29 August 2024

Arrow Global Group

Interim results for the period ended 30 June 2024

Group highlights

Arrow is a leading integrated European fund manager with discretionary funds investing across credit, real estate and lending utilising our network of 22 local platforms. The business model provides significant opportunity for growth, delivering increasing capital light earnings and facilitating de-leveraging.

Established multi-strategy vertically integrated fund manager

- Closing in respect of our discretionary real estate lending franchise with commitments of €650m, including a commitment of $400m from Abu Dhabi Investment Authority (ADIA)
- Three investment strategies now fully established; credit, real estate equity and real estate lending, all utilising our local platforms and vertically integrated model
- Recent acquisitions of Amitra Capital, a Spanish master servicer with over €4.0 billion assets under management, and Interboden, a leading German real estate business, represents further expansion across Western Europe
- Funds under management (FUM) were €9.9 billion, up €2.1 billion on H1 2023 €7.8 bn
- Deployed €954 million year to date, with €504 million originated in H1 2024 (H1 2023: €758 million) and a strong pipeline of both credit and lending investments
- Continued to generate strong returns in both our Arrow Credit Opportunities (ACO) funds with Deal IRR (after servicing costs) of 16% and 20% in ACO 1 and ACO 2 respectively, consistent with December 2023
- Strong cash generation has enabled a €80 million distribution to ACO 1 investors during H1 2024 with total ACO 1 distributions to date of €176m

Efficient integrated fund manager delivering capital-light income growth

- Integrated Fund Management EBITDA increased 67.2% to £33.1 million for the period (H1 2023: £19.8 million), primarily reflecting the growth in fee paying Net Asset Value (NAV)
- Integrated fund and asset management income rose by 33.7% to £123.5 million (H1 2023: £92.4 million)
- The scaling of our deployment capabilities, driving the increase in fee paying NAV across our core discretionary strategies is expected to generate significantly higher capital light earning streams going forward
- Continued success of our asset management and third-party servicing business with 43 new servicing mandates including our first 3rd party mandate in Germany through our Interboden platform

Collections performance in line with expectations with continued commitment to medium-term leverage target

- Collections to the end of July were £228.0 million, with expected full year collections of circa £378.5 million (ERC for the remaining 5 months is £150.5 million)
- Collections were strong in July, driven by a number of significant planned realisations on secured portfolios and reduced leverage to 3.9 times at the end of July from 4.2 times at the end of March
- Net debt as at July 2024 was £1,291.5 million, a reduction of £47.4 million since the end of December 2023 (£1,338.9 million)
- Committed to our medium-term leverage target of 3 times leverage and expect to make continued progress with the strong collections performance and growth in capital light earnings
- Leverage temporarily spiked at the end of June to 5.5 times due to the accelerated collection from the divestment of the UK portfolios in Q2 2023 falling outside the 12 month measurement period
- Collections for H1 2024 were £128.2 million, representing 98% of ERC, and adjusted EBITDA for the period was £118.6 million
- Maintained healthy liquidity headroom of £180 million as at 30 June 2024 (31 December 2023: £227 million, 30 June 2023: £264 million) with no bond maturities until 2026

Zach Lewy, Group chief executive officer at Arrow, commented:

"In Q2 2024, our integrated asset management operations continued to demonstrate strong progress. Building on our suite of funds centred on opportunistic credit and real estate equity, we have also made significant progress in materially expanding our real estate lending business. This includes securing €650 million in commitments for our real estate lending franchise, driven by strong support from our global investor base across the Americas, Europe, and the Middle East. A key highlight of this success is the $400 million commitment from Abu Dhabi Investment Authority (ADIA).

Our funds under management (FUM) increased to €9.9 billion, up €2.1 billion from €7.8 billion in H1 2023, reflecting our robust growth trajectory. We also maintained strong investment volumes, deploying substantial capital in the first half of 2024, with strong cash realisations and consistent fund returns.

These achievements reflect the strength of our local platforms and the expertise of our colleagues, which have been pivotal in driving our success. The expansion into Spain and Germany expands our Western European footprint. As we look ahead, we are optimistic about the strong investment pipeline for the rest of the year, which will further support our growth. Moreover, we continue to see success in our asset management and third-party servicing business, with new servicing mandates."

Group financial highlights	**30 June 2024**	**30 June 2023**	**Change %**
Balance sheet collections (£m)[1]	128.2	230.9	(44.5)
Adjusted EBITDA (£m)[1]	118.6	211.4	(43.9)
Free cash flow (£m)[1]	51.8	151.5	(65.8)
Total income (£m)	181.6	146.3	24.1
Third-party integrated fund and asset management income (£m)	123.5	92.4	33.7
Loss before tax and adjusting items (£m)[2]	(5.1)	(24.3)	(79.0)
Loss before tax and after adjusting items (£m)	(26.9)	(36.8)	(26.9)

	30 June 2024	**31 December 2023**	**Change %**
Funds Under Management (FUM) (€bn)	9.9	9.3	6.5
84-month ERC (£m)[3]	1,148.5	1,213.7	(5.4)
120-month ERC (£m)[3]	1,232.9	1,309.9	(5.9)
Net debt (£m)	1,369.9	1,338.9	2.3

[1] H1 2023 includes the proceeds of £91.5m from the divestment of 50% of the wholly-owned UK portfolios.

[2] The results presented exclude adjusting items. For the reconciliation between these results and the condensed consolidated profit and loss, please see the reconciliation on pages 32.

[3] ERC for FVTPL and Joint venture assets is reported on a 'net of servicing and collection costs' basis, as opposed to amortised cost assets which are typically measured gross. As the percentage of FVTPL and Joint venture assets has grown from 14.6% to 60.5% since ACO 1 was launched in December 2019, a growing proportion of the Group's ERC is reported on net basis.

Overview of group results and segmental commentary

Arrow is a leading integrated European fund manager with discretionary funds investing across credit, real estate and lending utilising our network of 22 local platforms. The business model provides significant opportunity for growth, delivering increasing capital light earnings and facilitating de-leveraging.

Arrow has had strong fundraising progress for our discretionary real estate lending franchise with over €600m of capital committed, benefitting from support from our global investor base across the Americas, Europe, and the Middle East.

Funds under Management (FUM) were €9.9 billion as at 30 June 2024, representing growth of €2.1 billion from €7.8 billion as at 30 June 2023 and an increase of €0.6 billion from €9.3 billion as at 31 December 2023. The lending strategy complements our other core discretionary strategies across credit and real estate equity, with a commitment of US$400m from Abu Dhabi Investment Authority (ADIA). Fee paying Net Asset Value (NAV) increasing to €2.8 billion as at 30 June 2024 (31 December 2023: €2.3 billion).

In addition, the Group continues to expand the integrated fund manager proposition to capture opportunities in real estate and lending, including the recent acquisition of Amitra Capital, a Spanish master servicer with over €4.0 billion assets under management, and Interboden, a leading German real estate business. Both acquisitions required minimal capital investment. This represents further expansion across Europe into Spain and Germany increasing the integrated fund manager proposition to seven geographies in total.

Deployment was €504 million in H1 2024 (H1 2023: €758 million), with a strong pipeline going into Q3. An additional €450 million has been deployed since June taking year to date deployment to €954m. The Fund Manager has continued to focus on off-market acquisitions, with over 80% of ACO 2 investments being off-market, and 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. 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.

The underlying loss before tax for the Group reduced by £19.2 million to £5.1 million (H1 2023: £24.3 million), driven by an increase in Integrated Fund Management and Balance Sheet revenues. The Integrated Fund Management segment EBITDA increased by £13.3 million or 67% to £33.1 million (H1 2023: £19.8 million), the Balance Sheet segment EBITDA increased by £16.4 million to £33.0 million (H1 2023: £16.6 million) and the Group segment EBITDA reduced by £0.3 million to £(15.7) million (H1 2023: £(15.4) million). The results are explained further in the segmental commentary and analysis below.

Collections for H1 2024 were £128.2 million, representing 98% of ERC. There were also significant realisations on various secured realisations following the period end, such that collections to the end of July were £228.0 million, with expected full year collections of circa £378.5 million (ERC for the remaining 5 months of 2024 is £150.5 million). As a result of the strong July realisations, leverage reduced to 3.9 times at the end of July from 4.2 times at the end of March. There was a temporary spike in leverage at H1 2024 of 5.5 times owing to accelerated collections linked to the UK portfolios divestment no longer being in the LTM Adjusted EBITDA. Net debt as at July 2024 was £1,291.5 million, a reduction of £47.4m from the end of December 2023 (£1,338.9 million). Adjusted EBITDA for H1 2024 was £118.6 million. Free cash flow was £51.8 million (H1 2023: £151.5 million) and free cash flow after portfolio investments was (£4.2) million (H1 2023: 67.7 million).

Segmental commentary

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

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.

In line with expectations, Integrated Fund Management EBITDA increased by 67% to £33.1 million (H1 2023: £19.8 million) with the segmental revenue increasing by 41% to £140.3 million (H1 2023: £99.6 million). £21.3 million of the year-on-year revenue increase was driven by the platforms fully acquired around the end of, or after, H1 2023 including Maslow and Eagle Street. EBITDA margin increased by 3.7 percentage points from 19.9% for H1 2023 to 23.6% in H1 2024, reflecting the growth in the higher margin discretionary fund management and the operational leverage and efficiency achieved through scaling of our operations, through both fund raising and increasing third party servicing mandates.

The net asset value (NAV) across our core discretionary strategies, increased to €2.8 billion (December 2023: €2.3 billion) due to increasing deployment, which increased management fees and servicing revenues from the core discretionary strategies to £48.6 million (H1 2023: £33.9 million). Strong asset management and servicing from the local and ancillary platform strategies, including new platforms, increased revenues from these strategies to £91.7 million (H1 2023: £65.7million).

Arrow expanded its European footprint with the expansion into Spain and Germany to enable future growth of our integrated fund management proposition. Arrow acquired Amitra Capital Limited from CPP Investments. Founded in 2019 and based in London and Madrid, Amitra specialises in managing European non-performing loans and real estate investments. With assets under management (AUM) totalling over €4.0 billion, Amitra has established a strong presence in the NPL and real estate markets of Spain and Portugal.

In addition, Arrow acquired the operating platform and assets of Interboden GmbH & Co KG and certain subsidiaries, a leading real estate business in Germany. Founded in 1950, Interboden has established a strong legacy over 70 years, specialising in residential development, and manages projects with a gross development value in excess of €500 million. The acquisition includes all employees and related servicing contracts across offices in Dusseldorf, Berlin, and Leverkusen. Both acquisitions required minimal capital investment.

Balance Sheet

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

Whilst collections for H1 2024 were £128.2 million, representing 98% of ERC, collections were especially strong in July, driven by a number of significant planned realisations on secured portfolios that had delivered minimal collections in the prior 18 months. Collections to the end of July were £228.0 million, with expected full year collections of circa £378.5 million (ERC for the remaining 5 months is £150.5 million). Adjusted EBITDA for the H1 2024 was £118.6 million. Investment purchases were £56.0 million in H1 2024 (H1 2023: £83.9 million) reflecting the reduced investment activity within the segment outside of the discretionary fund strategies.

Segmental Balance Sheet EBITDA increased by £16.4 million from £16.6 million H1 2023 to £33.0 million in H1 2024. The increase is due to net income of £6.6 million reported in H1 2024 on the 50% joint venture interest in the UK portfolios (H1 2023: £0.9 million), and a non-cash write-down of £3.3 million for H1 2024 compared with £12.6 million in H1 2023, resulting in a positive year-on-year impairment variance of £9.3 million.

Group

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 H1 2024 was £(15.7) million, broadly consistent with prior year (H1 2023: £(15.4) million). Underlying net interest costs of £53.6 million were £3.0 million higher period-on-period (H1 2023: £50.6 million), driven by higher interest rates. The Group has substantially mitigated the exposure during 2024 to interest rate fluctuations with circa 80% of the bonds either fixed or hedged as at 30 June 2024.

Results Presentation – Conference call details

A presentation is available on the Company's website https://bit.ly/3Co0rvO from 07.00am (BST).

There will be a conference call for bondholders at 11.00am (BST) with Arrow Global's management team.

To join, register your details using the registration link below. Once registered, you'll receive a separate email containing your dial in number and PIN.

Registration	Register for the call **here**

For further information:

Debt investor contact	**treasury@arrowglobal.net**
Media contact	**njones@arrowglobal.net**

Notes:

A glossary of terms can be found at the end of the document.

Forward looking statements

This document contains statements that constitute forward-looking statements relating to the business, financial performance and results of the Group and the industry in which the Group operates. All statements other than statements of historical fact included in this document may be forward looking statements. These statements may be identified by words such as "expectation", "belief", "estimate", "plan", "target", or "forecast" and similar expressions or the negative thereof; or by the forward-looking nature of discussions of strategy, plans or intentions; or by their context. All statements regarding the future are subject to inherent risks and uncertainties and various factors could cause actual future results, performance or events to differ materially from those described or implied in these statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate and neither the Company, the Group nor any other person accepts any responsibility for the accuracy of the opinions expressed in this document or the underlying assumptions. The forward-looking statements in this document speak only as at the date of this presentation and the Company and the Group assume no obligation to update or provide any additional information in relation to such forward-looking statements, except as required pursuant to applicable law or regulation.

No statement in this report is intended as a profit forecast or estimate for any period. No statement in this report should be interpreted to indicate a particular level of profit and, as a consequence, it should not be possible to derive a profit figure for any future period from this report.

This report is intended solely to provide information to bondholders to assess the group's strategies and neither the company nor its directors accept liability to any other person, save as would arise under English law. The report should not be relied on by any other party or for any other purpose.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 June 2024

	Notes	Unaudited 6-months to 30 June 2024 £000	Unaudited 6-month to 30 June 2023 £000
Continuing operations			
Income from portfolio investments at amortised cost	11	23,311	28,246
Fair value gains/(losses) on portfolio investments at FVTPL	11	26,681	17,403
Impairment gains/(losses) on portfolio investments	11	(167)	(5,310)
Income from portfolio investments - real estate inventories	11	1,355	147
Share of profit in portfolio joint venture		6,565	909
Total income/(loss) from portfolio investments		**57,745**	**41,395**
Integrated fund and asset management income	6	123,546	92,388
Profit on disposal of held for sale assets and liabilities		–	11,944
Other income		267	594
Total income		**181,558**	**146,321**
Operating expenses:			
Fund management and collection activity costs	8	(60,248)	(68,936)
Other operating expenses	8	(94,516)	(65,888)
Total operating expenses		**(154,764)**	**(134,824)**
Operating profit		**26,794**	**11,497**
Finance income		180	395
Finance costs		(53,906)	(51,740)
Share of profit in associate		–	3,089
Loss before tax[1]		**(26,932)**	**(36,759)**
Taxation credit on ordinary activities	7	2,232	6,689
Loss after tax		**(24,700)**	**(30,070)**

[1] The loss before tax of £26,932,000 for the 6-month period to 30 June 2024 (H1 2023: £36,759,000), includes £21,873,000 of net adjusting costs (H1 2023: £12,441,000), with an underlying loss before tax of £5,059,000 (H1 2023: £24,318,000 underlying loss). For the reconciliation to the condensed consolidated profit and loss, please see the reconciliations on page 32.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

	Unaudited 6-months to 30 June 2024	Unaudited 6-month to 30 June 2023
Other comprehensive income:		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign exchange translation difference arising on revaluation of foreign operations	(306)	(2,221)
Movement on the hedging reserve	1,492	2,004
Total comprehensive loss for the period	**(23,514)**	**(30,287)**
Loss attributable to:		
Owners of the Company	(24,563)	(30,028)
Non-controlling interest	(137)	(42)
	(24,700)	**(30,070)**
Comprehensive loss attributable to:		
Owners of the Company	**(23,377)**	(30,245)
Non-controlling interest	**(137)**	(42)
	(23,514)	**(30,287)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2024

	Note	Unaudited 30 June 2024 £000	Audited 31 December 2023 £000
Assets			
Cash and cash equivalents		91,080	114,683
Derivative assets		495	558
Trade and other receivables	10	108,678	86,277
Portfolio investments – amortised cost	11	276,901	323,827
Portfolio investments – FVTPL	11	414,951	380,977
Portfolio investments – real estate inventories	11	49,121	54,588
Portfolio investments – joint venture	11	83,734	87,253
Property, plant and equipment		31,077	30,010
Intangible assets		110,050	118,632
Deferred tax asset		9,078	6,610
Current tax asset		354	1,759
Investment in Associate		–	321
Goodwill	9	746,866	745,109
Total assets		**1,922,385**	**1,950,604**
Liabilities			
Bank overdrafts	14	6,355	6,214
Revolving credit facility	14	185,290	157,592
Derivative liability		247	2,381
Trade and other payables	12	175,331	186,663
Other borrowings	14	25,127	24,482
Senior secured notes	14	1,228,179	1,246,132
Deferred tax liability		18,364	19,827
Total liabilities		**1,638,893**	**1,643,291**
Equity			
Share capital		166,813	166,813
Share premium		419,609	419,609
Retained deficit		(307,609)	(283,657)
Hedging reserve		245	(1,247)
Other reserves		2,730	3,036
Total equity attributable to shareholders		**281,788**	**304,554**
Non-controlling interest		1,704	2,759
Total equity		**283,492**	**307,313**
Total equity and liabilities		**1,922,385**	**1,950,604**

The interim results were approved on 29 August 2024 by the board of directors and are signed on its behalf by:

Philip Shepherd
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2024

	Ordinary shares £000	Share Premium £000	Retained earnings £000	Hedging reserve £000	Translation reserve £000	Total £000	Non-controlling interest £000	Total £000
Balance at 1 January 2023	166,813	410,859	(156,428)	556	2,829	424,629	2,819	427,448
Loss after tax	-	-	(30,028)	-	-	(30,028)	(42)	(30,070)
Exchange differences	-	-	-	-	(2,221)	(2,221)	-	(2,221)
Net fair value gains - cash flow hedges	-	-	-	2,673	-	2,673	-	2,673
Tax on hedged items	-	-	-	(669)	-	(669)	-	(669)
Total comprehensive loss for the period	-	-	(30,028)	2,004	(2,221)	(30,245)	(42)	(30,287)
Balance at 30 June 2023 (unaudited)	166,813	410,859	(186,456)	2,560	608	394,384	2,777	397,161
Loss after tax	-	-	(95,939)	-	-	(95,939)	736	(95,203)
Exchange differences	-	-	-	-	2,428	2,428	-	2,428
Net fair value losses - cash flow hedges	-	-	-	(5,076)	-	(5,076)	-	(5,076)
Tax on hedged items	-	-	-	1,269	-	1,269	-	1,269
Total comprehensive income/(loss) for the period	-	-	(95,939)	(3,807)	2,428	(97,318)	736	(96,582)
Shares issued	-	8,750	-	-	-	8,750	-	8,750
Acquisition of non-controlling interest	-	-	(1,262)	-	-	(1,262)	(754)	(2016)
Balance at 31 December 2023 (audited)	166,813	419,609	(283,657)	(1,247)	3,036	304,554	2,759	307,313
Loss after tax	-	-	(24,563)	-	-	(24,563)	(137)	(24,700)
Exchange differences	-	-	-	-	(306)	(306)	-	(306)
Net fair value losses - cash flow hedges	-	-	-	1,990	-	1,990	-	1,990
Tax on hedged items	-	-	-	(498)	-	(498)	-	(498)
Total comprehensive (loss)/income for the period	-	-	(24,563)	1,492	(306)	(23,377)	(137)	(23,514)
Purchase of non-controlling interest	-	-	611	-	-	611	(688)	(77)
Dividend paid by non-controlling interest	-	-	-	-	-	-	(230)	(230)
Balance at 30 June 2024 (unaudited)	**166,813**	**419,609**	**(307,609)**	**245**	**2,730**	**281,788**	**1,704**	**283,492**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2024

	Note	Unaudited 6-month to 30 June 2024 £000	Unaudited 6-months to 30 June 2023 £000
Net cash generated by operating activities	15	**19,717**	**44,691**
Investing activities			
Purchase of property, plant and equipment		(4,324)	(2,495)
Purchase of intangible assets		(7,482)	(4,056)
Proceeds from disposal of intangible assets and property plant and equipment		36	-
Disposal of subsidiary, net of cash		-	37,651
Acquisition of an associate		-	(550)
Acquisition of subsidiary, net of cash acquired		(3,897)	(7,773)
Net cash used in investing activities		**(15,667)**	**22,777**
Financing activities			
Movement in other banking facilities		28,360	(61,805)
Financing from other Group undertakings		-	5,253
Repayment of asset backed loans		-	(8,296)
Revolving credit facility interest paid		(8,051)	(6,224)
Payment of interest on senior notes		(41,990)	(37,632)
Bank and other similar fees paid		(604)	(461)
Bank interest received		180	395
Lease payments		(3,684)	(3,625)
Payment of dividends to non-controlling interest & shareholders		(230)	-
Net cash flow used in financing activities		**(26,019)**	**(112,395)**
Net decrease in cash and cash equivalents		(21,969)	**(44,927)**
Cash and cash equivalents at beginning of period		114,683	143,603
Effect of exchange rates on cash and cash equivalents		(1,634)	286
Cash and cash equivalents at end of period		**91,080**	**98,962**

Included within cash and cash equivalents in £7,487,000 (2023: £9,310,000) of 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.

Notes to the consolidated interim financial statements

1. General Information

The Company is incorporated in England and Wales. These consolidated interim financial statements (interim financial statements) of the Company as at and for the six months ended 30 June 2024 comprise the Company and its subsidiaries (together referred to as 'the Group'). 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.

2. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK. They do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2023.

The annual financial statements of the Group are prepared in accordance with UK-adopted IFRS. The interim financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated annual report for the year ended 31 December 2023.

The comparative figures for the financial year ended 31 December 2023 are not the complete version of the Company's statutory accounts for that financial year. The consolidated financial statements of the Group as at and for the year ended 31 December 2023 are available upon request from the Company's registered office at Belvedere, 12 Booth Street, Manchester, M2 4AW or online https://www.arrowglobal.net/reports. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor:

(i) was unqualified;
(ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and
(iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim financial statements of the Group have been prepared under the historical cost convention other than the fair value of derivative contracts and financial assets at fair value through profit and loss.

These interim financial statements were approved by the board of directors on 29 August 2024.

Going concern

In assessing whether the going concern basis is appropriate to adopt for the Group as at 30 June 2024, the directors have undertaken a thorough review of the latest forecast cash flow models and scenarios for a period in excess of 12 months from the date of approval of these accounts, with the primary focus of detailed forecasting running to 30 September 2025.

Notes to the consolidated interim financial statements (*continued*)

2. Basis of preparation *(continued)*

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. 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, the Group is able to maintain sufficient liquidity, operate within the banking covenants, and to continue as a going concern.

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 interim financial statements on a going concern basis

3. Adoption of new standards

No new standards and amendments effective for annual periods beginning after 1 January 2024 are deemed to have a material impact on the results of the Group.

4. Accounting policies, critical accounting judgements and estimates

In preparing these consolidated interim financial statements, management have 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.

In preparing the interim financial statements, the accounting policies, areas of judgement, estimation and assumptions were the same as those applied in the consolidated financial statements of the Group as at and for the year ended 31 December 2023. The sensitivities disclosed in the consolidated financial statements as at and for the year ended 31 December 2023 are reflective of the sensitivity of the critical estimates as at 30 June 2024.

Notes to the consolidated interim financial statements (*continued*)

5. Segmental reporting

In line with IFRS 8 Operating Segments, the Group reports under three separate reportable segments, being Integrated Fund Management, Balance Sheet and Group. Details of the principal business categories are as follows:

Integrated Fund Management	Income and costs associated with managing debt 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	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, and 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 Chief Operating Decision Maker.

The Integrated Fund Management segment charges the Balance Sheet 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.

Notes to the consolidated interim financial statements (*continued*)

5. Segmental reporting (continued)

Period ended 30 June 2024 (unaudited)

	Integrated Fund Management £000	Balance Sheet £000	Group £000	Intra-segment elimination £000	Total exc. adjusting items 30 June 2024 £000	Adjusting items £000	Total inc. adjusting items 30 June 2024 £000
Total income	140,323	60,015	4	(16,514)	183,828	(2,270)	181,558
Collection activity costs	(50,641)	(26,005)	(116)	16,514	(60,248)	–	(60,248)
Gross margin	89,682	34,010	(112)	–	123,580	(2,270)	121,310
Gross margin %	*63.9%*	*56.7%*			*67.2%*		*66.8%*
Other operating expenses excluding depreciation, amortisation and forex	(56,629)	(1,028)	(15,547)	–	(73,204)	(5,899)	(79,103)
EBITDA	33,053	32,982	(15,659)	–	50,376	(8,169)	42,207
EBITDA margin %	*23.6%*	*55.0%*			*27.4%*		*23.2%*
Depreciation and amortisation	(4,030)	–	(1,383)	–	(5,413)	(13,558)	(18,971)
Foreign exchange translation gain	–	–	3,558	–	3,558	–	3,558
Operating profit/(loss)	29,023	32,982	(13,484)		48,521	(21,727)	26,794
Derivative fair value movements	–	–	–	–	–	–	–
Net finance costs	–	–	(53,580)	–	(53,580)	(146)	(53,726)
Profit/(loss) before tax	29,023	32,982	(67,064)	–	(5,059)	(21,873)	(26,932)

Notes to the consolidated interim financial statements (*continued*)

5. Segmental reporting (continued)

Period ended 30 June 2023 (unaudited)

	Integrated Fund Management £000	Balance Sheet £000	Group £000	Intra-segment elimination £000	Total exc. adjusting items 30 June 2023 £000	Adjusting items £000	Total inc. adjusting items 30 June 2023 £000
Total income	99,578	44,093	18	(18,883)	124,806	21,515	146,321
Collection activity costs	(44,519)	(27,531)	(76)	18,883	(53,243)	(15,693)	(68,936)
Gross margin	55,059	16,562	(58)	–	71,563	5,822	77,385
Gross margin %	*55.3%*	*37.6%*			*57.3%*		*52.9%*
Other operating expenses excluding depreciation, amortisation and forex	(35,249)	–	(15,361)	–	(50,610)	(10,058)	(60,668)
EBITDA	19,810	16,562	(15,419)	–	20,953	(4,236)	16,717
EBITDA margin %	*19.9%*	*37.6%*			*16.8%*		*11.4%*
Depreciation and amortisation	(4,182)	–	(879)	–	(5,061)	(7,436)	(12,497)
Foreign exchange translation gain	–	–	7,277	–	7,277	–	7,277
Operating profit/(loss)	15,628	16,562	(9,021)	–	23,169	(11,672)	11,497
Derivative fair value movements	–	–	–	–	–	–	–
Net finance costs	–	–	(50,576)	–	(50,576)	(769)	(51,345)
Share of profit in associate	3,089	–	–	–	3,089	–	3,089
Profit/(loss) before tax	18,717	16,562	(59,597)	–	(24,318)	(12,441)	(36,759)

Notes to the consolidated interim 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.

	Unaudited 6-months to 30 June 2024	**Unaudited 6-months to 30 June 2023**
	£000	**£000**
Discretionary core strategy integrated fund manager income:		
External third party	46,652	32,436
Internal income arising on Arrow balance sheet co-invest	1,967	1,425
Total discretionary core strategy income	**48,619**	**33,861**
Local ancillary strategy servicing and asset management income:		
External third party	77,161	48,363
Internal income arising on Arrow back book investments	14,543	17,354
Total local/ancillary strategies income	**91,704**	**65,717**
Total Integrated fund management segmental income	**140,323**	**99,578**

Discretionary core strategies

Fund and investment management income encompasses services provided in relation to the discretionary allocation and management of third-party capital within credit, real estate and lending funds. 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.

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.

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.

Notes to the consolidated interim financial statements (*continued*)

7. Taxation charge on ordinary activities

The taxation charge for the period was £2,232,000 (H1 2023: £6,689,000). The taxation before adjusting item impacts was £658,000 with an effective consolidated tax rate for the six months ended 30 June 2024 of 13% (30 June 2023: 20%). The Group operate in multiple tax jurisdictions, which are subject to different corporate tax rates, during the interim period. The Group has therefore calculated an estimated average annual effective tax rate for each jurisdiction, based on forecast profits and substantially enacted corporate tax rates relevant to those jurisdictions, to determine the Group's consolidated effective tax rate.

8. Collection activity and fund management costs and other operating expenses

Fund management and collection activity costs:	**Unaudited 6-months to 30 June 2024 £000**	**Unaudited 6-months to 30 June 2023 £000**
Staff costs	39,473	33,277
Direct temporary labour	1,502	2,455
Direct operating costs	8,385	6,540
External collection costs	5,962	3,760
Legal disbursements	3,483	5,266
Other collection activity costs	1,443	1,945
Underlying total collection activity costs	**60,248**	53,243
Operations held for sale result	-	15,693
Total fund management and collection activity costs	**60,248**	68,936

Other operating expenses:	**Unaudited 6-months to 30 June 2024 £000**	**Unaudited 6-months to 30 June 2023 £000**
Staff costs	40,892	27,419
Other staff related costs	3,693	3,114
Premises	1,480	900
IT	8,100	7,119
Depreciation and amortisation	5,413	5,061
Net foreign exchange (gains)/losses	(3,558)	(7,277)
Other operating expenses	19,039	12,058
Total other operating expenses	**75,059**	**48,394**
Other acquisition costs – depreciation and amortisation	13,558	7,436
Acquisition related deferred remuneration	5,899	302
Operations held for sale result	–	9,756
Total other operating expenses	**94,516**	**65,888**

Other operating expenses include professional fees, business insurances and travel and entertaining costs. Other staff-related costs caption largely relates to temporary labour, recruitment and training.

Notes to the consolidated interim financial statements (*continued*)

9. Goodwill

Cost	£000
At 31 December 2023 (audited)	**745,109**
Exchange rate differences	(69)
Acquisitions	1,826
At 30 June 2024 (unaudited)	**746,866**
Impairment:	
At 30 June 2024 and 31 December 2023	-
Net book value:	
At 30 June 2024 (unaudited)	**746,866**
At 31 December 2023 (audited)	**745,109**

10. Trade and other receivables

	Unaudited 30 June 2024 £000	Audited 30 December 2023 £000
Trade receivables	75,682	48,139
Contract balances	13,301	14,201
Other receivables	12,488	17,551
Prepayments	7,201	6,380
Due from other Group undertakings	6	6
Total trade and other receivables	**108,678**	**86,277**

Notes to the consolidated interim financial statements (*continued*)

11. Portfolio investments

The movements in portfolios investments were as follows:

Period ended 30 June 2024 (unaudited)

	Amortised cost £000	FVTPL £000	Real estate inventories £000	Joint venture £000	Total £000
As at 1 January 2024	323,827	380,977	54,588	87,253	846,645
Portfolios purchased during the year	548	55,452	–	–	56,000
Movement in investments awaiting deployment[1]	–	5,325	–	–	5,325
Acquisitions in the year	2,040	716	–	–	2,756
Collections in the year	(69,222)	(42,556)	(6,353)	(10,084)	(128,215)
Income from portfolio investments at amortised cost	23,311	–	–	–	23,311
Fair value gains on portfolio investments at FVTPL	–	26,681	–	–	26,681
Income from portfolio investments – real estate inventories	–	–	1,355	–	1,355
Share of profit in portfolio joint venture	–	–	–	6,565	6,565
Net impairment losses	193	–	(360)	–	(167)
Capital expenditure on real estate inventories	–	–	1,597	–	1,597
Exchange and other movements	(3,796)	(11,644)	(1,706)	–	(17,146)
As at 30 June 2024	**276,901**	**414,951**	**49,121**	**83,734**	**824,707**

[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.

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 consolidated interim financial statements *(continued)*

11. Portfolio investments *(continued)*

Year ended 31 December 2023 (audited)

	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.*

[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 consolidated interim financial statements (*continued*)

11. Portfolio investments *(continued)*

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 30 June 2024 £6,919,000 (31 December 2023: £7,048,000). Note that this sensitivity applies only to 'FVTPL' and 'amortised cost' 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 'FVTPL' and 'amortised cost' portfolio investments as above.

30 June 2024 (unaudited)	**Carrying balance**	**Upside variance**	**Downside variance**
Geography	**£000**	**£000**	**£000**
UK and Ireland	249,522	16,154	(26,549)
Portugal	266,218	86,823	(63,191)
Netherlands	106,152	6,007	(4,497)
Italy	191,772	10,751	(15,727)
Other Western Europe	11,043	–	–
	824,707	**119,735**	**(109,964)**

31 December 2023 (audited)	**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)**

30 June 2024 (unaudited)	**Carrying balance**	**Upside variance**	**Downside variance**
Portfolio asset class	**£000**	**£000**	**£000**
Secured	407,877	61,777	(63,569)
Unsecured	283,975	57,958	(46,395)
Real estate inventories	49,122	N/A	N/A
Joint venture	83,733	N/A	N/A
	824,707	**119,735**	**(109,964)**

Notes to the consolidated interim financial statements (*continued*)

11. Portfolio investments *(continued)*

31 December 2023 (audited)	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)**

12. Trade and other payables

	Unaudited 30 June 2024 £000	Audited 31 December 2023 £000
Current:		
Trade payables	15,041	15,189
Deferred consideration on portfolio investments	720	-
Taxation and social security	7,626	3,065
Due to parent companies	18,686	17,339
Accruals	34,288	50,589
Liabilities arising on acquisition of bankruptcy portfolios	1,933	-
Other liabilities	29,261	32,452
Lease Liability	4,400	3,894
	111,955	122,528
Non-current:		
Trade payables	10,225	8,120
Deferred consideration on portfolio investments	-	737
Accruals	1,642	-
Liabilities arising on acquisition of bankruptcy portfolios	22,120	28,501
Other liabilities	8,686	4,357
Lease liabilities	20,703	22,420
	63,376	64,135
Total trade and other payables	**175,331**	186,663

Other current liabilities includes deferred remuneration and balances payable to employees.

13. 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 nature of potential claims or liabilities has not changed since those reported in the consolidated financial statements of the Group as at and for the year ended 31 December 2023.

There has been no material development in the Netherlands data privacy matter regarding the Focum subsidiary, and the Group's view remains that the Dutch regulator is legally wrong. The Group will continue to defend its position and as such, no provision has been recognised.

Notes to the consolidated interim financial statements (*continued*)

14. Borrowings and facilities

Secured borrowing at amortised cost	Unaudited 30 June 2024 £000	Audited 31 December 2023 £000
Senior secured notes (net of transaction fees of £13,619,000, 31 December 2023: £16,297,000, 30 June 2023: £18,897,000)	1,228,179	1,246,132
Revolving credit facility (net of transaction fees of £1,710,000, 31 December 2023: £2,176,000, 30 June 2023: £2,643,000)	185,290	157,592
Bank overdrafts and loans	6,355	6,214
Other borrowings – non-recourse facilities	25,127	24,482
	1,444,951	**1,434,420**
Total borrowings		
Amount due for settlement within 12 months	207,692	178,580
Amount due for settlement after 12 months	1,237,259	1,255,840
	1,444,951	**1,434,420**

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.

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.

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.

Notes to the consolidated interim financial statements (*continued*)

15. Notes to the cash flow statement

	Unaudited 6-months to 30 June 2024	Unaudited 6-months to 30 June 2023
Cash flows from operating activities	**£000**	**£000**
Loss before tax	(26,932)	(36,759)
Adjusted for:		
Balance sheet cash collections in the period	128,215	139,418
Income from portfolio investments	(24,666)	(28,393)
Fair value gains	(26,681)	(17,403)
Net impairment losses	167	5,310
Share of profit in associate	-	(3,089)
Share of profit in portfolio joint venture	(6,565)	(909)
Profit on disposal of intangible assets	87	45
Depreciation and amortisation	18,971	12,496
Net interest payable	52,762	50,552
Lease liability interest	964	794
Deferred remuneration unwind	4,816	-
Foreign exchange gains	(3,558)	(7,277)
Profit on write-off and disposal of property, plant and equipment	(13)	-
Profit on disposal of held for sale	-	(11,944)
Operating cash flows before movement in working capital	**117,567**	**102,841**
Increase in other receivables	(23,536)	(24,041)
Decrease in trade and other payables	(12,046)	(40,168)
Cash generated by operations	**81,985**	**38,632**
Income taxes and overseas taxation payable	(943)	(5,782)
Net cash flow from operating activities before purchases of loan portfolios	**81,042**	**32,850**
Purchases of portfolio investments	(61,325)	(171,182)
Proceeds from sale of UK non-core portfolios	-	183,023
Net cash generated by operating activities	**19,717**	**44,691**

Included within cash and cash equivalents in £7,487,000 (H1 2023: £9,310,000) of 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.

Notes to the consolidated interim financial statements (*continued*)

16. Financial instruments

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.

Financial assets as at 30 June 2024 (unaudited)	**Mandatorily at FVTPL**	**Amortised cost**	**Total carrying amount**	**Total fair value**
	£000	**£000**	**£000**	**£000**
Portfolio investments	414,951	276,901	691,852	692,377
Cash and cash equivalents	–	91,080	91,080	91,080
Derivative asset	495	–	495	495
Other receivables classified as financial assets	–	101,471	101,471	101,471
Total financial assets	**415,446**	**469,452**	**884,898**	**885,423**

Financial assets as at 31 December 2023 (audited)	**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**

Financial liabilities as at 30 June 2024 (unaudited)	**Mandatorily at FVTPL**	**Amortised cost**	**Total carrying amount**	**Total fair value**
	£000	**£000**	**£000**	**£000**
Senior secured notes	–	1,228,179	1,228,179	1,084,886
Revolving credit facility	–	185,290	185,290	185,290
Bank overdrafts	–	6,355	6,355	6,355
Other borrowings	–	25,127	25,127	25,127
Derivative liability	247	–	247	247
Trade and other payables classified as financial liabilities	–	106,672	106,672	106,672
Total financial liabilities	**247**	**1,551,623**	**1,551,870**	**1,408,577**

16. Financial instruments (continued)

Financial liabilities as at 31 December 2023 (audited)	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**

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.

Notes to the consolidated interim financial statements (*continued*)

16. Financial instruments (continued)

Application to the Group's financial assets and liabilities

The fair value of derivative financial instruments has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at 30 June 2024.

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 £(8,995,000)/£9,314,000 (31 December 2023: £(10,230,000)/£10,604,000).

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

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

The 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. These would be considered level 2 fair values. 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.

	Unaudited	**Audited**
	30 June 2024	**31 December 2023**
Level 2	**£000**	**£000**
Liabilities:		
Derivative liabilities	(247)	(2,381)
Assets:		
Derivative assets	495	558
Level 3		
Assets:		
Portfolio investments	414,951	380,977

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 30 June 2024.

16. Financial assets and liabilities *(continued)*

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 majority of fair value of portfolio investments recognised as FVTPL has been calculated by using a discounted cash flow model. The remaining ones are valued with reference to a third party. 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.

During the year management changed the calculation methodology of determining the average discount rate for level 3 investments. Accordingly, the comparative disclosures for the average discount rate and sensitivities for 31 December 2023 have been restated. The changes are not material. The Group's portfolio investments held at FVTPL has an average discount rate of 20.9% (31 December 2023 (restated): 18.4%). An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at FVTPL of £4,150,000/£(4,150,000) (31 December 2023: £3,810,000/£(3,810,000)). 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 £(11,355,000)/£12,188,000 (31 December 2023: £(12,259,000)/£13,139,000).

The Group's portfolio investments held at amortised cost has an average discount rate of 24.0% (31 December 2023: 23.3%). 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 £2,769,000/£(2,769,000) (31 December 2023: £3,238,000/£(3,238,000)). 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 £(3,218,000)/£3,330,000 (31 December 2023: £(3,990,000)/£4,131,000)). A full reconciliation between the opening and closing portfolio investments held at FVTPL has been provided in note 11. For a fuller description of how the future cash flows are estimated, please refer to note 4.

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.

	Unaudited 30 June 2024	**Audited 31 December 2023**
Level 3	**£000**	**£000**
Assets:		
Portfolio investments – amortised cost	**276,901**	**323,827**

17. Post Balance Sheet Events

Within the ERC for H2 2024 there are a number of significant realisations from investment portfolios and during July two such realisations were made resulting in total collections in the month of £99.8 million.

Additional information (unaudited)

The adjusted EBITDA reconciliations for the periods ended 30 June 2024 and 30 June 2023 respectively are shown below:

	6-months to 30 June 2024	6-months to 30 June 2023
Reconciliation of net cash flow to adjusted EBITDA	**£000**	**£000**
Net cash flow used in operating activities	19,717	44,691
Portfolio purchases and movement investments awaiting deployment[1]	61,325	171,182
Proceeds from sale of UK non-core portfolios[2]	-	(91,511)
Income taxes paid	943	5,781
Working capital adjustments	35,582	64,209
Share of profit in associate	-	3,089
Operating cash adjusting items	1,082	13,933
Adjusted EBITDA	**118,649**	**211,374**
Reconciliation of balance sheet cash collections to adjusted EBITDA		
Income from portfolio investments including fair value and impairment losses and gains	57,745	41,395
Portfolio amortisation	70,470	189,534
Balance sheet cash collections (includes proceeds from disposal of portfolio investments)[2]	**128,215**	**230,929**
Integrated fund and asset management income, gain on disposal of subsidiary and other income	123,813	92,982
Operating expenses	(154,764)	(134,824)
Depreciation and amortisation	18,971	12,497
Foreign exchange gains	(3,558)	(7,277)
Net loss on disposal and write off intangible assets and property, plant and equipment	73	45
Share of profit in associate	–	3,089
Operating adjusting items	5,899	13,933
Adjusted EBITDA	**118,649**	**211,374**
Reconciliation of operating profit to adjusted EBITDA		
Loss after tax	(24,700)	(30,070)
Net finance costs	53,726	51,345
Share of profit in associate	–	(3,089)
Tax credit on ordinary activities	(2,232)	(6,689)
Operating profit	**26,794**	**11,497**
Portfolio amortisation	70,470	189,534
Depreciation and amortisation	18,971	12,497
Foreign exchange gains	(3,558)	(7,277)
Net loss on disposal and write off of intangible assets and property, plant and equipment	73	45
Share of profit in associate	–	3,089
Profit on disposal of held for sale assets and liabilities	–	(11,944)
Operating adjusting items	5,899	13,933
Adjusted EBITDA	**118,649**	**211,374**

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

[2] The £91,511,000 relates to proceeds received from the divestment of non-core Capquest and Mars UK portfolios, which were not subject to immediate repurchase into a new category entitled 'Joint venture'. The other 50% portfolio net proceeds of £91,511,000, have been reported in the underlying collections figure of £230,929,000.

Additional information (unaudited) *(continued)*

Loss before adjusting items

	6-months to 30 June 2024 £000	6-months to 30 June 2023 £000
Total income	**183,828**	**124,806**
Collection activity and fund management costs	(60,248)	(53,243)
Other operating expenses	(75,059)	(48,394)
Total operating expenses	**(135,307)**	**(101,637)**
Operating profit	**48,521**	**23,169**
Net finance costs	(53,580)	(50,576)
Share of profit in associates	-	3,089
Loss before tax and takeover costs	**(5,059)**	**(24,318)**
Taxation credit on underlying activities	658	4,864
Loss after tax before takeover costs	**(4,401)**	**(19,454)**
Non-controlling interest	**137**	**42**
Loss attributable to owners of the company	**(4,264)**	**(19,412)**
Tax rate on results before adjusting items	**13.0%**	**20.0%**

Reconciliation between IFRS profit and profit before adjusting items:

	6-months to 30 June 2024			6-months to 30 June 2023		
	Profit before tax £000	Tax £000	Profit after tax £000	Profit before tax £000	Tax £000	Profit after tax £000
IFRS loss	**(26,932)**	**2,232**	**(24,700)**	**(36,759)**	**6,689**	**(30,070)**
Adjusting items:						
Acquisition costs (including amortisation of acquisition intangible assets)	21,873	-	21,873	9,609	-	9,609
Profit on disposal of held for sale assets and liabilities	-	-	-	(11,944)	-	(11,944)
Operations held for sale result	-	-	-	14,776	-	14,776
Tax associated with adjusting items	-	(1,574)	(1,574)		(1,825)	(1,825)
Loss before adjusting items	**(5,059)**	**658**	**(4,401)**	**(24,318)**	**4,864**	**(19,454)**

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

Acquisition costs primarily relate to impact of the acquisition of Arrow Group by TDR, but also includes the acquisitions of Amitra and Interboden, acquired in 2024 and Maslow and Blue Current Capital acquired in 2023. These acquisitions create ongoing non-cash acquisition intangible and fair value or other accounting unwinds, which in H1 2024 amounted to £21.9 million (H1 2023: £9.6 million).

Additional information (unaudited) *(continued)*

The table below reconciles the reported loss after tax for the period to the cash result.

Reconciliation of loss after tax to the free cash flow result

Income	Reported profit £000	Other items £000	Free cash flow £000	
Income from portfolio investments	57,745	70,470	128,215	Collections in the period
Fair value gains portfolio investments at FVTPL	-	-		
Net impairment gains	-	-		
Income from AMS and FIM	123,546	-	123,546	Income from AMS and FIM
Other income	267	-	267	
Total income [1]	**181,558**	**70,470**	**252,028**	
Total operating expenses	(154,764)	21,385[2]	(133,379)	Cash operating expenses
Operating profit	**26,794**	**91,855**	**118,649**	Adjusted EBITDA *[4]*
Net finance costs	(53,726)	(424)[3]	(54,150)	
(Loss)/profit before tax	**(26,932)**	**91,431**	**64,499**	
Taxation (charge)/credit on ordinary activities	2,232	(3,175)	(943)	
(Loss)/profit after tax	**(24,700)**	**88,256**	**63,556**	
			(11,806)	Capital expenditure
			51,750	**Free cash flow [5]**

[1] Total income is largely derived from income from portfolio investments plus income from managing debt 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 and foreign exchange.

[3] Non-cash amortisation of fees and interest

[4] Adjusted EBITDA is a key driver to free cash flow. This measure allows us to monitor the operating performance of the Group. See page 31 for detailed reconciliations of adjusted EBITDA.

[5] Free cash flow is the adjusted EBITDA after the effect of capital expenditure, financing costs and taxation.

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.
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. Additionally, 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.
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 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.
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 34 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 34 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.