Sherwood Parentco Limited

Consolidated annual report and financial statements for the year ended 31 December 2023

UK Registered No. 13299333

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Registered in England and Wales No: 13299333

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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 fund manager. The Group's principal activities are to provide fund management and asset management and servicing to third parties and to invest capital across credit, real estate equity and lending investment strategies.

Strategic review

Business model

The Group is a vertically integrated fund manager, with nineteen local platforms operating in UK, Ireland, Portugal, Italy and the Netherlands, complementing central teams to provide fund management and asset management and services to third party investors and clients across credit, real estate equity and lending. The Group also invests it's own capital in these investment strategies, primarily via co-investment within our discretionary funds.

The segmental reporting is split between Integrated Fund Management, Balance Sheet Business and Group, with further details as follows:

<u>Integrated Fund Management</u>

The Integrated Fund Management segment includes the results of our asset management and servicing and fund management activities, through our various platforms, providing capital-light returns.

Arrow's investment team have an extensive track record of successfully investing across credit, real estate and lending. The Group currently has €9.3 billion of funds under management (2022: €6.2 billion), including our flagship discretionary closed-end ACO 1, ACO 2 and AREO funds.

Arrow's pan-European local servicing platforms service 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.

Arrow continues to invest in the integrated fund manager proposition as the Group scales fundraising, investing and servicing capabilities across credit, real estate and lending. Building the vertically integrated fund manager across multiple strategies drives capital-light revenue streams and facilitates de-leveraging.

<u>Balance Sheet</u>

This business includes all the portfolio investments that the Group owns, including investments held directly on our balance sheet together with our co-investment made through our discretionary funds, ACO 1, ACO 2 and AREO, and the associated income and direct costs of such investments.

Arrow typically co-invests its balance sheet alongside third-party investors within our funds. Under ACO 1 the co-investment was typically 25%, reducing under subsequent funds to typically 10%. The 10% co-investment level ensures continued alignment with limited partner interests, but reduces the capital requirement for the Group, enabling de-leveraging and reducing net debt over the medium term.

<u>Group</u>

In addition to the two business segments noted above, there is a Group 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

The Group has the following core strategic objectives as it seeks to become the leading integrated fund manager in Europe:

- Scale our integrated fund management proposition
    - Growing a scalable and sustainable integrated fund management, developing three investment strategies; credit, real estate and lending
    - Growing our capital-light income from our local platforms to enable the Group to de-lever
- Building efficient local platforms with a differentiated proposition
    - Drive platform growth and efficiency with a focus on cash collection and investment growth, focusing on high-value, granular niche product opportunities in our core markets

Strategic report *(continued)*
Strategy (continued)

- Developing talent, capabilities and scalable foundations
    - Do business the right way, with due consideration for regulation and fair customer outcomes, through developing our people to reach their full potential

Key performance indicators supporting this strategy can be found in the strategic report on page 4 for the financial metrics and pages 12 and 13 under employees and customers respectively for the non-financial metrics.

Group results for the year including key performance indicators

During the year, the Group has continued to make strong progress towards becoming the leading European integrated fund manager with three investment strategies across credit, real estate equity and lending, all utilising our local platforms. The Group commenced building its fund management business in 2019 and has continued to scale operations at pace during 2023 with several senior hires and the expansion of our platform capabilities through both organic growth and 'bolt-on' acquisitions.

FUM have grown to €9.3 billion as at 31 December 2023, representing growth of €3.1 billion from €6.2 billion as at 31 December 2022, including Maslow's FUM acquired of €1.3 billion. Discretionary fund Net Asset Value (NAV) across ACO 1, ACO 2 and AREO increased by 77% to €2.3 billion (2022: €1.3 billion). Despite the macro environment, the performances of ACO 1 and ACO 2 have continued to be strong with a Deal IRR (after servicing costs) of 16% and 20% for ACO 1 and ACO 2 respectively.

Rob Leary has joined the company as Chair of the Board significantly enhancing the leadership of the Group. Rob brings a distinguished investment and leadership career spanning over 30 years in asset management and insurance. His notable tenure includes his role as CEO at ING Investment Management, followed by his position as CEO at Nuveen, a TIAA company, where he managed approximately €850 billion in AUM. His leadership was instrumental in driving significant transformations at The Olayan Group as Group CEO, enhancing their global operations and governance model.

Important key hires have also been made with the appointment of Zach Vaughan as the Group's CIO of Real Estate and Toni McDermott as CIO across credit and lending. Zach was most recently at Brookfield Asset Management, where he was a Managing Partner in Brookfield's Real Estate Group. Toni joined Arrow from Morgan Stanley APAC, where she served as the Managing Director of Loan Solutions and Securitisation. Prior to this, she was a Managing Director in Centerbridge Partners Europe, responsible for the firm's Asset Backed Special Situations business in Europe.

The Group has had a successful fundraising year, most notably with the close of ACO 2 at the hard cap of €2.75 billion, which Private Debt Investor reported as the largest distressed debt fund and fourth largest debt fund closed globally in Q1 2023. In addition, The Group raised €110 million initial close of our discretionary real estate equity fund (AREO), raised €60 million in separate co-invest vehicles and continued progress in establishing a dedicated discretionary lending fund. The Group has invested in the fundraising team, with dedicated resource now covering North America, Europe and Asia.

In addition, the Group has increased the alignment of our platforms with the integrated fund manager proposition with the build of real estate and lending capabilities through the acquisitions of Maslow, Eagle Street and Details, the organic development of Blue Current Capital, Mica and bridge lending across multiple geographies and the divestment of our non-core Capquest and Mars UK platforms to Intrum UK in Q2 2023, along with 50% of the UK wholly owned unsecured back book, for net proceeds of £129.0 million.

The scaling of the business has delivered growth in deployment of 45% to €1,213 million for the year (2022: €839 million). These volumes exclude over €750 million deployed by Maslow with third-party capital outside of the Group's discretionary funds. During the year, the Group was able to leverage the capital available within ACO 2 and its platform capabilities to invest in AnaCap Financial Europe.

The investment in scaling our fundraising, investing and servicing capabilities across credit, real estate and lending drives capital-light revenue streams and facilitates de-leveraging. Leverage decreased by 0.2 times to 3.9 times as at 31 December 2023 (31 December 2022: 4.1 times), with further progress towards the medium-term strategic target of 3.0 times expected during 2024.

Strategic report *(continued)*

Group results for the year including key performance indicators *(continued)*

Arrow is a leading vertically integrated European fund manager, in credit, real estate and lending with local servicing platforms and fund management operations.

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

Group financial highlights	Year to 31 December 2023	Year to 31 December 2022
Balance sheet collections (£m)	375.4	380.1
Adjusted EBITDA (£m)	331.9	315.4
Free cash flow (£m)	199.7	213.7
Net cash generated by operating activities	121.0	61.2
Total income (£m)	287.4	295.8
Total operating expenses	(324.9)	(293.2)
Third-party integrated fund and asset management income (£m)	193.6	162.3
Third-party integrated fund and asset management income before adjusting items (£m)	181.5	156.4
Loss before tax (£m)	(125.3)	(83.7)
(Loss)/profit before tax and adjusting items (£m) [1]	(67.1)	(33.4)
Leverage (x)	3.9	4.1
84-month ERC (£m)	1,213.7	1,545.9
120-month ERC (£m)	1,309.9	1,714.3
Net debt (£m)	1,338.9	1,365.7

[1] The results presented exclude adjusting items of £58,288,000 (2022: £50,280,000). For the reconciliation between these results and the consolidated profit and loss, please see the reconciliation on page 112.

Overall, the underlying loss before tax was £67.1 million (2022: £33.4 million). The Integrated Fund Management segment EBITDA increased by 12.6% to £44.7 million (2022: £39.7 million), the Balance Sheet segment EBITDA decreased by £27.8 million to £26.2 million (2022: £54.0 million) and the Group segment EBITDA decreased by £7.6 million to £(32.2) million (2022: £(24.6) million). Interest costs were £102.8 million, £20.4 million higher year-on-year (2022: £82.4 million).

Loss before tax of £125.3 million was driven by the underlying loss in addition to a loss on acquisition of Maslow of £26.4 million, £29.0 million of other acquisition costs, and a £2.9 million net loss on the divestment of the non-core platforms, Capquest and Mars UK, to Intrum UK.

The Balance Sheet segment performance has been impacted by year-on-year impairment variance of £15.6 million and the divestment of the non-core platforms. The income and associated costs on 100% of the wholly owned UK portfolio investments subject to the profit share relationship with Intrum UK, from September 2022 to completion at the end of May 2023, are not reported within our underlying results. The results are explained further in the segmental commentary and analysis below.

The cash performance of the Group has been strong. Collections were £375.4 million during the year (2022: £380.1 million), representing 104% of ERC for Q4 and 133% for 2023, which includes £91.5 million in respect of the collection arising from the disposal of 50% of the wholly owned UK portfolios, and 101% of ERC for 2023 excluding the £91.5m. The robust collections and increasing capital-light earnings drove free cash flow of £199.7 million (2022: £213.7 million), a decrease of 6.6%. Free cash flow after portfolio investments increased to £51.2 million (2022: £32.7 million), with co-investment in ACO 2 and AREO investments at typically 10%, down from typically 25% in ACO 1. Adjusted EBITDA for the year was £331.9 million (2022: £315.4 million) and leverage decreased by 0.2 times to 3.9 times (31 December 2022: 4.1 times), with further progress towards the medium-term strategic commitment of 3.0 times expected during 2024. The strong cash performance facilitated net debt reduction of £27 million during 2023, after incurring £40m cash outflow in respect of the acquisition of the remaining 51% of Maslow.

Strategic report *(continued)*

Group results for the year including key performance indicators *(continued)*

Our reportable operating segments are Integrated Fund Management, Balance Sheet and Group, as discussed below:

Segmental Results - Integrated Fund Management

The Integrated Fund Management segment includes the results of our asset management and servicing and fund management activity, through our various platforms, providing capital-light returns.

The Integrated Fund Management segment EBITDA increased by 12.6% to £44.7 million (2022: £39.7 million). The continued growth in discretionary fund net asset value (NAV) across ACO 1, ACO 2 and AREO, which increased by 77% to €2.3 billion (2022: €1.3 billion), together with the operational leverage has primarily driven the EBITDA growth. EBITDA has been impacted by additional costs of circa £10 million to scale the business and drive future revenue growth. These costs have delivered no or limited revenues during 2023.

Segmental revenue increased to £220.9 million (2022: £207.3 million), representing £40.7 million growth in management fees from the discretionary funds and strong asset management and servicing driven by continued third party contract wins across all territories, offset by £27.1 million impact of the divestment of the non-core platforms, Capquest and Mars UK. The trading revenue from these platforms during the year through to deal completion are shown in adjusting items, and not reported within our underlying results.

The Integrated Fund Management EBITDA margin increased by 1.0 percentage point from 19.2% for 2022 to 20.2% in 2023, reflecting the growth in the discretionary funds deployed, operational leverage and efficiency in scaling of our operations, partly offset by the investment for future growth.

The scaling of investment capabilities has driven the growth in deployment of 45% to €1,213 million during 2023 (2022: €839 million). The Fund Manager has continued to focus on off-market acquisitions, with circa 85% of ACO 2 investments being off-market with a continued focus on performing, real estate and cash in court portfolios. Over 90% of ACO 1 and ACO 2 is secured on real estate, cash in court and other mixed security and is built from highly granular deployment, with over 400 individual investments. ACO funds continue to deliver strong returns with a Deal IRR (after servicing costs) of 16% and 20% for ACO 1 and ACO 2 respectively.

Aligning our asset management and servicing platforms with our investment strategies is important to maximise the potential of the integrated fund manager model. The Group has expanded its origination and asset management capabilities through the acquisition of Eagle Street in Q1 2023, the remaining 25% of Details in Q4 2023 and the remaining 51% of Maslow not previously owned by the Group during Q3 2023 for £63.8 million (£40.0 million cash, £15.0 million deferred consideration and £8.8 million in equity). Maslow has continued to build its franchise and originated over €750 million in 2023, sourced 100% from external LPs. In addition, the Group is organically building a bridge lending proposition across our geographies, which is complementary to the activities of Maslow, and Mica, a real estate platform in the Netherlands.

The acquisition of Maslow resulted in a reported loss of £26.4 million, which has been excluded from the underlying Integrated Fund Management result. The loss arises firstly due to the requirement under IFRS 3 and 9 to re-measure previously recognised assets and liabilities to fair value immediately prior to the full acquisition and secondly due to the potential contingent earn-out payments that do not qualify as business combination consideration under IFRS 3. £38.4 million of such costs have been recognised in non-underlying operating expenses (see note 9) and a £12.0 million gain has been recognised in derivative fair value movements.

We completed the divestment of our non-core Capquest and Mars UK platforms to Intrum in Q2 2023 along with 50% of the UK wholly owned unsecured back book, as announced in November 2022. The results of these platforms have been removed from our underlying results, which can be seen on page 112.

Segmental Results - Balance Sheet

This business includes all the portfolio investments that the Group owns, and the associated income and costs.

Collections were £375.4 million during the year, 1.2% lower than the prior year (2022: £380.1 million). Collections performance was robust, representing 104% of ERC for Q4 and 133% for 2023, which includes £91.5 million in respect of the collection arising from the disposal of 50% of the wholly owned UK portfolios, and 101% of ERC for 2023 excluding the £91.5m.

Strategic report *(continued)*

Group results for the year including key performance indicators *(continued)*

Segmental Results - Balance Sheet *(continued)*

Despite the current macro-economic backdrop, our collections continue to prove resilient with solid performance against our ERC assumptions. Timing impacts of the increasing element of ERC backed by real estate and collateral, which can be "lumpy" in their realisation, is an ongoing feature of the Group's collections profile. Net collections (balance sheet cash collections less collection activity costs) were £318.4 million, £169.9 million higher than portfolio purchases (including investments awaiting deployment).

Investment purchases were £148.5 million in 2023 (2022: £181.0 million) with a strong investment pipeline. Portfolio investments represent a typical 10% co-investment in ACO 2 and AREO rather than the typical 25% level through ACO 1.

Segmental Balance Sheet EBITDA decreased by £27.8 million from £54.0 million in 2022 to £26.2 million in 2023. The reduction was largely driven by the divestment of the non-core platforms, Capquest and Mars UK, to Intrum UK and year-on-year impairment variances. On the divested portfolios, no income or associated collection costs (both 50% being sold, together with the 50% retained by Arrow) are reported within our underlying results up until deal completion. Performance under the lock-box mechanism adjusted the proceeds received from Intrum and the re-recognition value on the 50% retained by Arrow. Year on year EBITDA impact was £9.1 million, comprising of EBITDA recognised during 2023 for the period since completion of £7.3 million on the 50% retained portfolios, compared with EBITDA on 100% divested portfolios during 2022 of £16.4 million. In addition, impairment was £35.6 million for 2023 (2022: £20.0 million impairment), resulting in a year-on-year impairment variance of £15.6 million. The impairment during the year driven by the weakening macro-economic environment relates to non-cash adjustments to underlying ERC and represents circa 4% of total NPV.

Segmental Results – Group Segment

The Group segment consists of costs not directly associated with the other segments, but relevant to overall oversight and control of the Group's activities. Segmental Group EBITDA for 2023 was £(32.2) million (2022: £(24.6) million). The increase reflects the ongoing investment in scaling the business, in such areas as fund raising. The cost of this investment as we scale the Group's capabilities with both organic and 'bolt-on' acquisitions and formation of the three investment strategies to drive future earnings growth has exceeded the impacts of the increased allocation of Group overheads absorbed by the funds, strong cost control focus and the impact of the £20 million annualised cost savings delivered during 2022.

Underlying net interest costs of £102.8 million were £20.4 million higher year-on-year (2022: £82.4 million), primarily driven by rising interest rates. The Group has substantially mitigated the exposure to interest rate fluctuations with circa 80% of the bonds either fixed or hedged as at 31 December 2023.

Trends and factors affecting future performance

European banks are better capitalized then they were prior to the GFC, however, despite efforts to uniform and harmonise the commercial and regulatory landscape in which banks operate, there is still a significant amount of deleveraging required across the balance sheets of European banks. The macro-environment throughout 2023 brought the fragility of the global financial system back into sharp focus. The year has been challenging and beset with conflicting tensions; global inflation has slowed down from worrying levels and now the world economy is slowing from monetary tightening, tragic wars and labour shortages. Central banks have reached the end of their tightening cycles and now we expect interest rates and quantitative tightening to reverse as the concern switches to stagnation. The economic noise from higher refinancing costs, energy market disruptions, wars, political change, and labour shortages will continue to impact economic markets. In this market environment, we expect the weakest borrowers will struggle to refinance their already sizeable debt burdens, with a significant wall of debt falling due in the near term. Re-financing pressures & increased demand for liquidity are driving localised dislocation across European markets, and as an experienced originator with restructuring and turnaround expertise, this is creating further investment opportunities for Arrow funds. Our decentralised 'local-local' investment model, comprising a comprehensive network of 20 platforms servicing over €81 billion across Europe, are well positioned to capitalise on these pockets of selective distress which we see persisting into the future.

The discipline embedded into our investment approach has meant that we have been able to adeptly navigate through the turbulent macro backdrop. Our expectation that borrowers will have to pay a premium for our Limited Partners' capital has been evidenced by our ability to re-price risk across our portfolios.

Strategic report *(continued)*

Trends and factors affecting future performance *(continued)*

Since the 2020-21 vintages, returns at the asset level have increased by 400-500 bps on average for an equivalent unit of risk, which translated into an uplift into higher returns throughout the year, demonstrating our ability to invest across the cycle.

Whilst cycles can certainly be additive to our deployment and subsequent investment returns as well as delivering significant opportunities to our servicing businesses, it is incidental to our broader investment approach. Across the European asset resolution sphere, we selectively deploy into the granular, complex, and more transactions, that require specialist expertise, licenses, and in-house servicing capabilities, in order to capture the alpha returns available. Given their granular size, off-market nature and complexity, these types of transactions are not applicable to our large cap peers, they are non-cyclical in nature, and are an enduring feature of the asset resolution market. Our track record of generating an average gross IRR of 18% since inception is testament to the persistence of the opportunity set that we target.

In terms of key performance themes across our asset management business. Our hospitality assets have performed very strongly in 2023 and forward bookings into 2024 are robust to date. Our agricultural lending has performed well with food prices and agricultural land prices both at cyclical highs. Our electrical vehicle charging hubs have been hugely embraced by users leading to rapid growth in that energy efficient and environmentally friendly strategy. Finally, residential real estate remained robust as housing shortages remained profound in all of our markets and more economic share of wallet was allocated to residential and away from other spend/real estate categories. Looking ahead to 2024, we expect that labour shortages and energy market disruption will continue to typify an economy of winner versus loser outcomes. Certain sectors will out-perform like renewables, agriculture, logistics, and, to a lesser extent due to higher funding costs and wallet pressures, residential and hospitality. Conversely, we expect offices and retail will struggle from both cyclical and secular challenges.

Outlook

The Group has made significant progress in scaling the fund manager proposition. both in terms of people and infrastructure, with fundraising progressing across real estate and lending to complement our ACO discretionary credit opportunity funds. Our well-established integrated fund manager model drives growth in capital light earnings and balance sheet de-leveraging, as the group makes strong progress towards our strategic goal of becoming the leading European integrated fund manager. The Group has ensured better alignment of our platforms with the integrated fund manager proposition with build of real estate and lending capabilities through the acquisitions of Maslow, Eagle Street and Details, the organic development of Blue Current Capital, Mica and bridge lending across multiple geographies and the divestment of our non-core Capquest and Mars UK platforms to Intrum UK in Q2 2023, along with 50% of the UK wholly owned unsecured back book, for net proceeds of £129 million.

The Group is well placed to take advantage of the opportunities across credit, real estate and lending, growing its capital light revenues, reducing net debt and de-leveraging

Risk management

At the centre of our risk management framework is our Group's vision, values and the culture embedded within our business. Effective risk management is closely aligned to our purpose 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 managing and 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
- Robust governance structures
- Clarity of roles and responsibilities
- Establishing and monitoring of risk appetite
- A policy suite that is consistently applied across the business
- Risk management aimed at understanding risks and enabling proportionate risk mitigation
- Controls to identify and address emerging risks
- Recognition and maintenance of resilience plans
- Escalation and risk reporting
- Embedding the three lines of defence throughout the firm

Strategic report *(continued)*

Risk management *(continued)*

The framework is regularly monitored and reviewed to ensure it remains suitable for the size and complexity of the Group's business.

Throughout 2023, work has continued to evolve and embed the risk framework to meet the demands of another challenging year due to the external factors caused by a worsening macroeconomic environment and emerging geopolitical risks, while addressing the requirements of our vision of becoming Europe's leading vertically integrated alternative asset manager and delivering attractive returns through responsible investments focussed on our key investment strategies, namely credit, lending and real estate. This has included continued enhanced oversight of specific and broader strategic risk themes by the Group Board such as addressing any adverse impact of worsening macro-economic conditions on our financial position and investments, increased regulatory oversight by regulators in sectors we operate, and elevated financial crime and cyber security risks in a fast-changing external environment as a result of increased geopolitical risks and emerging artificial intelligence technologies. In addition, the growth of our funds and Fund Management business has prompted further consideration of our risk management framework to focus on the needs of this specific activity while we continue to scale our operations and deliver on our ESG commitments. Finally, the Group has continued to execute its key strategic plans with great discipline as before including deleveraging our balance sheet, the completion of divestment of our non-core UK platforms, the full acquisition of Maslow Capital and Eagle Street, growth of our hospitality platform, successfully executing large third-party servicing mandates, delivering on the final closing of ACO II and first closing of AREO I funds, and continued strategic development and investment across our core platforms and investment strategies.

In 2023, Arrow has continued to embed its robust governance structure and strong risk management culture into its operating model. The Group has continued to align itself in a vertically integrated manner as the business grows. We have further developed our investment strategies and successfully onboarded new platforms into this operating model. In this model, local servicing platforms have accountability over their activities undertaken locally and monitor and assess the local regulatory and legal requirements. The Group retains 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 enables the Group to better monitor, manage and control our risks. A strong risk management and governance culture has continued to support this operating model in 2023 through central and local policies, a consistently applied risk management framework across the business, an automated and business tailored risk management system, both local and central compliance monitoring plans, commonly applied risk appetite tolerances and reporting, a regular review and assessment of roles and responsibilities, compliance training programs, and local and central board (risk committees and regulated board activities) reporting and oversight. An attestation framework where all of our platforms attest quarterly to the Group in relation to the implementation of Group policies, risk management framework, and provide a detailed report on key risk, compliance and audit activities and matters continued to be a core element of our robust governance structure supporting our three lines of defence model.

Delivering on our commitments and vision 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, technological, regulatory and legal, 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 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

The following summary identifies key thematic risks and mitigants through 2023. 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.

1. Investment returns (financial risk):

The risk that certain investments generate returns lower than forecast due to macro-economic factors (such as political uncertainty, inflation, high interest rates, deteriorating consumer and business financial positions) or inadequate underwriting analysis or inadequate assessment of cost/time to collect or subsequent portfolio performance impacting estimated remaining collections.

Strategic report *(continued)*

Risks and uncertainties *(continued)*

2023 has been another challenging year, with continued economic adversities and political uncertainties. Inflation turned out to be more persistent than originally envisioned and resulted in several rounds of rate hikes in all markets in which we operate, adversely impacting consumer demand, borrowing costs and real estate prices. Thanks to proactive interventions of all major central banks, the economic environment has started to improve towards the year-end and inflation pressure has started to ease, despite geopolitical tensions remaining globally (Ukraine-Russia and Middle East conflicts).

Despite this background, the Group has continued to perform strongly driven by:

- Its focus on off-market transactions and less cyclical asset classes which are less susceptible to the macro environment
- Portfolio diversification across geographies, investment strategies and asset classes, with a focus on secured investments
- Undertaking robust due diligence and rigorous scenario/sensitivity testing, incorporating macro factors, during underwriting process, and proactive monitoring of these during portfolio management
- Enhancing the investment team and platform capabilities in specialist skill areas for strong and proactive portfolio management
- Strong governance structure throughout underwriting and portfolio management activities
- Capital allocation planning, portfolio level stress testing and monitoring discipline
- Decentralised organisational structure that gives accountability and incentives to the local platforms to maximize value for the stakeholders while managing risks

2. Inadequate processes re: acquisition and integration of new business (Strategic Risk):

Risks might arise from entering into complex investments, large servicing contracts, new investment strategies, or integrating new platforms such as failure to assess and mitigate risks during underwriting or lack of sufficient governance and oversight aligned with broader Group principles and values resulting in negative financial outcomes and reputational damage.

Before approval, all investment or new contract 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. Post-acquisition, investments and contracts are managed by dedicated teams proactively on a day-to-day basis and overseen by senior leadership closely through governance forums.

In addition, the Group continuously reviews and enhances its processes, policies, governance structures, and risk management and compliance frameworks to deliver the Group's vision as the business grows.

3. Regulation (Operational Risk):

The Group operates in regulated environments in relation to both investment and servicing activities, and non-compliance with regulatory obligations or non-compliant conduct could lead to a breach of regulations, resulting in censure, financial loss and reputational damage. We observe increased regulatory scrutiny in sectors we operate by the regulators as the regulatory frameworks evolve and adapt to the requirements of more advanced, complex and sophisticated financial markets.

As a regulated business, the Group continues to be diligent and disciplined in delivering regulatory requirements and works cooperatively with our regulators. Group-wide standards continue to be applied across all of our businesses. Group and local level compliance policies and procedures are in place to guide colleagues on the required standards for business activity and customer and investor outcomes. Governance forums, such as local and Group level risk and audit committees, regulated boards, an attestation framework, and an automated risk management system ensure robust oversight over all regulated Group activities.

Regulatory horizon scanning ensures our internal practices and training are updated accordingly, and local and Group wide compliance teams monitor regulatory compliance as part of their compliance plans. Employees receive training in relevant regulatory areas both during onboarding and on an ongoing basis to ensure all of our activities are compliant with requirements. We maintain proactive relationships with our key regulators in all locations we operate.

Strategic report *(continued)*

Risks and uncertainties *(continued)*

4. Scalability (operational risk):

The opportunity to grow investment and servicing volumes in line with plans as an integrated pan-European fund manager presents a risk that the necessary people and IT system capacity and capability may not be available or sufficiently scalable. The Group mitigates this risk through:

- Key strategic hiring to increase the capacity and capability in areas that will support scalability objectives
- Attracting and retaining key talent with succession planning, professional development programs, competitive remuneration and attractive career progression opportunities, while ensuring key person dependencies are minimised
- A decentralised organisational structure
- Periodically assessing technology application and infrastructure against our IT policies and standards, and prioritising and addressing any gaps
- Ensuring critical operational processes are fit for scaling and moving away from manual processes where possible and feasible
- Using third-party suppliers, where needed, supported by a robust supplier management framework requiring due diligence and oversight

5. Cyber Threats (Operational Risk):

Cyber threats to business and the supply chain are evolving at a rapid rate due to increasing geopolitical tensions combined with the growing misuse of artificial intelligence in this area. At Arrow we have developed a robust framework of Group minimum security standards, which are based on the international standard for information security (i.e., ISO27001) and other well-known industry standards such as the NIST for Cybersecurity and CIS Controls. In 2023, Arrow continued to enhance its information security framework, proactively addressing emerging external threats. Our commitment to staying current with industry standards is bolstered by ongoing enterprise-wide employee education on cyber threats and mitigation.

6. Refinancing and Interest Rate Risk (Financial Risk):

Risk that the high interest rate environment increases our financing costs and impacts our refinancing activities adversely in the medium term.

The Group has continued to reduce its leverage in 2023 with discipline, representing strong progress towards its medium-term target, and deliver strong collections from its balance sheet investments. Despite the adverse macroeconomic environment, the Group's collections continue to prove resilient with solid performance against our ERC assumptions. This risk is also mitigated by further by delivering strongly on our strategy of increasing capital light earnings. The Group also regularly reviews the external environment in which we operate to influence our strategy. The Group has bond maturities in Q4 2026 and 2027 which allows sufficient time for an orderly refinancing process. The Group has substantially mitigated the exposure to interest rate fluctuations with circa 80% of the bonds either fixed or hedged as at 31 December 2023.

7. Execution of key strategic initiatives and plans (strategic risk):

The risk that the Group fails to deliver initiatives critical for the Group's strategic plan, such as platforms' growth, key high-profile projects, acquisitions, and divestments, without adverse reputational, financial and legal impact. These risks are mitigated through:

- Clear agreement on key strategic initiatives at senior leadership level, and communication to the wider organisation, promoting organisation-wide alignment and effective resource allocation
- Alignment of senior leadership team roles and responsibilities and incentives, supported by a strong governance structure
- Investment in and retention of workforce
- Strong project management and planning, led by experienced senior people
- Governance structures and strong risk management culture – ensuring risks are identified and managed before incidents occur

Strategic report *(continued)*

Risks and uncertainties *(continued)*

8. Target Operating Model (Operational Risk):

Failure to design and implement a target operating model in line with the strategic objectives poses a risk for the Group. Particularly, risk that local platforms fail to deliver the requirements of the new target operating model. The Group has continued to deliver on its 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 alignment 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. An attestation framework where all of our platforms attest quarterly to the Group in relation to the implementation of Group policies, risk management framework, and provide a detailed report on key risk, compliance and audit activities and matters continued to be a core element of our robust governance structure supporting our three lines of defence model.

Environmental, Social and Governance (ESG)

Our approach to ESG and sustainability is wholly aligned to our mission of being Europe’s leading vertically integrated asset manager specialising in credit and real estate. 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 a proportionate and robust manner to both satisfy our responsibilities and be a thought leader regarding issues of sustainability that may impact our stakeholders. We approach this through two key perspectives. Firstly, to support our stance on responsible business practices our ESG policy and framework defines a Group-wide approach which enables a consistent set of focus areas whilst still allowing our in-country teams to adopt additional requisite local practices as required. Secondly, the firm operates a Responsible Investment policy via the Arrow Global Group Capital Management Limited (Arrow’s fund manager) board, whose investment committee ensures that the key principles are applied to each of our investment decisions in line with our status as a signatory to the UN Principles for Responsible Investment (PRI). This also ensures that investment selection, due diligence and ongoing portfolio management activities consider sustainability risks and opportunities in a manner which is commensurate to each of Arrow’s funds and we are proud to have received positive feedback following our inaugural round of reporting to the PRI in 2023.

Environmental

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 Greenhouse Gas (GHG) emissions associated with our supply chain and investment portfolio is important to the Group. Our board will continue to have oversight of our environmental strategy and our Sustainability and ESG Committee reviews requirements for managing emissions and any potential decarbonisation strategy that may be appropriate for our business. The Group has continued with additional internal GHG reporting to provide data into our inaugural reporting in line with the Taskforce for Climate-related Financial Disclosures for full-year 2023. Our supplier management framework has also continued to focus on material issues of sustainability and modern slavery.

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

ARROW GLOBAL

Strategic report *(continued)*

Environmental, Social and Governance (ESG) ***(continued)***

Annual Group CO_2 emissions

Scope	CO2 emissions (tonnes) per annum 2023	CO2 emissions (tonnes) per annum 2022
1	282.3	318.5
2	290.8	364.0
Total scope 1 and 2	**573.1**	**682.5**
3	1,326.9	694.3
Total	**1,900.0**	**1,376.8**
Tonne of CO_2 per employee (using average number of employees for the year)	**1.0**	**0.6**

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 operational 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 year aligns to the financial year.

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. Our business predominantly operates from our offices. We consider our average energy consumption to be in line with the industry and continue to investigate the possibility of renewable energy solutions across our offices by engaging with relevant third parties (e.g. landlords or energy providers) to determine appropriate solutions.

Energy consumption	**2023**	**2022**
Group energy consumption (Kwh in thousands)	1,834.2	2,369.4
Group energy consumption (Total CO_2 tonnes)	396.0	463.5
UK energy consumption (Kwh in thousands)	*272.9*	*428.4*
Group natural gas (Kwh in thousands)	461.5	498.3
Group electricity (Kwh in thousands)	1,372.7	1,871.1
Propane (tonnes)	5,265	–
Propane (Kwh in thousands)	68.6	–
Group energy consumption (Kwh in thousands)	1,834.2	2,369.4
Kwh per employee (using average number of employees for the year)	**962.5**	**1,031.5**

Social

Employees

Our focus for 2023 has been on building capability and talent for the future which centres on all aspects of our employee proposition. This includes continuing to enhance how we attract, hire, develop, engage with, support and reward our people. The results are seen in how we have built and retained teams who our engaged in our growth strategy, and are aligned with our culture and our ambitions. We have built our teams and capabilities through acquisitions, internal moves and recruitment – at all times with a focus on retention of our experienced people. Alongside this we have a strong and improving overall engagement score of 7.6 out of 10 which has improved 0.2 in 2023.

Strategic report *(continued)*

Environmental, Social and Governance (ESG) ***(continued)***

Gender diversity

	Directors[1]	Senior managers (inc. directors)[1]	Employees[1]
Female	1	5	884
Male	3	8	815
Total	**4**	**13**	**1,699**

[1] *As at 31 December 2023.*

Proactive interaction with recruitment third parties and diversity targets are in place for 2025, to drive more diversity in the inbound talent pool. We have also joined up to initiatives such as ENEI (The Employers Network for Equality and Inclusion) and 10,000 Black interns as part of finding ways to better improve diversity in our own pipeline of talent.

Gender pay

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

Customers

We have always sought to ensure the fair treatment of customers. To help us achieve this, our local teams used a variety of customer forums and more formal governance meetings to bring continued focus on best practice with the aim of improving 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. In 2023 we saw continued improvements in processes that benefit the customer journey such as online payment facilities, the use of Virtual Assistants in calls and enhanced training for colleagues to support vulnerable customers. Our customer net promoter scores continued to demonstrate our positive customer interactions with average scores across our platforms exceeding 7.4 (out of 9).

With so much emphasis on the customer we were delighted, therefore, to win awards for our customer-service operations across the Group:

Whitestar was awarded 'Best NPL and RE Servicer Portugal 2023' by The European Magazine, and 'Asset Management Company of the Year Portugal' by Global Banking & Finance review. Whitestar was certified for the fifth year in a row as 'Top Employer Portugal', and both Norfin in Portugal and Zenith in Italy were certified as 'Great Places to Work', joining a select group of companies that stand out for their excellent working environment and good people management practices. In the UK, Arrow Professional Services was shortlisted as a Finalist for Corporate Restructuring & Insolvency Team of the Year and Law Firm of the Year at the Credit Strategy Awards.

Communities

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. Colleagues in all geographies support their local communities with financial literacy programmes, volunteering and charitable giving. In 2023, more than 120 Arrow volunteers supported almost 6,650 students across Europe via a mixture of in-person or virtual events.

We partner with key third parties to enhance our contribution to our communities and to learn how we can enhance our culture from a D,E&I perspective. In this regard we continue our partnership with ENEI (The Employers Network for Equality and Inclusion) and our commitment to participating in the 10,000 Black interns programme as part of finding ways to better improve diversity in our own pipeline of talent.

Although Arrow operates in the highly specialised alternative investments sector, our social commitments help us be a purpose led responsible business, and an important part of the European financial ecosystem. Identifying and assessing these ESG considerations, and maintaining transparency, is a core part of our long-term view on delivering value and return to our investors.

Strategic report *(continued)*

Environmental, Social and Governance (ESG) ***(continued)***

Governance

Responsible investment

We focus on the core ESG principles in a systematic manner in 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 potential investment, we carry out a risk assessment as to whether the potential investment includes risks related to environmental, governance, social or other areas, and whether such risks are consistent with the risk appetite and core ESG principles of Arrow and its investors. We also assess any potential ESG optimisation opportunities throughout our investment process. In Q4 2021, Arrow Global Group Capital Management Limited ('AGGCM'), the Jersey fund manager from Arrow's funds, became a signatory to the UN Principles for Responsible Investment. To embed the principles of the UN PRI into the investment processes of the fund manager, a Responsible Investment Policy was formally approved by the AGGCM board in 2022 which was further updated during 2023. Our approach to responsible investment is consistent throughout selection of investment opportunities, the ongoing portfolio management and stewardship practices and through to the point of exit where applicable. During 2023, AGGCM completed the annual reporting process to the PRI for the first time and is pleased to have received positive scores reflecting the high level of focus placed on governance and oversight throughout the investment process.

Oversight

A Sustainability and ESG Committee, comprising of members of our Executive and Senior Leadership team has continued to oversee the ongoing delivery of the Group's sustainability and ESG agenda and to review, challenge and support the Group's approach and progress against agreed initiatives. The Committee 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 in order to drive the delivery of Arrow's environmental, social and governance initiatives. During the year, Committee members have played a key role in further embedding the ESG & Responsible Investment policies, implementing a suite of ESG KPIs for the Group, updating the investment committee memorandums to support newly launched funds aligned to Article 8 of the EU's Sustainable Finance Disclosure Regulation (SFDR) and moving forward with our Diversity, Equity & Inclusion agenda. In addition, the Committee has leveraged insight from external experts such as Rio ESG Ltd who supported the Group's first report in accordance with the Taskforce on Climate-related Financial Disclosures (TCFD), including workshops with the Committee to explore risks and opportunities relating to climate change.

The Committee also continues to benefit from the expertise of TDR Capital's Head of ESG, enabling us to further benchmark our approach and priorities.

Whistleblowing

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.

Financial crime

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. Arrow also engages external third parties to assist and oversee our anti-money laundering and financial crime policies and procedures.

ARROW GLOBAL

Strategic report *(continued)*

Environmental, Social and Governance (ESG) ***(continued)***

Governance (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 and Human Trafficking (MSHT) Statement. The existing MSHT Statement was approved in June 2023, by the Sherwood Parentco Limited 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 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.

During 2023, further work was carried out in relation to the board and committee structure following the takeover of Arrow by TDR in 2021. The board considered a number of matters throughout the year, including the review of reward outcomes for 2022; the 2022 financial results; arrangements relating to the completion of the divestment of Capquest and Mars UK to Intrum UK; changes to the composition of subsidiary boards and establishment of new subsidiary entities; steps taken to prevent modern slavery in our business and supply chain; refinancing arrangements in respect of portfolio investments; various acquisitions including acquiring the remaining 51% of Maslow Capital Global Limited and acquiring Eagle Street Partners Limited and Blue Current Capital Limited; corporate governance arrangements; internal audit charter; and tax strategy.

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 Group's licence to operate relies, to a large extent, on how the business is perceived by its stakeholders, and specifically its customers, its clients, its employees, the communities in which it operates, its regulators and the wider industry, its Fund investors and its shareholders. Regular engagement with stakeholders enables the board to define and refine the Group's strategy and ensure that the Group delivers relevant services that meet the needs of its clients, its customers and its wider stakeholders.

Some examples of how the Company engages with its stakeholders are as follows:

Employees

The wellbeing and care of our people whilst ensuring compliance with regulatory and government guidelines is fundamental to the Group's people strategy. We operate a hybrid working model, providing the equipment and tools to all colleagues to enable them to work safely and successfully both at home and within our office environments. This provides colleagues with the benefits gained from remote working, such as improved work-life balance, greater flexibility and no daily commute, whilst also creating opportunities for meaningful collaboration and social interaction with colleagues.

Strategic report *(continued)*

Section 172 statement *(continued)*

This focus on employee welfare has also been 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. We have also launched a suite of enhanced family leave and time off policies to offer improved support to colleagues during significant life events. The Group also 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 Peakon engagement score, which is benchmarked externally to the financial services sector was 7.6 (out of 10) for 2023, in middle of the range for this sector and an increase of 0.2 on 2022.

Customers

The Company has always sought to ensure the fair treatment of customers. To help us achieve this, its local teams use a variety of customer forums and more formal governance meetings to bring continued focus on best practice with the aim of improving customer outcomes.

Communities

The Group is 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. The board fully understands that relationships we build with our communities are fundamental to our wider engagement in society and supports engagement activities to further strengthen these.

Regulators

The Company and its subsidiaries, both in the UK and across the Group, are in regular contact with the FCA, SRA and relevant local regulatory bodies to ensure that the Company is kept up-to-date with the latest regulatory developments, allowing it to understand and be prepared for any changes, as well as implementing best practice insights. The Company and its subsidiaries are always open and transparent in our communication with regulatory bodies.

Suppliers

The Company has a diverse range of suppliers who provide goods and services that are essential to the long-term strategic success and technological advancement of the business. The board recognises the importance of partnering with suppliers that share our values and sustainable approach to business. The board is fully supportive of the operational policies and procedures in place that help to govern and guide these relationships. Key matters debated and agreed by the board include approval of key contracts in line with the delegation of authority and matters reserved for the board.

Shareholders

The two-way engagement between the Group and its principal shareholder, TDR Capital, ensures the concerns and priorities of the shareholders are understood and taken into account during decision-making. Furthermore, the Company has implemented a schedule of matters which are reserved for the decision of the Board of Sherwood Topco Limited, thus ensuring that its shareholder is involved in material decisions concerning the Group.

Fund Investors

The board is cognisant of the Group's legal duties towards the investors in funds managed by AGG Capital Management Limited and is committed to discharging those duties and obligations. Increasingly, the Group is engaging with investors on ESG matters as part of their screening diligence, with particular focus on conduct and risk management, climate-related change, diversity and data security. The Company's ESG & Sustainability Committee oversees the ongoing delivery of the Group's sustainability agenda and reviews, challenges and supports the Group's approach and progress against agreed ESG initiatives.

Strategic report

Section 172 statement *(continued)*

Bondholders and other debt investors

Our bondholders and other debt investors want access to timely, fair and balanced information so they can understand our business. Board engagement with investors is primarily through results presentations, trading updates and attending debt investor conferences.

Approved by the board of directors on 26 March 2024 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 year ended 31 December 2023.

Going concern

The Group made a loss before tax for the period of £125.3 million (31 December 2022: £83.7 million) and generated net operating cash inflows before purchase of portfolio investments and investments awaiting deployment of £361 million (31 December 2022: £242.3 million). The loss before tax was due to remeasurement losses associated with the acquisition of Maslow of £26.4 million, the divestment of our non-core UK platforms, Capquest and Mars UK, to Intrum UK of £2.9 million and ongoing non-cash acquisition intangible and fair value accounting unwinds associated primarily with the Arrow acquisition by TDR in 2021 of £29.0 million (both of which are described in more detail on pages 112 to 113), non-cash portfolio impairment in 2023 in the statement of profit or loss of £35.6 million (2022: £20.0 million impairment) and a £102.9 million of finance costs (2022: £83.1 million). The net operating cash inflows were due to strong cash generation of £375.4 million (31 December 2022: £380.1 million) resulting in a decrease in leverage over the year by 0.2 times to 3.9 times as at 31 December 2023 (2022: 4.1 times).

In 2021, the Group entered into a replacement £285 million revolving credit facility with a margin of 325bps, maturing in April 2026 and successfully priced €400 million 4.5% Euro fixed rated bonds due November 2026, €640 million 4.625% over three months EURIBOR floating rate notes due November 2027, and £350 million 6% fixed rate bonds due November 2026, with the proceeds being used to prepay our existing bonds and drawings under the replacement revolving credit facility. The Group does not have any bond maturities until 2026 and has good liquidity headroom, £227 million as at 31 December 2023 (31 December 2022: £248 million). At 31 December 2023, the Group had positive cash balances of £114.7 million (31 December 2022: £143.6 million) and net assets of £307.3 million (31 December 2022: £427.4 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 2023 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 2023, 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 assessment period running until Q1 2025.

A base case forecast, and several downside scenarios, have been prepared reflecting the Group's current financial position and expected future performance. The severe but plausible downside case is based upon the Oxford Economics severe downside IFRS 9 macroeconomic scenario. This scenario is also used for the Group's IFRS 9 modelling, as well as for modelling potential investment outcomes for LPs. An in-house model is used to translate the OE macroeconomic forecasts into forecast outcomes for ERCs. The ERC impact of the severe downside macroeconomic scenario has been applied to all portfolio collections and income in the model, as well as an across the board decrease in servicing and fund management revenue of the same magnitude. This is then analysed against historical outcomes and associated levels of liquidity and leverage to assess plausibility. Key items considered within each forecast were the future outlook for HPI and default rates, 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 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 22.

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.

Directors' report *(continued)*

Dividends

No dividend was paid during the period and the directors do not propose a final dividend (2022: no dividends).

Ownership

The ultimate parent of the Company is Sherwood Holdings S.a.r.l. and the ultimate controlling party is an investment fund managed by TDR Capital LLP (TDR). TDR Nominees Limited holds the investment on behalf of TDR Capital IV Portfolio LP. 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. TDR acquired the Group in October 2021.

Directors

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

Andrew Fisher
Philip Shepherd
Zach Lewy (appointed 1 March 2023)
Monique O'Keefe (appointed 1 March 2023)

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.

Philip Shepherd

Phil joined Arrow in 2019 as Group treasurer. He was appointed Group chief commercial officer following the TDR acquisition. He is responsible for financial performance, HR, capital allocation and treasury. 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 an honours degree in Mathematics from the University of Sheffield.

Zach Lewy

Zach has over 24 years of executive experience in investment management and asset servicing. Zach founded Arrow Global in 2005 and serves as Group CEO and CIO of Arrow. Zach led the fundraising process for Arrow Credit Opportunities 1, the largest inaugural private credit fundraise globally in 2020 and the fourth largest private credit fundraise overall in Europe in 2020. He has supervised over 800 deals at Arrow and is a lead Principal in Arrow's fund manager. Prior to joining Arrow, he was an Officer of Sallie Mae, a Director at Vertex (the BPO division of United Utilities), and a Founder and Executive Director of 7C (a U.K. BPO company acquired by Vertex). Zach was previously the Chair of the UK Debt Buyers Association and was named an Ernst and Young Entrepreneur of the Year in 2010. He graduated from Princeton University with a BA in Economics with Honours and a Certificate in Applied and Computational Mathematics with Honours.

Monique O'Keefe

Monique joined Arrow in 2019 as Chair of Arrow's fund manager. She was appointed Chief risk & governance officer following the TDR acquisition and continues to chair the fund manager. She is responsible for the performance of the fund manager, along with responsibility for compliance, risk, internal audit, company secretarial, ESG and legal services for Arrow Group. Monique has over 25 years' experience in finance, law and governance. She has held senior positions in structured finance banking at Goldman Sachs and Merrill Lynch, and as a structured finance lawyer at Clifford Chance. Monique has held a number of board positions. Monique also sits on the Board of Commissioners and is Deputy Chair at the Jersey Financial Services Commission, and sits on the board of the Jersey Resolution Authority and Foresight Solar Fund Limited plc. She has a Bachelor of Arts, a Bachelor of Law and a Masters of Law from the University of Queensland, Australia.

Directors' report *(continued)*

Directors' indemnities

During the financial period ended 31 December 2023 and up to the date of this directors' report, the Company has maintained appropriate liability insurance for its directors and officers.

As permitted by its Articles, Sherwood Topco Limited has granted indemnities to the directors of Sherwood ParentCo Limited, as well as several directors of subsidiary companies, on terms consistent with the applicable statutory provisions. Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the year and remain in force at the date of this report.

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 employee engagement forums, 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 regular 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 and implementing action plans.

The Group also has a whistleblowing policy, which includes a requirement for mandatory 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. This is further described below under 'Governance'.

Statement on engagement with suppliers, customers and others in a business relationship with the Group

A summary of how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year is included in the 'Section 172 Statement' on pages 15 to 17 of the strategic report.

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 11 to 12.

Branches outside of the UK

The Company has no overseas branches. The Company's subsidiaries are detailed in note 21 to the financial statements.

Risk management

Please refer to the strategic report, on page 7.

Political donations

The Company made no political donations and did not incur any political expenditure during the year (2022: £nil).

Future developments

The Group's future developments are detailed in the strategic report.

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. All required disclosures have been included throughout this annual report.

Directors' report *(continued)*

Governance

Regulation 14 of The Companies (Miscellaneous Reporting) Regulations 2018 applies to companies of a certain size to make a statement in the Directors' Report summarising the corporate governance arrangements applied by the company. Whilst no companies in the Group fall into scope for this regulation, the directors of Sherwood Parentco Limited have opted to use the principles contained in Wates Principles published by the Financial Reporting Council in December 2018 as a framework for describing the Company's governance arrangements, as follows:

Principle one: purpose and leadership

Purpose

Our purpose is building better financial futures. This is applicable for all our stakeholders including our customers, employees, shareholders, communities, and clients. Our purpose is well embedded across the Group.

Values and Culture

All of our stakeholders expect us to act in an ethical and responsible way and this is at the heart of how we conduct our business. Our Group-wide values support this approach, and we seek out and reward behaviours across the organisation that will make us more sustainable, more successful. Specifically:

- *We succeed together – we take ownership and ensure a positive outcome for both our customers and the Group.*
    - *We're collaborative and support each other.*
- *We do the right thing – we keep our promises.*
    - *We help our customers repay their debts in a timely and affordable way. We empathise with our customers and treat them fairly.*
- *We're trusted & valued – we earn trust from our customers by treating them as individuals.*
    - *We learn and change based on our customer feedback. We take our corporate responsibilities seriously. We will act as an example to all in our industry.*
- *We're brave & creative – we thrive on positivity, flexibility and challenge.*
    - *We share ideas and have the courage to lead – we are not afraid to do things differently. We use insight to lead change and innovation.*

Launched in 2016, our values are fully embedded across the Group and help us reward the behaviours that will make us more sustainable and more successful.

The Group aims to maintain the highest standards of openness, integrity and accountability in its work. All employees or consultants who work for or with the Group are encouraged to be vigilant for signs of wrongdoing or criminal activity by individuals or organisations working with the Group, 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.

As mentioned above, 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.

Strategy

The Group board and leadership team have articulated a number of key strategic deliverables for the business as part of its pivot towards a capital-light leading integrated fund manager. Significant progress has been made in this regard and the board tracks progress against the deliverables. De-leveraging is a strategic priority, as is continuing to scale the Group's fund proposition and using efficient local platforms to create a differentiated proposition.

A key example of the board acting on this strategy during 2023 was the oversight of the successful completion of the divestment of Capquest and Mars UK, platforms that were non-core to the stated strategy. Further examples of the board acting on these strategic deliverables include: the organisation of our investment activities into three investment strategies; credit, real estate equity and lending, all utilising local platforms as part of a vertically integrated model; the €110 million initial close of our discretionary real estate equity fund (AREO); and the acquisition of the remaining 51% of Maslow Capital Global Limited, which completed in Q3 2023.

Directors' report *(continued)*

Governance *(continued)*

Principle two: board composition

The Company is controlled by its directors on behalf of the shareholders and the board provides leadership. Following the appointment of Zach Lewy and Monique O'Keefe on 1 March 2023, the board comprises three executive directors and an independent non-executive director, operating in a flat structure. A number of matters are reserved for the board's approval (the 'ParentCo Reserved Matters'). The board is responsible for the day-to-day control and oversight of the Group, subject to matters reserved to the board of Sherwood Topco Limited.

Details of the directors who served on the board and their experience is included on page 19.

As the Company continues to evolve, the structure and composition of the board will continue to be reviewed to ensure that it remains fit for purpose.

Beneath the board sits audit and risk committee, remuneration and nomination committee, proprietary investment and valuations committee, Group leadership committee, operational performance committee, investment management committee, and sustainability & ESG committee.

The purpose of the audit and risk committee is to provide oversight of the financial reporting process, the audit process, the Company's system of internal controls, the effectiveness of its risk management framework and compliance with laws and regulation and guidance, and any material internal audit matters.

The purpose of the remuneration and nomination committee is to consider key issues in respect of the overall remuneration structure of the Group, and certain key appointments. The Group encourages diversity and recognises the benefits that diversity bring to the organisation. The board is generally opposed to the use of quotas and believes that their arbitrary nature may not pay due regard to the needs of the business and the development of its existing management. However, the board recognises the value of a range of perspectives, ideas and experiences that diversity brings, whether gender, race, sexual orientation, cultural background, disability, religion or age. The Company has a clear diversity and inclusion strategy, recognising that diversity extends beyond gender targets and one that recognises the importance of building an inclusive environment where colleagues can thrive.

The proprietary investment and valuations committee considers certain matters in respect of the Groups investments in respect of its back book, and also in respect of its investment in the ACO 1 and ACO 2, ALO and AREO funds.

Following a review during the course of the year, the board considered that the interests of the Company and its shareholders would be best served by replacing the Group executive committee with three separate committees.

The Group leadership committee is responsible for the delivery of strategy as agreed by the board. The Group leadership committee is provided with weekly reports on key performance indicators, and quarterly reports in respect of the operations of the platforms in certain key areas. On the basis of this management information, the Group leadership committee monitors the delivery of the Group's strategy on an ongoing basis.

The operational performance committee is responsible for monitoring the performance and effectiveness of the group's platforms and the entities comprising them and making tactical decisions to drive improved performance.

The investment management committee is responsible for considering and making decisions to promote the success of the vertically integrated investment strategies of the group, by promoting key initiatives in respect of raising third party capital, originating investment opportunities, and growing assets under management. The committee makes recommendations to the board on investment policy and strategy.

The sustainability & ESG committee (previously the sustainability & ESG forum) oversees the ongoing delivery of the Group's sustainability agenda and reviews, challenges and supports the Group's approach and progress against agreed ESG initiatives. Committee members have played a key role in continuing to evolve and embed the ESG and responsible investment policies, monitoring ESG Key Performance Indicators, moving forward with our diversity and inclusion agenda and leveraging insight from external experts including specialist Sustainability consultants. This committee ensures that the Company is kept appraised of key developments in implementing the ESG and sustainability goals of the Company.

Directors' report *(continued)*

Governance *(continued)*

Principle three: director responsibilities

The Group has in place policies that provide clear lines of accountability and responsibility for effective decision making. Topco Reserved Matters are reserved for Sherwood Topco Limited board approval, which must also include TDR investor director consent. Whilst the independent non-executive director has no material business relationship with the Group which may influence his judgement or ability to provide independent challenge, he is a participant in the Group's long term management incentive plan in order to promote alignment with business outcomes. Directors are required to declare any conflict of interest in advance of any discussion.

The board meets on an ad-hoc basis, as required. Day-to-day operational management of the Group is delegated to the executive directors, the Group leadership committee and the Group's businesses through their local platform management team. The Group leadership committee meets weekly, with action points noted and followed up.

The board receives regular and timely information on all key aspects of the business, including financial performance, performance against the Group's strategy and key performance indicators, HR, key risks, and Human Resource and governance matters. Key financial information is collated from the Group's various accounting systems and the Group's finance function is appropriately qualified to ensure the integrity of this information. The Group's statutory financial statements are externally audited by KPMG LLP on an annual basis.

Principle four: opportunity and risk

The board seeks out opportunities while mitigating risk.

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. Further detail of our risk management framework and the risks and uncertainties facing the business are described in the 'risks and uncertainties' section of the strategic report on pages 8 to 10.

Like all businesses, the Group faces a range of risks and uncertainties, successful management of which is paramount to the long-term achievement of the Group's strategic objectives. The board is clear about the specific risks faced by the business and its risk appetite that it is prepared to accept. Principal risks are identified through the Company's risk framework and tracked via our risk teams and committees which operate on both a central and platform level. The Company uses a risk management technology tool to ensure all colleagues across the Group report material risks in a timely manner. Our principal risks are captured under the headline categories of strategic, operational and financial risk. The board periodically monitors new and emerging risks via the audit and risk committee.

The board sees ESG as a significant opportunity and 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.

Principle five: remuneration

Remuneration of Group leadership committee members and certain other key persons in the Group is subject to a number of levels of scrutiny and review, including (as appropriate) the board of AGG Capital Management Limited, the Company's remuneration and nomination committee and the board of Sherwood Topco Limited.

The Company's remuneration and nomination committee ensures that leadership and senior management are appropriately rewarded for their performance throughout the year, by implementing the Group's remuneration policy, determining each individual's total remuneration package and setting the performance measures for performance-related pay.

These decisions are carefully considered in the context of the Group's strategic goals, culture, external impacts, market practice and wider workforce remuneration. The aim is to ensure that remuneration and incentives adhere to the principles of good corporate governance, support good risk management practice and promote long-term sustainable Company performance. The Company remains fully committed to ensuring that the Group's remuneration policy and out-turns are aligned to its culture and values. 'What' has been achieved is equally balanced with 'How' this has been executed in the considerations of performance and remuneration out-turns. The approach is holistic and extends from leadership and senior management right through the wider workforce.

Directors' report *(continued)*

Governance *(continued)*

In setting senior remuneration, the primary objective is to ensure the enhancement of the Group's resources, by securing and retaining quality senior management who can deliver the Group's strategic ambitions in accordance with our purpose and the interests of shareholders. The Group's management incentive plan helps ensure that these objectives are met.

Principle six: stakeholder relationships and engagement

Stakeholder interests are at the heart of every strategic and operational decision taken by the board. Our focus on discharging our responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006 and the impact our decisions will have on our stakeholder groups has continued following TDR's acquisition of the Group. For further detail, please see the 'Section 172 Statement' on pages 15 to 17 of the strategic report.

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.

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

26 March 2024

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

The directors are responsible for preparing the annual report, 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 year. Under that law they have elected to prepare the Group and Company financial statements in accordance with UK-adopted international accounting standards 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 Company and of the Group's profit or loss 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 standards;
- 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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

26 March 2024

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 year ended 31 December 2023 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 company 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 2023 and of the Group's loss for the year 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 the 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 meeting.
- Considering remuneration incentive schemes and performance targets for management and directors.
- 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 the full scope component audit team of relevant fraud risks identified at the Group level and request to the full scope component audit team 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;
- the risk of bias in accounting estimates and judgements such as revenue from portfolio investments.

On this audit we do not believe there is a fraud risk related to revenue recognition on income from non-portfolio investments because there are no estimates or judgments involved in the recognition and calculation of these revenue streams.

We identified a fraud risk related to valuation of estimated remaining cashflows and discount rates feeding into the portfolio valuations. 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 in scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual or seldom-used accounts having corresponding debit to portfolio assets, unexpected account combinations linked to portfolio assets, journals with specific descriptors;
- Evaluated the business purpose of significant unusual transactions
- 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 others 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 the full scope component audit team of relevant laws and regulations identified at the Group level, and a request for the 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.

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

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.

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, anti-money laundering, consumer protection, employment law and certain aspects of company legislation recognising the financial and regulated nature of the Group’s activities and its legal form. 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 fraud 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 year 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 25, 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.

Jatin Patel (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

26 March 2024

Consolidated statement of profit or loss and other comprehensive income for the year to 31 December 2023

	Note	Year to 31 December 2023 £000	Year to 31 December 2022 £000
Continuing operations			
Income from portfolio investments at amortised cost	**22**	55,462	97,812
Fair value gains on portfolio investments at FVTPL	**22**	32,433	21,351
Impairment (losses)/gains on portfolio investments at amortised cost	**22**	(16,883)	9,130
Income from real estate inventories	**22**	2,403	2,072
Share of profit in portfolio joint venture	**22**	7,266	–
Total income from portfolio investments		**80,681**	**130,365**
Integrated fund and asset management income	**5**	193,626	162,323
Profit on disposal of held for sale assets and liabilities		11,944	–
Gain on disposal of subsidiary	**29**	–	2,121
Other income		1,179	963
Total income		**287,430**	**295,772**
Operating expenses:			
Collection activity and fund management costs	**9**	(130,421)	(129,507)
Loss on reclassification to held for sale	**29**	–	(21,342)
Other operating expenses	**9**	(194,528)	(142,314)
Total operating expenses		**(324,949)**	**(293,163)**
Operating (loss)/profit		**(37,519)**	**2,609**
Derivative fair value movements	**21**	12,018	(4,834)
Finance income		776	537
Finance costs	**7**	(103,712)	(83,686)
Share of profit in associate		3,089	1,684
Loss before tax		**(125,348)**	**(83,690)**
Taxation credit/(charge) on ordinary activities	**10**	75	(1,417)
Loss for the year from continuing operations[1]		**(125,273)**	**(85,107)**
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		207	1,877
Movement on the hedging reserve		(1,803)	556
Total comprehensive loss		**(126,869)**	**(82,674)**
Loss after tax attributable to:			
Owners of the Company		(125,967)	(84,756)
Non-controlling interest		694	(351)
		(125,273)	**(85,107)**
Comprehensive loss attributable to:			
Owners of the Company		(127,563)	(82,323)
Non-controlling interest		694	(351)
		(126,869)	**(82,674)**

[1] The loss before tax of £125,348,000 for the year to 31 December 2023 (31 December 2022 £83,690,000) includes £58,288,000 of net adjusting costs (2022: £50,280,000), with an underlying loss before tax of £67,060,000 (2022: £33,410,000). For the reconciliation between these results please see page 112.

Consolidated and parent statement of financial position at 31 December 2023

Assets	Note	Group 2023 £000	Parent 2023 £000	Group 2022 £000	Parent 2022 £000
Cash and cash equivalents		114,683	–	143,603	–
Derivative asset	24	558	–	808	–
Trade and other receivables	14	86,277	3,110	65,041	506
Portfolio investments – amortised cost	22	323,827	–	392,182	–
Portfolio investments – FVTPL	22	380,977	–	331,199	–
Portfolio investments – real estate inventories	22	54,588	–	51,463	–
Portfolio investments – joint venture	22	87,253	–	–	–
Property, plant and equipment	13	30,010	3,748	27,614	–
Intangible assets	12	118,632	–	104,890	–
Deferred tax asset	10	6,610	–	4,815	–
Current tax asset		1,759	–	–	–
Investment in subsidiary undertakings	21	–	586,475	–	577,725
Investment in associates	21	321	–	64,150	–
Goodwill	11	745,109	–	698,879	–
Assets held for sale	29	–	–	270,986	–
Total assets		**1,950,604**	**593,333**	**2,155,630**	**578,231**
Liabilities					
Bank overdrafts	27	6,214	–	8,423	–
Revolving credit facility	27	157,592	–	169,104	–
Derivative liability	24	2,381	–	30,335	–
Trade and other payables	15	186,663	7,537	173,446	651
Current tax liability		–	–	1,902	–
Other borrowings	27	24,482	–	13,590	–
Asset-backed loans	27	–	–	8,246	–
Senior secured notes	27	1,246,132	–	1,258,358	–
Deferred tax liability	10	19,827	–	27,851	–
Liabilities held for sale	29	–	–	36,927	–
Total liabilities		**1,643,291**	**7,537**	**1,728,182**	**651**
Equity					
Share capital	17	166,813	166,813	166,813	166,813
Share premium	17	419,609	419,609	410,859	410,859
Retained deficit		(283,657)	(626)	(156,428)	(92)
Hedging reserve		(1,247)	–	556	–
Other reserves		3,036	–	2,829	–
Total equity attributable to shareholders		**304,554**	**585,796**	**424,629**	**577,580**
Non-controlling interest		2,759	–	2,819	–
Total equity		**307,313**	**585,796**	**427,448**	**577,580**
Total equity and liabilities		**1,950,604**	**593,333**	**2,155,630**	**578,231**

Approved by the board of directors on 26 March 2024, 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 the year to 31 December 2023

Group	Ordinary shares	Share premium	Retained earnings	Translation reserve[1]	Hedging reserve[1]	Total	Non-controlling interest	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2022	**166,813**	**410,859**	**(71,672)**	**952**	–	**506,952**	**3,470**	**510,422**
Loss after tax	–	–	(84,756)	–	–	**(84,756)**	(351)	**(85,107)**
Exchange differences	–	–	–	1,877	–	**1,877**	–	**1,877**
Net fair value gains – cash flow hedges	–	–	–	–	741	**741**	–	**741**
Tax on hedged items	–	–	–	–	(185)	**(185)**	–	**(185)**
Total comprehensive loss for the year	–	–	(84,756)	1,877	556	**(82,323)**	(351)	**(82,674)**
Distributions to non-controlling interests	–	–	–	–	–	–	(1,818)	**(1,818)**
Minority interest on acquisition	–	–	–	–	–	–	1,518	**1,518**
Balance at 31 December 2022	**166,813**	**410,859**	**(156,428)**	**2,829**	**556**	**424,629**	**2,819**	**427,448**
Loss after tax	–	–	(125,967)	–	–	**(125,967)**	694	**(125,273)**
Exchange differences	–	–	–	207	–	**207**	–	**207**
Net fair value gains – cash flow hedges	–	–	–	–	(2,403)	**(2,403)**	–	**(2,403)**
Tax on hedged items	–	–	–	–	600	**600**	–	**600**
Total comprehensive loss for the year	–	–	(125,967)	207	(1,803)	**(127,563)**	694	**(126,869)**
Shares issued	–	8,750	–	–	–	**8,750**	–	**8,750**
Acquisition of non-controlling interests	–	–	(1,262)	–	–	**(1,262)**	(754)	**(2,016)**
Distributions to non-controlling interests	–	–	–	–	–	–	–	–
Minority interest on acquisition	–	–	–	–	–	–	–	–
Balance at 31 December 2023	**166,813**	**419,609**	**(283,657)**	**3,036**	**(1,247)**	**304,554**	**2,759**	**307,313**

[1] Other reserves total £1,789,000 (2022: £3,385,000).

Parent	Ordinary shares	Share premium	Retained earnings	Total
	£000	£000	£000	£000
Balance at 1 January 2022	166,813	410,859	(2)	577,670
Loss after tax	–	–	(90)	**(90)**
Total comprehensive loss for the year	–	–	(90)	**(90)**
Balance at 31 December 2022	**166,813**	**410,859**	**(92)**	**577,580**
Loss after tax			(534)	**(534)**
Total comprehensive loss for the year	**--**	**--**	**(534)**	**(534)**
Shares issued	--	8,750	--	**8,750**
Balance at 31 December 2023	**166,813**	**419,609**	**(626)**	**585,796**

Consolidated and parent company statement of cash flow for the year to 31 December 2023

	Note	Group 2023 £000	Parent 2023 £000	Group 2022 £000	Parent 2022 £000
Net cash generated by operations	**30**	**121,031**	**–**	**61,243**	**–**
Investing activities					
Purchases of property, plant and equipment	**13**	(14,187)	–	(14,642)	–
Purchases of intangible assets	**12**	(8,997)	–	(7,380)	–
Proceeds from disposal of intangible assets and property, plant and equipment		–	–	406	–
Acquisition of an associate		(43)	–	–	–
Acquisition of subsidiaries, net of cash acquired	**28**	(46,443)	–	2,475	–
Additional investment in subsidiary		(9,503)	–	–	–
Disposal of subsidiary, net of cash		37,651	–	(1,147)	–
Deferred consideration paid in connection with subsidiary acquisitions		–	–	(1,404)	–
Net cash used in investing activities		**(41,522)**	**–**	**(21,692)**	**–**
Financing activities					
Movements in other banking facilities		(15,405)	–	(5,442)	–
Proceeds from RCF and other borrowings		11,883	–	11,432	–
Proceeds from senior notes issuing		–	–	–	–
Redemption of senior notes		–	–	–	–
Early bond repayment costs		–	–	–	–
Repayment of asset backed loans		(8,297)	–	(47,156)	–
Payment of interest on senior notes		(79,165)	–	(63,669)	–
Payment of interest on revolving credit facility		(12,339)	–	(9,067)	–
Payment of interest on asset-backed loans		–	–	(1,189)	–
Issue of share capital		–	–	–	–
Bank interest received		776	–	537	–
Bank and other similar fees paid		(1,310)	–	(962)	–
Distributions to non-controlling interest		–	–	(1,818)	–
Lease payments	**19**	(5,642)	–	(5,449)	–
Payment of deferred interest		–	–	(140)	–
Parent company funding		–	–	16,796	–
Net cash flow used in financing activities		**(109,499)**	**–**	**(106,127)**	**–**
Net decrease in cash and cash equivalents		(29,990)	–	**(66,576)**	–
Cash and cash equivalents at beginning of year		143,603	–	202,263	–
Effect of exchange rates on cash and cash equivalents		1,070	–	7,916	–
Cash and cash equivalents at end of the year including held for sale		**114,683**	**–**	**143,603**	**–**

Included within cash and cash equivalents is £11,838,203 (2022: £8,021,000) of cash which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated structure awaiting a payment date.

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 2023 are listed in note 21.

The Group's principal activity is to identify, acquire, manage and service secured and unsecured loan, real estate and other investment portfolios, through an integrated fund manager model.

1.2. Basis of preparation and going concern

The Group and Company's financial statements for the year to 31 December 2023 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. A number of the Group's subsidiaries have chosen to take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 December 2023, with the parent Company providing a declaration of guarantee in accordance with section 479C of the Companies Act 2006 for the relevant subsidiaries as at 31 December 2023. A full listing of the subsidiaries availing of the guarantee and audit exemption is set out in note 21.

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 2023, 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 Q1 2025.

A base case forecast, and several downside scenarios, have been prepared reflecting the Group's current financial position and expected future performance. The severe downside case is based upon the Oxford Economics severe downside IFRS 9 macroeconomic scenario. This scenario is also used for the Group's IFRS 9 modelling, as well as for modelling potential investment outcomes for LPs. An in-house model is used to translate the Oxford Economics macroeconomic forecasts into forecast outcomes for ERCs. The ERC impact of the severe downside macroeconomic scenario has been applied to all portfolio collections and income in the model, as well as an across the board decrease in servicing and fund management revenue of the same magnitude. This is then analysed against historical outcomes and associated levels of liquidity and leverage to assess plausibility. Key items considered within each forecast were the future outlook for HPI and default rates, 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 late 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, reducing portfolio purchases and collection acceleration) as required, the Group is able to maintain sufficient liquidity, operate within the banking covenants, and to continue as a going concern. This scenario was aligned to the severe downside forecasts outlined in note 22.

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 2023:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2;
- Definition of Accounting Estimates – Amendments to IAS 8; and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12.

The above standards are not expected to have a significant impact on the Group's financial statements.

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 2024 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 did not have a significant impact on the Company's financial statements:

- Non-current Liabilities with Covenants – Amendments to IAS 1 and Classification of liabilities as current or non-current (Amendments to IAS 1);
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16; and
- Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7;

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.

Deferred and contingent consideration

The Group has historically entered into 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.

Often, 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. Any contingent consideration is measured at fair value at the date of acquisition. 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.

If the payments constitute remuneration for ongoing services by former owners, then the amounts are excluded from the consideration paid to acquire the business and are unwound to the income statement as a remuneration charge over the relevant contingent period, with the liability remeasured each period based on expectation against performance conditions at that point in time. 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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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 2023 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.

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.

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.

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.

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 25).

Notes to the Financial Statements *(continued)*
3. Significant Accounting Policies *(continued)*

Investment funds

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund depends on whether there are a small number investors or a single party investor. Where there are a small number of investors Arrow focuses on the assessment of the aggregate economic interests of the Group in the fund (including any carried interests and expected management fees) and the investors' rights to remove the fund manager. In the instance of a single party investor there are single party kick out rights and this is the focus of determining whether the Group has control.

As the kick-out rights are without cause, and factoring in the aggregate economic interest for those funds where there are not single party kick-out rights, 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 25.

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 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.

Foreign currency

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).

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any ECL allowance. However, for amortised cost portfolio assets the concept of a separable ECL allowance is not applied, because due to the nature of the portfolio assets, expected cash flows are forecast including an estimate of ECLs, including multiple economic scenarios.

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. Updated future cash receipts are those expected in the normal course of maximising recoverability of credit-impaired assets.

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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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.

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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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.

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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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.

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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

The Group's co-investment 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. 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 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.

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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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.

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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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.

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 due to default events possible within 12 months (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 due to such events);
- 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

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

- 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.

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.

Interests in equity accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than the rights to its assets and liabilities.

Interest in associates and the joint venture are accounted for under the equity method. They are initially recognised at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand and highly liquid financial assets with original maturities usually 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 also include cash which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated structure awaiting a payment date.

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.

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 and goodwill

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.

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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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.

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.

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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

i. Share-based payment transactions

Share-based payment transactions in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payments.

The grant date fair value of the share-based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employee becomes unconditionally entitled to the awards.

The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

For share-based payments with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. Where the Company grants rights to its equity instruments to employees of its subsidiaries, the costs are recharged to the subsidiary in line with the requirements of IFRS 2 'Share-based payments'.

ii. Shares held in an employee benefit trust (EBT)

Transactions of the Company sponsored EBT are treated as being those of the Company and are therefore, reflected in these financial statements.

iii. 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.

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 and the translation reserve. These reserves are further explained in note 17.

Intercompany receivables

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

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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.

Integrated fund and asset management income

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.

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 Exco members (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4. Critical and other 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.

Notes to the Financial Statements *(continued)*

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

Critical 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.

Classification of portfolio investment assets

The Group's co-investment in its funds are managed on a fair value basis, with reporting to senior management on the performance of these assets being prepared on that 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 and the Group's co-investment business is classified as FVTPL.

The Group's on-balance sheet portfolio investments are primarily held 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 a portfolio is purchased, 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 on-balance sheet portfolios, 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.

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.

Other Judgements

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 majority ownership of, but the Group is judged to control regardless, see note 21 for further detail.

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 share in a structured entity, as well as providing services to these entities in a typical supplier-customer relationship capacity. In these cases, determining whether the Group controls such an investment fund depends on the number of investors and the aggregate economic interest.

Notes to the Financial Statements *(continued)*

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

Where there are a small number of investors Arrow focuses on the assessment of the aggregate economic interests of the Group in the fund (including any carried interests and expected management fees) and the investors' rights to remove the fund manager. In the instance of a single party investor there are single party kick out rights and this is the focus of determining whether the Group has control.

As the kick-out rights are without cause, and factoring in the aggregate economic interest for those funds where there are not single party kick-out rights, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

Assumptions and estimation uncertainties

i. Carrying value of portfolio investments

The carrying value of portfolio investments is £846,645,000 at 31 December 2023 (2022: £1,023,856,000 including held for sale portfolios). £380,977,000 of portfolio assets are classified as FVTPL and £323,827,000 of portfolio assets are classified as amortised cost.

For 31 December 2023, for assets invested in its funds, the Group has taken its percentage ownership of the fund valuations. The fund valuations are derived by either generated cash flow forecasts (ERCs) using a bottom-up approach, whereby cash flow have been modelled using a number of factors, including cash collections history, property status and valuations and macro-economic projections of property values, or third-party valuations provided by specialists.

The ERCs are then discounted at the market rate with the rate updated by adjusting for movements in the risk free rate reflecting the change in discount rates due to prevailing market conditions.

For on balance sheet investments excluding joint ventures, the Group has generated its own ERCs whereby each individual portfolio's cash flow has been modelled using a number of portfolio specific factors, including 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 status, property status and valuation (for secured accounts), servicer history, and supporting data from third parties such as credit files or macroeconomic projections. This data has been used in conjunction with the predicted effectiveness of any additional collection initiatives to generate the eventual ERC for each portfolio.

The on balance sheet ERCs are then discounted at the appropriate rate (EIR for amortised cost portfolios, and a rate reflective of assumptions that market participants would use when pricing the asset for FVTPL portfolios as for fund investments), 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 is used to determine the net realisable value in assessing each portfolio for potential impairment. Depending on the asset, the ERC and discount rate is expected to be the significant estimate.

Following production of the on balance sheet valuations, the Group utilises a range of third-party forward-looking economic scenario projections, to adjust the amortised cost portfolio for macro-economic risk not captured in the bottom-up portfolio-level modelling. As part of this exercise, we assume that the portfolio-level ERCs represent the 'Base Case' economic scenario projection, and the performance indicators that underpin these ERCs, including House Price Index (HPI) and Default Rates, are stressed according to the relative variance between a given economic scenario projection and the 'Base Case' economic scenario projection. Further inferences are made, for example with respect to how the Weighted Average Life (WAL) of the portfolio-level ERCs would vary across the given economic scenario projections, to yield a revised Group ERC under each scenario. A weighted probability is then assigned to each scenario to yield an adjusted ERC. Numerical disclosures and sensitivities have been set out in note 22, to assist the users of these statements in understanding the financial impact of the most recent reforecast and macro-economic adjustments in lieu of specific disclosures for each underlying estimate to give users of the financial statements an understanding the range of possible valuation outcomes.

The joint venture portfolio investment is accounted for under the equity method. The majority of the value under this method is derived from the underlying special purpose entity classifying and measuring the portfolio receivables as amortised cost assets. The underlying ERC is based on the joint venture partner's own projection of future cash flows from the portfolio, incorporating factors relating to macroeconomic environments, types of debtors and loan, and historic experience of portfolios with similar characteristics, with input from Arrow management via the joint governance structure. This ERC is then discounted at the EIR to provide a carrying value, from which the Group has taken its percentage ownership share in addition to other less significant assets and liabilities of the special purpose entity.

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Notes to the Financial Statements *(continued)*

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

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 2023 by +/- £7,048,000 (2022: £9,724,000). 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 2023 by £2,830,000/(£10,281,000) (2022: £7,235,000/(£10,234,000)). 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 £745,109,000 at 31 December 2023 (2022: £698,879,000). The Group's goodwill has primarily been recognised on the acquisition of Arrow on 11 October 2021 and has been fully allocated to the Integrated Fund Management CGU. Additional acquisitions of Eagle Street and Maslow have resulted in additional goodwill of £46,381,000 in the year. An assessment for impairment has been undertaken as at 31 December 2023 with no impairment identified. Key estimates used in the assessment are the expected long-term cash flows the Integrated Fund Management CGU is expected to generate and the market discount rates applicable to such a CGU. Market discount rates have been derived using the Capital Asset Pricing Model, using observable market data on comparable listed entities. Judgement is applied in both selecting the comparable entities and the Group specific risk adjustments required for the CGUs. To corroborate such judgements other available indicators of valuation for the Group are considered. A market discount rate of 10% and a long term growth rate of 2% have been used in the assessment. Sensitivities for these key estimates are provided in note 11.

5. Segmental reporting

The Group reports under three separate reportable segments, being Integrated Fund Management, Balance Sheet Business and Group. Details of the principal business categories are as follows:

Integrated Fund Management	Income and costs associated with managing investment portfolios on behalf of the Group, our discretionary funds and other third parties, the income and costs associated with providing other servicing and collection activities to third parties and income and costs associated with investment and asset management. The combined income from this segment represents the capital-light income of the Group.
Balance Sheet Business	All portfolio investments that the Group owns, including investments held directly on our balance sheet together with our co-investment made through our discretionary funds, such as ACO 1,ACO 2, and AREO, the associated income and direct costs of such investments.
Group	Costs not directly associated with the other two segments, but relevant to overall oversight and control of the Group's activities.

These segments represent how the Group manages the wider business, 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.

Notes to the Financial Statements *(continued)*

5. Segmental reporting *(continued)*

The Integrated Fund Management segment charges the Balance Sheet Business segment for servicing and collection of the Group portfolio investments and management and servicing fees in relation to fund management in respect to its investments. This intra-segment charge is calculated on equivalent commercial terms to charging third parties. The intra-segment elimination column below removes such charges.

Year to 31 December 2023	**Integrated Fund Management**	**Balance Sheet**	**Group**	**Intra-segment elimination**	**Adjusting items[1]**	**Total exc. adjusting items**	**Total inc. adjusting items**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Total income	220,917	86,904	21	(39,455)	19,043	268,387	287,430
Collection activity and fund management costs	(97,038)	(57,032)	(113)	39,455	(15,693)	(114,728)	(130,421)
Gross margin	**123,879**	**29,872**	**(92)**	–	**3,350**	**153,659**	**157,009**
Gross margin %	*56.1%*	*34.4%*				*57.3%*	*54.6%*
Other operating expenses excluding depreciation, amortisation and forex	(79,166)	(3,700)	(32,059)	–	(58,537)	(114,925)	(173,462)
EBITDA	**44,713**	**26,172**	**(32,151)**	–	**(55,187)**	**38,734**	**(16,453)**
EBITDA margin %	*20.2%*	*30.1%*				*14.4%*	*(5.7)%*
Depreciation and amortisation	(7,861)	–	(2,213)	–	(15,008)	(10,074)	(25,082)
Foreign exchange translation gain	–	–	4,016	–	–	4,016	4,016
Operating profit/(loss)	**36,852**	**26,172**	**(30,348)**	–	**(70,195)**	**32,676**	**(37,519)**
Derivative fair value movements	–	–	–	–	12,018	–	12,018
Net finance costs	–	–	(102,825)	–	(111)	(102,825)	(102,936)
Share of profit in associate	3,089	–	–	–	–	3,089	3,089
Profit/(loss) before tax and adjusting items	**39,941**	**26,172**	**(133,173)**	–	**(58,288)**	**(67,060)**	**(125,348)**

[1] The loss before tax of £125,348,000 for the year to 31 December 2023 (2022: £83,690,000), includes £58,288,000 of net adjusting costs (2022: £50,280,000), For more detail on adjusting items see pages 112 and 113.

Notes to the Financial Statements *(continued)*
5. Segmental reporting *(continued)*

Year to 31 December 2022	**Integrated Fund Management**	**Balance Sheet**	**Group**	**Intra-segment elimination**	**Adjusting items**	**Total exc. adjusting items**	**Total inc. adjusting items**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Total income	207,274	135,723	6	(50,831)	3,600	292,172	295,772
Collection activity and fund management costs	(89,806)	(81,726)	(283)	50,831	(8,523)	(120,984)	(129,507)
Gross margin	**117,468**	**53,997**	**(277)**	**–**	**(4,923)**	**171,188**	**166,265**
Gross margin %	*56.7%*	*39.8%*				*58.6%*	*56.2%*
Loss on reclassification to held for sale	–	–	–	–	(21,342)	–	(21,342)
Other operating expenses excluding depreciation, amortisation and forex	(77,763)	–	(24,366)	–	(6,261)	**(102,129)**	**(108,390)**
EBITDA	**39,705**	**53,997**	**(24,643)**	**–**	**(32,526)**	**69,059**	**36,533**
EBITDA margin %	*19.2%*	*39.8%*				*23.6%*	*12.4%*
Depreciation and amortisation	(8,814)	–	(2,113)	–	(12,203)	(10,927)	(23,130)
Foreign exchange translation loss	–	–	(10,794)	–	–	(10,794)	(10,794)
Operating profit/(loss)	**30,891**	**53,997**	**(37,550)**	**–**	**(44,729)**	**47,338**	**2,609**
Derivative fair value movements	–	–	–	–	(4,834)	–	(4,834)
Net finance costs	–	–	(82,432)	–	(717)	(82,432)	(83,149)
Share of profit in associate	1,684	–	–	–	–	1,684	1,684
Profit/(loss) before tax and adjusting items	**32,575**	**53,997**	**(119,982)**	**–**	**(50,280)**	**(33,410)**	**(83,690)**

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.

The below and overleaf tables are produced on a statutory basis:

Year to 31 December 2023	**UK, Ireland, Luxembourg and Jersey**	**Portugal**	**Italy**	**The Netherlands**	**Intra-Group trading**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Total income	170,662	68,830	48,112	39,281	(39,455)	**287,430**
Third-party integrated fund and asset management income	84,986	46,499	35,514	26,627	–	**193,626**
Non-current assets	858,399	21,818	4,539	8,995	–	**893,751**

Year to 31 December 2022	**UK, Ireland and Jersey**	**Portugal**	**Italy**	**The Netherlands**	**Intra-Group trading**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Total income	203,516	50,429	44,949	47,709	(50,831)	**295,772**
Third-party integrated fund and asset management income	66,928	32,058	34,076	29,261	–	**162,323**
Non-current assets	809,267	26,675	4,971	10,010	–	**850,923**

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.

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Notes to the Financial Statements *(continued)*

6. Integrated fund and asset management income

Integrated fund and asset management income is made up of discretionary core strategies from the Groups' integrated fund manager activity, and local and ancillary strategies including third-party and Arrow on-balance sheet investments servicing activity, as described in the following paragraphs.

	Year to 31 December 2023	Year to 31 December 2022
	£000	£000
Integrated fund manager income	78,485	51,472
On balance sheet investments servicing and asset management income	35,154	49,269
Third party servicing and asset management income	107,278	106,533
Total Integrated fund management segmental income	**220,917**	**207,274**

Discretionary core strategies

Fund and investment management income encompasses services provided in relation to the discretionary allocation and management of third-party capital within ACO 1, ACO 2 and AREO. 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 in accordance with IFRS 15. Revenue is also generated from asset management and servicing the assets.

Local and ancillary strategies

Income from asset management and servicing contracts with third party customers, together with services provided to the Arrow back book, and 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 in accordance with IFRS 15.

Servicing income 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.

Contract balances

At 31 December 2023, the Group had assets relating to contracts with customers in the amount of £14.2m (December 2022: £15.5m). 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 or contract.

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 5 years and 1 months. The contract balances have amortised in the period, resulting in £3.1m (December 2022: £2.2m) of amortisation expensed to the comprehensive statement of profit and loss during the period.

Notes to the Financial Statements *(continued)*

7. Finance costs

	Year to 31 December 2023 £000	Year to 31 December 2022 £000
Interest and similar charges on bank loans	13,971	9,831
Interest and similar charges on senior secured notes	85,684	68,511
Interest and similar charges on asset-backed securitisation	187	1,710
Lease liability interest	1,805	1,122
Other interest	2,208	1,190
Interest rate swap and forward exchange contract hedge costs	(254)	604
Underlying finance costs	**103,601**	**82,968**
Acquisition related costs	111	718
	103,712	**83,686**

8. Auditor remuneration

The analysis of auditor remuneration is as follows:

	Year to 31 December 2023 £000	Year to 31 December 2022 £000
Fees payable for audit services – Company	70	60
Fees payable for audit services – Group	3,179	2,760
Total fees payable for audit services	**3,249**	**2,820**
Fees payable for audit-related assurance services	–	–
Total fees payable for audit-related and regulatory assurance services	–	–
Fees payable for other assurance services	333	405
Total fees payable for non-audit services	333	**405**
Total fees payable	**3,582**	**3,225**

Notes to the Financial Statements *(continued)*

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

9.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	**Year to 31 December 2023 £000**	**Year to 31 December 2022 £000**
External collection costs	9,669	17,044
Staff costs (see note 9b)	71,112	69,812
Direct temp labour	4,664	4,335
Direct operating costs	16,709	13,365
Legal disbursements	8,879	11,608
Other collection activity costs	3,695	4,820
Underlying other operating expenses	**114,728**	**120,984**
Operations held for sale result	15,693	8,523
Total collection activity and fund management costs	**130,421**	**129,507**

Other operating expenses	**Year to 31 December 2023 £000**	**Year to 31 December 2022 £000**
Staff costs (see note 9b)	64,377	57,290
Other related staff costs	7,767	8,275
Premises	2,187	1,503
IT	14,915	17,515
Depreciation and amortisation	10,074	10,927
Net foreign exchange (gains)/losses	(4,016)	10,794
Other operating expenses	25,679	17,547
Underlying other operating expenses	**120,983**	**123,851**
Maslow acquisition – investment in associate adjustment to fair value	36,457	–
Other acquisition costs – depreciation and amortisation	15,008	11,505
Acquisition related deferred remuneration	13,558	321
Operations held for sale result	8,522	6,637
Total other operating expenses	**194,528**	**142,314**

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

The average headcount for the Group for the year to 31 December 2023 was 1,977 (31 December 2022: 2,288).

Notes to the Financial Statements *(continued)*

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

9b. Staff costs	**Year to 31 December 2023 £000**	**Year to 31 December 2022 £000**
Wages and bonuses	125,360	112,381
Pension costs	6,403	6,148
Social security costs	15,513	15,320
Staff restructuring	509	49
Total staff costs including operating held for sale result	**147,785**	**133,898**
Operating held for sale result	(12,296)	(6,796)
Total staff costs excluding operating held for sale result	**135,489**	**127,102**

The total members of the executive committee, executive and non-executive directors' during the year was £7,639,000 (31 December 2022: £6,719,000), including £65,000 in relation to pension costs (31 December 2022: £35,000). In respect of the highest paid director (who was a director during the year), salary and performance related bonus was £1,907,000 (31 December 2022: £556,000), pension-related benefit was £nil (31 December 2022: £nil).

10. Tax

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax. The main rate of UK corporation tax, as enacted under the Finance Act 2022, increased to 25% from 1 April 2023.

a. Amounts recognised in profit and loss	**Year to 31 December 2023 £000**	**Year to 31 December 2022 £000**
Current tax charge:		
Tax charge at standard UK corporation tax rate	5,618	5,094
Total current tax charge	**5,618**	**5,094**
Deferred tax charge:		
Origination and reversal of temporary differences	**(5,693)**	**(3,677)**
Total deferred tax charge	**(5,693)**	**(3,677)**
Total income tax expense/(credit)	**(75)**	**1,417**

The differences in the effective tax rate for the period and the standard rate of corporation tax in the UK at 23.5% (2022: 19%) are as follows:

b. Reconciliation of effective tax rate	**Year to 31 December 2023 £000**	**Year to 31 December 2022 £000**
Loss before tax	(125,348)	(83,690)
Tax credit at standard UK corporation tax rate	(29,457)	(15,901)
Adjustment in respect of prior periods – current tax	(661)	(974)
Adjustment in respect of prior periods – deferred tax	(1,198)	(733)
Effect of tax rates in foreign jurisdictions	725	821
Expenses not deductible for tax purposes	8,358	3,957
Tax rate changes	–	306
Income not taxable	(3,706)	(2,792)
Overseas tax suffered	800	590
Movements in unrecognised deferred tax	25,064	16,143
Total income tax expense/(credit)	**(75)**	**1,417**

Notes to the Financial Statements *(continued)*

10. Tax *(continued)*

c. Amounts recognised in OCI

There were amounts recognised in the OCI during the period of £601,000 in respect of tax (2022: £186,000).

Deferred tax

The Group has not recognised a deferred tax asset in relation to tax losses carried forward of £70,254,000 (2022: £62,853,000), 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.

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 tax rate changes were enacted during the period in respect of overseas territories in which the group operates.

Movement in deferred tax balances

2023

	Net balance 1 January £000	On acquisition/ disposal of subsidiary[1] £000	Recognised in profit or loss £000	Recognised in OCI £000	Reclassification £000	Foreign exchange £000	Net balance 31 December £000	Deferred tax asset £000	Deferred tax liability £000
IFRS and fair value transitional adjustments	**(25,984)**	(44)	4,243	-	3,088	247	**(18,450)**	**1,377**	**(19,827)**
Hedging reserve	**(185)**	-	-	600	-	-	**415**	**415**	**-**
Other temporary differences	**(208)**	1,138	863	-	(48)	21	**1,766**	**1,766**	**-**
Losses	**2,966**	359	587	-	(780)	(80)	**3,052**	**3,052**	**-**
	(23,411)	**1,453**	**5,693**	**600**	**2,260**	**188**	**(13,217)**	**6,610**	**(19,827)**

2022

	Net balance 1 January £000	On acquisition of subsidiary[1] £000	Recognised in profit or loss £000	Recognised in OCI £000	Reclassification £000	Foreign exchange £000	Net balance 31 December £000	Deferred tax asset £000	Deferred tax liability £000
IFRS and fair value transitional adjustments	(21,826)	–	2,483	–	(6,305)	(336)	**(25,984)**	**1,917**	**(27,901)**
Hedging reserve	–	–	–	(185)	–	–	**(185)**	–	**(185)**
Other temporary differences	(338)	(1,102)	645	–	583	4	**(208)**	**954**	**(1,162)**
Losses	1,847	444	549	–	35	91	**2,966**	**2,966**	**0**
	(20,317)	**(658)**	**3,677**	**(185)**	**(5,687)**	**(241)**	**(23,411)**	**5,837**	**(29,248)**
Total moved to assets held for sale	(757)							(1,022)	1,397
Total excluding held for sale	**(21,074)**							**4,815**	**(27,851)**

[1] See note 28 and note 29 for further information on the acquisitions and disposals.

Notes to the Financial Statements *(continued)*

10. Tax *(continued)*

Uncertainty over income tax treatments

There is a current tax asset of £1,759,000 (2022: current tax liability of £1,902,000). The liability in 2022 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.

11. Goodwill

	Total
	£000
Cost	
At 1 January 2022	688,063
Remeasurement[1]	5,080
Additions	5,467
Exchange rate differences	269
At 31 December 2022	698,879
Additions[2]	46,381
Exchange rate differences	(151)
At 31 December 2023	**745,109**
Impairment	
At 31 December 2023 and 31 December 2022	**–**
Carrying amount	
At 31 December 2023	**745,109**
At 31 December 2022	**698,879**

[1] Remeasurement of fair values of acquired assets and liabilities at acquisition.

[2] See note 28 for a detailed analysis of additions to goodwill during 2023.

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The two CGUs considered for goodwill allocation were at 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 two CGUs identified are Integrated Fund Management, comprising all of the Group's debt management operations on behalf of the Group, discretionary funds and other third parties and the Balance Sheet Business, comprising the Group's owned portfolio investment business. In 2022, the Group changed its assessment of CGUs in the year reflecting how the Group utilisation of its assets and operations to generate revenues has changed over time. In October 2021, the Group was acquired by TDR. Post-acquisition, the Group strategically re-positioned itself as a platform led vertically aligned business. Alignment of the Group's platforms and its investment business on a geography basis no longer adequately represents how the Group makes returns.

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Notes to the Financial Statements *(continued)*

11. Goodwill *(continued)*

The vertically integrated model means that the platforms work collectively to derive returns across geographies and individual platform cash in-flows are not substantially derived separately from other platforms. With the strategic repositioning and the move towards a capital-light model, the BSB is no longer the primary focus of the platforms. Following the change in CGUs, goodwill was reallocated on a relative value basis using value in use calculations for each of the revised CGUs. This resulted in all of the goodwill being allocated to the Integrated Fund Management CGU.

The discount rate was a post-tax rate based on the yield of average European 10-year government bonds, adjusted for a risk premium to reflect both the increased risk of investing in equities generally, the systemic risk of the specific CGU, and the non-systematic risk imputed from the reconciliation to the expected return on the purchase of the Group by TDR.

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined as the lower of the nominal gross domestic product rates for the countries in which the CGU operates and the long-term compound annual profit before taxes, depreciation and amortisation growth rate estimated by management.

Budgeted profit before taxes, depreciation and amortisation were based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated growth for the next five years.

The key assumptions described above may change as economic and market conditions change. The Group estimates that likely possible changes in these assumptions would not cause the recoverable amount of the relevant CGU to decline below the carrying amount.

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:

	2023	2022
	£000	**£000**
Integrated Fund Management	745,109	698,879
	745,109	**698,879**

An impairment review was carried out at 31 December 2023, that resulted in no impairment to goodwill. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGUs is determined as the higher of fair value, less cost to sell and value in use. The Discount rate and forward-looking growth assumptions applied in the value in use calculations were as follows:

	2023	2022
	Integrated Fund Management	**Integrated Fund Management**
Discount rate %	10%	11%
Growth rate used to extrapolate forecasts	2%	2%

Discount rates

Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Post-tax rates are used alongside post-tax cash flows, as the post-tax discount rate is more readily derived from observable market information. Any potential differences between post-tax discount rates and cash flows and the pre-tax method under IAS 36 – Impairment of assets have been considered, and no material differences between approaches have been identified.

Notes to the Financial Statements *(continued)*

11. Goodwill *(continued)*

The starting point for determining the discount rates for each CGU was to use the Group's weighted average cost of capital (WACC) and adjust this for specific factors for each of the CGUs to derive a market participant's rate. The factors took into account the risks inherent in each of the CGUs; such as currency, regulatory, and economic risks and the different operations in the CGUs were also considered.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows into perpetuity. The forecasts assume growth rates in collection activity which in turn drive forecast collections and cost figures. These assumptions are in keeping with the directors' expectations of future growth. Appropriate tax rates are applied to the cash flow forecasts for each CGU. The analysis has been prepared using post-tax cash flows and discount rates, as post-tax discount rates can be more readily derived from observable market data. The Group is satisfied that this is materially equal to performing the analysis on pre-tax cash flows and discount rates.

The result of the goodwill impairment review was that no impairment was deemed to exist as at 31 December 2023 and 31 December 2022.

Notes to the Financial Statements *(continued)*

12. Intangible assets

	Customer intangibles	Contractual rights	IT platform	Software licences	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2022	**104,216**	**251**	**22,368**	**7,480**	**134,315**
Exchange rate differences	–	14	694	29	737
Additions	–	–	2,118	5,262	7,380
Reclassifications	–	23	(437)	(23)	(437)
Write-off	–	–	–	6	6
Disposals	–	–	(139)	(83)	(222)
At 31 December 2022	**104,216**	**288**	**24,604**	**12,671**	**141,779**
Assets acquired on acquisition of a subsidiary	22,832	–	90	–	22,922
Exchange rate differences	–	(5)	(182)	57	(130)
Additions	–	17	7,046	1,934	8,997
Reclassifications	–	–	189	(148)	41
Write-off	–	–	–	–	–
Disposals	(4,275)	–	(5,277)	(4,678)	(14,230)
At 31 December 2023	**122,773**	**300**	**26,470**	**9,836**	**159,379**
Accumulated amortisation					
At 1 January 2022	**3,950**	**16**	**1,102**	**818**	**5,886**
Exchange rate differences	–	7	129	32	168
Amortisation for the year[1]	10,508	222	3,835	3,162	17,727
Reclassifications	–	–	–	(73)	(73)
Write-offs	–	–	–	(13)	(13)
At 31 December 2022	**14,458**	**245**	**5,066**	**3,926**	**23,695**
Exchange rate differences	–	(5)	135	78	208
Amortisation for the year[1]	13,310	3	2,069	3,085	18,467
Reclassifications	–	–	98	(96)	2
Write-offs	–	–	–	–	–
Disposals	(583)	–	–	(1,042)	(1,625)
At 31 December 2023	**27,185**	**243**	**7,368**	**5,951**	**40,747**
Carrying amount					
At 31 December 2023	**95,588**	**57**	**19,102**	**3,885**	**118,632**
At 31 December 2022 (including held for sale)	**89,758**	**43**	**19,538**	**8,745**	**118,084**
Intangible assets held for sale					**(13,194)**
At 31 December 2022 (excluding held for sale)					**104,890**

[1] Amortisation and depreciation are shown within the other operating costs line of the consolidated statement of profit or loss. £11,857,000 of the amortisation has been including in adjusting items in the year.

Notes to the Financial Statements *(continued)*

13. Property, plant and equipment

	Leasehold improvements £000	Computer equipment £000	Furniture £000	Vehicles £000	Right-of-use asset[1] £000	Total £000
Cost						
At 1 January 2022	**2,096**	**776**	**276**	**267**	**14,111**	**17,526**
Assets acquired on acquisition of a subsidiary	524	92	391	19	6,286	7,312
Exchange differences	78	35	37	1	640	791
Additions	534	605	147	39	13,317	14,642
Reclassifications	394	(431)	1,449	(8)	874	2,278
Write-offs	–	–	–	(1)	(2)	(3)
Disposals	–	(51)	(9)	–	(409)	(469)
At 31 December 2022	**3,626**	**1,026**	**2,291**	**317**	**34,817**	**42,077**
Acquired on acquisition of subsidiary	–	56	70	97	–	223
Exchange differences	(456)	(18)	(193)	(13)	(421)	(1,101)
Additions	7,718	656	881	48	4,884	14,187
Reclassifications	–	(9)	–	–	63	54
Write-offs	–	–	–	–	–	–
Disposals	(6,102)	(489)	(1,330)	–	(5,942)	(13,863)
At 31 December 2023	**4,786**	**1,222**	**1,719**	**449**	**33,401**	**41,577**
Accumulated depreciation						
At 1 January 2022	**105**	**27**	**38**	**234**	**488**	**892**
Exchange differences	27	(1)	12	–	(75)	(37)
Charge for the year	673	624	291	45	3,770	5,403
Reclassifications	744	(283)	848	–	654	1,963
Write-offs	(1)	(6)	(8)	(12)	(59)	(86)
Disposals	–	(18)	–	–	–	(18)
At 31 December 2022	**1,548**	**343**	**1,181**	**267**	**4,778**	**8,117**
Exchange differences	(125)	(26)	(165)	(17)	(52)	(385)
Charge for the year	690	371	428	27	5,099	6,615
Reclassifications	–	–	–	–	–	–
Write-offs	–	–	–	–	–	–
Disposals	(1,494)	(142)	(731)	–	(413)	(2,780)
At 31 December 2023	**619**	**546**	**713**	**277**	**9,412**	**11,567**
Carrying amount						
At 31 December 2023	**4,167**	**676**	**1,006**	**172**	**23,989**	**30,010**
At 31 December 2022 (including held for sale)	**2,078**	**683**	**1,110**	**50**	**30,039**	**33,960**
Property, plant and equipment held for sale						**(6,346)**
At 31 December 2022 (excluding held for sale)						**27,614**

[1] *See note 19 for a detailed analysis of right-of-use assets.*

The parent company also has Property, Plant and Equipment of £3,748,000 (December 2022 nil)

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

14. Trade and other receivables

	Group 2023 £000	Company 2023 £000	Group 2022 £000	Company 2022 £000
Trade receivables	48,139	–	48,508	–
Contract balances	14,201	–	15,478	–
Other receivables	17,551	141	11,642	–
Prepayments	6,380	–	8,389	–
Due from other Group undertakings	6	2,969	–	506
Due from parent companies	–		298	–
Total including assets held for sale	**86,277**	**3,110**	**84,315**	**506**
Trade and other receivables moved to assets held for sale[1]	–	--	(19,274)	–
Total excluding assets held for sale	**86,277**	**3,110**	**65,041**	**506**

[1] Trade and other receivables include £19,274,000 in respect of the Capquest and Mars UK platforms as at 31 December 2022, which for disclosure purposes has been moved to 'Assets held for sale' on the consolidated statement of financial position. See note 29 for more information.

Notes to the Financial Statements *(continued)*

15. Trade and other payables

Current	Group 2023 £000	Company 2023 £000	Group 2022 £000	Company 2022 £000
Trade payables	15,189	–	16,425	601
Deferred consideration on portfolio investments	–	–	23,433	–
Taxation and social security	3,065	–	3,873	–
Due to other Group undertakings	–	3,232	–	50
Due to parent companies	17,339	–	15,840	–
Accruals	50,589	–	43,930	–
Other liabilities	32,452	–	24,970	–
Lease liability	3,894	–	11,903	–
	122,528	**3,232**	**140,374**	**651**
Non-current				
Trade payables	8,120	–	5,821	–
Deferred and contingent consideration on acquisition of subsidiaries	–	–	3,197	–
Deferred consideration on portfolio investments	737	–	–	–
Taxation and social security	–	–	–	
Accruals	–	–	204	–
Liabilities arising on acquisition of bankruptcy portfolios	28,501	–	28,458	–
Other liabilities	4,357	–	8,454	–
Lease liability	22,420	4,305	19,137	–
	64,135	**4,305**	**65,271**	**–**
Total including held for sale	**186,663**	**7,537**	**205,645**	**651**
Trade and other payables moved to liabilities held for sale[1]	–	–	(32,199)	–
Total excluding held for sale	**186,663**	**7,537**	**173,446**	**651**

[1] Trade and other payables include £32,199,000 in respect of the Capquest and Mars UK platforms as at 31 December 2022, which for disclosure purposes has been moved to 'Liabilities held for sale' on the consolidated statement of financial position. See note 29 for more information.

Included within other liabilities is €4,028,960 (£3,492,813) (2022: €3,474,000 (£3,076,000)) 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:

	2023	2022
Discount rate	3%	0%-4%
Annual inflation rate	2%-3%	2%-6%
Wage inflation	3%-4%	2%-8%
Probability of leaving employment for reasons other than retirement (employees aged 18-60)	3%-11% per annum	3%-10% per annum

Notes to the Financial Statements *(continued)*

16. 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. The Netherlands data privacy regulator is undertaking an ongoing industry-wide review regarding the alignment of the credit bureau industry with GDPR requirements in which one of the Group's Netherlands subsidiaries, Focum, is included. As part of this review, the regulator has raised concerns with Focum regarding compliance and application of these requirements focusing on its legitimate interest. Following legal advice and after considering (i) the 2022 letter issued by the European Commission stating that Dutch authorities interpretation of legitimate interest is too strict and conflicts with GDPR and (ii) the outstanding referral by the Amsterdam District Court to the European Court of Justice to explain legitimate interest, the directors believe they will be able to defend the Group position. As a result, they do not expect its outcome to have a material impact on the Group. The directors note the review remains open and no specific financial claim has been raised by the relevant authorities. Accordingly, no provision is recognised.

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 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.

17. Share capital and reserves

Share capital and share premium

	2023	2022
Issued, fully paid and authorised:	**£000**	**£000**
166,813,370 ordinary shares of £1 each (2022:166,813,369)	166,813	166,813
	166,813	**166,813**

Total consideration for the shares was £586,422,000 (2022: £577,672,000) giving rise to a share premium of £419,609,000 (2022: £410,859,000). There are no restrictions on the repayment of capital. The £8,750,000 increase in the year relates to the Maslow transaction, which is described in note 28.

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.

18. Dividends

No dividends were paid or declared during 2023 and no final dividend is proposed (2022: nil).

Notes to the Financial Statements *(continued)*

19. Leases

The Group has leases for offices premises, hospitality accommodation, 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 13).

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 13).

	Office premises	**Vehicles £000**	**Computer equipment £000**
Balance at 31 December 2022	**28,030**	**892**	**1,117**
Assets acquired on acquisition of a subsidiary	–	–	–
Depreciation charge for the year	(4,251)	(316)	(532)
Additions	4,023	768	93
Disposals	(5,314)	–	(215)
Reclassifications	(608)	614	57
Exchange differences	(24)	(203)	(142)
Write-offs	–	–	–
Balance at 31 December 2023	**21,856**	**1,755**	**378**

Maturity analysis – contractual undiscounted cash flows

See note 23 for maturity analysis of lease liabilities as at 31 December 2023 and 31 December 2022.

Amounts recognised in profit or loss

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

	Year to 31 December 2023 £000	**Year to 31 December 2022 £000**
Interest on lease liabilities	1,805	1,122
Depreciation charge for the period on right of use assets	5,099	3,770
Expenses relating to short-term leases	71	61

Amounts recognised in statement of cash flows

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

	Year to 31 December 2023 £000	**Year to 31 December 2022 £000**
Total cash outflow for leases	5,642	5,449

Notes to the Financial Statements *(continued)*

20. Related party transactions

Related party balances

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

Group	Amounts due to group undertakings 2023 £000	Amounts due to group undertakings 2022 £000
Directors' loans	461	451
Total	461	**451**

Directors' loans were made in connection with the management incentive plan introduced during the previous year.

Company	Amounts due to group undertakings 2023 £000	Amounts due to group undertakings 2022 £000
Arrow Global Investments Holdings Limited	(3,182)	–
Sherwood Financing plc	(50)	(50)
Total	**(3,232)**	**(50)**

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 Group had the following reportable transactions with related parties:

	Interest income year to 31 December 2023 £000	Interest income year to 31 December 2022 £000
Directors' loans	10	–
Total	**10**	**–**

The Company had the following reportable transactions with related parties:

	Other expenses year to 31 December 2023 £000	Other expenses year to 31 December 2022 £000
Arrow Global Investments Holdings Limited	(50)	–
Total	**(50)**	**–**

Notes to the Financial Statements *(continued)*

20. Related party transactions *(continued)*

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:

Remuneration	Year to 31 December 2023 £000	Year to 31 December 2022 £000
Salaries and performance related bonus	7,574	6,684
Pension-related benefits	65	35
	7,639	**6,719**

The number of key management during the year was 12 (2022: 12).

Directors and key management participate in a management incentive plan that entitles key management personnel and senior employees to purchase shares in Sherwood Topco Limited, the top consolidating Group in the structure. In accordance with this plan, participants purchased shares at the fair value market price of the shares at grant date. See note 26 for further detail.

Notes to the Financial Statements *(continued)*

21. Investments in subsidiaries and associates

Details of the Company's subsidiaries at 31 December 2023 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* *Company no. 04637581*	UK (England & Wales)	Note 1	100	Trading	DFS
AGG Booth Title Limited *Company no. 12533342*	UK (England & Wales)	Note 2	100	Trading	ACM(H)L
AGG Capital Management (Holdco) Limited (ACM(H)L)* *Company no. 12272877*	UK (England & Wales)	Note 3	100	Trading	AGGL
AGL Fleetwood Limited* *Company no. 11889566*	UK (England & Wales)	Note 3	100	Trading	AFTL
AGL Fleetwood 2 Limited* *Company no. 12660006*	UK (England & Wales)	Note 3	100	Trading	AF2TL
AGL Fleetwood 2 Topco Limited (AF2TL)* *Company no. 12655329*	UK (England & Wales)	Note 3	100	Trading	AGIHL
AGL Fleetwood 3 Limited (AF3L) * *Company no. 12660015*	UK (England & Wales)	Note 3	100	Trading	AF2TL
AGL Fleetwood Topco Limited (AFTL)* *Company no. 11886176*	UK (England & Wales)	Note 3	100	Trading	AGIHL
Arrow Global (Holdings) Limited (AG(H)L)* *Company no. 05606576*	UK (England & Wales)	Note 3	100	Trading	AGIHL
Arrow Global Accounts Management Limited* *Company no. 05478076*	UK (England & Wales)	Note 3	100	Trading	AGL
Arrow Global Adviser Limited (AGAL) *Company no. 12311219*	UK (England & Wales)	Note 3	100	Trading	AGIHL
Arrow Global Birch Holdings Limited *Company no. 14516928*	UK (England & Wales)	Note 3	100	Trading	AGIHL
Arrow Global Europe Limited* *Company no. 09296946*	UK (England & Wales)	Note 3	100	Trading	AGIHL
Arrow Global European Service Company Limited *Company no. 14409681*	UK (England & Wales)	Note 3	100	Trading	AG(H)L
Arrow Global Finance Plc* *Company no. 08361735*	UK (England & Wales)	Note 3	100	Trading	AGIHL
Arrow Global Group Limited (AGGL)* *Company no. 08649661*	UK (England & Wales)	Note 3	100	Trading	SAL
Arrow Global Guernsey Limited *Company no. 08768171*	UK (England & Wales)	Note 3	100	Dormant	AG(H)L
Arrow Global Investments Holdings Limited (AGIHL)* *Company no. 06568603*	UK (England & Wales)	Note 3	100	Trading	AGGHL
Arrow Global Legh Limited *Company no. 08612068*	UK (England & Wales)	Note 3	100	Dormant	AG(H)L
Arrow Global Limited (AGL)* *Company no. 05606545*	UK (England & Wales)	Note 3	100	Trading	AG(H)L
Arrow Global Luna Limited* *Company no. 08898157*	UK (England & Wales)	Note 3	100	Trading	AG(H)L
Arrow Global Management Limited *Company no. 07373491*	UK (England & Wales)	Note 3	100	Dormant	AG(H)L
Arrow Global Massey Limited *Company no. 08612076*	UK (England & Wales)	Note 3	100	Dormant	AG(H)L
Arrow Global One Limited (AGOL)* *Company no. 08649653*	UK (England & Wales)	Note 3	100	Trading	AGGL
Arrow Global Portugal Investments Limited* *Company no. 09312429*	UK (England & Wales)	Note 3	100	Trading	AF3L

Notes to the Financial Statements *(continued)*

21. Investments in subsidiaries and associates *(continued)*

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Arrow Global Portugal Limited* *Company no. 07243769*	UK (England & Wales)	Note 3	100	Trading	AF3L
Arrow Global Receivables Management Limited* *Company no. 05875306*	UK (England & Wales)	Note 3	100	Trading	AG(H)L
Arrow SMA LP Limited (ASLL)* *Company no. 12272894*	UK (England & Wales)	Note 3	100	Trading	AGIHL
Bergen Capital Management Limited* *Company no. 07553297*	UK (England & Wales)	Note 3	100	Trading	MAL
Blue Current Capital Limited *Company no. 12592858*	UK (England & Wales)	Note 3	100	Trading	AGBHL
Capquest Mortgage Servicing Limited* *Company no. 05821008*	UK (England & Wales)	Note 3	100	Trading	AGOL
Drydens Limited (DFS)* *Company no. 06765260*	UK (England & Wales)	Note 1	100	Trading	AGL
Erudio Customer Management Limited	UK (England & Wales)	Note 3	100	Dormant	AG(H)L
Eagle Street Partners Limited *Company no. 13097022*	UK (England & Wales)	Note 3	100	Trading	AGBHL
Mars Acquisition Limited (MAL)* *Company no. 08522909*	UK (England & Wales)	Note 3	100	Trading	AGIHL
Maslow Brokerage Limited *Company no 12434070*	UK (England & Wales)	Note 24	100	Trading	MCAL
Maslow Capital LLP *LLP no. OC345252*	UK (England & Wales)	Note 24	100	Trading	MGPL
Maslow Global Partners Limited *Company no. 13807373*	UK (England & Wales)	Note 24	100	Trading	MCGL
Quest Bidco Limited (QBL)* *Company no. 07653281*	UK (England & Wales)	Note 3	100	Trading	QTL
Quest Newco Limited (QNL)* *Company no. 07715012*	UK (England & Wales)	Note 3	100	Trading	QBL
Quest Topco Limited (QTL)* *Company no. 07653295*	UK (England & Wales)	Note 3	100	Trading	AGIHL
Sherwood Acquisitions Limited (SAL)* *Company no. 13299321*	UK (England & Wales)	Note 3	100	Trading	SPL
Sherwood Financing plc* *Company no. 13497082*	UK (England & Wales)	Note 3	100	Trading	SPL
Sherwood Financing 2 Limited* *Company no. 13538711*	UK (England & Wales)	Note 3	100	Trading	SPL
Western Acquisition Holdings Limited	UK (England & Wales)	Note 3	50	Dormant	AGL
Eagle Street Partners Ireland Limited	Republic of Ireland	Note 25	100	Trading	AGBHL
Mars Capital Finance Ireland DAC	Republic of Ireland	Note 4	100	Trading	MAL
Mars Capital Management Ireland DAC	Republic of Ireland	Note 4	100	Trading	MAL
Resident Space Services Limited	Republic of Ireland	Note 25	100	Trading	AGBHL
Arrow Global Guernsey Holdings Limited (AGGHL)	Guernsey	Note 5	100	Trading	AGOL
Arrow Global Guernsey Limited	Guernsey	Note 5	100	Dormant	AGIHL
AGG Capital Management Limited (AGGCML)	Jersey	Note 6	100	Trading	ACM(H)L
Arrow Credit Opportunities II Feeder A GP Limited	Jersey	Note 6	100	Trading	AGGCML
Arrow SMA GP Limited (ASGL)	Jersey	Note 6	100	Trading	ASLL
Arrow Global SMA I LP	Jersey	Note 6	100	Trading	ASLL/ ASGL
Maslow Capital Global Limited	Jersey	Note 6	100	Trading	AGIHL
Maslow Capital Partners Limited	Jersey	Note 6	100	Trading	MCGL

Notes to the Financial Statements *(continued)*

21. Investments in subsidiaries and associates *(continued)*

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Maslow Capital Advisers Limited	Jersey	Note 6	100	Trading	MCGL
Maslow Advisers II Limited	Jersey	Note 6	100	Trading	MCGL
Maslow Advisers III Limited	Jersey	Note 6	100	Trading	MCGL
Maslow Capital Management Limited	Jersey	Note 6	100	Trading	MCGL
Maslow Living GP Limited	Jersey	Note 6	100	Trading	MCML
Resident Space Advisors Limited	Jersey	Note 26	100	Trading	AGBHL
Sherwood Jersey Service Limited	Jersey	Note 6	100	Trading	SPL
Shield Corporate Limited	Jersey	Note 6	100	Trading	AGIHL
Shield Opera Limited	Jersey	Note 6	100	Trading	AGIHL
ACO SPV S.r.l	Italy	Note 27	100	Trading	AGIS
ACO B SPV S.r.l.	Italy	Note 27	100	Trading	AGIS
Arrow Global Investments Holdings Italia S.R.L. (AGIHIS)	Italy	Note 7	100	Trading	AGIHL
Arrow Global Italia S.R.L. (AGIS)	Italy	Note 7	100	Trading	AGIHL
Duccio Immobilaire 1 S.R.L	Italy	Note 11	100	Trading	SSS
Etna SPV S.R.L	Italy	Note 7	100	Trading	AGIS
Etna Reoco S.R.L.	Italy	Note 7	0	Trading	N/A
Europa Investimenti Aziende S.R.L. (EIAS)	Italy	Note 8	100	Trading	EIS
Europa Investimenti Corporate Finance S.R.L.	Italy	Note 8	100	Trading	EIS
Europa Investimenti Gestione Attivi S.R.L.	Italy	Note 8	100	Trading	EIS
Europa Investimenti Spa (EIS)	Italy	Note 8	100	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
Forest SPV S.R.L	Italy	Note 7	0	Trading	AGIS
Immobiliare San Silvestro S.R.L.	Italy	Note 28	100	In liquidation	LDuS
Lanzone Cinque S.R.L.	Italy	Note 8	100	Trading	EIS
Lanzone Diciannove S.R.L. (LDiS)	Italy	Note 8	100	Trading	EIS
Lanzone Dodici S.R.L. (LDoS)	Italy	Note 8	100	Trading	EIS
Lanzone Dodici Real Estate S.R.L.	Italy	Note 30	100	Trading	LDoS
Lanzone Due S.R.L. (LDuS)	Italy	Note 8	100	Trading	EIS
Lanzone Ventidue S.R.L. (LVS)	Italy	Note 8	100	Trading	EIS
Lanzone Ventuno S.R.L.	Italy	Note 9	70	Trading	LDiS
LeaseCo First Srl	Italy	Note 7	100	Trading	ZSS
Leaseco Vulcan S.R.L	Italy	Note 7	100	Trading	ZSS
Giardini di Sacro Monte Eco-Immobiliare S.r.l.	Italy	Note 7	100	Trading	AGIS
Haywave SPV S.R.L	Italy	Note 7	100	Trading	AGIS
Leonardo Investment Opportunities	Italy	Note 7	0	Trading	N/A
Omnia S.R.L	Italy	Note 10	100	Trading	LDoS
Sagitta SGR Spa	Italy	Note 7	100	Trading	EIS
Sansedoni Agency S.R.L	Italy	Note 11	100	Trading	SSS
Sansedoni Siena S.P.A (SSS)	Italy	Note 11	99.5	Trading	LVS
Solvere S.R.L	Italy	Note 11	100	Trading	SSS
SPV Project 156 S.R.L	Italy	Note 7	100	Trading	AGIS
SPV Project 158 S.R.L	Italy	Note 7	100	Trading	EITS
SPV Project 1608	Italy	Note 7	0	Trading	N/A
SPV Project 1713 S.R.L	Italy	Note 7	100	Trading	AGIS
VAR Reoco S.R.L.	Italy	Note 7	100	Trading	AGIS

Notes to the Financial Statements *(continued)*

21. Investments in subsidiaries and associates *(continued)*

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Vulcan SPV S.R.L	Italy	Note 7	100	Trading	AGIS
Zen Finance Management S.R.L.	Italy	Note 7	50	Trading	ZSS
Zenith Service S.p.A. (ZSS)	Italy	Note 7	100	Trading	AGIHIS
Zeus Finance S.R.L	Italy	Note 7	0	Trading	N/A
Strzala Sp. z o.o.	Poland	Note 13	100	Dormant	AG(H)L/AGL
Capquest Debt Recovery S.A (pty) Limited	South Africa	Note 14	100	Dormant	AGL
AGHL Portugal Investments Holdings, S.A. (AGHLPIH)	Portugal	Note 15	100	Trading	AGIHL
Arrow Adviser PT SA	Portugal	Note 15	100	Trading	AGAL
Court Visit, Unipessoal LDA	Portugal	Note 15	100	Trading	AGHLPIH
Central Walls, Unipessoal LDA	Portugal	Note 15	100	Non-Trading	AGHLPIH
Details Hotels & Resorts, SA	Portugal	Note 16	100	Trading	AGHLPIH
Hefesto STC, S.A.	Portugal	Note 15	100	Trading	AGHLPIH
Little Turbilhão SA	Portugal	Note 15	100	Trading	AF3L
MREO Investments, SA	Portugal	Note 17	100	Trading	AGHLPIH
Norfin Investimentos, S.A.(NISA)	Portugal	Note 15	100	Trading	AGHLPIH
Norfin – Serviços, S.A	Portugal	Note 15	100	Trading	NISA
Norfin – Sociedade Gestora de Organismos de Investimento Coletivo, S.A	Portugal	Note 15	100	Trading	NISA
Partilha Transparente – Unipessoal LDA	Portugal	Note 15		Trading	AGHLPIH
Restart Capital Unipessoal, LDA	Portugal	Note 15	100	Trading	AGHLPIH
Sandalgreen, Assets, S.A.	Portugal	Note 15	100	Trading	AF3L
Sucesso Delicado, S.A.	Portugal	Note 15	100	Trading	AGHLPIH
Whitestar Asset Solutions, S.A.	Portugal	Note 15	100	Trading	AGHLPIH
Maslow Capital España, S.L.	Spain	Note 31	100	Trading	MCGL
Arrow Global Benelux (Holdings) B.V. (AGBH)	Netherlands	Note 18	100	Trading	AGIHB
Arrow Global Investments Holdings Benelux B.V. (AGIHB)	Netherlands	Note 18	100	Trading	AGIHL
Fiditon Holding B.V. (FH)	Netherlands	Note 18	100	Trading	AGIHB
Focum Groep B.V. (FG)	Netherlands	Note 18	100	Trading	AGIHB
Focum Solutions B.V.	Netherlands	Note 18	100	Trading	FG
Incassobureau Fiditon B.V.	Netherlands	Note 18	100	Trading	FH
Universum Inkasso B.V. (UI)	Netherlands	Note 18	100	Non-Trading	AGIHB
Vesting Finance Holding B.V. (VFH)	Netherlands	Note 18	100	Trading	AGIHB
Vesting Finance Incasso B.V.	Netherlands	Note 18	100	Trading	VFH
Vesting Finance Servicing B.V. (VFS)	Netherlands	Note 18	100	Trading	AGIHB
Alpha Credit Holdings 3 S.a.r.l	Luxembourg	Note 19	100	Trading	AGL
Arrow Global SMA II GP S.a.r.l	Luxembourg	Note 20	100	Trading	ASLL
Arrow Global SMA REO 1 GP S.a.r.l.	Luxembourg	Note 20	100	Trading	ASLL
Arrow Professional Services (Luxembourg) S.a.r.l.	Luxembourg	Note 20	100	Trading	AGIHL
Bow Advisers S.á r.l	Luxembourg	Note 21	100	Trading	AGGCML
Bow Advisers II S.á r.l	Luxembourg	Note 20	100	Trading	AGGCML
Bow Advisers REO 1 S.a.r.l	Luxembourg	Note 20	100	Trading	AGGCML
Bow Aggregator REO 1 S.a.r.l	Luxembourg	Note 20	100	Trading	AGGCML
Bow Aggregatror S.á r.l	Luxembourg	Note 20	100	Trading	AGGCML
Bow (Co-invest) Advisers S.á r.l	Luxembourg	Note 21	100	Trading	AGGCML
Bow (SMA) Advisers S.á r.l	Luxembourg	Note 21	100	Trading	AGGCML
Bow Advisers ALO I S.á r.l	Luxembourg	Note 20	100	Trading	AGGCML
Bow Aggregator ALO I S.á r.l	Luxembourg	Note 20	100	Trading	AGGCML

Notes to the Financial Statements *(continued)*

21. Investments in subsidiaries and associates *(continued)*

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Arrow Global SMA ALO I GP S.á r.l	Luxembourg	Note 20	100	Trading	ASLL
Maslow Living 1 S.á r.l	Luxembourg	Note 20	100	Trading	MCGL
Spear ACO Alux 19 S.á r.l	Luxembourg	Note 20	100	Dormant	AGGCML
NXT Holding S.á r.l (previously known as Spear ACO Alux 20 S.á r.l)	Luxembourg	Note 20	100	Dormant	AGGCML
Focum Belgium (BVBA)	Belgium	Note 22	100	Trading	AGIHB/FG
Arrow Global Adviser Co USA Inc	USA	Note 23	100	Trading	AGAL
Arrow Global Canada Inc	Canada	Note 29	100	Trading	AGIHL
Arrow Global Germany GmbH	Germany	Note 32	100	Trading	AGIHL

** Subsidiaries which have chosen to take advantage of the audit exemption set out within section 479A of the Companies Act 2006, with a declaration of guarantee provided as at 31 December 2023.*

Notes	Registered addresses
Note 1	10th Floor, West One, 114 Wellington Street, Leeds, LS1 1BA, UK
Note 2	1 Bartholomew Lane, London, EC2N 2AX, UK
Note 3	Belvedere, 12 Booth Street, Manchester, M2 4AW, UK
Note 4	One Warrington Place, Dublin, D02 HH27, Ireland
Note 5	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey
Note 6	27 Esplanade, St Helier, JE1 1SG, Jersey
Note 7	Via V. Betteloni 2, 20131 Milan, Italy
Note 8	Via Lanzone 31, 20123 Milan, Italy
Note 9	Via Niccolo Tommaseo 68, 35131 – Padova, Italy
Note 10	Galleria Porte Cortarine, 4/93, 35137 Padova, Italy
Note 11	Via Garibaldi 60, Siena, CAP 53100, Italy
Note 12	Castel Maggiore (BO) Via Grandi n. 5 – CAP 40013, Italy
Note 13	Al. Jerozolimskie nr 148, 02–326, Warszawa, Poland
Note 14	Office Suite 15, Canal Edge 1, Tyger Waterfront, Carl Cronje Drive, Bellville, Western Cape, 7530, South Africa
Note 15	Avenida Almirante Gago Coutinho, nº. 30, piso 0 1000-017 Lisboa, Portugal
Note 16	Urbanização Quinta Pedra dos Bicos, lote 24, 8200-381 Albufeira, Portugal
Note 17	Av. Fontes Pereira de Melo, 14,15,1050-121 Lisboa, Portugal
Note 18	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands
Note 19	412F, R'ute d'Esch, L-1471 Luxembourg
Note 20	26, Boulevard Royal, L-2449 Luxembourg
Note 21	6D, route de Treves, L-2633 Senningerberg, Grand Duchy of Luxembourg
Note 22	Koralenhoeve 15, 2160 Wommelgem, Belgium
Note 23	251 Little Falls Drive, Wilmington, County of New Castle, 19808 USA
Note 24	6 Duke Street, London, SW1Y 6BN, UK
Note 25	4th Floor, 76 Baggot Street, Dublin, D02 EK81, Ireland
Note 26	Third Floor, Liberation House, Castle Street, St Helier, JE1 2LH, Jersey
Note 27	24-28 Corso Vittorio Emanuele II, 20121 Milan
Note 28	Faenza (RA) – Via Giuseppe Verdi 20
Note 29	100 King Street West, Suite 6200, Toronto, Ontario, Canada, M5X 1B8
Note 30	Via Giacinto, Andrea Longhin 11, 35129 - Padova (PD), Italy
Note 31	Nanclares de Oca street, 1st floor B, Madrid, Spain
Note 32	Frankfurt am Main, Germany

Notes to the Financial Statements *(continued)*

21. Investments in subsidiaries and associates *(continued)*

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 power over the relevant activity of the entity and can use this power to impact the variability of returns from the entity. The Group, at times, must exercise judgement as to whether the combination of power 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. See note 4 for more detail on such judgements.

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 year, the Group issued no guarantees (2022: nil) to holders of notes issued by structured entities that the Group consolidates.

Company: investment in subsidiaries

	2023 £000	2022 £000
Sherwood Acquisitions Limited	586,425	577,675
Sherwood Financing plc	50	50
Sherwood Financing 2 Limited[1]	–	–
Total	**586,475**	**577,725**

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

[1] *Investment of £1.*

Notes to the Financial Statements *(continued)*

21. Investments in subsidiaries and associates *(continued)*

Associates

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. The total consideration for the investment was £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 December 2021. The Group entered into a share option agreement to acquire the remaining 51%. On the 22 August 2023, the remaining 51% was acquired by exercise of the option, with Maslow becoming a subsidiary of the Group. The share option was extinguished (valued at £30,286,000 as at 31 December 2022).

Immediately prior to acquisition the 49% shareholding, recognised as an investment associate, was adjusted to its fair value, resulting in a charge of £36,457,000 in other operating expenses.

Fair value movements on the share option derivative in the year up to acquisition resulted in a gain of £12,018,000.

The investment in Maslow prior to full acquisition was recognised as an investment in associate and was equity accounted.

Summarised below is a reconciliation of the movements in the carrying value of the Group's associates during the year:

	£000
Interest in the net assets of the associate as at 1 January 2023	64,150
Share of profit in associate during the year	3,089
Additions	39
Fair value adjustment	(36,457)
Disposals	(30,500)
Interest in the net assets of the associate as at 31 December 2023	321

The £39,000 addition in the year relate to an associate investment in Mica, a Dutch real estate asset and property manager.

Notes to the Financial Statements *(continued)*

22. Portfolio investments

Split of portfolio investments by period:

	2023 £000	2022 £000
Expected falling due within 1 year	327,982	296,391
Expected falling due after 1 year	518,663	727,465
	846,645	**1,023,856**

Movements in Portfolio investments were as follows:

As at 31 December 2023	**Amortised cost £000**	**FVTPL £000**	**Real estate inventories £000**	**Joint venture £000**	**Total £000**
As at 1 January 2023 including held for sale	641,194	331,199	51,463	–	1,023,856
Portfolios purchased during the year	33,752	117,893	–	91,511[2]	243,156
Movement in investments awaiting deployment[1]	–	(3,166)	–	–	(3,166)
Acquisitions in the year	–	1,013	–	–	1,013
Collections in the year	(161,769)	(88,570)	(22,146)	(11,378)	(283,863)
Proceeds on sale of non-core UK portfolios[2]	(183,023)	–	–	–	(183,023)
Deferred purchase consideration liability transfer on sale of non-core UK portfolios[3]	(26,208)	–	–	–	(26,208)
Income from portfolio investments at amortised cost	55,462	–	–	–	55,462
Fair value gains on portfolio investments at FVTPL	–	32,433	–	–	32,433
Income from portfolio investments – real estate inventories	–	–	2,403	–	2,403
Share of profit in portfolio joint venture	–	–	–	7,266	7,266
Net impairment losses	(16,088)	–	(795)	–	(16,883)
Loss on sale of UK non-core portfolios	(16,773)	–	–	–	(16,773)
Capital expenditure on real estate inventories	–	–	21,633	–	21,633
Exchange and other movements	(2,720)	(9,825)	2,030	(146)	(10,661)
As at 31 December 2023	**323,827**	**380,977**	**54,588**	**87,253**	**846,645**

[1] *Investments awaiting deployment relates to movements in cash held in an investment vehicle, in anticipation of purchasing portfolio investments, which had not completed at the period end.*

[2] *The £183,023,000 proceeds reflect 100% derecognition of the wholly owned UK portfolios subject to the divestment. 50% of these portfolios have been immediately repurchased into a new category entitled 'Joint venture'. This treatment is required by IFRS. The net proceeds of £91,511,000, have been reported in the underlying collections figure of £375,376,000.*

[3] *A proportion of the wholly owned UK portfolios subject to the divestment were acquired with the purchase consideration being deferred and still outstanding at the divestment date. As part of the divestment, these liabilities to the original vendor were transferred to Intrum.*

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.

Notes to the Financial Statements (*continued*)

22. Portfolio investments (*continued*)

As at 31 December 2022 (re-presented)[1]	Amortised cost	FVTPL	Real estate inventories	Total
	£000	£000	£000	£000
Balance at the beginning of the year	704,944	302,808	41,029	1,048,781
Portfolios purchased during the year	37,007	129,500	9,207	175,714
Investments awaiting deployment[2]	–	5,305	–	5,305
Balance sheet cash collections in the year	(233,657)	(134,608)	(11,858)	(380,123)
Income from portfolio investments at amortised cost	97,812	–	–	97,812
Fair value gain on portfolio investments at FVTPL	–	21,351	–	21,351
Income from portfolio investments – real estate inventories	–	–	2,072	2,072
Net impairment losses	8,992	–	138	9,130
Capital expenditure on real estate inventories	–	–	12,114	12,114
Exchange and other movements	26,096	6,843	(1,239)	31,700
As at the 31 December 2022 including held for sale	**641,194**	**331,199**	**51,463**	**1,023,856**
Portfolios moved to assets held for sale[3]	(249,012)	–	–	(249,012)
As at the 31 December 2022 excluding held for sale	**392,182**	**331,199**	**51,463**	**774,844**

[1] Movements in portfolio investments for 2022 has been re-presented to provide a comparative for capital expenditure on real estate inventories previously disclosed within Exchange and other movements. This has been disclosed separately for 2023 and 2022 as such expenditure has become more significant in 2023.

[2] Investments awaiting deployment relates to movements in cash held in an investment vehicle, in anticipation of purchasing portfolio investments, which had not completed at the year end.

[3] Portfolio investments include £249,012,000 in respect of the wholly owned UK portfolios subject to the divestment as at 31 December 2022, which for disclosure purposes has been moved to 'Assets held for sale' on the consolidated statement of financial position. Therefore, there is £392,182,000 of 'portfolio investments – amortised cost' on the consolidated statement of financial position.

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.

Notes to the Financial Statements *(continued)*

22. Portfolio investments *(continued)*

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 different economic scenarios: a base case, which is the central scenario, developed based on consensus forecasts, and several less likely, but plausible, scenarios.

These scenarios reflect the valuation uncertainty of significant inputs, namely ERCs and discount rate, are provided by an external and independent macroeconomic forecasting company, Oxford Economics, and are reviewed internally before being used in the Group's models. To derive these scenarios, Oxford Economics use multiple sources of information, 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. These include interest rates, inflation, and HPI, amongst others.

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 and default rates, including the length and severity of any potential macroeconomic shock, and the impact these may have on the Group's cash flows.

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.

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 2023 by £7,048,000 (2022: £9,724,000). Note that this sensitivity applies only to 'amortised cost' and 'FVTPL' portfolio investments, as financial instruments under IFRS 7 and 9. Real estate and joint venture portfolio assets are not financial instruments under IFRS 7 and 9.

Macro-economic risk captures the estimation uncertainty most significant to the portfolio investments across all assets. Management use Oxford Economics scenario forecast to assess this risk. If future cash flows were adjusted for key macro-economic inputs as per the most optimistic/pessimistic scenarios, the impact would be as 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 above.

2023	**Carrying balance**	**Upside variance**	**Downside variance**
Geography	**£000**	**£000**	**£000**
UK and Ireland	247,672	19,478	(28,542)
Portugal	268,741	105,276	(71,244)
Netherlands	116,514	9,054	(7,859)
Italy	213,718	14,520	(16,141)
	846,645	**148,328**	**(123,786)**

2022	**Carrying balance**	**Upside variance**[1]	**Downside variance**[1]
Geography	**£000**	**£000**	**£000**
UK and Ireland	383,739	6,706	(8,077)
Portugal	244,988	50,985	(45,843)
Netherlands	137,579	17,736	(14,417)
Italy	257,550	12,712	(15,689)
	1,023,856	**88,139**	**(84,026)**

[1] *The held for sale portfolio investments have been excluded from this calculation.*

Notes to the Financial Statements *(continued)*
22. Portfolio investments *(continued)*

2023	**Carrying balance**	**Upside variance**	**Downside variance**
Portfolio asset class	**£000**	**£000**	**£000**
Secured	402,493	68,487	(68,667)
Unsecured	302,311	79,841	(55,119)
Real estate inventories	54,588	N/A	N/A
Joint venture	87,253	N/A	N/A
	846,645	**148,328**	**(123,786)**

2022	**Carrying balance**	**Upside variance[1]**	**Downside variance[1]**
Asset class	**£000**	**£000**	**£000**
Secured	349,185	40,508	(40,422)
Unsecured	623,208	47,631	(43,604)
Real estate inventories	51,463	N/a	N/a
	1,023,856	**88,139**	**(84,026)**

[1] *The held for sale portfolio investments have been excluded from this calculation.*

23. Risks arising from financial instruments

Risk management

Credit risk

One of the Group's principal activities is the acquisition and management of non-performing consumer and commercial unsecured, secured and real estate portfolios, either directly or via its integrated fund management activities. Most portfolios by their nature are impaired at acquisition and the Group (collectively its own portfolio management functions and the fund manager) 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, factoring in sale recoveries from collateral held on the secured portfolios, and obtaining independent expert valuations. 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 FVTPL, either as a percentage ownership of a fund or directly held assets, they are measured using a discounted cash flow model or independent valuations.

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.

The Group's management of amortised cost assets 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 amortised cost 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.

ARROW GLOBAL

Notes to the Financial Statements *(continued)*

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

Risk management *(continued)*

Credit risk (continued)

Given the nature of the assets, most arrangements entered into with counterparties are of a non-contractual nature, where we work to establish, or re-establish, suitable recovery plans that provide appropriate risk-adjusted returns.

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 fair value assets are valued either using a discounted cash flow valuation discounted at a market rate or an independent expert valuation, both of which incorporate a market view of credit risk.

The Group's amortised cost 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 Oxford Economics, an independent specialist forecasting company, the Group considers a number of macroeconomic scenarios, including assumptions on unemployment, HPI and default rates. 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 Investment 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.

As all of the Group's amortised cost portfolio assets are POCI, the cash flows are subject to reassessment each period.

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 2023	**Stage 1-3**	**POCI**	**Total**
	£000	**£000**	**£000**
Portfolio investments – amortised cost	–	323,827	323,827
Loss allowance	–	N/a	N/a
Carrying amount	**–**	**323,827**	**323,827**

As at 31 December 2022	**Stage 1-3**	**POCI**	**Total**
	£000	**£000**	**£000**
Portfolio investments – amortised cost	–	641,194	641,194
Loss allowance	–	N/a	N/a
Carrying amount	**–**	**641,194**	**641,194**

Notes to the Financial Statements *(continued)*

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

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

As at 31 December 2023

	Secured	Unsecured	Total
Amortised cost portfolio balances	**£000**	**£000**	**£000**
UK and Ireland	25,824	8,169	33,993
Portugal	29,256	102,483	131,739
Netherlands	13,098	32,528	45,626
Italy	36,698	75,771	112,469
Carrying amount	**104,876**	**218,951**	**323,827**

As at 31 December 2022

	Secured	Unsecured	Total
Amortised cost portfolio balances	**£000**	**£000**	**£000**
UK and Ireland	28,247	267,130	295,377
Portugal	34,623	120,862	155,485
Netherlands	1,334	38,595	39,929
Italy	32,749	117,654	150,403
Carrying amount	**96,953**	**544,241**	**641,194**

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.

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.

	2023	2022
LTV Ratio	**£000**	**£000**
Less than 50%	31,765	28,515
51-70%	9,823	7,829
71-90%	9,344	7,267
91-100%	2,734	2,281
More than 100%	51,210	51,061
	104,876	**96,953**

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

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.

Notes to the Financial Statements *(continued)*

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

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:

	2023 £000	2022 £000
Cash and cash equivalents	114,683	143,603

The table represents a worst-case scenario of the counterparty risk that the Group is exposed to. The 31 December 2023 balance is spread across a number of counterparties with the top five accounting for 52% (2022: 55%) of the total. The maximum exposure to one counterparty is £18 million (2022: £35 million).

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:

	2023 %	2022 %
AA	25	12
A	34	47
Below A	41	41
Total cash and cash equivalents	**100**	**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 2023 (2022: nil).

Notes to the Financial Statements *(continued)*

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

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by cash or another financial asset.

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plans for growth. The treasury policy adopted by the Group serves to reduce this risk by setting a specific policy parameter that there are sufficient committed debt facilities 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 2023, the Group's senior secured notes, revolving credit facility and asset-backed security transaction had an average period to maturity of 3.2 years (2022: 4.2 years). Total cash and undrawn facilities, which excludes cash that may be subject to constraints regarding when the balance can be remitted, were £226.6 million at 31 December 2023 (2022: £248.4 million).

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 and related additional capital additions are discretionary, which helps to mitigate liquidity risk.

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:

	2023	**2022**
	£000	**£000**
At 31 December	226,611	248,368
Average for the period	234,706	252,117
Minimum for the period	186,463	210,531
Maximum for the period	293,856	297,807

Notes to the Financial Statements *(continued)*
23. Risks arising from financial instruments *(continued)*
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 2023**	**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	4,664	123,830	3,086	31,211	3,729	**166,520**
Lease liabilities	–	6,182	10,527	7,175	4,449	**28,333**
£350 million secured senior note (6%)	–	21,000	21,000	371,000	–	**413,000**
€640 million secured senior note (4.625% plus 3-month Euribor)	–	45,691	37,981	629,394	–	**713,066**
€400 million secured senior note (4.5%)	–	15,605	15,605	362,375	–	**393,585**
Revolving credit facility[1]	1,113	11,114	10,012	162,419	–	**184,658**
Asset-backed securitisation	–	–	–	–	–	–
Other borrowings						
Bank overdrafts	6,214	–	–	–	–	**6,214**
Total financial liabilities	**11,991**	**223,422**	**98,211**	**1,563,574**	**8,178**	**1,905,376**
Financial asset by type:						
Cash and cash equivalents	114,683	–	–	–	–	**114,683**
Portfolio investments	11,163	278,251	203,664	433,688	116,346	**1,043,112**
Total financial assets	**125,846**	**278,251**	**203,664**	**433,688**	**116,346**	**1,157,795**

[1] *Reflects all drawings at 31 December 2023 being held to the facility maturity date of April 2026.*

Notes to the Financial Statements *(continued)*

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

Group As at 31 December 2022	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	10,006	121,630	8,202	31,361	3,401	**174,600**
Lease liabilities	–	7,312	18,838	4,955	5,149	**36,254**
£350 million secured senior note (6%)	–	21,000	21,000	392,000	–	**434,000**
€640 million secured senior note (4.625% plus 3-month Euribor)	–	43,040	46,523	698,652	–	**788,215**
€400 million secured senior note (4.5%)	–	15,936	15,936	386,012	–	**417,884**
Revolving credit facility[1]	974	11,563	12,860	187,946	–	**213,343**
Asset-backed securitisation	2,099	6,274	–	–	–	**8,373**
Other borrowings	–	–	1,903	23	–	**1,926**
Bank overdrafts	8,423	–	–	–	–	**8,423**
Total financial liabilities	**21,502**	**226,755**	**125,262**	**1,700,949**	**8,550**	**2,083,018**
Financial asset by type:						
Cash and cash equivalents	143,603	–	–	–	–	**143,603**
Portfolio investments	16,895	280,646	411,070	566,225	180,310	**1,455,146**
Total financial assets	**160,498**	**280,646**	**411,070**	**566,225**	**180,310**	**1,598,749**

[1] Reflects all drawings at 31 December 2022 being held to the facility maturity date of April 2026.

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.

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 2023	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	3,228	529	480	1,699	1,601	7,537
Total financial liabilities	**3,228**	**529**	**480**	**1,699**	**1,601**	**7,537**

Company As at 31 December 2022	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	651	–	–	–	–	651
Total financial liabilities	**651**	**–**	**–**	**–**	**–**	**651**

Notes to the Financial Statements *(continued)*

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

The following analysis shows the gross non-discounted contractual cash flows in respect of foreign currency contract derivative assets and liabilities, and interest rate swap derivative assets and liabilities, which are all designated as cash flow hedges:

	2023		2022	
	Outflow £000	**Inflow £000**	**Outflow £000**	**Inflow £000**
Not later than one month	42	–	–	–
Later than one month and not later than six months	–	1,386	1,595	–
Later than six months and not later than one year	36	–	–	785
Later than one year and not later than two years	1,832	–	–	1,291
Later than two years and not later than five years	1,098	–	365	–
Total	**3,008**	**1,386**	**1,960**	**2,076**

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 2023 is £(1,622,000) (2022: £116,000).

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.

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:

	2023 £000	**2022 £000**
Fixed-rate instruments		
Financial liabilities	696,771	704,139
	696,771	**704,139**
Variable-rate instruments		
Financial assets	(114,683)	(143,603)
Financial liabilities	720,816	755,555
Effect of interest rate swaps	(346,771)	(354,139)
	259,362	**257,813**

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

	2023 £000	**2022 £000**
Reduction in profit before taxation	(1,297)	(1,254)

Notes to the Financial Statements *(continued)*

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

Exposure to interest rate risk *(continued)*

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 and net investment hedges. 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, or designating net investment hedges, where possible.

Income statement exposure

As with net assets, a proportion of the Group's profit is denominated in Euro but translated into Sterling for reporting purposes. The result for the period is translated into Sterling at the average exchange rate. A risk therefore arises that a fluctuation in the exchange rate relative to the Euro will have an impact on the consolidated result for the period.

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/(decrease) as follows:

	2023	**2022**
Equity and net assets	**£000**	**£000**
Currency		
Euro (EUR)	(93,512)	(62,199)
	(93,512)	**(62,199)**
Net profit		
Currency		
Euro (EUR)	(2,926)	(4,141)
	(2,926)	**(4,141)**

Notes to the Financial Statements *(continued)*

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

Foreign currency sensitivity analysis *(continued)*

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/(decrease) as follows:

	2023	2022
Equity and net assets	**£000**	**£000**
Currency		
Euro (EUR)	76,510	51,311
	76,510	**51,311**
Net Profit		
Currency		
Euro (EUR)	2,394	2,295
	2,394	**2,295**

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.

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 2023 was:

	2023	2022
	£000	**£000**
Ordinary share capital and premium	586,422	577,672
Other reserves	(281,868)	(153,043)
Total equity and reserves	**304,554**	**424,629**

Notes to the Financial Statements *(continued)*

24. 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 2023	**Mandatorily at FVTPL**	**Amortised cost**	**Total carrying amount**	**Total fair value**
	£000	**£000**	**£000**	**£000**
Portfolio investments	380,977	323,827	704,804	705,328
Cash and cash equivalents	–	114,683	114,683	114,683
Derivative asset	558	–	558	558
Other receivables classified as financial assets	–	79,891	79,891	79,891
Total financial assets	**381,535**	**518,401**	**899,936**	**900,460**

As at 31 December 2022	**Mandatorily at FVTPL**	**Amortised cost**	**Total carrying amount**	**Total fair value**
	£000	**£000**	**£000**	**£000**
Portfolio investments	331,199	641,194	972,393	967,119
Cash and cash equivalents	–	143,603	143,603	143,603
Derivative asset	808	–	808	808
Other receivables classified as financial assets	–	75,926	75,926	75,926
Total financial assets	**332,007**	**860,723**	**1,192,730**	**1,187,456**

As at 31 December 2023	**Mandatorily at FVTPL**	**Amortised cost**	**Total carrying amount**	**Total fair value**
	£000	**£000**	**£000**	**£000**
Senior secured notes	–	1,246,132	1,246,132	1,182,154
Revolving credit facility	–	157,592	157,592	157,592
Bank overdrafts	–	6,214	6,214	6,214
Other borrowings	–	24,482	24,482	24,482
Derivative liability	2,381	–	2,381	2,381
Trade and other payables classified as financial liabilities	–	106,695	106,695	106,695
Total financial liabilities	**2,381**	**1,541,115**	**1,543,496**	**1,479,518**

Notes to the Financial Statements *(continued)*

24. Financial assets and liabilities *(continued)*

As at 31 December 2022	Mandatorily at FVTPL	Amortised cost	Total carrying amount	Total fair value
	£000	£000	£000	£000
Senior secured notes	–	1,258,358	1,258,358	1,077,795
Revolving credit facility	–	169,104	169,104	169,104
Asset-backed loans	–	8,246	8,246	8,246
Bank overdrafts	–	8,423	8,423	8,423
Other borrowings	–	13,590	13,590	13,590
Derivative liability	30,335	–	30,335	30,335
Trade and other payables classified as financial liabilities	3,197	123,401	126,598	126,598
Total financial liabilities	**33,532**	**1,581,122**	**1,614,654**	**1,434,091**

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.

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 £(8,991,000)/£9,298,000 (2022: £(14,011,000)/£14,494,000).

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.

Notes to the Financial Statements *(continued)*

24. Financial assets and liabilities *(continued)*

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.

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.

	2023	2022
Level 2	**£000**	**£000**
Liabilities:		
Derivative liabilities	(2,381)	–

	2023	2022
Level 3	**£000**	**£000**
Assets:		
Portfolio investments	380,977	331,199
Liabilities:		
Contingent consideration	–	(3,197)
Derivative liabilities	–	(30,335)
	380,977	**297,667**

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 2023.

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 £605,867,000 (2022: £524,464,000), with an average discount rate of 29.4% (2022: 24.4%). An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at FVTPL of £3,810,000/£(3,810,000) (2022: £3,312,000/£(3,312,000)). An increase/decrease in the discount rate of 2% would lead to a decrease/increase in the carrying value of portfolio investments held at FVTPL of £(9,845,000)/£10,507,000 (2022: (£9,488,000)/£10,064,000.

The total ERC value for the Group's portfolio investments held at amortised cost is £411,862,000 (2022: 898,975,000), with an average discount rate of 23.3% (2022: 22.1%). 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 £3,238,000/£(3,238,000) (2022: £6,412,000/£(6,412,000)). 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 £(3,990,000)/£4,131,000 (2022: £(9,198,000)/£9,537,000). A full reconciliation between the opening and closing portfolio investments held at FVTPL has been provided in note 22. For a fuller description of how the future cash flows are estimated, please refer to note 4.

Notes to the Financial Statements *(continued)*

24. Financial assets and liabilities *(continued)*

Reconciliation of level 3 fair values – contingent consideration

Contingent consideration – level 3	**2023 £000**	**2022 £000**
As at the beginning of the year	3,197	495
Acquired on acquisition of subsidiary	-	2,248
Exchange rate differences	(72)	130
Fair value adjustments	4,365	(500)
Unwind of discounting	1,362	824
Payments	(8,852)	-
As at the year end	-	**3,197**

Deferred contingent consideration arose on the acquisition of Details during 2022. The deferred contingent consideration was settled in the year as required upon exercise of the option to acquire the remaining 25%.

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 2023 is £33,377,000 (2022: nil). The fair value as at 31 December 2023 £16,000 (2022: nil).

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	**2023 £000**	**2022 £000**
Assets:		
Portfolio investments – amortised cost	**323,827**	**641,194**

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 full 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 22.

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)*

25. 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.

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

Geography of operations

As at 31 December 2023	**UK and Ireland**	**Portugal**	**Italy**	**Netherlands**
Underlying asset type				
Loan receivables	9	10	4	5
Number of entities	**9**	**10**	**4**	**5**

As at 31 December 2023	**UK and Ireland**	**Portugal**	**Italy**	**Netherlands**
Portfolio investments	**£000**	**£000**	**£000**	**£000**
FVTPL	118,038	101,316	80,581	70,887
Amortised cost	–	–	–	–
Total assets	**118,038**	**101,316**	**80,581**	**70,887**
Total liabilities	**–**	**–**	**–**	**–**

As at 31 December 2022	**UK and Ireland**	**Portugal**	**Italy**	**Netherlands**
Underlying asset type				
Loan receivables	8	9	4	5
Number of entities	**8**	**9**	**4**	**5**

As at 31 December 2022	**UK and Ireland**	**Portugal**	**Italy**	**Netherlands**
Portfolio investments	**£000**	**£000**	**£000**	**£000**
FVTPL	74,531	53,117	87,922	97,651
Amortised cost	–	–	–	–
Total assets	**74,531**	**53,117**	**87,922**	**97,651**
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)*

26. Share-based payments

Management incentive plan

In 2022, the Group established a management incentive plan that entitles key management personnel and senior employees to purchase shares in Sherwood Topco Limited, the top consolidating Group in the structure. In accordance with this plan, holders were entitled to purchase shares at the fair value market price of the shares at grant date. In 2023 as part of the MIP further purchases of M3 shares have been made by participants.

In considering the MIP plan in line with IFRS 2, the M3 shares issued were considered to contain performance conditions that should be accounted for under IFRS 2. The M3 shares are subject to vesting and leaver provisions over the period to TDR exit or partial exit.

The M3 shares were issued at £1 with 1,463,386 issued during the year (2022: £1 per share, with 4,778,324 issued during the year).

No charge for the M3 shares has been charged through the consolidated statement of profit or loss during the year as the fair value of these shares is equal to the price paid by management. The fair value of the shares issued has been estimated at grant using the Black-Scholes option pricing model.

27. Borrowings

	2023	2022
	£000	£000
Senior secured notes net of transaction fees of £16,297,000 (2022: £21,745,000)	1,246,132	1,258,358
Revolving credit facility net of transaction fees of £2,176,000 (2022: £3,109,000)	157,592	169,104
Asset-backed loans net of transaction fees of £nil (2022: £73,000)	–	8,246
Bank overdrafts	6,214	8,423
Other borrowings	24,482	13,590
Total borrowings	**1,434,420**	**1,457,721**

Total borrowings		
Amount due for settlement within 12 months	178,580	186,771
Amount due for settlement after 12 months	1,255,840	1,270,950
	1,434,420	**1,457,721**

As at 31 December 2023, £7.0 million of the portfolio investments (2022: £104.9 million), set out in note 22, are pledged as collateral for borrowings.

Senior secured notes

On 27 October 2021, the Group successfully priced €400 million 4.5% Euro fixed rated bonds due November 2026, €640 million 4.625% over three months EURIBOR floating rate notes due November 2027, and £350 million 6% fixed rate bonds due November 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 and subject to market conditions, the Group may initiate a repurchase.

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 and the bonds issued during 2021. 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.

Notes to the Financial Statements *(continued)*

27. Borrowings *(continued)*

The group entered into two ancillary facilities utilising the existing commitment under the revolving credit facility during 2023. The ancillary facilities, being a bank guarantee for £1.5 million and an overdraft facility of £10 million, have reduced the revolving credit facility commitment by a total of £11.5 million. Unutilised overdraft facility is included within headroom under the revolving credit facility for the purpose of calculating liquidity headroom.

Asset-backed securitisation

The Group has repaid in full the non-recourse committed asset-backed securitisation term loan (31 December 2022 balance; £8.3 million).

The loan was secured on UK unsecured assets, paid SONIA plus 3.1% and has a spread adjustment cost of 0.0325%. The Group initially established a £100 million asset-backed facility 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.

Other borrowings

The Group holds a number of portfolio investments in special purpose entities. Other borrowings primarily consist of debt financing in these entities, or liabilities to other investors where the Group fully consolidates the special purpose entity due to having control. The increase in the year is due to increasing capital expenditure on certain portfolios being funded by debt finance.

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Notes to the Financial Statements *(continued)*

27. Borrowings *(continued)*

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 31 December 2022	**1,258,358**	**8,246**	**169,104**	**25,228**	**26,630**	**52,348**	**1,539,914**
Acquired on acquisition of subsidiary	–	–	–	–	–	**325**	**325**
Movement in other banking facilities	–	–	(12,017)	–	–	(3,388)	(15,405)
Net proceeds from revolving credit facility	–	–	–	–	–	11,883	11,883
Repayment of asset-backed loans	–	(8,297)	–	–	–	–	(8,297)
Repayment of interest on issued notes	(79,165)	–	–	–	–	–	(79,165)
Payments on lease liabilities	–	–	–	(5,642)	–	–	(5,642)
Banking facility interest and other fees paid	–	–	(12,339)	–	–	(534)	(12,873)
Payment of deferred interest	–	–	–	–	–	–	–
Total changes from financing cash flows	**(79,165)**	**(8,297)**	**(24,356)**	**(5,642)**	**–**	**7,961**	**(109,499)**
Liability-related							
Interest expense on issued notes	80,585	75	–	–	–	–	80,660
Amortisation of capitalised transaction fees	5,098	112	933	–	–	–	6,143
Banking facility interest and other fees	–	–	13,038	–	–	(776)	12,262
Interest rate swap and hedge costs	–	–	–	–	–	(254)	(254)
Other interest including on finance leases	–	–	–	1,805	133	2,075	4,013
Refinancing	–	–	–	–	–	111	111
Total interest and similar charges	**85,683**	**187**	**13,971**	**1,805**	**133**	**1,156**	**102,935**
The effect of changes in foreign exchange rates	(18,904)	–	(428)	(342)	–	(205)	(19,879)
Capitalised transaction fees	149	–	–	–	–	2,261	2,410
Net deferred consideration commitments	–	–	–	–	(26,026)	–	(26,026)
Other changes	11	(136)	(699)	5,265	–	(30,769)	(26,328)
Total liability-related changes	**(18,744)**	**(136)**	**(1,127)**	**4,923**	**(26,026)**	**(28,713)**	**(69,823)**
Balance at 31 December 2023	**1,246,132**	**–**	**157,592**	**26,314**	**737**	**33,077**	**1,463,852**

Other borrowings

	2023	2022
	£000	£000
Other borrowings	24,482	13,590
Bank overdrafts	6,214	8,423
Derivative liability	2,381	30,335
	33,077	**52,348**

Notes to the Financial Statements *(continued)*

28. Acquisition of subsidiary undertaking

Current year acquisitions

a. Maslow

On 22 August 2023, the Group acquired the remaining 51% of the share capital of Maslow Capital Global Limited. Maslow is a leading provider of real estate finance. The total consideration for the acquisition is £61,000,000, consisting of £40,000,000 cash and £8,750,000 of equity instruments for the remaining 51%, additional to the fair value of the previously held 49% of £30,500,000 and the fair value of share option derivative liability of £18,250,000 held immediately prior to the acquisition.

The equity instrument fair value was determined in relation to an internal assessment of the Group's equity value based on earnings multiples.

In the period from acquisition to 31 December 2023, Maslow contributed income of £1,226,000 and loss after tax contribution of £60,000 to the consolidated results for the year. If the acquisition had occurred on 1 January 2023, Group total income would have been higher by an estimated £6,860,000 and loss after tax would have increased by an estimated £183,000.

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:

	Book value 22 August 2023	Fair value adjustments 22 August 2023	Fair value 22 August 2023
	£000	£000	£000
Intangible assets	–	22,832	22,832
Cash and cash equivalents	1,840	–	1,840
Trade and other receivables	938	–	938
Portfolio investments	1,013	–	1,013
Property, plant and equipment	30	–	30
Other liabilities	(2,970)	–	(2,970)
Bank overdrafts	(216)	–	(216)
Trade and other payables	(1,097)	–	(1,097)
Current tax liability	(19)	–	(19)
Total identifiable net assets	**(481)**	**22,832**	**22,351**
Goodwill on acquisition			38,649
			61,000
Non-controlling interest			–
			61,000
Consideration:			
Cash consideration			40,000
Equity instruments			8,750
Fair value of previously held 49% of share capital in Maslow Capital Global Limited			30,500
Fair value of share option derivative			(18,250)
			61,000

Notes to the Financial Statements *(continued)*

28. Acquisition of subsidiary undertaking *(continued)*

Cash impact of acquisition in the year:	**£000**
Cash consideration	40,000
Cash and cash equivalents acquired	(1,840)
	38,160

Measurement of fair values

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

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

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	61,000
Fair value of identifiable net assets	(22,351)
	38,649

Management have assessed goodwill to be related primarily to expected revenue synergies in the combined lending product offering, as well as the assembled workforce to a lesser degree.

Acquisition related costs

The Group incurred acquisition-related costs of £525,000 on advisory fees and execution costs. These costs have been included in other operating expenses.

Current year acquisitions

b. Eagle Street

On 29 March 2023, the Group acquired 100% of the share capital of Eagle Street Partners Limited, a real estate asset manager and developer focused primarily on the UK and Ireland. The total consideration for the acquisition is cash of £8,000,000.

In the period from acquisition to 31 December 2023, Eagle Street contributed income of £3,607,000 and loss after tax contribution of £281,000 to the consolidated results for the year. If the acquisition had occurred on 1 January 2023, Group total income would have been higher by an estimated £795,000 and loss after tax would have decreased by an estimated £167,000.

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:

Notes to the Financial Statements *(continued)*

28. Acquisition of subsidiary undertaking *(continued)*

	Book value 29 March 2023	Fair value adjustments 29 March 2023	Fair value 29 March 2023
	£000	**£000**	**£000**
Cash and cash equivalents	227	–	227
Trade and other receivables	999	–	999
Property, plant and equipment	193	–	193
Intangible assets	90	–	90
Deferred tax assets	408	–	408
Bank overdrafts	(109)	–	(109)
Trade and other payables	(1,018)	–	(1,018)
Current tax liability	(13)	–	(13)
Total identifiable net assets	**777**	–	**777**
Goodwill on acquisition			7,223
			8,000
Non-controlling interest			–
			8,000
Consideration:			
Cash consideration			8,000
			8,000

Cash impact of acquisition in the year:	**£000**
Cash consideration	8,000
Cash and cash equivalents acquired	(227)
	7,773

Measurement of fair values

The assets and liabilities acquired primarily related to short term working capital positions. No further assets and liabilities were identified. Therefore, no fair value adjustments have been applied.

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	8,000
Fair value of identifiable net assets	(777)
	7,223

Notes to the Financial Statements *(continued)*

28. Acquisition of subsidiary undertaking *(continued)*

Prior year acquisition

a. Details

On 3 August 2022, the Group acquired 75% of the share capital of the operating company Details – Hotels & Resorts, SA and 100% of the share capital of Caprice Prestige, SA, together "Details". Details is a Portuguese hotel and asset manager, expanding the Group's Portuguese real estate platform capabilities. The total consideration for the acquisition is €16,441,000 (£13,760,000), consisting of €13,755,000 (£11,512,000) cash and €2,686,000 (£2,248,000) deferred contingent consideration. As part of the purchase, the Group has acquired an option to purchase the remaining 25% of the operating company.

In the period from acquisition to 31 December 2022, Details contributed income of £7,212,000 and profit after tax contribution of £1,561,000 to the consolidated results for the year. If the acquisition had occurred on 1 January 2022, Group total income would have been higher by an estimated £5,880,000 and loss after tax would have increased by an estimated £1,954,000.

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:

		Book value 3 August 2022	**Fair value adjustments 3 August 2022**	**Fair value 3 August 2022**
		£000	**£000**	**£000**
Cash and cash equivalents		4,780	–	4,780
Trade and other receivables		1,722	–	1,722
Portfolio investments		7,126	2,081	9,207
Property, plant and equipment		7,312	–	7,312
Deferred tax asset	10	441	–	441
Bank overdrafts		(2,866)	–	(2,866)
Trade and other payables		(9,616)	–	(9,616)
Current tax liability		(70)	–	(70)
Deferred tax liability	10	(1,099)	–	(1,099)
Total identifiable net assets		**7,730**	**2,081**	**9,811**
Goodwill on acquisition				5,467
				15,278
Non-controlling interest				**(1,518)**
				13,760
Consideration:				
Cash consideration				11,512
Deferred contingent consideration				2,248
				13,760

Notes to the Financial Statements *(continued)*

28. Acquisition of subsidiary undertaking *(continued)*

Cash impact of acquisition in the year:	**£000**
Cash consideration	11,512
Purchase of portfolio investment	(9,207)
	2,305
Cash and cash equivalents acquired	(4,780)
	(2,475)

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.

Lease assets and liabilities have been remeasured at the acquisition date under IFRS 16.

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	13,760
Non-controlling interest	1,518
Fair value of identifiable net assets	(9,811)
	5,467

Acquisition related costs

The Group incurred acquisition-related costs of €364,000 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)*

29. Disposal of held for sale assets and liabilities

In May 2023, the Group sold its UK unsecured servicing platform to Intrum UK. The divestment, which includes the Capquest and Mars UK platforms as well as the majority of the wholly owned unsecured UK portfolios, aligns with the group's strategic trajectory towards becoming the leading European vertically integrated asset manager.

The platform was not previously classified as a discontinued operation due to it not being a constituent part of the Integrated Fund Management CGU, but the assets and liabilities were classified as held-for-sale alongside the portfolio assets sold, both immediately prior to sale and as at 31 December 2022.

Effect of disposal on the financial position of the Group

Cash and cash equivalents		1,122
Portfolio investments – amortised cost	**22**	225,754
Intangible assets	**12**	12,598
Property, plant and equipment	**13**	5,797
Deferred tax asset	**10**	1,143
Trade and other receivables	**14**	14,310
Assets held for sale pre impairment on reclassification and cost to sell		260,724
Trade and other payables	**15**	(34,047)
Deferred tax liability	**10**	(1,482)
Current tax liability		-
Liabilities held for sale pre impairment on reclassification and cost to sell		**(35,529)**
Net assets and liabilities		**225,195**

As at 31 May 2023	**Book value**	**Purchase price**	**Gain/ (loss)**
	£000	**£000**	**£000**
Portfolio asset purchase agreements	200,480	183,023	(17,457)
Capquest and Mars UK platform share purchase agreements	19,246	38,773	19,527
Selling costs	–	(6,000)	(6,000)
Arrow Global acquisition fair value adjustments	5,469	–	(5,469)
Total	**225,195**	**215,796**	**(9,399)**
Remeasurement of held for sale assets and liabilities as at 31 December 2022			21,342
Gain on disposal of held for sale assets and liabilities			**11,943**

Cash impact of acquisition in the year:	**£000**
Cash consideration for platform subsidiaries	38,773
Cash and cash equivalents disposed of	(1,122)
Disposal of subsidiary, net of cash	**37,651**
Proceeds of asset sale	183,023
Purchase of joint venture investment	(91,511)
Net balance sheet cash collection	**91,512**

Notes to the Financial Statements *(continued)*

30. Disposal group held for sale

Prior year disposal group held for sale

a. Capquest and Mars UK

Following a strategic review, in Q3 2022, Arrow agreed to divest our non-core UK platforms, Capquest and Mars UK, to Intrum UK, subject to customary closing conditions including regulatory approval. The high levels of competition and overcapacity in the UK unsecured debt management sector had driven lower risk-adjusted returns.

In line with applicable accounting standards, the assets and liabilities subject to the agreement, including 100% of the UK unsecured assets, were reclassified to 'assets held for sale' and 'liabilities held for sale' and remeasured at their expected proceeds less costs to sell.

Impairment losses relating to the disposal group in the prior year

As a result of the remeasurement of the assets and liabilities to their expected proceeds less costs to sell, an impairment of £21.3 million was recognised in other operating expenses and adjusting items when considering the underlying position in the prior year. Of the £21.3 million impairment, £8.5 million represented the difference between the carrying value of the portfolios as at December versus proceeds post lock-box date, together with proceeds for the platforms less the short-term working capital requirements, £6.0 million represented transaction and separation costs and £6.8 million had arisen due to write-off of intangible and sundry assets in connections with the platforms.

Assets and liabilities of disposal group held for sale in the prior year

There are no assets or liabilities held for sale as at 31 December 2023.

The below table details the assets and liabilities in the disposal group classified as held for sale as at 31 December 2022. Remeasurement under IFRS 5 was applied to non-current assets within the scope of IFRS 5.

31 December 2022	**Note**	**Held for sale £000**
Portfolio investments – amortised cost	**22**	249,012
Intangible assets	**12**	13,194
Property, plant and equipment	**13**	6,346
Deferred tax asset	**10**	1,022
Trade and other receivables	**14**	16,755
Assets held for sale pre impairment on reclassification and cost to sell		286,329
Impairment on reclassification and costs to sell		(15,343)
Assets held for sale post impairment on reclassification and cost to sell		**270,986**
Trade and other payables	**15**	(32,199)
Deferred tax liability	**10**	(1,397)
Current tax liability		149
Liabilities held for sale pre impairment on reclassification and cost to sell		**(33,447)**
Impairment on reclassification and costs to sell		(3,480)
Liabilities held for sale post impairment on reclassification and cost to sell		**(36,927)**
Net assets		**234,059**

The disposal transaction consisted of multiple contingent agreements with Intrum UK and its associated vehicles.

The portfolios were subject to two Asset Purchase Agreements (APAs) with the acquiring 50:50 profit share vehicle. The acquiring vehicle was nominally split into two sub-vehicles, one which was notionally for the Group's ongoing interest and another which was notionally for Intrum's ongoing interest. Under the APAs each sub-vehicle agreed to purchase 50% of the portfolios for £121,250,000, adjusted for net collections since 1 April 2022, under a lock box mechanism.

Notes to the Financial Statements *(continued)*

30. Disposal group held for sale *(continued)*

The Group retained a 50% interest in the portfolios via profit participating notes (PPNs). The arrangement, including both the Arrow and Intrum sub-vehicles, was subject to a combined governance committee, separate from either investor. The Group had 50% representation on this committee, but it did not have unilateral control over its nominal share or the arrangement as a whole. Therefore, derecognition for 100% of the portfolios subject to sale was expected on completion and 100% of the portfolios were reclassified as held for sale. On completion, the Group recognised the PPNs as an investment in a joint venture on account of the joint governance.

The Capquest and Mars UK platforms were subject to a share purchase agreement with a purchase price of £36,500,000, adjusted for movements in the operational net assets from 1 April 2022, under a completion accounts mechanism.

Both the UK unsecured portfolios and the net assets of the Capquest and Mars UK platforms were considered one disposal group as the individual sale agreements were with the same ultimate counterparty and associates and were contingent on each other. The loss on reclassification was determined as follows across the constituent agreements, based on 100% of the portfolios being reclassified as held for sale. Management assessed the credentials of the transaction on the combined disposal group.

As at 31 December 2022	Book value	Purchase price	Gain/ (loss)
	£000	£000	£000
Portfolio asset purchase agreements	231,889	198,484	(33,405)
Capquest and Mars UK platform share purchase agreements	15,492	40,372	24,880
Selling costs	6,000	–	(6,000)
Arrow Global acquisition fair value adjustments	6,817	–	(6,817)
Total	**260,198**	**238,856**	**(21,342)**

Cumulative income or expenses included in OCI

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

Notes to the Financial Statements *(continued)*

31. Notes to the statement of cash flows

	Group 2023 £000	Company 2023 £000	Group 2022 £000	Company 2022 £000
Loss after tax	(125,273)	(534)	(85,107)	(90)
Adjusted for:				
Proceeds from sale of UK non-core portfolios	183,023	–	–	–
Balance sheet cash collections in the period	283,863	–	380,123	–
Income from portfolio investments	(57,865)	–	(99,884)	–
Fair value gains on portfolios	(32,433)	–	(21,351)	–
Net impairment (gains)/losses	16,883	–	(9,130)	–
Depreciation and amortisation	25,082	–	23,130	–
Gain on sale of subsidiary	–	–	(2,121)	–
Gain on write-off and disposal of property, plant and equipment	–	–	(181)	–
(Gain)/loss on write-off and disposal of intangible assets	75	–	(50)	–
Write-down of investment in associate	36,457	–	–	–
Share of profit in associate	(3,089)	–	(1,684)	–
Share of profit in portfolio joint venture	(7,266)		–	–
Deferred remuneration unwind	10,424	–	–	–
Net interest payable excluding lease liability interest	101,131	–	82,027	–
Lease liability interest	1,805	–	1,122	–
Loss on reclassification to held for sale	(11,944)	–	21,342	–
Derivative fair value movements	(12,018)	–	4,834	–
Foreign exchange losses/(gains)	(4,016)	–	10,794	–
Tax (credit)/charge	(75)	–	1,417	–
Operating cash flows before movement in working capital	**404,764**	**(534)**	**305,281**	**(90)**
Increase in other receivables	(20,732)	(141)	(27,721)	–
Increase in amounts due to/from subsidiary undertakings	–	1,276	–	(511)
Increase in amounts due to parent companies	–	–	(1,254)	–
Decrease in trade and other payables	(11,705)	(601)	(34,314)	601
Cash generated by operations	**372,327**	**–**	**241,992**	**–**
Income taxes and overseas taxation received/(paid)	(11,306)	–	270	–
Net cash flow from operating activities before purchases of portfolio investments and investments awaiting deployment	**361,021**	**–**	**242,262**	**–**
Purchase of portfolio investments and investments awaiting deployment	(239,990)	–	(181,019)	–
Net cash generated by operating activities	**121,031**	**–**	**61,243**	**–**

Notes to the Financial Statements *(continued)*

32. Parent Undertaking

The immediate parent company is Sherwood Midco Limited. The ultimate controlling party is TDR Nominees Limited, which is incorporated in England and Wales. The smallest and largest group in which the results of the company are consolidated is that headed by Sherwood Topco Limited, incorporated in the UK, address 20 Bentinck Street, London, W1U 2EU.

ARROW GLOBAL

Additional information (Unaudited)

The Adjusted EBITDA reconciliation for the years ended 31 December 2023 and 31 December 2022 respectively are shown below:	31 December 2023	31 December 2022
Reconciliation of net cash flow to EBITDA	**£000**	**£000**
Net cash flow generated by operating activities	121,031	61,243
Portfolio purchases and investments awaiting deployment	239,990	181,019
Proceeds from sale of UK non-core portfolios	(91,511)	–
Income taxes (received)/paid	11,306	(270)
Working capital adjustments	32,437	63,289
Share of profit in associate	3,089	1,684
Operating cash adjusting items	15,528	8,420
Adjusted EBITDA	**331,870**	**315,385**
Reconciliation of balance sheet cash collections to EBITDA		
Income from portfolio investments including fair value and impairment losses and gains	80,681	130,365
Portfolio amortisation	294,695	249,758
Balance sheet cash collections (includes proceeds from disposal of portfolio investments)	**375,376**	**380,123**
Integrated fund and asset management income, gain on disposal of subsidiary and other income	194,805	165,407
Operating expenses	(324,949)	(293,163)
Depreciation and amortisation	25,082	23,130
Foreign exchange losses/(gains)	(4,016)	10,794
Net (profit)/loss on disposal and write off intangible assets and property, plant and equipment	75	(231)
Share of profit in associate	3,089	1,684
Profit on disposal of subsidiary	–	(2,121)
Loss on reclassification to held for sale	–	21,342
Operating adjusting items	62,408	8,420
Adjusted EBITDA	**331,870**	**315,385**
Reconciliation operating profit to EBITDA		
Loss after tax	(125,273)	(85,107)
Net finance costs	102,936	83,149
Share of profit in associate	(3,089)	(1,684)
Tax charge on ordinary activities	(75)	1,417
Derivative fair value movements	(12,018)	4,834
Operating (Loss)/profit	**(37,519)**	**2,609**
Portfolio amortisation	294,695	249,758
Depreciation and amortisation	25,082	23,130
Foreign exchange losses/(gains)	(4,016)	10,794
Net (profit)/loss on disposal of intangible assets and property, plant and equipment	75	(231)
Share of profit in associate	3,089	1,684
Profit on disposal of subsidiary	–	(2,121)
Profit on disposal of held for sale assets and liabilities	(11,944)	–
Loss on reclassification to held for sale	–	21,342
Operating adjusting items	62,408	8,420
Adjusted EBITDA	**331,870**	**315,385**

For details on adjusted items see pages 111 to 113.

Additional information (Unaudited)

Loss before adjusting items

	Unaudited year to 31 December 2023	Unaudited year to 31 December 2022
	£000	£000
Total income	**268,387**	**292,172**
Collection activity and fund management costs	(114,728)	(120,984)
Other operating expenses	(120,983)	(123,850)
Total operating expenses	**(235,711)**	**(244,834)**
Operating (Loss)/profit	**32,676**	**47,338**
Net finance costs	(102,825)	(82,432)
Share of profit in associate	3,089	1,684
Loss before tax and adjusting items	**(67,060)**	**(33,410)**
Taxation charge on underlying activities	(3,625)	(4,026)
Loss after tax before adjusting items	**(70,685)**	**(37,436)**
Non-controlling interest	(694)	351
Loss before adjusting items attributable to owners of the company	**(71,379)**	**(37,085)**
Tax rate on results before adjusting items	**(5.4%)**	**(12.1)%**

Additional information (Unaudited) *(continued)*

Loss before adjusting items *(continued)*

Reconciliation between IFRS profit and profit before adjusting items:

	Year ended 31 December 2023			Year ended 31 December 2022		
	loss before tax	tax	loss after tax	loss before tax	tax	loss after tax
	£000	£000	£000	£000	£000	£000
IFRS reported loss	**(125,348)**	**75**	**(125,273)**	**(83,690)**	**(1,417)**	**(85,107)**
Adjusting items:						
Maslow acquisition costs	26,438	–	26,438	–	–	–
Other acquisition costs (including amortisation of acquisition intangible assets)	29,018	–	29,018	17,397	–	17,397
Operations held for sale result	14,776	–	14,776	8,828	–	8,828
Loss on reclassification to held for sale	–	–	–	21,342	–	21,342
Profit on disposal of held for sale assets and Liabilities	(11,944)	–	(11,944)	–	–	–
Non-cash derivative fair value movements	–	–	–	4,834	–	4,834
Gain on disposal of subsidiary	–	–	–	(2,121)	–	(2,121)
Tax associated with adjusting items	–	(3,700)	(3,700)	–	(2,609)	(2,609)
Loss before adjusting items	**(67,060)**	**(3,625)**	**(70,685)**	**(33,410)**	**(4,026)**	**(37,436)**

Adjusting items are those items that by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered to be representative of the ongoing performance of the Group and these items are excluded to get to the loss before adjusted items.

The acquisition of Maslow occurred through an initial 49% acquisition and subsequently via the exercise of the option to acquire the remaining 51% and the acquisition has resulted in a reported loss of £26.4 million within adjusting items. The loss arises firstly due to the requirement under IFRS 3 and 9 to re-measure previously recognised assets and liabilities to fair value immediately prior to the full acquisition and secondly due to the potential contingent earn-out payments that do not qualify as business combination consideration under IFRS 3. The total consideration for Maslow was £64.5 million cash, £21 million equity issuance and £15 million deferred consideration, across both the initial 49% acquisition and option payment for the remaining 51%.

Other acquisition costs, primarily relate to impact of the acquisition of Arrow Group by TDR, but also includes the acquisitions of Details, with the initial 75% acquired in 2022 and the remaining 25% in 2023, Eagle Street and Blue Current Capital, both acquired in 2023. These acquisitions create ongoing non-cash acquisition intangible and fair value accounting unwinds, which in 2023 amounted to £29.0 million (2022: £17.4 million).

Additional information (Unaudited) *(continued)*

Loss before adjusting items *(continued)*

Following a strategic review, in Quarter 3 2022, the Group agreed to divest our non-core UK platforms, Capquest and Mars UK, to Intrum UK, and the UK unsecured back book, which is subject to a 50:50 profit share arrangement with Intrum UK, and this divestment completed in Quarter 2 2023, for net proceeds of £129 million. £91.5 million of the net proceeds were received in respect of 50% of the wholly owned UK portfolios, with £37.5 million being received for the platforms. In the year, this resulted in a £2.9 million loss in the statement of comprehensive income (being a £11.9 million profit on disposal of held for sale assets and liabilities offset by £14.8 million of operations held for sale result), which has been moved to adjusting items (2022: £30.1m).

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 was 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. £2.1 million of net profit has been recognised in adjusting items in the prior year in relation to this.

Additional information (Unaudited) *(continued)*

Reconciliation of profit after tax to the free cash flow result

The table below reconciles the reported profit after tax for the year to the free cash flow result.

Year ended 31 December 2023

Income	**Reported profit £000**	**Other items £000**	**Free cash flow £000**	
Total income from portfolio investments	80,681	294,695	375,376	Balance sheet cash collections in the year[5]
Income from integrated fund and asset management income	193,626	–	193,626	Income from integrated fund and asset management income
Profit on disposal of held for sale assets and liabilities	11,944	(11,944)	–	
Other income	1,179	–	1,179	Other income
Total income[1]	**287,430**	**282,751**	**570,181**	Cash income
Total operating expenses	(324,949)	86,638[2]	(238,311)	Cash operating expenses
Operating Loss	**(37,519)**	**369,389**	**331,870**[4]	Adjusted EBITDA[4]
Derivative fair value movements	12,018	(12,018)	–	
Net financing costs	(102,936)	5,256[3]	(97,680)	Cash financing costs
Share of profit in associate	3,089	(3,089)	–	
(Loss)/profit before tax	**(125,348)**	**359,538**	**234,190**	
Taxation credit on ordinary activities	75	(11,381)	(11,306)	Cash taxation
(Loss)/profit after tax	**(125,273)**	**348,157**	**222,884**	
			(23,184)	Capital expenditure
			199,700	**Free cash flow** [6]

[1] *Total income is largely derived from income from portfolio investments plus income from managing investment portfolios for our discretionary funds and other third parties, and income from asset management and servicing, being commission on balance sheet cash collections for third-parties and fee income received. The other items add back loan portfolio amortisation to get to balance sheet cash collections. Amortisation reflects a reduction in the statement of financial position carrying value of the portfolio investments arising from balance sheet cash collections, which are not allocated to income. Amortisation plus income from portfolio investments equates to balance sheet cash collections.*

[2] *Includes non-cash items including depreciation and amortisation, foreign exchange gains and losses and adjusting items.*

[3] *Non-cash amortisation of fees and interest and non-recurring refinancing costs.*

[4] *Adjusted EBITDA is a key driver to free cash flow. This measure allows us to monitor the operating performance of the Group. See additional information provided on page 110 for detailed reconciliations of Adjusted EBITDA.*

[5] *Includes £91,511,000 of net proceeds for the 50% portfolios in connection with the divestment of the wholly owned UK portfolios, which have not been repurchased.*

[6] *Free cash flow is the Adjusted EBITDA after the effect of capital expenditure and working capital movements.*

GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES

APM	Definition	Why is the measure used?
Adjusted EBITDA	The Adjusted EBITDA figure represents the Group's earnings before interest, tax, depreciation and amortisation (including investment portfolio amortisation), adjusted for any non-cash income or expense items and adjusting items.	Adjusted EBITDA is an approximate measure of the underlying cash EBITDA of the Group. In addition, the leverage ratio of the Group is calculated as the ratio of secured net debt to Adjusted EBITDA. This makes the Adjusted EBITDA figure a key component of this metric, which also features in the Group's banking covenant measures.
Free cash flow	The free cash flow represents current cash generation on a sustainable basis and is calculated as Adjusted EBITDA less cash interest, income taxes and overseas taxation paid, purchase of property, plant and equipment and purchase of intangible assets.	Free cash flow provides a measure of how much cash the Group generates across the reporting period which it can utilise on a discretionary basis.
Balance sheet cash collections	Balance sheet cash collections represent cash collections on the Group's portfolio investments including collections on the Group's co-investment into ACO 1, ACO 2 and AREO, portfolio sales and put-backs.	Balance sheet cash collections is a key metric as it represents the Group's most significant cash inflow. It is also a key component of Adjusted EBITDA which is used to calculate the Group's leverage position.
84-month ERC	The 84-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 84-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time.	The 84-month ERC is particularly important for the Group as it shows the forecast cash inflows over the same period that is used to calculate the future cash flows of the Group's amortised cost portfolio investments.
120-month ERC	The 120-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 120-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time.	The 120-month ERC is an important metric for the Group as this is the period used to value FVTPL portfolio investments, which is now the Group's most significant portfolio asset class. In some cases the collection profile of amortised cost portfolios can extend beyond 84-months, and as such, the 120-month ERC gives a more holistic view of potential remaining balance sheet cash collections from the Group's portfolio investments.
Leverage	Leverage is calculated as secured net debt over Adjusted EBITDA.	The leverage metric provides an indication of the level of indebtedness of the Group, relative to its underlying cash earnings.

GLOSSARY OF OTHER ITEMS

'ACO 1' is Arrow Credit Opportunities SCSp SICAV-RAIF and related investment vehicles, our first closed fund.

'ACO 2' is our second closed fund, Arrow Credit Opportunities II SCSp, SICAV-RAIF, and related investment vehicles.

'AREO' is our Real Estate Opportunity discretionary fund, Arrow Real Estate Opportunities I SCSp, SICAV-RAIF.

'Adjusted EBITDA' see the glossary of alternative performance measures on page 115 for the definition.

'APM' means alternative performance measure.

'Capital-light income' income and costs associated with managing Investment portfolios on behalf of the Group, our discretionary funds and other third parties, the income and costs associated with providing other servicing activities to third parties and income and costs associated with investment and asset management.

'CGU' means cash generating unit.

'**Deal IRR (after servicing costs)**' means the internal rate of return adjusted for actual collections and the latest ERCs. This is post-servicing fee, but pre-management fees, carry/performance fees and other fund level costs.

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

'ECL' means expected credit losses.

'EIR' means effective interest rate (which is based on the portfolio investment's gross internal rate of return) calculated using the portfolio investments purchase price and forecast gross ERC at the date of purchase.

'ERC' means Estimated Remaining Collections. See the glossary of alternative performance measures on page 115 for the definition of 84-month ERC and 120-month ERC.

'FCA' means the Financial Conduct Authority.

'Forward flow agreement' is a commitment to acquire further portfolio investments of a similar nature from the same counterparty in the future.

'FVOCI' means fair value through other comprehensive income.

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

'Free cashflow' or **'FCF'** means Adjusted EBITDA after the effects of capital expenditure, financing and tax cash impacts.

'Funds under management (FUM)' means the value of all fund management assets and commitments managed by Sherwood Parentco Limited, including ACO 1 and ACO 2 and AREO Norfin Investimentos, Europa Investimenti, Saggita, Maslow and any of Arrow's own capital which it has committed to invest alongside third-parties committed capital. FUM is an important metric used to understand the scale of the Group's fund management activities and how this compares to others in the market.

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

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

'Gross money multiple' means balance sheet cash collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, all divided by the purchase price for each portfolio, excluding REO purchases and purchase price adjustments relating to asset management fees.

GLOSSARY OF OTHER ITEMS *(continued)*

'HPI' means house price index.

'IAS' means international accounting standards.

'IFRS' means UK adopted international financial reporting standards.

'Leverage' is secured net debt to Adjusted EBITDA. See the glossary of alternative performance measures on page 115 for more detail.

'Liquidity headroom' is cash on balance sheet, excluding the reclassified cash as detailed in the unaudited consolidated statement of cash flows, together with headroom on committed facilities.

'NCI' means non-controlling interest.

'Net debt' means the sum of the outstanding principal amount of the senior secured notes and asset-backed loans, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of portfolio investment, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after removing the Group's assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt as at 31 December 2023 is as follows:

	31 December 2023 £000	**31 December 2022 £000**
Cash and cash equivalents	(114,683)	(143,603)
Senior secured notes (pre-transaction fees net off)	1,251,605	1,270,761
Revolving credit facility (pre-transaction fees net off)	159,768	172,213
Asset-backed loans (pre-transaction fees net off)	–	8,296
Secured net debt	**1,296,690**	**1,307,667**
Deferred consideration – portfolio investments	737	23,433[1]
Deferred and contingent consideration – business acquisitions	–	3,197
Senior secured loan notes interest	10,824	9,342
Asset backed loan interest	–	23
Bank overdrafts	6,214	8,423
Other borrowings	24,482	13,590
Net debt	**1,338,947**	**1,365,675**

[1] Deferred consideration as at 31 December 2022 includes £17,123,000 in respect of the Capquest and Mars UK platforms, which for disclosure purposes has been moved to 'Liabilities held for sale' on theconsolidated statement of financial position.

'NPL' means non-performing loan.

'NPV' means net present value.

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

'POCI' means purchased or originated credit impaired.

GLOSSARY OF OTHER ITEMS ***(continued)***

'Portfolio amortisation' represents total balance sheet cash collections plus income from portfolio investments.

'Portfolio investments' are on the Group's statement of financial position and represent all Investment portfolios that the Group owns at the relevant point in time. Example portfolios comprise of groups of customer accounts or real estate, purchased in a single transaction.

'REO' means a real estate owned assets.

'Secured net debt' see table in 'Net debt' definition.

'SPPI' means solely payments of principal and interest.

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