG considerations from the initial stages of a deal and we carry out a risk assessment as to whether risks related to the transaction including environmental, governance, sectoral or other areas are consistent with the risk appetite and core ESG principles of Arrow and its investors. In Q4 2021, AGG Capital Management Limited, the Jersey fund manager, became a signatory to the UN Principles for Responsible Investment.

<u>Oversight</u>

A Sustainability and ESG Forum, comprising of members of our Executive and Senior Leadership team has been established to oversee the ongoing delivery of the Group's sustainability agenda and to review, challenge and support the Group's approach and progress against agreed ESG initiatives. The forum is supported in its role by the director of sustainability and ESG, plus other senior leaders as matters arise which are relevant to their functional area, to drive the delivery of Arrow's environmental, social and governance initiatives.

<u>Whistleblowing</u>

Arrow aims to maintain the highest standards of openness, integrity and accountability in its work. All employees or consultants who work for or with Arrow are encouraged to be vigilant for signs of wrongdoing or criminal activity by individuals or organisations working with Arrow, and are encouraged to report such behaviour using our dedicated anonymous whistleblowing reporting line, which is managed by independent ethics and compliance specialist, Navex Global.

<u>Financial crime</u>

Arrow is committed, in the jurisdictions in which it operates, to the prevention of financial crime such as money laundering, the funding of terrorist activity, bribery and corruption, prevention of sanctions breaches, fraud and market abuse. Through risk-based internal procedures, policies and systems and controls, we strive to ensure that high standards of financial crime prevention and awareness are maintained by all employees and consultants, whether under a contract of employment or otherwise. Our procedures include the screening of new and existing customers against sanctions and PEP watchlists and monitoring existing customers through a daily monitoring regime, which ensures timely and immediate reports of any potential instances. These activities are supported by annual financial crime training, which is mandatory across the Arrow Group for all new and existing employees.

Strategic report *(continued)*

Human rights and modern slavery

Arrow operates in accordance with all relevant laws and regulations, including those relating to human rights, which are specially addressed through a range of colleague-facing polices. In addition, each year the board reviews and approves the Group's Modern Slavery Act (MSA) Statement. The existing MSA Statement was approved in March 2021 by the Arrow Global Group Limited (formerly plc) board. The board considers that the actions being taken by the Group to identify and/or address any potential modern slavery or human trafficking within its supply chain continue to be appropriate.

It is pleased to report that the assessments undertaken in respect of the Group's supply chain to date have not identified any modern slavery or human trafficking activity.

Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

The board of directors of Sherwood Parentco Limited are fully aware of their responsibilities to promote the success of the Company and Group in accordance with section 172. In discharging its duties, the board has considered the factors above as well as any other factors which they considered relevant to the decision being made.

The board's aim is to make sure that its decisions are consistent, by considering the Group's strategic priorities and having a governance framework in place for key decision-making that takes into account relevant stakeholders.

The Company was incorporated on 29 March 2021 for the purposes of the acquisition by TDR which took effect on 11 October 2021. For the period from incorporation to the acquisition, the board's decision making was limited to matters relating to the acquisition. At the board meeting to approve closing of the acquisition, the directors considered and passed a board resolution stating that the entry into, execution and delivery of the transaction documents and the performance of the obligations of the Company were approved as being most likely to promote the success of the Company for the benefit of its members as a whole and (having regard, amongst other things, to the matters listed in section 172) as being for the commercial benefit of the Company. The underlying documents presented to the board in this regard, including the scheme document setting out the recommended cash acquisition of Arrow Global Group Limited (formerly plc), addressed in detail the background to and reasons for the acquisition including strategic plans, considerations in relation to employees and management and various other matters set out in section 172.

From the date of acquisition to the end of the financial year and to date, board members have met on a number of occasions informally to progress the strategic review of the business and to receive and review reports concerning business as usual matters in the operation and performance of the Company. Such reports have been presented by members of the executive committee, who have operated and managed the business since acquisition, including the chief executive officer, chief commercial officer and chief financial officer. Further disclosures will be made in the financial statements for the period 1 January 2022 to 31 December 2022 accordingly in the context of section 172.

Approved by the board of directors on 18 March 2022 and signed and authorised for issue on its behalf by:

Philip Shepherd
Director

Directors' report

The directors present their annual report on the affairs of the Group, together with the financial statements, for the period ended 31 December 2021.

Going concern and outlook

The Group made a loss before tax for the period of £67.6 million and generated net operating cash outflows before purchase of portfolio investments of £15.0 million. The loss before tax and the net operating cash outflows were primarily caused by one-off costs relating to the acquisition of Arrow Global Group Limited (formerly plc). Prior to the adjusting items (as detailed on page 83), the Group made a profit before tax for the period of £2.5 million.

Furthermore, following the acquisition by TDR Capital, the Group refinanced its existing debt. On 6 October 2021, the Group entered into a replacement £285 million revolving credit facility with a margin of 325bps, maturing in April 2026. On 27 October, the Group successfully priced €400 million 4.5% Euro fixed rated bonds due 2026, €640 million 4.625% over three months EURIBOR floating rate notes due 2027, and £350 million 6% fixed rate bonds due 2026, with the proceeds being used to prepay our existing bonds and drawings under the replacement revolving credit facility. The Group created over £350 million of liquidity headroom and has no bond maturities until 2026. At 31 December 2021, the Group had positive cash balances of £198.9 million and net assets of £510.4 million. The Company's business activities are set out in the general information section in note 1.1 to the financial statements.

The assessment of the going concern basis of preparation for the Company has considered both the position at 31 December 2021 and the outlook for the Company, as well as the going concern position of the Group as a whole. This is due to the integrated nature of the companies across the Group, and therefore the reliance of the Company on the Group's going concern position.

In assessing whether the going concern basis is appropriate to adopt for the Group as at 31 December 2021, the directors have undertaken a thorough analysis of forecast cash flow models and scenarios for a period of at least 12 months from the date of approval of these accounts, with the primary focus of detailed forecasting running to the end of 2022.

A base case forecast, and several downside scenarios, have been prepared reflecting the Group's current financial position and expected future performance. Key items considered within each forecast were the future outlook for HPI and unemployment, including the length and severity of any potential macroeconomic shock, and the impact these may have on the Group's cash flows. These cash flows were considered against the Group's future liquidity position, taking into account that there are no bond maturities until 2026. Adherence to the Group's single financial covenant, its leverage covenant, was also considered in all scenarios.

The results of this scenario analysis show that in a severe but plausible downside scenario, before considering any management actions (such as cost reductions, slowing purchases and collection acceleration) as required, the Group is able to maintain sufficient liquidity, operate within banking covenant, and to continue as a going concern. This scenario was aligned to the severe downside forecasts outlined in note 23.

Finally, a reverse stress test has also been prepared to identify the magnitude of a downside stress that needs to occur to cause the group to breach its liquidity headroom and/or leverage covenant. It has been concluded that this represents an overly severe and implausible scenario. Based on all of the above indicators, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Dividends

No dividend was paid during the period and the directors do not propose a final dividend.

Ownership

The ultimate parent Company is TDR Nominees 2016 Limited, which is incorporated in England and Wales, via funds managed by TDR Capital LLP (TDR). TDR is a leading international private equity firm, managing capital on behalf of institutional, governmental and private investors worldwide. TDR invests and partners with businesses to develop and grow their operations.

Directors' report *(continued)*

Directors

The directors who served for the periods listed in the Company Information on page 1, and subsequently, were as follows:

Andrew Fisher
Jonathan Mitchell
Jonathan Rosen
Philip Shepherd

Andrew Fisher

Andrew was a non-executive director, senior independent director and chair of the audit committee of Arrow Global Group plc prior to its acquisition by TDR in October 2021. Andrew was appointed to the board of Sherwood Parentco Limited on 25 October 2021. Andrew is a chartered accountant and 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.

Jonathan Mitchell

Jonathan joined TDR Capital in May 2014. Prior to joining TDR, Jonathan worked at Barclays as a vice president in the mergers and acquisitions team. Previously he worked at Citi in the Media and Telecoms team. Jonathan graduated from Bristol University with a degree in Economics and Finance.

Jonathan Rosen

Jonathan joined TDR Capital in November 2006. Prior to joining TDR, he was a partner at Hampshire Equity Partners for nine years, where he was responsible for sourcing, executing and managing private equity and distressed debt investments. Previously Jonathan worked at BT Capital Partner. He has over 25 years of private equity and principal investing experience.

Philip Shepherd

Phil was appointed Group chief commercial officer following the acquisition. He is responsible for financial performance, HR, capital allocation and treasury. Phil joined Arrow in 2019 as Group treasurer and was instrumental in the Group's response to the COVID-19 pandemic. He has over 30 years' experience in finance and treasury and has held a number of senior treasury and finance roles in different industries and organisations. Phil is a qualified chartered accountant, an associate member of the corporate treasurers association and holds a honours degree in Mathematics from the University of Sheffield.

No director has any direct interest in the shares of the Company.

Directors' indemnities

During the financial period ended 31 December 2021 and up to the date of this directors' report, the Company has maintained appropriate liability insurance for its directors and officers.

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 generally include regular site-wide update meetings and email communication, use of the employee engagement forum, the distribution of a weekly newsletter, focus group meetings, employee surveys and regular Group-wide business update meetings and workshops. The Group uses a strategic tool, Peakon, to measure and improve engagement in teams and allows people managers to understand their strengths and priorities in improving team culture and engagement. 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. We actively encourage and promote diversity and inclusion, with an emphasis on leader sponsorship and colleagues shaping action planning.

The Group also has a whistleblowing policy and employees are made aware of this at induction and through regular ongoing refresher training. An anonymous, externally facilitated whistleblowing helpline has also been implemented to listen to the concerns of employees and to help to enhance a culture of openness.

Directors' report *(continued)*

Disabled persons

The Group adopts a consistent, non-discriminatory approach to all applicants during both the recruitment and the on-boarding process, 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 Group continues and that appropriate training and, where applicable, ergonomic arrangements are arranged. It is the policy of the Group that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Carbon reporting – methodology

The methodology used for carbon reporting is set out in the ESG section of the strategic report, on pages 8 to 9.

Branches outside of the UK

The Company has no overseas branches. The Company's subsidiaries are detailed in note 22 to the financial statements.

Risk management

Please refer to the strategic report, on page 4.

Political donations

The Company made no political donations and did not incur any political expenditure during the period.

Guidelines for Disclosure and Transparency in Private Equity

The directors consider the report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

Corporate governance statement

Prior to its acquisition by funds managed by TDR Capital, and its subsequent de-listing and re-registration as a private company on 11 October 2021, Arrow Global Group Limited (AGGL) was required by the UK Listing Rules to comply with the 2018 UK Corporate Governance Code (the Code) (or explain why it did not). During the financial year ended 31 December 2021, AGGL complied in full with the Code prior to Delisting in a manner consistent with the financial year ended 31 December 2020. Since delisting, the Company has maintained its prior governance arrangements that supported Code compliance (subject to the reconstitution of certain committees to reflect changes in the executive management team of the Group). At the reporting date, as the group no longer has a premium listing and is not subject to the FCA listing rules, it has not reported against the provisions of the Code, other than the specific DTR requirements. The boards of AGGL and the Company are currently considering whether it remains appropriate to apply a corporate governance code in current and future financial years and, if so, which code may be most appropriate for the Group.

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 ought to have taken as a director to make himself 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.

ARROW GLOBAL

Directors' report *(continued)*

Auditor

KPMG LLP has indicated its willingness to accept reappointment as auditor of the Company. Appropriate arrangements have been put in place concerning their re-appointment in the absence of an annual general meeting.

By order of the board and signed on its behalf by:

....

Philip Shepherd

Director

18 March 2022

ARROW GLOBAL

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

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

Company law requires the directors to prepare Group and Company financial statements for each financial period. Under that law they have elected to prepare the Group and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRS') and applicable law.

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 the Group's profit or loss of the company for that period. In preparing these Group and 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 reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting;
- assess the Group and 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 the 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.

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.

By order of the board and signed on its behalf by:

....

Philip Shepherd

Director

18 March 2022

Independent auditor's report to the members of Sherwood Parentco Limited

Opinion

We have audited the financial statements of Sherwood Parentco Limited ("the Company") for the period ended 31 December 2021 which comprise the consolidated statement of profit or loss and other comprehensive income, consolidated and Parent statement of financial position, consolidated and Parent statement of changes in equity, consolidated and Parent statement of cash flows and 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 2021 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards 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.

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 have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board minutes and attending audit committee meetings;

Independent auditor's report to the members of Sherwood Parentco Limited *(continued)*

- Considering remuneration incentive schemes and performance targets for management; and.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that Group and component management may be in a position to make inappropriate accounting entries; and
- the risk of bias in accounting estimates and judgements such as revenue from portfolio investments.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by posted by members of the Executive Committee or Board, those posted by unauthorized individuals, those posted to unusual or seldom accounts, those containing key words, those entries which have value of zero or are unbalanced and those posted by individuals who rarely do during ordinary course of business,
- Evaluating the business purpose of significant unusual transactions, and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

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

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Independent auditor's report to the members of Sherwood Parentco Limited *(continued)*

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: data protection laws, anti-bribery, consumer protection and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 strategic report and the directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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 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.

Independent auditor's report to the members of Sherwood Parentco Limited *(continued)*

Directors' responsibilities

As explained more fully in their statement set out on page 16, the directors are responsible for: the preparation of the financial statements and for 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 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 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.

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.

Simon Ryder (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

18 March 2022

ARROW GLOBAL

Consolidated statement of profit or loss and other comprehensive income for period from incorporation to 31 December 2021

		Incorporation to 31 December 2021
Continuing operations	**Note**	**£000**
Income from portfolio investments at amortised cost	**23**	26,929
Fair value gains on portfolio investments at FVTPL	**23**	27,229
Impairment losses on portfolio investments at amortised cost	**23**	(4,908)
Income from real estate inventories	**23**	379
Total income from portfolio investments		**49,629**
Income from asset management and servicing and fund and investment management	**5**	28,641
Other income		55
Total income		**78,325**
Operating expenses:		
Collection activity and fund management costs	**10**	(33,629)
Other operating expenses	**10**	(73,026)
Total operating expenses		**(106,655)**
Operating loss		**(28,330)**
Finance income	**7**	9
Finance costs	**8**	(39,305)
Loss before tax		**(67,626)**
Taxation charge on ordinary activities	**11**	(4,023)
Loss for the period from continuing operations[1]		**(71,649)**
Other comprehensive loss:		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign exchange translation difference arising on revaluation of foreign operations		952
Total comprehensive loss		**(70,697)**
(Loss)/profit after tax attributable to:		
Owners of the Company		(71,672)
Non-controlling interest		23
		(71,649)
Comprehensive (loss)/ income attributable to:		
Owners of the Company		(70,720)
Non-controlling interest		23
		(70,697)

[1] *The loss before tax includes £70,140,000 of adjusting items. For the reconciliation between these results and the condensed consolidated profit and loss, please see the reconciliation on page 83.*

The parent company's loss after tax for the period from incorporation to 31 December 2021 was £2,000.

ARROW GLOBAL

Consolidated and parent statement of financial position at 31 December 2021

		Group 2021	Parent 2021
Assets	**Note**	**£000**	**£000**
Cash and cash equivalents		198,911	–
Trade and other receivables	**15**	52,360	–
Portfolio investments – amortised cost	**23**	704,944	–
Portfolio investments – FVTPL	**23**	302,808	–
Portfolio investments – real estate inventories	**23**	41,029	–
Property, plant and equipment	**14**	16,634	–
Intangible assets	**13**	128,429	–
Deferred tax asset	**11**	3,212	–
Investment in subsidiary undertakings	**22**	–	577,725
Investment in associates	**22**	62,184	–
Goodwill	**12**	688,063	–
Assets held for sale	**29**	5,655	–
Total assets		**2,204,229**	**577,725**
Liabilities			
Bank overdrafts	**27**	9,630	–
Revolving credit facility	**27**	167,373	–
Derivative liability	**25**	25,607	–
Trade and other payables	**16**	190,604	55
Current tax liability		1,837	–
Other borrowings	**27**	2,241	–
Asset-backed loans	**27**	55,158	–
Senior secured notes	**27**	1,211,416	–
Deferred tax liability	**11**	24,286	–
Liabilities held for sale	**29**	5,655	–
Total liabilities		**1,693,807**	**55**
Equity			
Share capital	**18**	166,813	166,813
Share premium	**18**	410,859	410,859
Retained earnings		(71,672)	(2)
Other reserves		952	–
Total equity attributable to shareholders		**506,952**	**577,670**
Non-controlling interest		3,470	–
Total equity		**510,422**	**577,670**
Total equity and liabilities		**2,204,229**	**577,725**

Approved by the board of directors on 18 March 2022, signed and authorised for issue on its behalf by:

....

Philip Shepherd
Director
Registered in England and Wales No: 13299333

Consolidated and parent statement of changes in equity for period from incorporation to 31 December 2021

Group	**Ordinary shares**	**Share premium**	**Retained earnings**	**Translation reserve[1]**	**Total**	**Non-controlling interest**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 29 March 2021 (incorporation)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loss after tax	–	–	(71,672)	–	**(71,672)**	23	**(71,649)**
Exchange differences	–	–	–	952	**952**	–	**952**
Total comprehensive loss for the period	–	–	(71,672)	952	**(70,720)**	23	**(70,697)**
Shares issued	166,813	410,859	–	–	**577,672**	–	**577,672**
Minority interest on acquisition	–	–	–	–	**–**	3,447	**3,447**
Balance at 31 December 2021	**166,813**	**410,859**	**(71,672)**	**952**	**506,952**	**3,470**	**510,422**

[1] Other reserves total £952,000.

Parent	**Ordinary shares**	**Share premium**	**Retained earnings**	**Total**
	£000	**£000**	**£000**	**£000**
Balance at 29 March 2021 (incorporation)	–	–	–	–
Profit after tax	–	–	(2)	**(2)**
Total comprehensive loss for the period	–	–	(2)	**(2)**
Shares issued	166,813	410,859	–	**577,672**
Balance at 31 December 2021	**166,813**	**410,859**	**(2)**	**577,670**

ARROW GLOBAL

Consolidated and parent company statement of cash flow for period from incorporation to 31 December 2021

	Note	Group 2021 £000	Parent 2021 £000
Net cash (used in)/generated by operations	**30**	**(56,796)**	**(2)**
Investing activities			
Purchases of property, plant and equipment	**14**	(669)	–
Purchases of intangible assets	**13**	(1,200)	–
Proceeds from disposal of intangible assets and property, plant and equipment		57	–
Acquisition of an associate		(24,500)	–
Acquisition of subsidiaries, net of cash acquired	**28**	(387,930)	(512,951)
Deferred consideration paid in connection with subsidiary acquisitions		(8,581)	–
Net cash used in investing activities		**(422,823)**	**(512,951)**
Financing activities			
Movements in other banking facilities		(319,705)	–
Proceeds from revolving credit facility		263,162	–
Proceeds from senior notes issuing		1,226,705	–
Redemption of senior notes		(959,084)	–
Early bond repayment costs		(17,035)	–
Repayment of ABS		(19,408)	–
Payment of interest on senior notes		(4,750)	–
Payment of interest on asset-backed loans		(658)	–
Issue of share capital		512,951	512,953
Bank interest received	**7**	9	–
Bank and other similar fees paid		(359)	–
Lease payments	**20**	(1,191)	–
Payment of deferred interest		(1,419)	–
Net cash flow generated by financing activities		**679,218**	**512,953**
Net increase in cash and cash equivalents		**199,599**	–
Cash and cash equivalents at beginning of period		–	–
Effect of exchange rates on cash and cash equivalents		2,664	–
Cash and cash equivalents at end of period including held for sale		**202,263**	**–**
Cash and cash equivalents held for sale[1]		(3,352)	–
Cash and cash equivalents at end of period excluding held for sale		**198,911**	**–**

[1] £3,352,000 of cash and cash equivalents in respect of the Whitestar Italy platform, for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position. See note 29 for more information.

Notes to the Financial Statements

1.1. General information

Sherwood Parentco Limited ('the Company') is a private company limited by shares, incorporated in England and Wales. The address of the registered office is presented on page 1. The financial statements are presented in pounds sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand except when otherwise indicated.

The Company's subsidiaries, both direct and indirect, at 31 December 2021 are listed in note 22.

The Group's principal activity is to identify, acquire and manage secured and unsecured defaulted and non-core loan portfolios and real estate from, and on behalf of financial institutions such as banks, institutional investors and credit card companies.

1.2. Basis of preparation and going concern

The Group and Company's financial statements for the 29 March 2021 (the period of incorporation) to 31 December 2021 have been prepared in accordance with UK-adopted international accounting standards.

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.

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

Going concern statement

In assessing whether the going concern basis is appropriate to adopt for the Group as at 31 December 2021, the directors have undertaken thorough analysis of forecast cash flow models and scenarios for a period of at least 12 months from the date of approval of these accounts, with the primary focus of detailed forecasting running to the end of 2022.

A base case forecast, and several downside scenarios, have been prepared reflecting the Group's current financial position and expected future performance. Key items considered within each forecast were the future outlook for HPI and unemployment, including the length and severity of any potential macroeconomic shock, and the impact these may have on the Group's cash flows. These cash flows were considered against the Group's future liquidity position, taking into account that there are no bond maturities until 2026. Adherence to the Group's leverage covenant was also considered in all scenarios.

The results of this scenario analysis show that in a severe but plausible downside scenario, before considering any management actions (such as cost reductions, slowing purchases and collection acceleration) as required, the Group is able to maintain sufficient liquidity, operate within banking covenants, and to continue as a going concern. This scenario was aligned to the severe downside forecasts outlined in note 23.

Finally, a reverse stress test has also been prepared to identify the magnitude of a downside stress that needs to occur to cause the group to breach its liquidity headroom and/or leverage covenant. It has been concluded that this represents an overly severe and implausible scenario. Based on all of the above indicators, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Notes to the Financial Statements *(continued)*

2. Accounting Standards

New standards

The following new standards and interpretations are mandatory for the year beginning 1 January 2021:

- Interest rate benchmark reform phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);

The Group also chose to early adopt the 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7' early in 2019.

2.1 Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards are not expected to have a significant impact on the Company's financial statements:

- Onerous contracts – cost of fulfilling a contract (Amendments to IAS 37);
- Annual improvements to IFRS standards 2018-2020;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Reference to the Conceptual Framework (Amendments to IFRS 3);
- IFRS 17 Insurance Contracts;
- Classification of liabilities as current or non-current (Amendments to IAS 1);
- Accounting policies, changes in accounting estimates and errors: definition (Amendments to IAS 8); and
- Amendments to IAS 1 presentation of financial statements and IFRS practice statement 2 making material judgements.

3. Significant Accounting Policies

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss.

Contingent consideration

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2021 and the comparative period.

'Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The results of subsidiaries acquired or disposed of during the period 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.

Securitisation vehicles

Securitisation vehicles in which the Group holds an economic interest are usually operated according to predetermined criteria that are part of the initial design of the vehicles. The Group is exposed to variability of returns from the vehicles through its holding of various securities in the vehicles.

Outside the day-to-day servicing of the receivables (which may be carried out by the Group under a servicing contract), key decisions are usually required only when the intent of the participants regarding the design of the economic structure or the strategy for the collection of the underlying assets changes.

In assessing whether it has control, the Group considers whether it manages the key decisions that most significantly affect these vehicles' returns, alongside its total variability related to its economic interests in the vehicles. As a result, the Group has concluded that it controls some of these vehicles, but not all (for more information on consolidated vehicles, see note 26).

Investment funds

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove fund manager. For all funds managed by the Group, the investors are able to vote by simple majority, less than ten investors, to remove the Group as fund manager without cause.

In summary, the number of investors who are required to act together to remove the Group as fund manager without cause is low. Although similar, the investment strategies of the Group and other investors in the fund are different, with the Group having the option to not invest in certain circumstances. Therefore, despite the Group's variability of its aggregate economic interest in some cases being above 30% (depending on which items are included/excluded), the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

For further disclosure in respect of unconsolidated securitisation vehicles and investment funds in which the Group has an interest or for which it is a sponsor, see note 26.

i. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

ii. Transactions eliminated upon consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the spot exchange rates at the date of the transactions. The functional currency of the Group is pounds sterling, which is also the presentational currency of the Group.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period and the carrying amount in the foreign currency, translated at the spot exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss.

Interest

i. Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not the expected credit loss (ECL).

For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. This is the case for all the Group's portfolio investments held at amortised cost, recognised since the introduction of IFRS 9.

Additionally, for such assets, the future cash flows are forecast across the next 84 months following the balance sheet date. This is the point by which substantially all of the cash flows will have been received from a normal portfolio investment.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability, such as legal and due diligence fees.

ii. Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation, using the effective interest method, of any difference between that initial amount and the expected cash flows and, for financial assets, adjusted for any ECL allowance.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

iii. Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, which includes all of the Group's portfolio investments held at amortised cost, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. Subsequently, the carrying value of the portfolios is adjusted by updating future cash receipts and discounting them using the original credit adjusted effective interest rate with the subsequent remeasurement recognised as impairment through the statement of profit or loss.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in fair value gains on portfolio investments at FVTPL.

Fair value gains on portfolio investments at FVTPL

Fair value gains on portfolio investments at FVTPL represents all of the income and expenses relating to the Group's portfolio investments which are classified as FVTPL. The line item includes fair value changes, interest and dividends.

Leases

i. Group acting as a leasee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the shorter of its useful economic life and the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The adjustment is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'trade and other payables' in the statement of financial position.

ii. Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

iii. Group acting as a lessor

None of the arrangements that the Group has entered into have been determined to constitute the Group acting as a lessor under the definitions of IFRS 16.

Taxation
i. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised the related expenses in 'other expenses'.

ii. Current tax

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

iii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Notes to the Financial Statements (continued)

3. Significant Accounting Policies (continued)

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Group.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

Deferred tax assets and liabilities are offset only if certain criteria are met.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Financial assets and financial liabilities
i. Recognition and initial measurement

The Group initially recognises portfolio investments, debt securities issued and other financial liabilities on the date on which they are acquired. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. The fair value of a financial instrument at initial recognition is generally its transaction price.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. No such elections have been made by the Group.

All other financial assets are classified as measured at FVTPL.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or as at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. No such designations have been made by the Group.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Group's portfolio investments are comprised of various types of underlying credit positions. The majority of investments are held by the Group for the primary purpose of collecting the underlying cash flows to the fullest extent possible. Sales of such portfolio investments are not a common occurrence and are not part of management's strategy for such investments when they are purchased.

The Group's co-investment alongside its Fund and Investment Management business is deemed to be held in a different business model than 'hold to collect', as these portfolio investments are managed primarily on a fair value basis, with reporting to senior management on the performance of these assets being prepared on that basis, and key management remuneration being linked to the performance of such assets on a fair value basis. As such, the business model of these assets is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. As such, the Group's co-investment alongside its Fund and Investment Management business is classified as FVTPL.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events changing the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Equity and similar instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Contractually linked instruments

The Group has some investments in securitisations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

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 of 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 OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. 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.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

i. Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. The gain or loss is presented as interest income calculated using the effective interest rate method.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as a derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

ii. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

iii. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

iv. Impairment

The Group recognises loss allowances for ECL on financial assets that are debt instruments, and that are not measured at FVTPL. No impairment loss is recognised on equity investments. The Group has not taken the low credit risk exemption for any of its financial assets.

The Group measures loss allowances at an amount equal to lifetime ECL, except for financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (excluding credit-impaired assets), for which they are measured as 12-month ECL.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date, except POCI financial assets: as the difference between the gross carrying amount and the present value of estimated future cash flows; or
- POCI financial assets: the ECL is incorporated into the estimated future cash flows, therefore it is not possible to separate this from a 'gross carrying amount' of these assets. As such, although ECL is incorporated into the carrying amount, a separate loss allowance is not held for POCI financial assets. The only material assets in this category are the portfolio investments held at amortised cost.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate; or
- lease receivables: the discount rate used in measuring the lease receivable.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; or
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Designation at fair value through profit or loss

The Group has not designated any financial assets or liabilities as FVTPL in either the current or previous periods.

Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

Derivatives

All derivatives are measured at fair value in the statement of financial position.

Other assets

No ECL has been recognised for intercompany loans, cash and cash equivalents or trade and other receivables, on the basis that the ECL on such items is deemed to be immaterial.

Property, plant and equipment
i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Land is not depreciated.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

The estimated useful lives of property and equipment for the current and comparative periods are as follows:

Furniture	five years
Computer equipment	three years
Leasehold improvements	five years
Vehicles	three years
Right-of-use assets	based on contractual terms

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets

i. Software licenses and IT platforms

Expenditure on internally developed software, such as IT platforms, is recognised as an asset when the Group is able to demonstrate that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development.

Intangible assets and goodwill

The capitalised costs of internally developed software include all costs directly attributable to developing the software plus capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

Software, including IT platforms, is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to ten years. Amortisation is disclosed within other expenses within the statement of profit and loss.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

ii. Customer intangibles

When the Group acquires businesses which have material ongoing customer relationships, whether they are contractual or not, the principles of IFRS 3 dictate that the fair value of such customer relationships must be estimated and recognised on the balance sheet at the acquisition date. The impact of this is to effectively reduce the goodwill recognised on acquisition.

Subsequent to the initial recognition of such assets, they are amortised over the expected life of the customer relationships with the Group. This amortisation is recognised within operating expenses.

The useful lives and carrying values of customer intangibles are reviewed at each reporting date and adjusted if appropriate.

iii. Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future post-tax cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

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 with an outflow of economic resources. 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.

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement schemes are charged as the employees provide services to the Group.

The Group makes contributions to defined contribution plans to provide pension benefits for employees upon retirement, and otherwise, has no residual obligation or commitments in respect of any defined benefit scheme.

Inventories

As part of the Group's investment activities, it sometimes acquires real estate positions as part of a transaction. Where such real estate is acquired for the purposes of immediate resale, or where a sale will immediately follow a period of time where capital expenditure is being applied to the asset, such investments fall under the scope of IAS 2 – Inventories.

In line with IAS 2, all assets classified as inventories are held at initial cost, plus any subsequent cost of capital expenditure. Such assets are held at the lower of cost and net realisable value, but apart from this, no gain or loss will be taken on the value of the assets until the point at which they are sold, or partially sold.

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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Share capital and reserves

i. Share capital

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

ii. Other reserves

Other reserves include the own share reserve, the translation reserve and the merger reserve. These reserves are further explained in note 18.

Intercompany receivables

The Company holds material intercompany receivables within its statement of financial position.

These have been assessed under the IFRS 9 ECL criteria, measuring expected losses over the longest contractual period the Company is exposed to credit risks. The Company has concluded that these assets have no material ECL.

Income from asset management and servicing

i. Servicing fees

The Group undertakes various asset servicing and collection roles on behalf of its customers. The majority of this activity is performed at a point in time, and the service is deemed to have been provided to the customer either due to the passage of time, or upon the completion of an action such as making a collection or sending a notification to the customer. Therefore, in accordance with IFRS 15, the revenue from asset management and servicing activities is recognised either upon the completion of such actions. Where the Group is contracted to perform activities over time, such as master servicing arrangements, the fee is recognised as the services are performed, with time elapsed being the measure of progress.

ii. Asset management fees

The Group earns management fees from its performance of asset management services. Management fees are charged on third-party money managed by the Group and are based on an agreed percentage of either committed money, invested money or net asset value (NAV), dependent on the fund. Management fees are variable fee revenue streams, which relate to one performance obligation and contain a non-performance and performance-related fee element. The non-performance element of the fee is recognised as the services are performed, with time elapsed being the measure of progress. Performance related fees are discussed below.

iii. Performance-related fees

Performance-related fees are recognised only where it is highly probable that the revenue will not be reversed in the future. This is generally near the end of the performance period or upon early liquidation of a fund. Performance-related fees will only be crystallised when a performance hurdle is met. The estimate of performance fees is made with reference to the liquidation profile for the fund, which factors in portfolio exits and timeframes. A constraint is applied to the estimate to reflect uncertainty of future fund performance.

iv. Contract balances

In some instances, fees may be paid to a third party which are directly linked to the acquisition of a long-term contract with a customer. In line with IFRS 15 requirements, such costs are taken to the balance sheet as a cost to acquire a customer contract, and are released to the comprehensive statement of profit or loss over time, on a profile corresponding with the period over which economic benefits will be derived from the contract. Further Information on the Group's contract balances can be found in note 6.

Operating expenses

Operating expenses relate to administration and costs associated with collection activities. All operating costs are accounted for on an accruals basis.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn income and incur expenses, including income and expenses relating to transactions with any of the Group's other components, whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Group's board (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Deferred and contingent consideration

During the normal course of business, the Group enters in agreements with third parties to purchase portfolios of financial assets, and the consideration paid may include an element of deferred consideration. Such consideration is discounted at the Group's weighted average cost of debt to its present value at the point of initial recognition of the acquired portfolio asset, and this discounted amount is included within the purchase price of the portfolio asset. A liability for the discounted amount of deferred consideration is also recognised at this time. Subsequent to this, the discount taken from the gross deferred consideration payable to the initial present value is recognised in the income statement as a finance cost over time.

Usually as part of business acquisitions, the Group also enters into arrangements with third parties to pay amounts in the future which are contingent on the outcome of a future event, such as the acquired business meeting certain operational or financial targets. In such instances, the Group forms an initial estimation of the fair value of such consideration by assessing the likelihood of paying out a range of amounts, and using this analysis to calculate the probability-weighted average expected pay-out. This amount is then discounted at the Group's cost of debt to bring it to its present value at the point of acquisition. An assessment is made at this point as to whether the payments constitute a post-employment benefit arrangement with former owners, or not. If this is not the case, the present value is included within the consideration paid to acquire the business and within goodwill, if relevant. Each period, the discount is unwound to the income statement as a finance cost, and the liability is remeasured to its current fair value at that point in time with the remeasurement to the income statement as an other operating expense.

4. Critical accounting judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is set out below.

i. Classification of portfolio investment assets

The Group holds the majority of its portfolio investments at amortised cost, due to the fact that management have determined that these assets meet the SPPI criteria, and are held in a 'hold to collect' business model. The SPPI criteria for each portfolio are assessed at the point each portfolio is being approved for purchase, and are based on the nature of the underlying loans which are being purchased. This determination is made for each purchase individually, unless it is a follow-on purchase of the same or very similar assets, which have already been assessed.

Regarding the 'hold to collect' business model, the Group has determined that this is the most appropriate IFRS 9 business model classification for its general portfolio holding activities, as although in the past a small number of portfolios have been sold outright to a third party, such sales do not comprise a material component of the Group's ERC at any point in time. Therefore, such infrequent sales activity is not deemed to invalidate the 'hold to collect' business model which the Group employs for the majority of its portfolios.

Notes to the Financial Statements *(continued)*

4. Critical accounting judgements and estimates *(continued)*

Another judgement that has been made regarding the Group's amortised cost portfolio assets is that they all fall within the POCI classification for IFRS 9 impairment measurement purposes. This judgement has been made by the Group, based upon the fact that historic purchase history and the current composition of the amortised cost portfolio investments shows that such assets tend to be bought at a point in time where they are credit impaired in some manner. This is supported by not only the nature of the assets, but by the fact that they are usually purchased at a deep discount, which is reflective of their incurred credit losses to date.

For some portfolio investments, the SPPI criteria is not met, or there is an element of subordination within the holding structure. In such instances, these portfolio investments are held at FVTPL. Furthermore, some portfolio investments, such as those involving real estate, do not meet the definition of a financial instrument for accounting purposes. This leads to a portion of the Group's portfolio investments being classified as 'inventories', under the scope of IAS 2.

The Group's co-investment alongside its Fund and Investment Management business is deemed to be held in a different business model than 'hold to collect', as these portfolios are managed primarily on a fair value basis, with reporting to senior management on the performance of these assets being prepared on that basis, and key management remuneration being linked to the performance of such assets on a fair value basis. As such, the business model of these assets has been judged to be neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. As such, the Group's co-investment alongside its Fund and Investment Management business is classified as FVTPL.

ii. Determination of control over investees

Arrow holds an economic interest in a number of entities which it determines under IFRS 10, that it does not control. As such, these entities are not consolidated into the Group's financial statements, but rather, the investment in such entities is recognised as a single asset within the appropriate balance sheet classification, usually portfolio investments, but also investment in associates.

Conversely, the Group also consolidates entities into its financial statements which it does not have 100% ownership of, but the Group is judged to control regardless.

The judgement as to whether or not the Group has control over an entity is taken on a case-by-case basis by management, and is firstly based upon whether the Group can exercise any power over the relevant activities of the entity, and if this is the case, whether there is deemed to be a link between such power and the variability of the Group's returns which arise from the entity.

In many cases, the determination of control is clear. Cases where management must apply more judgement can occur where the Group holds a minority equity-level financial interest in a structured entity, as well as providing services to these entities in a typical supplier-customer relationship capacity. In these cases, the Group mainly assesses the relative share of marginal variable returns which flow to third parties versus the share which flows to the Group as a primary indicator of whether the Group is exercising any power it may have to influence the variable returns of the structured entity, either for its own benefit, or for the benefit of third parties in the structure. In the case of the former, the entity will usually be consolidated, whereas under the latter, the entity will usually not be consolidated.

The Group went into significant consideration as to whether the Group's acquired stake in Maslow Global Limited and option to purchase the remaining 51% in the future required consolidation or not, and concluded that it should be treated as an investment in associate, see page 60 for more detail.

Assumptions and estimation uncertainties

i. Carrying value of portfolio investments

The carrying value of portfolio investments is £1,048,781,000 at 31 December 2021. The majority of these portfolio investments are measured at amortised cost.

Arrow has historically generated cash flow forecasts (ERCs) through a bottom-up approach was taken whereby each individual portfolio's cash flow has been modelled based on a number of factors, including balance sheet cash collections history and an array of data concerning the status of the individual loans within these portfolios, for example account-specific balance sheet cash collections history, account statuses, property statuses and valuations (for secured accounts), servicer history, and supporting data from third parties such as credit files or geo-demographics. This data has then been used in conjunction with the predicted effectiveness of any additional collection initiatives to forecast future balance sheet cash collections for each portfolio.

Notes to the Financial Statements *(continued)*

4. Critical accounting judgements and estimates *(continued)*

As at 31 December 2021, the Group utilised the bottom-up approach as Arrow deployed prior to 2020, using a combination of asset-specific forecasts and statistical models to determine each portfolio's expected cash flows. The same range of factors as described above were used, but with further calibration to reflect more recent collection performance and adjusted for initiatives that are expected to improve collections performance. ERCs also include specific considerations of multiple economic scenarios and the impact of collections, in line with IFRS 9. Numerical disclosures and sensitivities have been set out in note 23, to assist the users of these statements in understanding the financial impact of the most recent reforecast.

The portfolio-level ERC curves were then discounted at the appropriate rate (EIR for amortised cost portfolios, a rate reflective of assumptions that market participants would use when pricing the asset for FVTPL portfolios), to obtain the revised NPV and hence carrying value of the amortised cost and FVTPL portfolio investments. For REO portfolio investments, the revised ERC curve was used to determine the net realisable value in assessing each portfolio for potential impairment.

The bottom-up methodology was utilised for Arrow's mid-year 2021 reforecast, and this reforecast was used as the basis for the determination of the ERC curves of the portfolios as at the acquisition by the Group. For the amortised cost portfolios, these ERC curves were then discounted at a rate reflective of assumptions that market participants would if pricing the assets at the date of acquisition, in line with FVTPL portfolios, to determine an acquisition fair value for each portfolio. See Note 28 for a summary of portfolio fair value adjustments. These revised rates then became the basis of the EIR for amortised cost portfolios going forwards, including for the reforecast as at 31 December 2021.

Arrow's REO portfolio investment carrying values were adjusted at acquisition by the Group to reflect fair value of the portfolios. This was done using either an external market valuation less costs to sell or an income approach using Arrow's mid-year ERC, discounted at a rate reflective of assumptions that market participants would if pricing the assets at the date of acquisition. These adjusted valuations then became the Group's cost value of the REO portfolios going forwards. See Note 28 for a summary of portfolio fair value adjustments.

The estimated future cash flows generated by the above process are the key estimate/judgement in these financial statements. Flexing the expected future gross cash flows by +1/-1% would impact the closing carrying value of the amortised cost and FVTPL portfolio investments as at 31 December 2021 by +/- £10,078,000. The forecasting period over which ERCs are calculated is also a key estimate/judgement in these financial statements. Adding or removing six months to the cash flow forecasting period would increase/(reduce) the closing carrying value of the portfolio investments as at 31 December 2021 by £7,246,000/(£9,904,000). Note that there are a large number of inputs that are used to derive the ERC and hence the carrying value of portfolios. However, many of these are factual historical data points which do not individually involve significant estimation uncertainty, and as such, an overall combined sensitivity has been provided.

ii. 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 net assets acquired. 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 judgement, particularly for those financial assets or liabilities for which there are no quoted prices, or assets such as acquired portfolio investments and customer intangibles where valuations reflect estimates of amounts 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 i. above. Note 28 provides further detail on acquisitions and the net assets acquired on each.

iii. Impairment assessment of goodwill balances

The carrying amount of goodwill is £688,063,000 at 31 December 2021. The Group's goodwill has been recognised as part of the acquisition of Arrow on 11 October 2021 and there has been no indication of impairment as at 31 December 2021. As such, no assessment for impairment has been undertaken in the period.

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

5. Segmental reporting

Segmental information has been provided in line with what is reviewed on a regular basis by the chief operating decision maker (CODM), which is the board of directors collectively, as defined in IFRS 8. The principal business categories are as follows:

Balance Sheet business	All portfolio investments that the Group owns, and the income and costs associated with them.
Asset Management and Servicing business (AMS)	Income and costs associated with managing debt portfolios on behalf of the Group and external servicers.
Fund and Investment Management business (FIM)	Income and costs associated with investment management.
Group functions	Costs not directly associated with the other three segments, but relevant to overall oversight and control of the Group's activities.

These segments represent how the Group manages the wider business in 2021 and 2020, and the organisational structure is aligned to these segments. Therefore, this has been deemed to be the appropriate level of disaggregation to provide information to the CODM.

The intra-segment elimination column below removes charges made from the AMS business segment to the Balance Sheet business segment and the FIM business segment on behalf of the Group for servicing and collection of the Group and FIM's portfolio investments and performance fees charged by the FIM business in respect to its investments on behalf of the Group. The intra-segment charge is calculated on equivalent commercial terms to charging third parties.

Incorporation to 31 December 2021	**Balance Sheet business**	**AMS business**	**FIM business**	**Group functions**	**Intra-segment elimination**	**Adjusting items[1]**	**Total inc. adjusting items**	**Total exc. adjusting items**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Total income	42,218	31,007	19,415	55	(14,370)	1,343	**79,668**	**78,325**
Collection activity and fund management costs	(18,376)	(19,280)	(10,343)	–	14,370	–	**(33,629)**	**(33,629)**
Gross margin	**23,842**	**11,727**	**9,072**	**55**	**–**	**1,343**	**46,039**	**44,696**
Gross margin %	*56.5%*	*37.8%*	*46.7%*					
Other operating expenses excluding depreciation, amortisation and forex	(1,976)	(12,633)	(6,106)	(47,631)	–	41,724	**(26,622)**	**(68,346)**
EBITDA	**21,866**	**(906)**	**2,966**	**(47,576)**	**–**	**43,067**	**19,417**	**(23,650)**
EBITDA margin %	*51.8%*		*15.3%*					
Depreciation, amortisation and forex	(239)	(1,137)	(550)	(2,754)	–	4,188	**(492)**	**(4,680)**
Operating (loss)/profit	**21,627**	**(2,043)**	**2,416**	**(50,330)**	**–**	**47,255**	**18,925**	**(28,330)**
Net finance costs	–	–	–	(39,296)	–	22,885	**(16,411)**	**(39,296)**
Profit/(loss) before tax and adjusting items	**21,627**	**(2,043)**	**2,416**	**(89,626)**	**–**	**70,140**	**2,514**	**(67,626)**
Adjusting items[1]	–	–	–	–	–	(70,140)	**(70,140)**	–
Profit/(loss) before tax	**21,627**	**(2,043)**	**2,416**	**(89,626)**	**–**	**–**	**(67,626)**	**(67,626)**

[1] Adjusting items are due to takeover costs incurred in respect of the TDR acquisition, organisational restructuring costs, associated non-cash write downs and other acquisition costs (including amortisation of acquisition intangible assets). More information and a reconciliation between the statutory loss before tax and the underlying profit before tax can be seen on page 83.

Notes to the Financial Statements (continued)

5. Segmental reporting *(continued)*

Total income includes income from portfolio investments, fund and investment management and performance fees, asset management and servicing and other income.

Incorporation to 31 December 2021	UK, Ireland and Jersey	Portugal	Italy	Netherlands	Intra-Group trading	Total
	£000	£000	£000	£000	£000	£000
Total income	43,467	20,064	12,988	16,176	(14,370)	**78,325**
Third-party AMS and FIM income	16,403	7,786	10,837	7,985	(14,370)	**28,641**
Non-current assets	492,794	194,760	93,931	51,641	–	**833,126**

Income from contracts with customers has been disaggregated on a geographical basis, as a similar set of services are provided to customers across the geographies, and therefore this was deemed to be the most appropriate level of disaggregation for this disclosure.

Non-current assets are assets with a useful life of more than one year with the exception of deferred tax which has been excluded.

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

Gross FIM income includes fund management and performance fees and intra-Group income for these services.

	Incorporation to 31 December 2021 £000
Third-party AMS income	22,785
Intra-Group AMS income	8,222
Gross AMS income	**31,007**
Third-party FIM income	5,856
Intra-Group FIM income	6,148
Income reallocation from Balance Sheet business	7,411
Gross FIM income	**19,415**
Balance sheet business income	49,629
Income reallocation to FIM business	(7,411)
Gross Balance Sheet income	**42,218**
Other income	**55**
Adjusting items	**1,343**
Gross income	**94,038**

Gross income includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-Group income for Asset Management and Servicing, fund and investment management and performance fees and intra-Group income for Fund and Investment Management, total income for the Balance Sheet business, other income and adjusting items.

6. Income from AMS and FIM

Asset management and servicing income

Income from AMS contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it satisfies a performance obligation related to a service it has undertaken to provide to a customer.

Servicing income makes up the majority of AMS income, and in itself comprises a broad range of services, including secured and unsecured collection activity, real estate asset realisation, legal title holding, due diligence activities, initial platform migration and on-boarding activities, securitisation vehicle set-up and ongoing management activities, new origination activities, litigation and court process management and third-party sub-servicer management.

In all material cases, the services are provided at a point in time that corresponds to the satisfaction of the related performance obligations. As such, revenue arising from servicing income is normally recognised as the services are provided to the customer, with no deferral or acceleration of revenue across the life of the contract.

Notes to the Financial Statements *(continued)*

6. Income from AMS and FIM *(continued)*

Fund and investment management income

Fund and investment management income encompasses services provided in relation to the discretionary and semi-discretionary allocation and management of third-party capital. Fees for fund and investment management services are normally calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a regular basis. Income from fund and investment management services is recognised over time as the services are provided.

Contract balances

At 31 December 2021, the Group had assets relating to contracts with customers in the amount of £9,860,000. These assets fully relate to up-front costs which were incurred to acquire customers within the Group's Fund and Investment Management business, and will be released to the comprehensive statement of profit and loss across the same period as the associated income will be recognised, which is the lifetime of the related fund.

A key judgement made in recognising these costs which were incurred to acquire customers was whether or not the investors in the fund met the definition of a customer in accordance with IFRS 15. Given the small number of larger, institutional investors which were engaged with on an individual basis as part of the customer acquisition process, this was deemed to meet the definition of a customer under IFRS 15 guidance. The weighted average life remaining on these contract balances is 6 years and 4 months. The contract balances have amortised in the period, resulting in a £243,000 of amortisation expensed to the comprehensive statement of profit and loss during the period.

7. Finance income

	Incorporation to 31 December 2021 £000
Bank interest	9
	9

8. Finance costs

	Incorporation to 31 December 2021 £000
Interest and similar charges on bank loans	1,768
Interest and similar charges on senior secured notes	12,532
Interest and similar charges on asset-backed securitisation	1,291
Lease liability interest	202
Other interest	627
Recurring finance costs	**16,420**
Finance costs associated with refinancing	22,885
	39,305

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

9. Auditor remuneration

The analysis of auditor remuneration is as follows:

	Incorporation to 31 December 2021 £000
Fees payable for audit services – Company	60
Fees payable for audit services – Group	865
Total fees payable for audit services	**925**
Fees payable for audit-related assurance services	6
Total fees payable for audit-related and regulatory assurance services	6
Fees payable for other assurance services	275
Total fees payable for non-audit services	**281**
Total fees payable	**1,206**

10. Collection activity and fund management costs, other operating expenses and staff costs

10.a Total operating expenses

Total operating expenses are made up of direct and indirect costs, the detail of each is shown in the following tables:

Collection activity and fund management costs	Incorporation to 31 December 2021 £000
External collection costs	4,886
Staff costs (see note 10b)	17,635
Direct temp labour	642
Direct operating costs	7,302
Legal disbursements	2,257
Other collection activity costs	907
Total collection activity and fund management costs	**33,629**

Other operating expenses	Incorporation to 31 December 2021 £000
Staff costs (see note 10b)	13,668
Other related staff costs	2,938
Premises	737
IT	3,960
Depreciation and amortisation	2,667
Net foreign exchange gains	(2,166)
Other operating expenses	5,310
Recurring other operating expenses	27,114
Takeover costs	16,419
Organisational restructure costs	16,063
Non-cash write-down	8,014
Other acquisition costs	5,416
Total other operating expenses	**73,026**

The other staff-related costs caption largely relates to temporary labour, recruitment and training.

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

10. Collection activity and fund management costs, other operating expenses and staff costs *(continued)*

10b. Staff costs	**Incorporation to 31 December 2021 £000**
Wages and bonuses	28,094
Pension costs	893
Social security costs	2,316
	31,303

The total executive and non-executive directors' remuneration during the period was £1,540,000, including £5,000 in relation to pension costs. In respect of the highest paid director, salaries and performance related bonus was £160,000, pension-related benefits were £nil.

11. Tax

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax.

a. Amounts recognised in profit and loss	**Incorporation to 31 December 2021 £000**
Current tax charge:	
Tax charge at standard UK corporation tax rate	1,215
Total current tax charge	**1,215**
Deferred tax charge:	
Origination and reversal of temporary differences	2,808
Total deferred tax charge	**2,808**
Total income tax expense	**4,023**

The differences in the effective tax rate for the period and the standard rate of corporation tax in the UK at 19% are as follows:

b. Reconciliation of effective tax rate	**Incorporation to 31 December 2021 £000**
Loss before tax	(67,626)
Tax credit at standard UK corporation tax rate	(12,849)
Effect of tax rates in foreign jurisdictions	158
Expenses not deductible for tax purposes	8,608
Movements in unrecognised deferred tax	8,106
Total income tax expense	**4,023**

c. Amounts recognised in OCI

There were no amounts recognised in the OCI during the period in respect of tax.

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

11. Tax *(continued)*

Deferred tax

The Group has recognised a deferred tax asset in relation to losses of £1,847,000, of which £nil relates to the UK.

The Group has not recognised a deferred tax asset in respect of £49,759,000 of tax losses carried forward, due to lack of certainty over future utilisation of the losses. These losses may be available for offset against future profits and have no expiry date. There are no unrecognised deferred tax liabilities.

The rate of UK corporation tax, as enacted under Finance Act 2021, is expected to increase to 25% from 1 April 2023. Deferred taxation is measured at the 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. No further tax rate changes were enacted during the period in respect of overseas territories in which the group operates.

Movement in deferred tax balances

	Net balance 29 March	On acquisition of subsidiary[1]	Recognised in profit or loss	Reclassification	Foreign exchange	Net balance 31 December	Deferred tax asset[2]	Deferred tax liability
	£000	£000	£000	£000	£000	£000	£000	£000
IFRS and fair value transitional adjustments	–	(34,348)	836	11,454	232	**(21,826)**	**2,122**	**(23,948)**
Other temporary differences	–	148	(506)	11	9	**(338)**	**–**	**(338)**
Losses	–	11,939	(3,138)	(6,815)	(139)	**1,847**	**1,847**	**–**
	–	**(22,261)**	**(2,808)**	**4,650**	**102**	**(20,317)**	**3,969**	**(24,286)**
						Total moved to assets held for sale	**(757)**	–
						Total excluding held for sale	**3,212**	**(24,286)**

[1] See note 28 for further information on the acquisition of subsidiary.

[2] Deferred tax asset includes £757,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position. See note 29 for more information.

Tax impact of the UK giving notice to withdraw from the EU

Given that the UK has now exited the EU (at 31 January 2020), the Group considered the impact of Brexit from a tax perspective. The only impact foreseen is an increase in withholding tax (WHT) suffered on the payment of interest and/or dividends from Portugal and Italy, which in not expected to be material.

Uncertainty over income tax treatments

The current tax liability of £1,837,000 represents the amount of income taxes payable in respect of current and prior periods, including a provision in relation to uncertain tax positions.

As for most multi-nationals, the current tax environment is creating increasing levels of uncertainty and the Group is potentially subject to tax audits in many jurisdictions. By their nature, these are often complex and could take a significant period of time to be agreed with the tax authorities. The Group estimates and accrues taxes that will ultimately be payable when reviews or audits by tax authorities of tax returns are completed. The levels of risk arising from tax audits may change as a result of legislative change, tax authority guidance or practice and correspondence with the tax authorities during a specific audit. It is not possible to quantify the impact that such future developments may have on the tax positions taken in the financial statements.

Notes to the Financial Statements *(continued)*

12. Goodwill

	Total
	£000
Cost	
At 29 March 2021 (incorporation)	–
Additions[1]	688,063
At 31 December 2021	688,063
Impairment	
At 31 December 2021 and 29 March 2021	–
Carrying amount	
At 31 December 2021	**688,063**
At 29 March 2021	–

[1] See note 28 for a detailed analysis of additions to goodwill during 2021.

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to four aggregated CGUs on the basis that these represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the single operating segment defined under IFRS 8 (Operating Segments).

Goodwill CGU allocation

In relation to goodwill, the four CGUs identified are UK, Ireland and Jersey, comprising The UK and Ireland servicing platforms, the Jersey Fund Manager, and portfolio investments based in the UK and Ireland; Portugal, comprising of the Portugal servicing platforms and portfolio investments in Portugal; the Netherlands, comprising of the Netherlands servicing platforms and portfolio investments in the Netherlands and Italy, comprising the Italy servicing platforms and portfolio investments in Italy. The UK, Ireland and Jersey CGU represents the cash flows generated principally from collections on acquired portfolio investments, management and servicing of third-party debt and fund management fees. Portugal, the Netherlands, and Italy CGUs, represent the cash flows generated principally from collections on acquired portfolio investments, fund and investment management and management and servicing of third-party debt.

The Group's goodwill has been recognised as part of the acquisition of Arrow on 11 October 2021 and there has been no indication of impairment as at 31 December 2021. As such, there is no requirement to assess for impairment in the period.

The Group's goodwill balance has been assessed and no part of the overall balance is deemed to be deductible for tax purposes.

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows:

	2021
	£000
UK, Ireland and Jersey	426,047
Portugal	158,906
Italy	62,962
The Netherlands	40,148
	688,063

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

13. Intangible assets

	Customer intangibles	Contractual rights	IT Platform[1]	Software licences	Total
	£000	£000	£000	£000	£000
Cost					
At 29 March 2021 (incorporation)	**–**	**–**	**–**	**–**	**–**
Assets acquired on acquisition of a subsidiary	104,099	259	23,210	12,755	140,323
Exchange rate differences	117	(8)	(353)	(59)	(303)
Additions	–	–	316	884	1,200
Write-off	–	–	(583)	(6,077)	(6,660)
Disposals	–	–	(222)	(23)	(245)
At 31 December 2021	**104,216**	**251**	**22,368**	**7,480**	**134,315**
Accumulated amortisation					
At 29 March 2021 (incorporation)	**–**	**–**	**–**	**–**	**–**
Exchange rate differences	–	(2)	(47)	(19)	(68)
Amortisation for the period[2]	3,950	18	1,149	837	5,954
At 31 December 2021	**3,950**	**16**	**1,102**	**818**	**5,886**
Carrying amount					
At 31 December 2021	**100,266**	**235**	**21,266**	**6,662**	**128,429**
At 29 March 2021	**–**	**–**	**–**	**–**	**–**

[1] An intangible asset relating to a software upgrade is included within IT platform. The asset has a carrying value of €5,107,000 and a remaining amortisation period of 8 years and 3 months.

[2] Amortisation and depreciation are shown within the other operating costs line of the consolidated statement of profit or loss. Some of the amortisation has been including in adjusting items in the period.

Notes to the Financial Statements *(continued)*

14. Property, plant and equipment

	Leasehold improvements	Computer equipment	Furniture	Vehicles	Right-of-use asset[1]	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 29 March 2021 (incorporation)	–	–	–	–	–	–
Assets acquired on acquisition of a subsidiary	2,130	823	243	232	14,786	18,214
Exchange differences	(24)	(22)	(7)	3	(169)	(219)
Additions	7	40	61	164	397	669
Reclassifications	(11)	–	69	–	3	61
Write-offs	(6)	(61)	(90)	(132)	(635)	(924)
Disposals	–	(4)	–	–	(271)	(275)
At 31 December 2021	**2,096**	**776**	**276**	**267**	**14,111**	**17,526**
Accumulated depreciation						
At 29 March 2021 (incorporation)	–	–	–	–	–	–
Exchange differences	(6)	(9)	(3)	(1)	(59)	(78)
Charge for the period	103	35	(28)	18	773	901
Reclassifications	8	1	69	217	(226)	69
At 31 December 2021	**105**	**27**	**38**	**234**	**488**	**892**
Carrying amount						
At 31 December 2021	**1,991**	**749**	**238**	**33**	**13,623**	**16,634**
At 29 March 2021	–	–	–	–	–	–

[1] See note 20 for a detailed analysis of right-of-use assets.

Notes to the Financial Statements *(continued)*

15. Trade and other receivables

	Group 2021 £000
Trade receivables	30,758
Contract balances	9,860
Other receivables	6,840
Prepayments	6,448
Total including assets held for sale	**53,906**
Trade and other receivables moved to assets held for sale[1]	(1,546)
Total excluding assets held for sale	**52,360**

[1] Trade and other receivables include £1,546,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position. See note 29 for more information.

16. Trade and other payables

Current	Group 2021 £000	Company 2021 £000
Trade payables	6,179	–
Deferred consideration on acquisition of subsidiaries	313	–
Deferred consideration on portfolio investments	27,854	–
Taxation and social security	4,013	–
Due to subsidiary undertaking	–	55
Accruals	46,337	–
Provisions	12,825	–
Other liabilities	23,004	–
Lease liability	3,082	–
	123,607	**55**
Non-current		
Trade payables	11,562	–
Deferred consideration on acquisition of subsidiaries	1,190	–
Taxation and social security	189	–
Accruals	3,830	–
Liabilities arising on acquisition of bankruptcy portfolios	29,409	–
Other liabilities	12,257	–
Lease liability	15,212	–
	73,649	**–**
Total including held for sale	**197,256**	**55**
Trade and other payables moved to liabilities held for sale[1]	(6,652)	–
Total excluding held for sale	**190,604**	**55**

[1] Trade and other payables include £6,652,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Liabilties held for sale' on the condensed consolidated statement of financial position. See note 29 for more information.

Notes to the Financial Statements *(continued)*

16. Trade and other payables *(continued)*

Included within other liabilities is €941,000 (£790,000) relating to deferred pay for the Italian employees. The employees are part of statutory indemnity schemes, 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 at a future date, when the employees leave employment. The liability is included within trade and other payables on the statement of financial position and is calculated by an independent expert through an actuarial valuation, the key assumptions used are detailed below:

	2021
Discount rate	0%-1%
Annual inflation rate	1%-2%
Wage inflation	2%-3%
Probability of leaving employment for reasons other than retirement (employees aged 18-60)	2%-15% per annum

17. Contingent liabilities

Through the ordinary course of business, the Group exposes itself to potential liabilities which at present it is not aware of, and may or may not arise in the future. As such, it would not be practical to try and quantify their future financial impact. However, set out below are broad areas of the Group's ordinary business activities which may in the future lead to potential claims or liabilities being incurred by the Group.

Conduct and regulatory compliance

Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies, the media and politicians, there is a possibility that certain aspects of the current or historic business, including, amongst other things, collections practices and general treatment of customers, may be determined by the FCA and other regulatory bodies or the courts as, in their opinion, not being conducted in accordance with applicable laws or regulations, or fair and reasonable treatment.

Contractual disputes

In carrying out its ongoing business, the Group enters into numerous contracts in any given period with a various third-party entities. There is always a risk that a contractual dispute may arise in the future, which may lead to a claim against the Group in respect of any damages or losses incurred by the third party.

18. Share capital and reserves

Share capital and share premium

	2021
Issued, fully paid and authorised:	**£000**
166,813,369 ordinary shares of 1p each	166,813
	166,813

Total consideration for the shares was £577,672,000, giving rise to a share premium of £410,859,000. There are no restrictions on the repayment of capital.

The shareholders have the right to receive notice of, and to attend and vote at all general meetings of the Company.

Nature and purpose of reserves

Translation reserve

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

19. Dividends

No dividends were paid or declared during 2021 and no final dividend are proposed.

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

20. Leases

The Group has leases for offices premises, vehicles and computer equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 14).

Leases of vehicles are usually limited to a lease term of two to four years. Leases of property generally have a lease term ranging from five years to ten years. Lease payments are generally fixed, however there are a limited number of property leases where rentals are linked to annual changes in an index (either the retail price index or consumer price index).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

Right-of-use assets

Right-of-use assets relate to leased office premises and vehicles that are presented within property, plant and equipment (see note 14).

	Office premises	Vehicles £000	Computer equipment £000
Balance at 29 March 2021	**–**	**–**	**–**
Assets acquired on acquisition of a subsidiary	13,272	1,032	482
Depreciation charge for the period	(1,101)	154	174
Additions	184	110	103
Disposals	(271)	–	–
Reclassifications	3	225	1
Exchange differences	284	(297)	(97)
Write-offs	(633)	–	(2)
Balance at 31 December 2021	**11,738**	**1,224**	**661**

Maturity analysis – contractual undiscounted cash flows

See note 24 for maturity analysis of lease liabilities as at 31 December 2021.

Amounts recognised in profit or loss

The following leases-related expenses were recognised under IFRS 16 in the profit or loss:

	Incorporation to 31 December 2021 £000
Interest on lease liabilities	202
Depreciation charge for the period on right of use assets	773
Expenses relating to short-term leases	21

Amounts recognised in statement of cash flows

The following lease payments were recognised in the statement of cash flows:

	Incorporation to 31 December 2021 £000
Total cash outflow for leases	1,191

Notes to the Financial Statements *(continued)*

21. Related party transactions

Related party balances

Related party balances as at the period end were as follows:

Company	**Amounts due to group undertakings 2021**
	£000
Arrow Global Limited	(5)
Sherwood Financing plc	(50)
Total	**(55)**

Balances relate to intercompany loans that are repayable on demand, with this being the longest contractual period and are, therefore, held as current liabilities.

Summary of transactions

The Company had the following reportable transactions with related parties:

	Other expenses incorporation to 31 December 2021
	£000
Arrow Global Limited	5
Total	**5**

The Company incorporated Sherwood Financing plc, Sherwood Financing 2 Limited and Sherwood Acquisitions Limited in the period. The amount due to Sherwood Financing plc is in relation to it incorporation.

Key management

Key management personnel, defined as permanent members of the board plus the executive committee, were awarded the following compensation for the financial period since being key management:

	Incorporation to 31 December 2021
Remuneration	**£000**
Salaries and performance related bonus	1,535
Pension-related benefits	5
	1,540

The number of key management during the period was 12.

During the current period there were no other related party transactions other than discussed above.

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

22. Investments in subsidiaries and associate

Details of the Company's subsidiaries at 31 December 2021 are as follows:

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Agenda Management Services Limited	UK (England & Wales)	Note 1	100	Trading	DFS
AGG Capital Management (Holdco) Limited (ACM(H)L)	UK (England & Wales)	Note 2	100	Trading	AGGL
AGL Fleetwood Limited	UK (England & Wales)	Note 2	100	Trading	AFTL
AGL Fleetwood 2 Limited	UK (England & Wales)	Note 2	100	Trading	AF2TL
AGL Fleetwood 2 Topco Limited (AF2TL)	UK (England & Wales)	Note 2	100	Trading	AGIHL
AGL Fleetwood 3 Limited (AF3L)	UK (England & Wales)	Note 2	100	Trading	AF2TL
AGL Fleetwood Topco Limited (AFTL)	UK (England & Wales)	Note 2	100	Trading	AGIHL
Arrow Global (Holdings) Limited (AG(H)L)	UK (England & Wales)	Note 2	100	Trading	AGIHL
Arrow Global Accounts Management Limited	UK (England & Wales)	Note 2	100	Trading	AGL
Arrow Global Adviser Limited	UK (England & Wales)	Note 2	100	Trading	AGIHL
Arrow Global Europe Limited	UK (England & Wales)	Note 2	100	Trading	AGIHL
Arrow Global Finance Plc	UK (England & Wales)	Note 2	100	Trading	AGIHL
Arrow Global Group Limited (AGGL)	UK (England & Wales)	Note 2	100	Trading	SAL
Arrow Global Guernsey Limited	UK (England & Wales)	Note 2	100	Dormant	AG(H)L
Arrow Global Investments Holdings Limited (AGIHL)	UK (England & Wales)	Note 2	100	Trading	AGGHL
Arrow Global Legh Limited	UK (England & Wales)	Note 2	100	Dormant	AG(H)L
Arrow Global Limited (AGL)	UK (England & Wales)	Note 2	100	Trading	AG(H)L
Arrow Global Luna Limited	UK (England & Wales)	Note 2	100	Trading	AG(H)L
Arrow Global Management Limited	UK (England & Wales)	Note 2	100	Dormant	AG(H)L
Arrow Global Massey Limited	UK (England & Wales)	Note 2	100	Dormant	AG(H)L
Arrow Global One Limited (AGOL)	UK (England & Wales)	Note 2	100	Trading	AGGL
Arrow Global Portugal Investments Limited	UK (England & Wales)	Note 2	100	Trading	AF3L
Arrow Global Portugal Limited	UK (England & Wales)	Note 2	100	Trading	AF3L
Arrow Global Receivables Management Limited	UK (England & Wales)	Note 2	100	Trading	AG(H)L
Arrow SMA LP Limited (ASLL)	UK (England & Wales)	Note 2	100	Trading	AGIHL
Bergen Capital Management Limited	UK (England & Wales)	Note 2	100	Trading	MAL
Capquest Debt Recovery Limited (CDRL)	UK (England & Wales)	Note 2	100	Trading	CGL
Capquest Group Limited (CGL)	UK (England & Wales)	Note 2	100	Trading	QNL
Capquest Investments Limited	UK (England & Wales)	Note 2	100	Trading	CGL
Capquest Mortgage Servicing Limited	UK (England & Wales)	Note 2	100	Trading	AGOL
Drydens Limited (DFS)	UK (England & Wales)	Note 1	100	Trading	AGL
Erudio Customer Management Limited	UK (England & Wales)	Note 2	100	Dormant	AG(H)L
Mars Acquisition Limited (MAL)	UK (England & Wales)	Note 2	100	Trading	AGIHL
Mars Capital Finance Limited	UK (England & Wales)	Note 2	100	Trading	MAL
Mars Capital Management Limited	UK (England & Wales)	Note 2	100	Trading	MAL
Quest Bidco Limited (QBL)	UK (England & Wales)	Note 2	100	Trading	QTL
Quest Newco Limited (QNL)	UK (England & Wales)	Note 2	100	Trading	QBL
Quest Topco Limited (QTL)	UK (England & Wales)	Note 2	100	Trading	AGIHL
Sherwood Financing plc	UK (England & Wales)	Note 3	100	Trading	SPL
Sherwood Financing 2 Limited	UK (England & Wales)	Note 3	100	Trading	SPL
Sherwood Acquisitions Limited (SAL)	UK (England & Wales)	Note 3	100	Trading	SPL
Western Acquisition Holdings Limited	UK (England & Wales)	Note 2	50	Dormant	AGL
Mars Capital Management Ireland DAC	Republic of Ireland	Note 4	100	Trading	MAL
Mars Capital Finance Ireland DAC	Republic of Ireland	Note 4	100	Trading	MAL
Arrow Global Guernsey Limited	Guernsey	Note 5	100	Dormant	AGIHL
Arrow Global Guernsey Holdings Limited (AGGHL)	Guernsey	Note 5	100	Trading	AGOL
AGG Capital Management Limited (AGGCML)	Jersey	Note 6	100	Trading	ACM(H)L

Notes to the Financial Statements *(continued)*

22. 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
Arrow SMA GP Limited (ASGL)	Jersey	Note 6	100	Trading	ASLL
Arrow Global SMA I LP	Jersey	Note 6	100	Trading	ASLL/ ASGL
Arrow Global Investments Holdings Italia S.R.L. (AGIHIS)	Italy	Note 7	100	Trading	AGIHL
Zenith Service S.p.A. (ZSS)	Italy	Note 7	100	Trading	AGIHIS
Zen Finance Management S.R.L.	Italy	Note 7	50	Trading	ZSS
Arrow Global Italia S.R.L. (AGIS)	Italy	Note 7	100	Trading	AGIHL
VAR Reoco S.R.L.	Italy	Note 7	100	Trading	AGIS
Europa Investimenti Spa (EIS)	Italy	Note 8	71.7	Trading	AGIS
Europa Investimenti Trading S.R.L. (EITS)	Italy	Note 8	100	Trading	EIS
Fieramosca Dieci S.R.L.	Italy	Note 8	100	Trading	EIS
Sagitta SGR Spa	Italy	Note 8	97.26	Trading	EIS
Europa Investimenti Aziende S.R.L. (EIAS)	Italy	Note 8	100	Trading	EIS
Europa Investimenti Gestione Attivi S.R.L.	Italy	Note 8	100	Trading	EIS
Lanzone Due S.R.L.	Italy	Note 8	100	Trading	EIS
Lanzone Cinque S.R.L.	Italy	Note 8	100	Trading	EIS
Europa Investimenti Corporate Finance S.R.L.	Italy	Note 8	100	Trading	EIS
Lanzone Diciannove S.R.L. (LDS)	Italy	Note 8	100	Trading	EIS
Lanzone Dodici S.R.L.	Italy	Note 8	100	Trading	EIS
Lanzone Ventidue S.R.L.	Italy	Note 8	100	Trading	EIS
Lanzone Quindici S.R.L.	Italy	Note 8	100	Trading	EIS
Lanzone Ventuno S.R.L.	Italy	Note 9	70	Trading	LDS
LeaseCo First Srl	Italy	Note 7	100	Trading	ZSS
Whitestar S.R.L (WS)	Italy	Note 10	100	Trading	AGIS
New Call S.R.L.	Italy	Note 10	100	Trading	WS
Giardini di Sacro Monte Eco-Immobiliare S.r.l.	Italy	Note 7	100	Trading	AGIS
Etna SPV S.R.L	Italy	Note 7	100	Trading	AGIS
Etna Reoco S.R.L.	Italy	Note 7	0	Trading	N/A
Forest SPV S.R.L	Italy	Note 7	100	Trading	AGIS
Haywave SPV S.R.L	Italy	Note 7	100	Trading	N/A
Leonardo Investment Opportunities	Italy	Note 7	0	Trading	N/A
SPV Project 156 S.R.L	Italy	Note 7	100	Trading	AGIS
SPV Project 158 S.R.L	Italy	Note 7	0	Trading	N/A
SPV Project 1608	Italy	Note 7	0	Trading	N/A
SPV Project 1713 S.R.L	Italy	Note 7	100	Trading	AGIS
Vulcan SPV S.R.L	Italy	Note 7	100	Trading	AGIS
Zeus Finance S.R.L	Italy	Note 7	0	Trading	N/A
PARR SH. P.K.	Albania	Note 11	100	Trading	WS
Strzala Sp. z o.o.	Poland	Note 12	100	Dormant	AG(H)L/A GL
Capquest Debt Recovery S.A (pty) Limited	South Africa	Note 13	100	Dormant	CDRL
AGHL Portugal Investments Holdings, S.A. (AGHLPIH)	Portugal	Note 14	100	Trading	AGIHL
Every Possibilities – Unipessoal LDA (EPUL)	Portugal	Note 14	100	Trading	AGHLPIH
Little Turbilhão SA	Portugal	Note 14	100	Trading	AF3L
Hefesto STC, S.A.	Portugal	Note 15	100	Trading	AGHLPIH
Norfin Investimentos, S.A.(NISA)	Portugal	Note 16	100	Trading	AGHLPIH
Norfin – Sociedade Gestora de Organismos de Investimento Coletivo, S.A	Portugal	Note 15	100	Trading	NISA
Norfin – Serviços, S.A	Portugal	Note 16	100	Trading	NISA
Sandalgreen, Assets, S.A.	Portugal	Note 14	100	Trading	AF3L

Notes to the Financial Statements *(continued)*

22. 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
Sucesso Delicado, S.A.	Portugal	Note 14	100	Trading	AGHLPIH
Whitestar Asset Solutions, S.A.	Portugal	Note 15	100	Trading	AGHLPIH
Amstelveste Vastgoed B.V.	the Netherlands	Note 17	100	Trading	AGIHB/VFS
Arrow Global Investments Holdings Benelux B.V. (AGIHB)	the Netherlands	Note 17	100	Trading	AGIHL
Focum Groep B.V. (FG)	the Netherlands	Note 17	100	Trading	AGIHB
Focum Solutions B.V.	the Netherlands	Note 17	100	Trading	FG
Fiditon Holding B.V. (FH)	the Netherlands	Note 17	100	Trading	AGIHB
Focum Commerce B.V.	the Netherlands	Note 17	100	Trading	FG
Focum Finance B.V.	the Netherlands	Note 17	100	Trading	FG
Incassobureau Fiditon B.V.	the Netherlands	Note 17	100	Trading	FH
KU88 B.V.	the Netherlands	Note 17	100	Trading	AGBH
Universum Inkasso B.V. (UI)	the Netherlands	Note 17	100	Non-Trading	AGIHB
Vesting Finance Detachering B.V.	the Netherlands	Note 17	100	Trading	VFH
Vesting Finance Holding B.V. (VFH)	the Netherlands	Note 17	100	Trading	AGIHB
Vesting Finance Incasso B.V.	the Netherlands	Note 17	100	Trading	VFH
Vesting Finance Servicing B.V. (VFS)	the Netherlands	Note 17	100	Trading	AGIHB
Arrow Global Benelux (Holdings) B.V. (AGBH)	the Netherlands	Note 17	100	Trading	AGIHB
Spark Hypotheken B.V.	the Netherlands	Note 17	100	Trading	AGBH
Bow Advisers S.á r.l	Luxembourg	Note 18	100	Trading	AGGCML
Bow (Co-invest) Advisers S.á r.l	Luxembourg	Note 18	100	Trading	AGGCML
Bow (SMA)Advisers S.á r.l	Luxembourg	Note 18	100	Trading	AGGCML
Focum Belgium (BVBA)	Belgium	Note 19	100	Trading	AGIHB/FG

Notes to the Financial Statements *(continued)*

22. Investments in subsidiaries and associate *(continued)*

Notes	Registered addresses
Note 1	10th Floor, West One, 114 Wellington Street, Leeds, LS1 1BA
Note 2	Belvedere, 12 Booth Street, Manchester, M2 4AW
Note 3	20 Bentinck Street, London, W1U 2EU
Note 4	One Warrington Place, Dublin, D02 HH27
Note 5	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey
Note 6	27 Esplanade, St Helier, Jersey, JE1 1SG
Note 7	Via V. Betteloni 2, 20131 Milan
Note 8	Via Lanzone 31, 20123 Milan
Note 9	Via Niccolo Tommaseo 68, 35131 – Padova
Note 10	Via Pieve Torina, 44–46/a, 00156 Rome
Note 11	Kryqezimi i Rruges Irfan, Tomini me Bulevardin, Gjergj Fishta – Tirana
Note 12	Al. Jerozolimskie nr 148, 02–326, Warszawa
Note 13	Office Suite 15, Canal Edge 1, Tyger Waterfront, Carl Cronje Drive, Bellville, Western Cape, 7530, South Africa
Note 14	Edifício D. Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, 2770 203 Paço de Arcos, Portugal
Note 15	Avenida Almirante Gago Coutinho, nº. 30, piso 0 1000-017 Lisboa
Note 16	Avenida da República, nº 35, 4º, 1050–186, Lisboa–Portugal
Note 17	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands
Note 18	6D, route de Treves, L-2633 Senningerberg, Grand Duchy of Luxembourg
Note 19	Koralenhoeve 15, 2160 Wommelgem, Belgium

All subsidiaries are included in the Group consolidation, including where the Group does not own 100% of the ordinary shares of the Company. This may arise where the Group exercises control over the relevant activity of the entity and can use this control to impact the variability of returns from the entity. The Group, at times, must exercise judgement as to whether the combination of control and exposure to variability of returns arising from an entity means it is acting primarily as an agent, or as a principal for its own interests and should therefore consolidate the entity into the results of the Group. The Group went into significant consideration as to whether the Group's acquired stake in Maslow Global Limited and option to purchase the remaining 51% in the future required consolidation or not, and concluded that it should be treated as an investment in associate, see page 60 for more detail. The Group did not consolidate any entity which individually had material non-controlling interest balances, and, as such, no further disclosure on non-controlling interests have been provided in this note.

Financial support given to structured entities

During the period, the Group issued no guarantees to holders of notes issued by structured entities that the Group consolidates.

Company: investment in subsidiaries

	2021
	£000
Sherwood Acquisitions Limited	577,675
Sherwood Financing plc	50
Total	**577,725**

The investments in subsidiaries are all stated at cost less accumulated impairment, the latter which is zero.

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

22. Investments in subsidiaries and associate *(continued)*

Associate

On 31 December 2021, the Group acquired 49% of the share capital of Maslow Global Limited (Maslow). Maslow currently specialises in UK real estate development finance, the acquisition of which enhances the Group's capabilities in this sector of the market and enhances the pivot to a capital-light integrated fund manager. The total consideration for the investment is £36,750,000 including cash of £24,500,000, £12,250,000 of equity instruments via 3,983,740 shares in the parent company Sherwood Topco Limited. In addition, the Group entered into a share option agreement to acquire the remaining 51%. At the date of acquisition, the share option was valued at £25,434,000 and forms part of the consideration.

Maslow's principal place of business and country of incorporation is Guernsey, with a focus on the UK market. As at the period end the Group held 49% of the ownership interest.

The investment in Maslow has been recognised as an investment in associate and has been equity accounted.

The following is summarised financial information for Maslow as at the period end, modified for fair value adjustments on acquisition. No summary of comprehensive income has been presented as the investment occurred at the end of the period.

	2021
	£000
Maslow's summarised financial information	
Current assets	8,633
Non-current assets	11,992
Current liabilities	(1,693)
Net assets	**18,932**
Attributable to investee's shareholders	18,932
Group's interest in investee	
Group's interest in net assets of investee at the period end	9,277
Goodwill	52,907
Carrying amount of interest in investee at the period end	**62,184**

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

23. Portfolio investments

Split of portfolio investments by period:

	2021 £000
Expected falling due after 1 year	737,471
Expected falling due within 1 year	311,310
	1,048,781

The movements in portfolio investments were as follows:

As at 31 December 2021	**Amortised cost £000**	**FVTPL £000**	**Real estate inventories £000**	**Total £000**
Balance at 29 March 2021	–	–	–	–
Acquired on acquisition of subsidiary	739,732	262,188	43,391	1,045,311
Portfolios purchased during the period	12,633	59,204	–	71,837
Balance sheet cash collections in the period	(71,819)	(27,380)	(2,206)	(101,405)
Income from portfolio investments at amortised cost	26,929	–	–	26,929
Fair value gain on portfolio investments at FVTPL	–	27,229	–	27,229
Income from portfolio investments – real estate inventories	–	–	379	379
Net impairment losses	(4,058)	–	(850)	(4,908)
Exchange and other movements	1,527	(18,433)	315	(16,591)
As at the period end	**704,944**	**302,808**	**41,029**	**1,048,781**

Note that for real estate inventories, which are not financial instruments, the balance sheet cash collections figure above is analogous to total sales of inventories, and the net of balance sheet cash collections and income from portfolio investments – real estate inventories, is analogous to cost of sales of inventories. Sales of inventories are accounted for as revenue under IFRS 15, as they are not financial instruments, but are presented alongside the other portfolio investments for ease of reference.

Incorporation of forward-looking information

Note 4 includes a description of how the future cash flows are estimated for the Group's portfolio investments. Additionally, the Group incorporates forward-looking information in the measurement of portfolio investments held at amortised cost. The Group formulates three economic scenarios: a base case, which is the central scenario, developed based on consensus forecasts, and two less likely scenarios – one upside and one downside scenario.

These scenarios are calculated by an external and independent macroeconomic forecasting company and are reviewed internally before being used in the Group's models. To derive these scenarios, multiple sources of information are considered, including economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund, and selected private-sector and academic forecasts.

The Group has identified and documented key drivers of credit risk for its portfolio investments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key drivers for credit risk for portfolio investments are: HPI's and unemployment rates, with all countries using the international labour organisation definition across countries. For exposures to specific regions, the key drivers also include relevant real estate prices.

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

23. Portfolio investments *(continued)*

Scenario modelling information

To assist with the understanding of how the Group has modelled the future cash flows which ultimately drive the valuation of the portfolio investment assets, the below table shows the probability that has been assigned to each macroeconomic scenario when preparing the cash flow forecasts.

Key sensitivities

The estimated future cash flows generated by portfolio investments are the key estimates/judgements in these financial statements. Flexing the expected future gross cash flows by -1/+1% would impact the closing carrying value of the portfolio investments as at 31 December 2021 by £10,078,000. Note that this sensitivity applies only to 'amortised cost' and 'FVTPL' portfolio investments, as this is not a critical estimate for real estate portfolio assets.

A key input into the estimate of future cash flows is the probability assigned to each of the 'base', 'downside' and 'severe' cases. If 100% probability was assigned to the most optimistic/pessimistic scenario, the impact is shown in the below table, split by geography and asset class. Note that this sensitivity applies only to 'amortised cost' and 'FVTPL' portfolio investments, as this is not a critical estimate for real estate portfolio assets, as these are only assessed for impairment each period, and such an assessment does not necessarily take into account the multiple future economic scenarios.

2021	Carrying balance	Upside variance	Downside variance
Geography	**£000**	**£000**	**£000**
UK and Ireland	381,659	12,396	(13,869)
Portugal	231,922	20,714	(15,422)
Netherlands	162,884	21,979	(15,450)
Italy	272,316	3,796	(2,958)
	1,048,781	**58,885**	**(47,699)**

2021	Carrying balance	Upside variance	Downside variance
Asset class	**£000**	**£000**	**£000**
Secured	357,593	27,042	(19,534)
Unsecured	650,159	32,093	(28,367)
Real estate inventories	41,029	N/a	N/a
	1,048,781	**59,135**	**(47,901)**

ARROW GLOBAL

Notes to the Financial Statements (continued)

24. Risks arising from financial instruments

Risk management

Credit risk

One of the Group's principal activities is the acquisition and management of non-performing and non-core consumer and commercial unsecured, secured and real estate portfolios. Most portfolios by their nature are impaired at acquisition and the Group continually monitors balance sheet cash collections that in turn inform the ERCs on which the portfolio carrying value is calculated. The ongoing risk is managed through a portfolio valuation process including modelling current expectations of recoverability based on historical information of debt types, also factoring in sale recoveries from collateral held on the secured portfolios. Further details of the forecasting process are given in note 4.i.

An investment process is in place to approve investments on the Arrow balance sheet and in respect of Arrow's participation in fund investments through its separately managed account. The Group also monitors its exposure to geographic concentration of assets. This process exists to scrutinise all aspects of a portfolio acquisition from reputational and regulatory risk through to the financial assumptions and maximum bid price.

Where portfolio investments 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 impairment gains/losses as a result of changes to the estimated cash flows discounted at the EIR rate. Where portfolio investments are measured at FVTPL, they are measured using a discounted cash flow model.

The Group's management of credit risk is further enhanced through the modelling of multiple economic scenarios and the impact this is expected to have on future balance sheet cash collections performance. All of the Group's portfolio investments have been classified as POCI, due to their credit-impaired nature at the date of purchase. Therefore, no consideration has been given to the staging requirements of IFRS 9 for the Group's portfolio assets.

Given the nature of the portfolios the Group purchases, most arrangements entered into with our customers are of a non-contractual nature, where we work to establish, or re-establish, suitable payment plans that are affordable and sustainable.

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.

Credit quality analysis

The Group's purchased portfolio investments have been classified as purchased or originated as credit impaired (POCI) as they include financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses (ECL) against POCI exposures are always calculated on a lifetime basis (cumulative changes in ECL since initial recognition), and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, any changes in lifetime ECL after initial recognition are recognised in profit or loss. The ECL calculation for POCI assets is based on an ECL over 84-months.

In determining ECLs, the assessment of forward-looking economic assumptions, which are sourced from an independent specialist forecasting company, the Group considers a number of macroeconomic scenarios, including assumptions on unemployment and HPI. These scenarios are probability weighted according to their likely occurrence. The scenarios include a central scenario, based on the current economic environment, as well as upside and downside scenarios. The estimation and application of this forward-looking information requires significant judgement and is subject to appropriate internal governance.

Impairment gains/losses are changes to carrying values, discounted at the EIR rate, of the acquired debt portfolios as a result of reassessments of their estimated future cash flows and are recognised in the line item 'impairment gains on portfolio investments at amortised cost'. There are generally no credit risk mitigants relating to the Group's unsecured portfolio investments.

Notes to the Financial Statements (continued)

24. Risks arising from financial instruments *(continued)*

As all of the Group's amortised cost portfolio assets are POCI, the cash flows are subject to reassessment each period. For any portfolios that may be sold to a third party from time to time, these are first subject to a cash flow reassessment. Expected cash flows in such a scenario would be linked to the likely sale proceeds, meaning that all such assets would be written to their expected selling price via an impairment gain/loss, before being sold.

The following tables sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated the amounts in the table represent gross carrying amounts.

As at 31 December 2021	Stage 1-3	POCI	Total
	£000	£000	£000
Portfolio investments – amortised cost	–	704,944	704,944
Loss allowance	–	N/a	N/a
Carrying amount	**–**	**704,944**	**704,944**

The following table sets out a geographical analysis of all portfolio investments:

All portfolio balances	2021 £000
UK and Ireland	381,659
Portugal	231,922
Netherlands	162,884
Italy	272,316
	1,048,781

The following tables sets out further credit analysis for portfolio investments measured at amortised cost:

As at 31 December 2021

Amortised cost portfolio balances	Secured £000	Unsecured £000	Total £000
UK and Ireland	34,878	286,457	321,335
Netherlands	42,359	125,560	167,919
Portugal	1,292	42,071	43,363
Italy	46,526	125,801	172,327
Carrying amount	**125,055**	**579,889**	**704,944**

Portfolio balances are based on the customer's country of domicile

The Group's maximum exposure to credit risk on portfolio investments is considered equal to the current carrying balance of such portfolio investments.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

Information on collateral held against amortised cost secured loans

The following table stratifies credit exposures from secured portfolio investments held at amortised cost by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral is based on the most recent appraisals. LTV stratification is deemed a more relevant measure of the value of collateral held against secured loans than gross collateral values held, which may include an amount which is not due to the Group upon realisation.

LTV Ratio	2021 £000
Less than 50%	36,171
51-70%	9,877
71-90%	10,889
91-100%	3,256
More than 100%	64,862
	125,055

Other types of credit enhancements

In addition to the collateral included in the tables above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

Assets obtained by taking possession of collateral

There have been no instances of financial or non-financial assets, obtained by the Group during the period, by taking possession of collateral held as security against portfolio investments.

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operation.

Significant increase in credit risk

There are no significant increases or decreases in credit risk since origination as all portfolio investments have been deemed to be purchased or originated credit impaired on initial recognition.

Cash and cash equivalents

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 contractual arrangements and warranties.

The Group generally deposits cash and undertakes currency and derivative transactions with highly rated banks, with limits on the level of exposure to any one institution. Institutions with lower credit ratings can only be used with board approval.

No collateral or credit enhancements are held in respect of any financial derivatives. The maximum credit risk on derivatives and trade receivables is the full carrying amount. The maximum exposure to counterparty risk is as follows:

	2021 £000
Cash and cash equivalents[1]	202,263

[1] Includes £3,352,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position. Therefore, there is £198,911,000 of cash and cash equivalents in the consolidated statement of financial position.

The table represents a worst-case scenario of the counterparty risk that the Group is exposed to. The 31 December 2021 balance is spread across a number of counterparties with the top five accounting for 61% of the total. The maximum exposure to one counterparty is £71 million.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

The cash and cash equivalents are held with banks and financial institution counterparties whose external credit ratings, by either S&P Global Ratings or Moody's Investor Service, are as follows:

	2021
	%
AA	4
A	62
Below A	34
Total cash and cash equivalents	**100**

Treasury-related risks

The board approves treasury policies and the treasury function manages the day-to-day operations. 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 risks are 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 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 treasury-related written options were entered into during 2021.

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 and cash and cash equivalents to meet contractual maturities on borrowing facilities plus an operational headroom. In addition, the Group has a medium-term target to maintain leverage of circa 3 times, there is an appropriate refinancing profile and it has diversified funding sources with no over-reliance on a single or small group of lenders or type of funding. At 31 December 2021, the Group's senior secured notes, revolving credit facility and asset-backed security transaction had an average period to maturity of 5.0 years. Total cash and undrawn facilities, which excludes cash that may be subject to constraints regarding when the balance can be remitted, were £304.3 million at 31 December 2021.

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 is highly cash generative with regular cash receipts and portfolio purchases (except forward flows) are discretionary, which helps to mitigate liquidity risk.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

The key measure used by the Group for managing liquidity risk is liquidity headroom, which includes cash and cash equivalents and the headroom under the revolving credit facility. Liquidity headroom excludes cash which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated securitisation structure awaiting a payment date. Details of the liquidity headroom as at the reporting date and during the reporting period were as follows:

	2021[1]
	£000
At 31 December	304,335
Average for the period	204,723
Minimum for the period	148,813
Maximum for the period	333,657

[1] Reflects the annualised position for the Arrow business, including results prior to acquisition

Maturity analysis

The table below sets out the remaining contractual maturities (undiscounted) of the Group's financial liabilities and financial assets and includes both interest and principal cash flows, payable over the contractual life of the non-derivative financial liabilities.

Group **As at 31 December 2021**	**Less than 1 month** **£000**	**Within 1 year** **£000**	**1-2 years** **£000**	**3-5 years** **£000**	**More than 5 years** **£000**	**Total** **£000**
Financial liability by type:						
Trade and other payables	13,434	107,413	56,426	40,072	6,865	**224,210**
Lease liabilities	–	2,193	5,781	–	–	**7,974**
£350 million secured senior note (6%)	485	20,515	21,000	413,000	–	**455,000**
€640 million secured senior note (4.625% plus 3-month Euribor)	556	24,419	28,297	88,532	566,636	**708,440**
€400 million secured senior note (4.5%)	557	14,554	15,111	381,133	–	**411,355**
Revolving credit facility[1]	537	6,574	8,159	189,377	–	**204,647**
Asset-backed securitisation	1,188	44,196	11,720	–	–	**57,104**
Other borrowings	–	1,072	1,133	36	–	**2,241**
Bank overdrafts	9,630	–	–	–	–	**9,630**
Total financial liabilities	**26,387**	**220,936**	**147,627**	**1,112,150**	**573,501**	**2,080,601**
Financial asset by type:						
Cash and cash equivalents[2]	202,263	–	–	–	–	**202,263**
Portfolio investments	32,687	292,327	278,490	681,908	182,524	**1,467,936**
Total financial assets	**234,950**	**292,327**	**278,490**	**681,908**	**182,524**	**1,670,199**

[1] Reflects all drawings at 31 December 2021 being held to the facility maturity date of April 2026.

[2] Includes £3,352,000 of cash and cash equivalents in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position.

The above table includes a maturity analysis for financial assets that it holds as part of managing liquidity risk – e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities – to enable the user to evaluate the nature and extent of the Group's and the Company's liquidity risk.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents which can be readily used to meet liquidity requirements. In addition, the Group maintains a committed revolving credit facility provided by a syndicate of banks.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

The non-derivative financial liabilities and financial assets are calculated based upon the undiscounted cash flows, which include estimated interest payments. 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.

Company **As at 31 December 2021**	**Less than 1 month £000**	**Within 1 year £000**	**1-2 years £000**	**3-5 years £000**	**More than 5 years £000**	**Total £000**
Financial liability by type:						
Trade and other payables	55	–	–	–	–	**55**
Total financial liabilities	**55**	**–**	**–**	**–**	**–**	**55**

In addition to the above, the Group has entered into certain forward flow agreements to purchase investment portfolio assets to which it has committed to pay an estimated £18,000,000 during 2022.

The following analysis shows the gross non-discounted contractual cash flows in respect of foreign currency contract derivative assets and liabilities:

	2021	
	Outflow £000	**Inflow £000**
Not later than one month	–	–
Later than one month and not later than six months	–	–
Later than six months and not later than one year	2,614	2,503
Later than one year and not later than two years	–	–
Later than two years and not later than five years	–	–
Total	**2,614**	**2,503**

The above table shows the gross contractual undiscounted cash flows receivable and payable on the derivative financial instruments.

The net cash flow exposure as at 31 December 2021 is £111,000.

Financial assets pledged as collateral

See note 27 for more information.

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 and are considered further below. Note that the Group does not hold any trading portfolios for the purposes of these disclosures.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

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), 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.

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:

	2021
Fixed-rate instruments	**£000**
Financial liabilities	685,800
	685,800
Variable-rate instruments	
Financial assets[1]	(202,263)
Financial liabilities	773,866
	571,603

[1] Includes £3,352,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position. Therefore, there is £198,911,000 of cash and cash equivalents in the consolidated statement of financial position.

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

	2021
	£000
Reduction in profit before taxation	(548)

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 highly likely 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 Group limits its exposure to currency risk on non-functional funding through forward currency contracts. 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, to an acceptable level of appetite, the value of net assets denominated in Euro by funding portfolio assets with Euro denominated borrowings where possible.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

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. This risk is managed by the Group matching Euro asset purchases with Euro funding wherever possible, to achieve an element of natural hedging.

Foreign currency sensitivity analysis

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 as follows:

	2021
Equity and net assets	**£000**
Currency	
Euro (EUR)	(37,413)
	(37,413)
Net profit	
Currency	
Euro (EUR)	887
	887

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).

If foreign exchange rates had been 10% weaker than Sterling than those at the statement of financial position date and all other variables were held constant, the Group's net assets and net profit for each significant denomination of currency would increase as follows:

	2021
Equity and net assets	**£000**
Currency	
Euro (EUR)	30,610
	30,610
Net Profit	
Currency	
Euro (EUR)	(726)
	(726)

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).

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 but has a medium-term target to maintain leverage (calculated as secured net debt over Adjusted EBITDA) of circa 3.0.

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 capital structure of the Group consists of cash, cash equivalents debt and equity.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

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 2021 was:

	2021
	£000
Ordinary share capital and premium	577,672
Other reserves	(70,720)
Total equity and reserves	**506,952**

25. Financial assets and liabilities

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. The Group does not apply 'offsetting' to any of its financial assets and liabilities.

As at 31 December 2021	**Mandatorily at FVTPL**	**Amortised cost**	**Total carrying amount**	**Total fair value**
	£000	**£000**	**£000**	**£000**
Portfolio investments	302,808	704,944	1,007,752	1,006,042
Cash and cash equivalents[1]	–	202,263	202,263	202,263
Other receivables classified as financial assets	–	47,458	47,458	47,458
Total financial assets	**302,808**	**954,665**	**1,257,473**	**1,255,763**

[1] Includes £3,352,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position. Therefore, there is £198,911,000 of cash and cash equivalents in the consolidated statement of financial position.

As at 31 December 2021	**Mandatorily at FVTPL**	**Amortised cost**	**Total carrying amount**	**Total fair value**
	£000	**£000**	**£000**	**£000**
Senior secured notes	–	1,211,416	1,211,416	1,226,970
Revolving credit facility	–	167,373	167,373	167,373
Asset-backed loans	–	55,158	55,158	55,158
Bank overdrafts[1]	–	9,559	9,559	9,559
Other borrowings	–	2,241	2,241	2,241
Derivative liability	25,607	–	25,607	25,607
Trade and other payables classified as financial liabilities	495	111,273	111,768	111,768
Total financial liabilities	**26,102**	**1,557,020**	**1,583,122**	**1,598,676**

[1] Includes £71,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Liabilities held for sale' on the condensed consolidated statement of financial position. Therefore, there is £9,630,000 of bank overdrafts in the consolidated statement of financial position.

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

Notes to the Financial Statements *(continued)*

25. Financial assets and liabilities *(continued)*

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 the differences between the instruments.

Application to the Group's financial assets and liabilities

The fair value of amortised cost portfolio investments has been calculated by observing the compression in market yields over time and applying the difference between current average market IRRs for the Group's most recent vintage, and applying this as a premium or discount to prior years' vintages. This approach takes into account changes in market pricing factors over time, while retaining the consideration of the individual characteristics of each portfolio. As this calculation is based on unobservable inputs, these fair values would be categorised as level 3 values. The primary unobservable input to which this valuation is sensitive to is the current market rates for portfolios. A 1% rise/fall in this rate would lead to a reduction/uplift in fair value of £(10,583,000)/£10,972,000.

The fair value of cash and cash equivalents and the revolving credit facility are deemed to be equal to their carrying amount.

The carrying value of other receivables and payables classified as financial assets/liabilities is deemed to be a good approximation of their fair value, due to their short maturity and low credit risk. These would be considered as level 3 fair values.

The carrying value of asset-backed loans is deemed to be a good approximation of their fair value. Given the significant collateral underpinning the asset-backed loans, it is deemed appropriate to not adjust the carrying value for expected credit losses when deriving the fair value of the loans. Additionally, the market rate is not deemed to have materially changed since the issuance of the asset-backed loans. The fair value would be categorised as a level 3 value.

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 discounted 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.

Notes to the Financial Statements *(continued)*

25. Financial assets and liabilities *(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.

	2021
Level 3	**£000**
Assets:	
Portfolio investments	302,808
Liabilities:	
Contingent consideration	(495)
Derivative liabilities	(25,607)
	276,706

There are no assets or liabilities classed as Level 2. There have been no transfers between level 2 or level 3.

The fair value of derivative financial instruments used for risk management purposes has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at 31 December 2021.

The fair value of derivative financial instruments relating to the Maslow acquisition share option has been calculated using a binomial lattice model.

Total gains on portfolio investments recognised at FVTPL have been presented in the income statement as 'Fair value gains on portfolio investments at FVTPL'. The fair value of portfolio investments recognised as FVTPL has been calculated by using a discounted cash flow model. The significant unobservable inputs used in the calculation of portfolio investments categorised as level 3 in the fair value hierarchy are estimated future cash flows (ERCs) derived from management forecasts and the discount rate appropriate to the investment and the anticipated rate of return.

The total 84-month ERC value for the Group's portfolio investments held at FVTPL is £407,494,000, with an average discount rate of 15.1%. An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at FVTPL of £3,028,000/(£3,028,000). An increase/decrease in the discount rate of 1% would lead to a decrease/increase in the carrying value of portfolio investments held at FVTPL of (£5,474,000)/£5,674,000.

The total ERC value for the Group's portfolio investments held at amortised cost is £1,018,938,000, with an average discount rate of 21.7%. An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at amortised costs of £7,049,000/(£7,049,000). An increase/decrease in the discount rate of 1% would lead to a decrease/increase in the carrying value of portfolio investments held at amortised of (£10,583,000)/£10,972,000. A full reconciliation between the opening and closing portfolio investments held at FVTPL has been provided in note 23. For a fuller description of how the future cash flows are estimated, please refer to note 4.

Notes to the Financial Statements *(continued)*

25. Financial assets and liabilities *(continued)*

Reconciliation of level 3 fair values – contingent consideration

Contingent consideration – level 3	2021 £000
As at 29 March 2021 (incorporation)	–
Acquired on acquisition of subsidiary	491
Unwind of discounting	4
As at the period end	495

Contingent consideration has arisen as a result of business combinations in prior periods of Arrow Global Group Limited and its subsidiaries. The outstanding balance of £495,000 relates to the acquisition of Drydens and has a minimum/maximum pay-out of £nil/£500,000.

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments, 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 2021 is £2,614,000. The fair value as at 31 December 2021 £105,000.

Financial instruments not measured at fair value – fair value hierarchy

The following table analyses financial instruments not measured at fair value at the reporting date, by the level in the fair value hierarchy into which the measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

Level 3	2021 £000
Assets:	
Portfolio investments – amortised cost	**704,944**

There have been no transfers in or out of level 3. However, it has been determined that deferred consideration liabilities qualify as level 3 financial liabilities held at amortised cost. The statement of financial position value of the Group's portfolio investments not measured at fair value, is derived from discounted cash flows generated by an internal model. For a fuller description of how the future cash flows are estimated, please refer to note 4. Following acquisition, the fair value will move directionally in line with carrying amount but may deviate as market conditions change.

The Group has an established control framework covering the measurement of portfolio investment carrying 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, approves 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 portfolio investments can be seen in note 23.

The Company did not hold any other financial instruments not measured at fair value for which a fair value needs to be calculated.

Notes to the Financial Statements *(continued)*

26. Unconsolidated structured entities

Unconsolidated structured entities are all structured entities that the Group has an interest in, but does not control. The Group uses structured entities in the normal course of business to facilitate acquisitions of portfolios in accordance with local law, to allow co-investment with other parties, or to implement the financing required to acquire portfolios.

In addition to exposures to unconsolidated structured entities, the Group also undertakes Asset Management and Servicing activities for certain structured entities in which the Group has no other interests. Such activities are charged at a market rates, on terms normal for the industry, and are considered to be a typical customer/supplier relationship per the meaning of this term set out in 'IFRS 12 – Disclosure of Interests in Other Entities'.

Nature and risks associated with Group interests in unconsolidated structured entities:

Geography of operations

As at 31 December 2021	**UK and Ireland**	**Portugal**	**Italy**	**Netherlands**
Underlying asset type				
Loan receivables	10	6	3	5
Real estate	–	2	–	–
Number of entities	**10**	**8**	**3**	**5**

As at 31 December 2021	**UK and Ireland**	**Portugal**	**Italy**	**Netherlands**
Portfolio investments	**£000**	**£000**	**£000**	**£000**
FVTPL	45,309	47,837	69,308	117,967
Amortised cost	–	–	–	–
Total assets	**45,309**	**47,837**	**69,308**	**117,967**
Total liabilities	**–**	**–**	**–**	**–**

The maximum exposure to loss is the carrying value of the instruments summarised above, due to the nature of the Group's holdings at the fact that no additional support has been provided or committed to the vehicles.

Unconsolidated structured entities in which the Group holds an interest are typically financed by a form of junior profit participation note, and in some instances also have senior secured or senior unsecured liabilities to which the junior positions are subordinated.

Notes to the Financial Statements *(continued)*

27. Borrowings

	2021
	£000
Senior secured notes net of transaction fees of £20,538,000	1,211,416
Revolving credit facility net of transaction fees of £4,042,000	167,373
Asset-backed loans net of transaction fees of £636,000	55,158
Bank overdrafts[1]	9,559
Other borrowings	2,241
Total borrowing including held for sale	**1,445,747**
Bank overdraft moved to liabilities held for sale	71
Total borrowings excluding held for sale	**1,445,818**
Total borrowings including held for sale	
Amount due for settlement within 12 months	220,813
Amount due for settlement after 12 months	1,224,934

[1] Bank overdraft includes £71,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Liabilities held for sale' on the condensed consolidated statement of financial position. Therefore, there is £9,630,000 of bank overdrafts on the consolidated statement of financial position. See note 29 for more information.

Senior secured notes

On 27 October 2021, Group successfully priced €400 million 4.5% Euro fixed rated bonds due 2026, €640 million 4.625% over three months EURIBOR floating rate notes due 2027, and £350 million 6% fixed rate bonds due 2026, with the proceeds being used to prepay all the outstanding bonds at that time and certain drawings under the revolving credit facility. The bonds were issued by Sherwood Financing plc and the floating rate notes are subject to a zero percent EURIBOR floor. The bonds are secured on the majority of the Group's assets.

Revolving credit facility

On 6 October 2021, the Group entered into a new £285 million revolving credit facility with a margin of 325bps, maturing in April 2026. The margin is subject to a ratchet downwards based upon decreasing leverage levels. The facility ranks senior secured and therefore has a similar security package to the cancelled facility. Under the terms of an intercreditor agreement, the facility ranks super senior to the bonds as any obligations under the facility will be settled in advance of any obligations under the bonds.

The facility has one financial covenant, being a leverage test. On 11 October 2021, the revolving credit facility in place at the time, also for £285 million, was cancelled and this facility had three financial covenants, being leverage, liquidity and SSLTV tests.

Asset-backed securitisation

Prior to the acquisition by TDR, the Arrow Global Group Limited (AGG) Group entered into two non-recourse committed asset-backed securitisation term loans.

The first loan was initially established in April 2019 and is secured on UK unsecured assets, pays LIBOR plus 3.1%. The amount outstanding as at 31 December 2021 is £38.2 million.

The asset-backed facility was initially established for £100 million in April 2019 with £137 million of ERC being sold to a wholly owned subsidiary, AGL Fleetwood Limited, and further ERC has been sold to AGL Fleetwood Limited at various times since the initial set up allowing further borrowings to be drawn.

Since 1 January 2020, there has been one such drawing. On 31 March 2020, the AGG Group sold £30 million of ERC into AGL Fleetwood Limited and on 2 April 2020 borrowed an additional £21 million non-recourse funding on the same terms under the facility.

Notes to the Financial Statements *(continued)*

27. Borrowings *(continued)*

During July 2020, the AGG Group entered into further arrangements in connection with the non-recourse facility to mitigate potential balance sheet cash collections impacts of COVID-19. An additional £33 million of 84-month ERC was sold into the structure with no additional borrowings made. In consideration of the additional ERC pledged, the lender agreed to amend certain performance criteria.

Since January 2022, the loan has been amended to reflect the transition from LIBOR to SONIA.

During July 2020, the AGG Group entered into a second non-recourse fully drawn amortising loan of €104.7 million. This loan was secured against €356 million of Portuguese 84-month ERC at a margin of 4.25%. The outstanding amount of the loan as at 31 December 2021 was €17.4 million. The loan was fully repaid in January 2022.

As at 31 December 2021, £262.6 million of the portfolio investments, set out in note 23, are pledged as collateral for the asset-backed securitisations.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Senior secured notes £000	Asset-backed loans £000	Revolving credit facility £000	Lease liabilities £000	Deferred and contingent consideration £000	Other borrowings £000	Total £000
		£000	£000	£000	£000	£000	£000
Balance at 29 March 2021 (incorporation)	–	–	–	–	–	–	–
Acquired on acquisition of subsidiary	**976,436**	**74,795**	**232,179**	**17,217**	**23,517**	**4,165**	**1,328,309**
Movement in other banking facilities	–	–	(327,623)	–	–	7,918	(319,705)
Net proceeds from revolving credit facility	–	–	263,162	–	–	–	263,162
Proceeds from issued notes (net of fees)	1,226,705	–	–	–	–	–	1,226,705
Redemption of issued notes	(959,084)	–	–	–	–	–	(959,084)
Early bond repayment costs	(17,035)	–	–	–	–	–	(17,035)
Repayment of asset-backed loans	–	(19,408)	–	–	–	–	(19,408)
Repayment of interest on issued notes	(4,750)	–	–	–	–	–	(4,750)
Repayment of interest on asset-backed loans	–	(658)	–	–	–	–	(658)
Payments on lease liabilities	–	–	–	(1,191)	–	–	(1,191)
Banking facility interest and other fees paid	–	–	–	–	–	(350)	(350)
Payment of deferred interest	–	–	–	–	(1,419)	–	(1,419)
Total changes from financing cash flows	**245,836**	**(20,066)**	**(64,461)**	**(1,191)**	**(1,419)**	**7,568**	**166,267**
Liability-related							
Interest expense on issued notes	11,824	488	–	–	–	–	12,312
Amortisation of capitalised transaction fees	708	803	202	-	-	25	1,738
Banking facility interest and other fees	–	–	1,541	–	–	(9)	1,532
Other interest including on finance leases	–	–	–	202	63	564	829
Refinancing	17,916	–	5,031	–	–	(62)	22,885
Total interest and similar charges	**30,448**	**1,291**	**6,774**	**202**	**63**	**518**	**39,296**
The effect of changes in foreign exchange rates	(30,953)	(989)	(1,069)	(21)	(87)	(503)	(33,622)
Capitalised transaction fees	–	–	(4,275)	–	–	61	(4,214)
Net deferred consideration commitments	–	–	–	–	7,283	–	7,283
Issue of share option derivative	–	–	–	–	–	25,434	25,434
Other changes	(10,351)	127	(1,775)	2,087	–	164	(9,748)
Total liability-related changes	**(41,304)**	**(862)**	**(7,119)**	**2,066**	**7,196**	**25,156**	**(14,867)**
Balance at 31 December 2021	**1,211,416**	**55,158**	**167,373**	**18,294**	**29,357**	**37,407**	**1,519,005**

Notes to the Financial Statements *(continued)*

27. Borrowings *(continued)*

Other borrowings

	2021
	£000
Other borrowings	2,241
Bank overdrafts[1]	9,559
Derivative liability	25,607
	37,407

[1] Bank overdraft includes £71,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Liabilities held for sale' on the condensed consolidated statement of financial position. Therefore, there is £9,630,000 of bank overdrafts on the consolidated statement of financial position

28. Acquisition of subsidiary undertaking

a. Arrow Global Group plc (Arrow)

On 11 October 2021, the Group acquired 100% of the share capital of Arrow Global Group plc (now Arrow Global Group Limited). Arrow is a leading European integrated asset manager in the non-performing and non-core assets sector. The total consideration for the acquisition is £565,423,000, consisting of £512,951,000 cash and £52,472,000 of equity instruments, via 17,063,972 shares in the parent company Sherwood Topco Limited. The fair value of the Sherwood Topco Limited shares was based on the cash offer price of 307.5p per share, effected by the Scheme of Arrangement for the acquisition.

In the period from acquisition to 31 December 2021, Arrow contributed income of £64,868,000 and loss after tax contribution of £106,696,000 to the consolidated results for the period. If the acquisition had occurred on 29 March 2021, Group total income would have been higher by an estimated £174,691,000 and loss after tax would have been higher by an estimated £22,992,000, including £44,544,000 relating to the costs of acquisition incurred by Arrow Global Group plc prior to the acquisition. The underlying loss after tax (not including such acquisition costs) for the period 29 March 2021 to 31 December was an estimated £18,926,000.

Acquisition related costs

The Group incurred acquisition-related costs of £39,356,000 on advisory fees and execution costs. These costs have been included in other operating expenses.

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Notes to the Financial Statements *(continued)*

28. Acquisition of subsidiary undertaking *(continued)*

Effect of the acquisition

The fair values of the identifiable assets acquired and liabilities assumed are as set out in the table below. Acquisition related costs are expensed in the profit or loss in the reporting period:

	Note	Book value 11 October 2021	Fair value adjustments 11 October 2021	Fair value 11 October 2021
		£000	£000	£000
Cash and cash equivalents		125,021	–	125,021
Trade and other receivables		59,033	–	59,033
Portfolio investments		1,039,945	5,366	1,045,311
Property, plant and equipment		16,658	1,556	18,214
Intangible assets		38,502	101,821	140,323
Deferred tax asset	11	38,411	(20,279)	18,132
Goodwill		270,027	(270,027)	–
Bank overdrafts		(1,739)	–	(1,739)
Revolving credit facility		(229,930)	(2,249)	(232,179)
Derivative liability		(58)	–	(58)
Trade and other payables		(186,524)	(10,855)	(197,379)
Current tax asset		(2,180)	2,300	120
Other borrowings		(2,368)	–	(2,368)
Asset-backed loans		(74,795)	–	(74,795)
Senior secured notes		(966,764)	(9,672)	(976,436)
Deferred tax liability	11	(18,694)	(21,699)	(40,393)
Total identifiable net assets		**104,545**	**(223,738)**	**(119,193)**
Goodwill on acquisition				688,063
				568,870
Non-controlling interest				**(3,477)**
				565,423
Consideration:				
Cash consideration				512,951
Shares in Sherwood Topco Limited				52,472
				565,423

Cash impact of acquisition in the period:	**£000**
Cash consideration	512,951
Cash and cash equivalents acquired	(125,021)
	387,930

Notes to the Financial Statements *(continued)*

28. Acquisition of subsidiary undertaking *(continued)*

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired under IFRS 13 were as follows.

Portfolio investments	*Market comparison technique and income approach* The valuation model considers market valuations for portfolios where available, and an income approach for the remainder in the form of a discounted cash flow analysis.
Intangible assets – customer intangibles	*Multi-period excess earnings method* The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.
Intangible assets - software	*Cost approach* The cost approach used is the depreciated replacement cost, reflecting adjustments for functional and economic obsolescence.

Newly identified customer intangible assets of £104,099,000 have been recognised at acquisition.

Other adjustments were made to the acquisition balance sheet of Arrow following post-acquisition events that provided additional information as to the fair value as at acquisition. This includes adjustments to the value of debt obligations redeemed shortly after acquisition and adjustment to assets and liabilities of Whitestar Italy following market offers for the business.

Lease assets and liabilities and deferred tax balances have been remeasured at the acquisition date under IFRS 16 and IAS 12 respectively.

Fair values measured on a provisional basis

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Goodwill

Goodwill from the acquisition has been recognised as follows:

	£000
Consideration transferred	565,423
Non-controlling interest	3,447
Fair value of identifiable net liabilities	119,193
	688,063

Notes to the Financial Statements *(continued)*

29. Disposal group held for sale

During the second half of 2021, Arrow Global committed to a plan to dispose of the business operations of Whitestar Italia S.r.l. (Whitestar Italy). Whitestar Italy is part of the AMS segment, seen in note 5. Accordingly, the relevant assets and liabilities are presented as a disposal group held for sale. The sale is expected to complete in the first quarter of 2022.

Impairment losses relating to the disposal group

Impairment losses of £1,107,000 have been recognised in other operating expenses, in addition to an acquisition impairment of £817,000 in the opening balance sheet. The impairment losses have been applied to reduce the carrying amount of property, plant and equipment and other intangible assets to nil within the disposal group as well as recognising further liabilities for expected selling costs.

Assets and liabilities of disposal group held for sale

	Note	£000
Cash and cash equivalents		3,352
Trade and other receivables	**15**	1,546
Deferred tax asset	**11**	757
Assets held for sale		**5,655**
Trade and other payables	**16**	(6,652)
Bank overdraft	**27**	71
Current tax liability		926
Liabilities held for sale		**(5,655)**

Cumulative income or expenses included in OCI

There are no cumulative income or expenses included in the OCI relating to the disposal group.

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Notes to the Financial Statements *(continued)*

30. Notes to the statement of cash flows

	Group 2021 £000	Company 2021 £000
Loss after tax	(71,649)	(2)
Adjusted for:		
Balance sheet cash collections in the period	101,405	–
Income from portfolio investments	(27,308)	–
Fair value gains on portfolios	(27,229)	–
Net impairment losses	4,908	–
Depreciation and amortisation	6,855	–
Loss on write-off and disposal of property, plant and equipment	741	–
Loss on write-off and disposal of intangible assets	6,905	–
Net interest payable	39,094	–
Lease liability interest	202	–
Foreign exchange gains	(2,166)	–
Tax charge	4,023	–
Operating cash flows before movement in working capital	**35,781**	**(2)**
Decrease in other receivables	4,355	–
Decrease in amounts due to/from subsidiary undertakings	–	-
Decrease in trade and other payables	(19,969)	–
Cash generated by operations	**20,167**	**(2)**
Income taxes and overseas taxation paid	(5,126)	–
Net cash flow from operating activities before purchases of portfolio investments	**15,041**	**(2)**
Purchase of portfolio investments	(71,837)	–
Net cash generated by operating activities	**(56,796)**	**(2)**

31. Parent Undertaking

The immediate parent company is Sherwood Midco Limited. The ultimate parent company is TDR Nominees 2016 Limited, which is incorporated in England and Wales.

32. Post balance sheet events

Since the period end, we have seen the development concerning the Ukrainian crisis and related international sanctions. At present, it is not possible to assess the detailed impact of the emerging risk but there is growing concern about the impact on the European economy and the financial markets. There has been a significant correction in the financial markets in the last few weeks. The Group continue to monitor events and are keeping the board updated on the economic impact, if any, to the Group.

The Group agreed the sale of subsidiaries Whitestar Italia S.r.l, New Call S.r.l and PARR S.H.P.K (together “Whitestar Italy”) on 11 March 2022. The disposal concerned business process outsourcing of Italian utility collections, which is considered non-core to the Group’s operations. The secured and unsecured investment portfolios and their collections activity previously undertaken by Whitestar Italy were moved to other Arrow subsidiaries pre-disposal.

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Additional information (Unaudited)

Profit before adjusting items

	Unaudited incorporation to 31 December 2021
	£000
Total income	**79,668**
Collection activity and fund management costs	(33,629)
Other operating expenses	(27,114)
Total operating expenses	**(60,743)**
Operating profit	**18,925**
Net finance costs	(16,411)
Profit before tax and adjusting items	**2,514**
Taxation charge on underlying activities	(6,832)
Loss after tax before adjusting items	**(4,318)**
Non-controlling interest	(23)
Loss before adjusting items attributable to owners of the company	**(4,341)**

Reconciliation between IFRS profit and profit before adjusting items:

	Period ended 31 December 2021 profit before tax	Period ended 31 December 2021 tax	Period ended 31 December 2021 profit after tax
	£000	£000	£000
IFRS reported loss	**(67,626)**	**(4,023)**	**(71,649)**
Adjusting items:			
Takeover costs	39,366	–	39,366
Organisational restructure costs	16,063	–	16,063
Non-cash write-down	8,014	–	8,014
Other acquisition costs (including amortisation of acquisition intangible assets)	6,697	–	6,697
Tax associated with adjusting items	–	(2,809)	(2,809)
Profit/(loss) before adjusting items	**2,514**	**(6,832)**	**(4,318)**

Adjusting items are those items that by virtue of their size, nature or incidence (ie 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 to get to the profit before adjusted items.

On March 31, 2021, Arrow Global Group Limited (formerly plc) announced the board's agreement to the terms and conditions of a recommended all cash offer of 307.5 pence for each ordinary share of the Group by Sherwood Acquisitions Limited, a newly formed company owned by certain of the investment funds managed by TDR. TDR is a leading specialist buyout firm with total FUM of approximately €10 billion as of 31 December 2020 and is based in the UK. Following shareholder approval on May 21 2021, with 93.79% of our shareholders voting in favour of the transaction, receipt of the final antitrust and regulatory clearances on 29 September 2021 and the High Court sanctioning the 240 Scheme at the sanction hearing held on 7 October 2021, the acquisition closed on 11 October 2021.

Additional information (Unaudited) *(continued)*

As part of the transaction, there were a number of one-off costs, including but not limited to, advisor and legal fees for both TDR and Arrow Global Group Limited (formerly plc), fees and other costs associated with the arrangement of committed bridge financing secured by TDR in advance of their bid for the Group and certain advisory and legal fees in connection with the refinancing of the bonds and revolving credit facilities that existed at the time of the acquisition. The total costs incurred by Sherwood Parentco Limited and its subsidiaries, including Arrow Global Group Limited (formerly plc), after the transaction completed were £39.4 million.

Following the completion of the takeover by TDR, the Group undertook a review of its organisational structure. The realignment from a horizontal matrix structure to a vertical structure to enable greater accountability and empowerment of our local servicing platforms has enabled the Group to remove several roles and a layer of management. In addition to the removal of certain costs reflecting the private rather than public ownership of the Group, annualised cost savings of £20 million have been delivered. The majority of the savings have been delivered through people savings effective 1 January 2022 and the costs of the reorganisation, primarily redundancy costs, incurred during 2021 were £16.1 million.

Furthermore, the Group has undertaken a review of previously capitalised costs, primarily relating to the IT infrastructure and systems, and concluded that, under the new organisational structure, certain assets have no further economic value to the Group and, as such, have been impaired. The total of such non-cash costs incurred during 2021 was £8.0 million.

A further £6.7 million of one-off costs were incurred in 2021, primarily relating to £5.4 million unwind of non-cash TDR acquisition intangible and fair value adjustments and £1.0 million in respect of the acquisition of a 49% stake in Maslow Global Limited, with the Group having the option to purchase the remaining 51%.