4 March 2014

Arrow Global Group PLC
Preliminary results for the year ended 31 December 2013

Arrow Global Group PLC ((“the Company”) and its subsidiaries (together “the Group”)), one of the UK's largest and fastest growing providers of debt purchase and receivables management solutions, is pleased to announce its preliminary results for the year ended 31 December 2013.

Financial Highlights

- Core collections[1] up 44.1% to £127.8 million (2012: £88.7 million)
- Adjusted EBITDA up 44.7% to £89.6 million (2012: £61.9 million); adjusted EBITDA ratio 70.1% (2012: 69.8%)
- Underlying net income up 127.0% to £25.2 million (2012: £11.1 million)
- Profit attributable to shareholders up 60.6% to £15.1 million (2012: £9.4 million)
- Underlying basic and diluted earning per share (“EPS”) of £0.16
- Underlying return on equity (“ROE”) of 26.5%
- 120-month ERC up 18.0% to £650.3 million at 31 December 2013 (2012: £551.3 million)
- Net debt £178.3m and Net Debt to Adjusted EBITDA ratio of 1.99x

Operating Highlights

- Successful Initial Public Offering (“IPO”) completed in October 2013
- Successfully issued £220 million senior secured notes due 2020
- Revolving Credit Facility (“RCF”) increased to £55 million
- Acquired debt portfolios with face value of £1,370 million for an aggregate purchase price of £101.3 million[2], with 76% of purchase price underpinned by paying accounts
- Face value of total assets under management increased to £9.6 billion (31 December 2012: £7.6 billion), including purchased portfolios of £7.2 billion (2012: £5.9 billion)
- Owned customer accounts increased to 5.1 million as of 31 December 2013 (31 December 2012: 3.6 million)
- Existing portfolios continue to perform in-line with expectations – cumulative gross collections as of December 2013 maintained at 103% of collections forecast at underwriting
- Ranked first in the 2013 annual OC&C industry index

Tom Drury, chief executive officer of Arrow Global commented:

"This has been a transformational year for Arrow Global, starting with the launch of our £220 million senior secured notes in January, followed by our successful IPO in October and ultimately the achievement of our financial targets for the year. We delivered strong results, with adjusted EBITDA up 45%, and underlying net income of £25.2 million equating to underlying ROE of 26.5% based on our new capital structure.

"With industry regulation set to migrate to the FCA on 1 April, we should see greater consistency for customers as buyers join creditors in the same regulatory regime. I am pleased to report that Arrow is well progressed in our preparation for this important change.

"Our expectation remains that we will grow purchases at or in excess of UK market growth. We expect the timing of these purchases to have a normal weighting towards the second half of the year. The business has a robust pipeline of portfolio acquisition opportunities, and whilst the market remains competitive, we believe, the outlook remains strong. We expect to pay our first interim dividend in 2014, which will be announced in our half year results."

Notes:

1. Core collections is collections on Arrow Global's purchased loan portfolios
2. Including £0.5 million of student loan investments held as loan notes

For further information:

Arrow Global		**Instinctif**	
Tom Drury Robert Memmott Hopi Moodie	**+44 (0)161 242 5896**	Mike Davies Catherine Wickman Tom Drummond	**+44 (0)20 7457 2020**

Forward looking statement

This document contains statements that constitute forward-looking statements relating to the business, financial performance and results of the Company and its subsidiaries (the "Group") and the industry in which the Group operates. 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 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 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 assumes no obligation to update or provide any additional information in relation to such forward-looking statements.

Business review - chief executive statement

I am pleased to report that in addition to raising both debt and equity in the public markets in 2013, our business once again posted strong results within what remains a competitive market landscape. We acquired debt portfolios for an aggregate purchase price of £101.3 million, at an overall target net internal rate of return ("IRR") of 22% for the 2013 vintage. Following these acquisitions, the face value of total assets under management increased to £9.6 billion, including purchased portfolios of £7.2 billion, and the expected cumulative unlevered return on our portfolios stood at 26.3%. We maintained an adjusted EBITDA ratio of 70.1%, with underlying profits of £25.2 million. Within the new capital structure, post IPO underlying return on equity ("ROE") was 26.5%.

Looking forward, our strategy remains to grow the business whilst maintaining a strong focus on underwriting discipline and portfolio returns. We will therefore focus principally on EPS growth and ROE as the key financial measures by which we will manage the business.

The business' strong performance was a reflection of our focus on executing against our vision – to be the leading data driven debt purchaser – and our strategy – to grow by leveraging our sophisticated data-driven business model and leading position in growing markets, via the following strategic objectives:

1. Establish Arrow Global as the most respected debt purchaser, with a leading position in compliance, risk management and treating customers fairly.

   During the year we made significant progress in implementing a three lines of defence risk framework, and we expect to be in a strong position for entry to the FCA regulatory framework in 2014. Our financial ombudsman service ("FOS") complaints remain amongst the lowest in the industry, at 17 per one million accounts.

2. Grow the business while maintaining rigorous underwriting discipline.

   In a competitive UK market, we were able to use the breadth of our origination channels and the flexibility of our business model to purchase the portfolios offering the best returns. This is reflected in the achievement of both our purchasing and returns targets.

3. Optimise cost to collect while maintaining a flexible cost base.

   Despite purchasing across a broader range of asset classes, we managed to improve the cost to collect ratio, to 21.9% of collections (2012: 22.1%).

4. Continue to utilise our data capability to invest in portfolios underpinned by paying accounts, with the opportunity to convert non-paying accounts.

   Approximately 76% of our investment in 2013 was in paying accounts, with further enhancements to our data assets made during the year, including both the expansion of our Proprietary Collections Bureau ("PCB") and the sourcing of raw data from a second credit bureau.

5. Maintain a prudent balance sheet.

   Net debt to adjusted EBITDA stood at 2.0x at 31 December 2013, with significant facility headroom.

6. Maintain a leading position in financial services in the UK and Portugal.

   In October we were ranked first in the 2013 OC&C Credit Management and Debt Collection Index of all European debt purchase and collections companies.

7. Pursue a disciplined approach to expanding into new asset classes and geographies.

   During the year we extended our presence in the UK student loans and second lien mortgage markets, following successful pilots in previous periods. In addition, we have advanced our market research and pipeline development in new geographies.

Underlying this strong performance is our commitment to working with customers to understand their circumstances and establish long term affordable repayment plans that allow them to restore their financial standing at a rate that meets their needs. This approach reflects the principles of the Lending Standards Board and the Office of Fair Trading Guidelines, and is further reinforced by our own research conducted during the year with Bristol University into barriers to engagement.

This research highlighted the positive impact that a responsible creditor can play in securing customer engagement, and we are planning significant further enhancements to our customers' experience in 2014 as a result.

As part of our continuing commitment to place the customer at the heart of the business, we launched our new branding in October. I believe our updated and refreshed brand better reflects who we are as a business, and is more approachable for customers. As part of the rebranding exercise, we developed enhanced values for the business, which I think speak volumes about who we are as a team, and what we aspire to be: respect, integrity, transparency, energy and innovation.

We turn our attention to 2014 with a solid platform for future growth. We see a strong pipeline of portfolio acquisition opportunities ahead, albeit against continued competition within the UK market. Critical to our continued success is our talented team, all of whom are key to the implementation of our business strategy; with their continued dedication and skills, the coming year promises to be a fruitful one for the business.

Tom Drury
Chief executive officer

Financial review of the year to 31 December 2013

2013 was a landmark year in the history of Arrow Global. January 2013 saw the successful placing of £220 million senior secured notes with a maturity of 2020. This was subsequently followed by the successful completion of the IPO in October 2013, raising net proceeds of £42 million and securing our admission to trading on the London Stock Exchange. The listing process also saw the establishment of a new board with a wealth of diverse business experience that will enhance and strengthen the business going forward.

Key results

As of and year to	31-Dec-13	31-Dec-12
	£m	£m
Purchases of loan portfolios *	101.3	83.9
Face value of portfolios acquired (billion)	7.2	5.9
Number of accounts ('000)	5,109	3,562
Core collections	127.8	88.7
Collection cost ratio (%)	21.9%	22.1%
Adjusted EBITDA	89.6	61.9
Adjusted EBITDA ratio	70.1%	69.8%
Underlying net income	25.2	11.1
84-month ERC	564.3	464.4
120-month ERC	650.3	551.3
Net debt	178.3	90.4
Underlying basic and diluted EPS (£)	0.16	0.08
Underlying ROE (%)	26.5%	13.9%
Net assets	105.2	12.6

* Includes £0.5 million of student loan investments held as loan notes

Portfolio acquisitions

During 2013, we acquired debt portfolios with a face value of £1,370 million for a purchase price of £101.3 million, in line with our target spend for the year of £100 million. This equated to an average purchase price of 7.4p, underpinned by 76% of paying accounts. We target a net IRR of greater than 20% over a seven year period. For the year to 31 December 2013, the expected net IRR for this vintage was 22%. In line with our strategy, following pilot investments in 2012, we further expanded into two new asset classes – student loans and second liens – in 2013.

These acquisitions, net of amortisation, have increased the balance sheet value of our purchased loan portfolios to £273.9 million at 31 December 2013 (2012: £208.2 million). As at 31 December 2013, the total face value of assets under management was £9.6 billion, including purchased portfolios of £7.2 billion across 5.1 million customer accounts.

Collections

Core collections increased to £127.8 million (2012: £88.7 million), reflecting the increase in our portfolio assets base. Collections continue to perform in line with expectations and, at 31 December 2013, were cumulatively 103% of our original underwriting forecast. During the year, 74% of cash collections came from regular small payments, with an average monthly payment of £27, reflecting our focus on working with customers to create long term sustainable payment plans.

Collection costs

We continue to use our data capabilities and benefits from our outsourced model to maintain collection cost efficiency. During the year there was an improvement in the collection cost ratio, to 21.9% (2012: 22.1%). In addition, we extended our strategic relationship with Experian to 2023 and invested in a new raw data bureau feed.

Adjusted EBITDA

Adjusted EBITDA is our proxy for free cash flow. During the year adjusted EBITDA increased by £27.6 million (44.7%) to £89.6 million (2012: £61.9 million). This was mainly driven by an increase in core collections net of collection costs. The adjusted EBITDA ratio improved to 70.1% (2012: 69.8%). The Group had cash generated from operations of £83.7 million in 2013. Excluding operating exceptional items with a cash impact, underlying cash generated from operations was £89.5 million, which is consistent with our adjusted EBITDA.

Underlying net income

Underlying net income increased 127.0% from £11.1 million to £25.2 million for the year ended 31 December 2013. This was largely driven by increased underlying operating profit of £19.6 million, due to a rise in income from purchased portfolios, offset by an increase in the underlying tax charge of £5.4 million.

Portfolio Overview

Our 120-month ERC – our expected collections from our back book – has increased by £99.0 million from 2012 to £650.3 million. The ERC is underpinned by paying accounts that have a face value of £1.1 billion, which represents 1.7 times 120-month ERC cover. As at 31 December 2013, we estimate the amount we would need to invest over the next year to maintain our current ERC level is circa £47 million.

The below table illustrates the returns on portfolios by vintage:

Vintage	Purchase price £m	Collections to date £m	120-month ERC £m	Total estimated collections £m
Pre-2010	43.3	84.9	53.8	138.7
2010	30.1	53.9	54.0	107.9
2011	110.2	120.0	200.2	320.2
2012	83.8	46.8	150.0	196.8
2013	101.3	32.6	192.3	224.9
Total	**368.7**	**338.2**	**650.3**	**988.5**

Cumulatively, net IRR over all portfolios is expected to be 26.3% on an 84-month basis as shown below. All vintages are expected to perform better than the target rate of 20% while recent vintages reflect a higher proportion of paying accounts and, therefore, a lower IRR.

Vintage	Purchase price £m	Face value acquired £m	Price per £	84-month net IRR*	120-month net IRR*
Pre-2010	43.3	1,200.7	4p	26.8%	29.3%
2010	30.1	1,375.9	2p	38.9%	40.5%
2011	110.2	2,371.7	5p	28.5%	31.0%
2012	83.8	924.1	9p	23.2%	25.7%
2013	101.3	1,370.4	7p	22.2%	25.0%
Total	**368.7**	**7,242.8**	**5p**	**26.3%**	**28.8%**

* A portfolio's internal rate of return calculated using expected net core collections for the next 84/120-months, subsequent to the date of purchase of the loan portfolio adjusted regularly in line with gross ERC

Funding, net debt and net assets

In January we issued £220 million senior secured notes with a maturity of 2020, and we raised net proceeds of £42 million as part of the IPO in October 2013. We successfully increased our 2018 revolving credit facility ("RCF") to £55 million, which remained undrawn as at 31 December 2013. As at 31 December 2013, we have cash and RCF resources of £102.5 million available.

Net debt at 31 December 2013 was £178.3 million, being 2.0 times adjusted EBITDA and a net debt/84-month ERC loan to value ratio of 31.6%, which is significantly below our financial covenants of 75%. Net assets increased £92.6 million during the year, reflecting the current capital structure and retained profit for the year.

Shareholder returns

Underlying basic and diluted EPS for the year was 16p, and underlying ROE was 26.5%.

The principal risks and uncertainties are disclosed in note 3.

Outlook

The year ahead will see the regulation of the industry migrate to the Financial Conduct Authority ("FCA"). We welcome this shift and believe it provides the correct framework for the industry. Most importantly, it will result in greater consistency for customers, as buyers join creditors in the same regulatory regime. We are well progressed in our internal readiness programme, and look forward to continuing our fundamental commitment to high conduct standards within the governance of the FCA.

Our expectation remains that we will grow purchases at or in excess of UK market growth. We expect the timing of these purchases to have a normal weighting towards the second half of the year. The business has a robust pipeline of portfolio acquisition opportunities, and whilst the market remains competitive, we believe, the outlook remains strong.

We expect to pay our first interim dividend in 2014, which will be announced in our half year results.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	Year Ended 31 December 2013 Underlying £000	Exceptional items 2013 £000	Year Ended 31 December 2013 including exceptionals £000	Year Ended 31 December 2012 Underlying £000	Exceptional items 2012 £000	Year Ended 31 December 2012 including exceptionals £000
Continuing operations							
Revenue							
Income from purchased loan portfolios	9	87,330	-	87,330	62,261	-	62,261
Portfolio write up	9	4,843	-	4,843	1,241	-	1,241
Profit on portfolio and loan note sales		1,132	-	1,132	520	-	520
		93,305	-	93,305	64,022	-	64,022
Income from asset management		1,392	-	1,392	1,818	-	1,818
Total revenue		**94,697**	**-**	**94,697**	**65,840**	**-**	**65,840**
Operating expenses							
Collection activity costs		(27,994)	-	(27,994)	(19,645)	-	(19,645)
Professional fees and services	8	(1,733)	-	(1,733)	(3,162)	(1,386)	(4,548)
Other operating expenses	8	(12,159)	(8,600)	(20,759)	(9,817)	(493)	(10,310)
Total operating expenses		**(41,886)**	**(8,600)**	**(50,486)**	**(32,624)**	**(1,879)**	**(34,503)**
Operating profit		**52,811**	**(8,600)**	**44,211**	**33,216**	**(1,879)**	**31,337**
Finance income and costs	4,8	(19,302)	(3,916)	(23,218)	(19,189)	-	(19,189)
Profit before tax		**33,509**	**(12,516)**	**20,993**	**14,027**	**(1,879)**	**12,148**
Taxation charge on ordinary activities	7	(8,350)	2,468	(5,882)	(2,913)	177	(2,736)
Profit for the year attributable to equity shareholders		**25,159**	**(10,048)**	**15,111**	**11,114**	**(1,702)**	**9,412**
Other comprehensive income: Foreign exchange translation difference arising on revaluation of foreign operations (which may be reclassified subsequently to profit or loss)		1	-	1	133	-	133
Total comprehensive income for the year attributable to equity shareholders		**25,160**	**(10,048)**	**15,112**	**11,247**	**(1,702)**	**9,545**
Basic and diluted earnings per share (£)	5	**0.16**		**0.10**	**0.08**		**0.07**
Adjusted earnings per share (£)	5	**0.17**		**0.11**	**0.19**		**0.18**

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013

Assets	*Notes*	Group 31 December 2013 £000	Group 31 December 2012 £000
Non-current assets			
Intangible assets		3,444	3,723
Property, plant & equipment		259	252
Purchased loan portfolios	9	211,787	163,079
Loan notes	9	1,668	-
Deferred tax asset		12	9
Total non-current assets		**217,170**	**167,063**
Current assets			
Cash and cash equivalents		47,520	9,610
Other receivables		11,701	7,187
Purchased loan portfolios	9	62,145	45,092
Total current assets		**121,366**	**61,889**
Total purchased loan portfolios		273,932	208,171
Total assets		**338,536**	**228,952**
Equity			
Share capital		1,744	1,351
Share premium		347,436	275,623
Retained earnings		33,841	12,868
Other reserves		(277,848)	(277,287)
Total equity attributable to shareholders		**105,173**	**12,555**
Liabilities			
Non-current liabilities			
Loans	12	-	206,585
Senior secured notes	12	211,920	-
Deferred tax liability		2,646	-
Total non-current liabilities		**214,566**	**206,585**
Current liabilities			
Trade and other payables	10	13,022	9,812
Senior secured notes	12	5,775	-
Total current liabilities		**18,797**	**9,812**
Total liabilities		**233,363**	**216,397**
Total equity and liabilities		**338,536**	**228,952**

See the statement of changes in equity for additional impact to the Group 2012 balance sheet.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

Group

	Ordinary shares	Share premium	Retained earnings	Own Share reserve*	Translation reserve *	Merger reserve *	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2011	**1,351**	**275,623**	**3,456**	**-**	**(459)**	**(276,961)**	**3,010**
Profit for the year	-	-	9,412	-	-	-	9,412
Exchange differences	-	-	-	-	133	-	133
Total comprehensive income for the year	-	-	9,412	-	133	-	9,545
Balance at 31 December 2012	**1,351**	**275,623**	**12,868**	**-**	**(326)**	**(276,961)**	**12,555**
Profit for the year	-	-	15,111	-	-	-	15,111
Exchange differences	-	-	-	-	1	-	1
Total comprehensive income for the year	-	-	15,111	-	1	-	15,112
Issue of shares on debt conversion	149	30,377					30,526
Issue of shares at IPO (net of costs)	244	41,436	-	-	-	-	41,680
Repurchase of own shares	-	-	-	(1,430)	-	-	(1,430)
Sale of own shares	-	-	1,501	868	-	-	2,369
Share-based payments	-	-	4,361	-	-	-	4,361
Balance at 31 December 2013	**1,744**	**347,436**	**33,841**	**(562)**	**(325)**	**(276,961)**	**105,173**

Any exchange differences are recycled to the statement of comprehensive income

The numbers have been prepared on the basis of being continuation accounts as described in the general information on page 11. The shares in place as at the IPO were converted into new shares of 1p. The transactions occurring during the year have been calculated based on the new share value, which accordingly back dates the values to 31 December 2011.

Own share reserve

The own share reserve comprises the cost of the Company's ordinary shares held by the Group. At 31 December 2013 the Group held 251,572 ordinary shares of 1p each, held in an employee benefit trust. This represents 0.1% of the Company share capital at 31 December 2013.

* Other reserves total £277,848,000 deficit (2012: £277,287,000 deficit)

Consolidated Statement of Cash Flows for the Year Ended 31 December 2013

	Group Year Ended 31 December 2013 £000	Group Year Ended 31 December 2012 £000
Cash flows from operating activities		
Adjusted for:		
Profit before tax	20,993	12,148
Collections in the year	127,840	88,720
Income from purchased loan portfolios	(87,330)	(62,261)
Portfolio write up	(4,843)	(1,241)
Proceeds from disposal of purchased loan portfolios	2,474	1,137
Profit on disposal of purchased loan portfolios	(1,132)	(520)
Amortisation of legal acquisition fees on portfolios and financing costs	4,554	230
Depreciation and amortisation	752	835
Goodwill impairment (exceptional non cash item)	2,309	-
Increase in rolled up interest on shareholders' loans	1,291	14,882
Increase in rolled up interest on non-controlling interest loans	30	349
Increase in interest on secured loan notes	15,978	-
Foreign exchange (gains)/losses	(23)	348
(Gain)/ loss on fair values on derivatives	(815)	424
Equity settled share-based payment expenses	4,361	-
Cash from secured loan notes from third party	100	-
Operating cash flows before movement in working capital	**86,539**	**55,051**
Increase in other receivables	(4,701)	(1,602)
Increase in trade and other payables	1,820	31
Payment of deferred consideration	-	(1,065)
Cash generated by operations	**83,658**	**52,415**
Income taxes and overseas taxation paid	(4,269)	(3,173)
Net cash flows from operating activities before purchases of loan portfolios and loan notes	**79,389**	**49,242**
Purchases of purchased loan portfolios	(84,308)	(84,431)
Purchases of loan notes	(1,798)	-
Net cash used in operating activities	**(6,717)**	**(35,189)**
Investing activities		
Purchase of property, plant and equipment	(143)	(40)
Purchase of intangible assets	(341)	(679)
Repurchase of own shares	(1,430)	-
Sale of own shares	2,369	-
Acquisition of subsidiary, net of cash acquired	(17,826)	-
Net cash used in investing activities	**(17,371)**	**(719)**
Financing activities		
Proceeds of issued share capital	41,680	-
Proceeds from additional loans	6,884	92,921
Proceeds from senior notes (net of fees)	210,626	-
Repayment of senior notes	(10,202)	-
Repayment of bank loan	(106,859)	(53,814)
Repayment of shareholders' loans	(77,350)	-
Repayment of non-controlling interest loans	(2,650)	-
Net cash flows generated by financing activities	**62,129**	**39,107**
Net increase in cash and cash equivalents	**38,041**	**3,199**
Cash and cash equivalents at beginning of year	9,610	**6,440**
Effect of exchange rates on cash and cash equivalents	(131)	(29)
Cash and cash equivalents at end of year	**47,520**	**9,610**

Notes to the preliminary announcement of the audited financial results

1. Statutory Information

This document does not constitute the Group's statutory accounts for the years ended 31 December 2012 or 31 December 2013 but is derived from those accounts. Statutory accounts for the year ended 31 December 2012, were those for Arrow Global Guernsey Holdings Limited, the previous parent of the Group. Statutory accounts for 31 December 2013 will be delivered to the registrar of companies following the Group's annual general meeting.

The auditors have reported on the 2012 and 2013 accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors 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 Financial Statements of the Group have been prepared under the historical cost convention other than the fair value of derivative contracts and the amortised cost value of portfolio assets. The accounting policies are the same as those given in the annual report and accounts for the year ended 31 December 2013.

The financial information included in this preliminary announcement is based on the Group's annual report and accounts for the year ended 31 December 2013, which are prepared in accordance with International Financial Reporting Standards (IFRSs) and in accordance with IFRSs adopted by the European Union.

The annual report and accounts for the year ended 31 December 2013 will be posted to shareholders in April 2014. The annual general meeting will take place on 28 May 2014.

2. General information

The Company was incorporated as a private limited company on 14 August 2013. On 26 September 2013, the Company was re-registered as a public limited company and its name changed from Arrow Global Group Limited to Arrow Global Group PLC.

The Company acquired by way of share for share exchange the entire issue share capital of Arrow Global One Limited, which in turn had acquired by way of share for share exchange the entire issued share capital of Arrow Global Guernsey Holdings Limited (the previous ultimate holding company of the Group) on 7 October 2013 as part of a restructure of the Group. As part of this restructure the relative rights of the ultimate shareholders changed which required the principles of merger accounting for group reconstructions to be applied to the accounts.

The adoption of merger accounting presents the Company as if it had always been the parent undertaking of the Group. As the Company was not incorporated until 14 August 2013, the consolidated results and details of the financial position prior to this date reflect those presented previously as the results and financial position of Arrow Global Guernsey Holdings Limited, the former parent of the Group, except that they have been restated in that the share capital of Arrow Global Guernsey Holdings Limited has been reclassified and a merger reserve recognised as if the share capital for the prior years reflected the Company's shares issued as part of the reconstruction.

Under IFRS the group reconstruction is treated as a common control transaction, for which there is no specific accounting guidance. Consequently the board of directors have had regard to the guidance in IAS 8 – 'accounting policies, changes in accounting estimates and errors' on the selection of accounting policies and have adopted merger accounting in accordance with the provisions of Financial Reporting Standard 6 in the United Kingdom.

The Company became listed on the London Stock Exchange on 11 October 2013 as part of an Initial Public Offering ("IPO").

After making appropriate enquires, the directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence for the foreseeable future, owing to the fact that forecasts show sufficient resources are available throughout the period under review. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3. Principal risks and uncertainties

We have an enterprise-wide risk framework in place, which sits alongside the strategic business plan and is designed to support the identification, assessment, management and control of material risks that threaten the achievement of our business objectives. Risks are categorised as: strategic risk, conduct risk, operational risk, financial risk and investment risk.

Risk	Definition	Effect on the Group	Approach
Strategic risk	Risk to earnings arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment	**Economic risk -** The Group's growth strategy is based on the future purchase of, and collection from, distressed loan portfolios. Changes in economic conditions could impact the ability to collect from portfolios, or the amount of debt portfolios that are sold	Management ensure that all portfolios are purchased at an appropriate price and we also build strong relationships with our creditor client base in order to mitigate such risks
		The Group is exposed to Eurozone economic uncertainty through its Portuguese debt portfolios	Appropriate currency liquidity management and scenario planning is in place
		Reputational risk - Negative attention and news regarding the debt collection industry and individual debt collectors may have a negative impact on ability to acquire portfolios and a customer's willingness to pay the debt that the Group acquires	We manage this risk through compliance and industry best practice collection approaches
Conduct risk	Risk of inappropriate strategy, systems, behaviour, or processes leads to poor and/or unfair customer outcomes or customer detriment	Any action which leads to poor and/or unfair customer outcomes or customer detriment goes against our core values and could also lead to regulatory censure, financial loss and reputational/brand damage	Conduct risk and treating customers fairly ("TCF") are at the heart of our third party management framework. All employees and third parties acting on our behalf receive TCF training
Operational risk	Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events	We are reliant on a panel of third party partners to manage customer accounts and collect outstanding debts. Should third party debt servicers experience sustained business interruption or are subject to take-over by an unfriendly competitor firm we could suffer financial loss	We have an overarching third party management framework focused on compliance, performance, resilience and customer outcomes. All new third party panel members are both rigorously checked to ensure they conform to our compliance and quality standards, and monitored on a regular basis. Our third party panel is diversified to ensure that we do not become reliant on one third party debt servicer
		We are also reliant on IT systems for data management and analysis	IT systems are regularly backed up and are managed through a tight set of quality and security policies, supported by a robust disaster recovery plan
	Regulatory risk - risk of failing to comply with the legal and regulatory requirements applying to business arrangements and activities, for example data protection regulation	Failure to comply with relevant regulation could result in the suspension or termination of our ability to conduct business and could lead to regulatory censure and financial loss	We employ industry specialists to monitor the latest regulations and update our internal policies accordingly. Where required we take external specialist advice. We also engage in regular training and assurance activity to ensure compliance with internal policies
	Legal risk - risk of documentation deficiencies within purchased portfolios that are unable to be mitigated through legal contract and /or warranties	Exposure to remediation cost and further cased pursued by claims management companies	Due diligence on prospective investment purchases to identify potential documentation weaknesses. Legal team involvement in all purchases and external legal advice taken where required

Risk	Definition	Effect on the Group	Approach
Financial risk	**Market Risk:** the risk of losses in portfolios due to changes in foreign-exchange rates and the level of interest rates **Liquidity Risk:** the risk that the Group is unable to meet its obligations as they fall due **Credit risk**: risk to earnings or capital arising when a counter-party defaults on its contractual obligations, including failure to perform obligations in a timely manner **Tax risk**: tax compliance risks arise from the complex nature of tax legislation and practice	The Group's financial risk management strategy is based upon sound economic objectives and corporate practices. The main financial risks concern the availability of funds to meet obligations as they fall due (liquidity risk) and movements in foreign exchange rates (foreign exchange risk)	Liquidity risk is managed through maintenance of a flexible cost base and establishment of borrowing facilities. We are highly cash generative and portfolio investment is discretionary Foreign exchange risk is managed on a Group level through the use of forward contracts and daily monitoring of currency fluctuations Management mitigate interest rate risk using swap contracts The Group engages tax specialists to advise the Group regarding its tax compliance obligations and the application of tax legislation and practice to the transactions and activities undertaken by the Group The Group's risk management policies on foreign exchange, interest rates, credit risk and market risk
Investment risk	The risk of returns adverse to forecast as a result of inadequate portfolio purchase analysis and consequent mispricing	The statistical models and analytics used, including the calculation of ERC, may prove to be inaccurate, which could lead to poor decision making and the Group may fail to achieve its anticipated recoveries	Rigorous change controls are in place prior to any new data influencing our decision making model, and due diligence and executive review is carried out prior to investment. Portfolio performance is monitored by senior management

4. Finance and income costs

	Year Ended 31 December 2013 £000	Year Ended 31 December 2012 £000
Finance income		
Bank interest	**57**	-
Finance costs		
Interest on minority interest loans	(30)	(349)
Interest and similar charges on bank loans	(1,970)	(3,507)
Interest on senior secured notes	(15,978)	-
Other interest	(346)	-
Shareholder interest expense	(1,291)	(14,882)
Total interest costs	**(19,615)**	**(18,738)**
Fair value gains/(losses) on interest rate swaps	894	(451)
Amortisation of financing costs	(4,554)	-
Total finance costs including exceptional items	**(23,275)**	**(19,189)**
Total finance income and costs including exceptional items	**(23,218)**	**(19,189)**
Exceptional finance costs	3,916	-
Total finance income and costs	**(19,302)**	**(19,189)**

During the year the Group has issued £220 million of 7.875% senior secured notes. The proceeds were used to settle existing loans and facilities and accordingly accelerated amortisation and settlement fees were incurred, which can be seen in exceptional finance costs above.

5. Earnings per share

	Year Ended 31 December 2013 £000	Year Ended 31 December 2012 £000
Basic/diluted earnings per share		
Underlying profit for the year attributable to equity shareholders	25,159	11,114
Profit for the year attributable to equity shareholders including exceptionals	15,111	9,412
Number of ordinary shares	**154,427**	**135,109**
Underlying basic and diluted earnings per share (£)	**0.16**	**0.08**
Basic and diluted earnings per share including exceptionals (£)	**0.10**	**0.07**

Supplementary earnings per share	Year Ended 31 December 2013 £000	Year Ended 31 December 2012 £000
Underlying profit for the year attributable to equity shareholders	25,159	11,114
Profit for the year attributable to equity shareholders including exceptionals	15,111	9,412
Add back: shareholder interest expense	1,291	14,882
Underlying	**26,450**	**25,996**
Including exceptionals	**16,402**	**24,294**
Number of ordinary shares	**154,427**	**135,109**
Underlying supplementary earnings per share (£)	**0.17**	**0.19**
Supplementary earnings per share including exceptionals (£)	**0.11**	**0.18**

The reduction in supplementary earnings per share arose as a result of the reduction in shareholder interest expense following the Group's issue of the senior secured notes and its subsequent repayment of shareholder loans.

6. Dividend

In line with the prospectus, associated with the IPO in October, the directors do not recommend the payment of a dividend (2012: £nil).

7. Tax

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax. The effective tax rate for the year ended 31 December 2013 is higher than the standard rate of corporation tax in the UK at 23.25%, the differences are as follows:

	Year Ended 31 December 2013 £000	**Year Ended 31 December 2012 £000**
Profit before tax	20,993	12,148
Tax charge at standard UK corporation tax rate	4,881	2,976
Adjustment in respect of prior years	33	81
Expenses not deductible for tax purposes	922	35
Differences on share based payments	(15)	-
Differences in tax rates	(410)	-
Differences on hedging arrangements	85	-
Other	-	6
Differing overseas tax rates	386	(362)
Tax charge	**5,882**	**2,736**
Effective tax rate relating to continuing operations	**28.0%**	**22.5%**
Standard UK corporation rate for the year	**23.25%**	**24.5%**
Effective tax rate higher/lower than standard UK corporation rate for the year	**Higher**	**Lower**

	Year Ended 31 December 2013 £000	**Year Ended 31 December 2012 £000**
Tax charge for the year consists of:		
Current tax charge:		
UK and foreign corporation tax based on profit for the year	5,471	2,426
Adjustment in respect of prior years	78	181
Total current tax charge	**5,549**	**2,607**
Deferred tax charge/(credit):		
Origination and reversal of temporary differences	788	229
Adjustment in respect of prior years	(45)	(100)
Differences in tax rates	(410)	-
Total tax charge	**5,882**	**2,736**

The Group has been involved in on-going discussions with HMRC with respect to the VAT implications of the business activities performed in Guernsey prior to January 2013, when the Group was restructured. To date these discussions have related exclusively to requests for and provision of factual information. HMRC have not yet confirmed to the Group whether they agree that Arrow Global Guernsey Limited's business activities were such that it did not have a fixed place of business in the UK. Accordingly, no provision has been made in these financial statements in respect of this matter. HMRC have indicated that they expect to be able to confirm their position in the near future.

Deferred tax

The Group has not recognised a deferred tax asset in respect of £249,000 (2012: £249,000) of tax losses carried forward. These losses are available for offset against future non-trading profits and have no expiry date.

The Finance Act 2013, which was substantively enacted in July 2013, included provisions to reduce the rate of UK corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. Deferred taxation is measured at the tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly, deferred tax balances have been revalued to the lower rate of 20% in these accounts.

A deferred tax liability of £2,309,000 was recognised on acquisition of Arrow Global Accounts Management Limited. The liability will unwind over the next 10 years. Over the life of the portfolio asset the Group considers the recognition of the deferred tax liability does not increase the level of tax payments expected to be made.

Exceptional tax

We have identified exceptional items in the year amounting to £12,516,000 (2012: £1,879,000). All exceptional items are taxable with the exception of the £2,309,000 goodwill impairment in the year.

8. Reconciliation of exceptional items

	Year Ended 31 December 2013 £000	Year Ended 31 December 2012 £000
Professional fees and services	-	1,386
Other operating expenses	8,600	493
Financial income and costs	3,916	-
Total exceptionals	12,516	1,879

Exceptional items include items that, by virtue of their size and incidence, are not considered to be representative of the on-going performance of the Group.

Regarding exceptional items included in other operating expenses, in the year to 31 December 2013 goodwill arose upon the acquisition of Arrow Global Accounts Management Limited of £2,309,000. As the goodwill was not supportable, this was fully impaired. The remaining exceptional items in the year were exceptional restructuring costs associated with the senior secured notes issuance of £1,005,000 and IPO related staff and other costs of £5,286,000, the main item being £4,361,000 of share option charges. Financial income and costs exceptional items for 2013 are explained further in note 4.

In the year to 31 December 2012, the exceptional items included in professional fees and services represented exceptional project and legal-related expenses relate to corporate restructuring and transaction advisory fees. Exceptional items included in other operating expenses represented costs associated with the senior secured notes issuance and restructuring costs.

9. Financial assets

	Year Ended 31 December 2013 £000	Year Ended 31 December 2012 £000
Non Current:		
Purchased loan portfolios	208,042	162,125
Portfolio write up	3,745	954
	211,787	**163,079**
Loan notes	1,668	-
	213,455	**163,079**
Current:		
Purchased loan portfolios	61,047	44,805
Portfolio write up	1,098	287
	62,145	**45,092**
Total	**275,600**	**208,171**

At the 31 December 2013, the directors calculated the fair value of portfolios and loan notes under IFRS 13 to be £281,386,000, which is £7,454,000 higher than the carrying value. The directors applied a discount rate of 20% net of cash flows, which was calculated using a consistent methodology as at 31 December 2012.

The directors consider that there was no material difference between the carrying value and fair value of the assets for the comparative year.

Purchased loan portfolios

The Group recognises income from purchased loan portfolios in accordance with IAS 39. At 31 December 2013, the carrying amount of the purchased loan portfolio asset was £273,932,000 (December 2012: £208,171,000).

The movements in purchased loan portfolio assets were as follows:

	Year Ended 31December 2013 £000	Year Ended 31 December 2012 £000
As at the year brought forward	208,171	150,005
Portfolios acquired during the year *	84,308	84,431
Portfolios acquired through acquisition of a subsidiary	18,301	-
Collections in the year	(127,840)	(88,720)
Income from purchased loan portfolios	87,330	62,261
Exchange gain/(loss) on purchased loan portfolios	161	(200)
Amortisation of legal acquisition fees on portfolios	-	(230)
Disposal of purchased loan portfolios	(1,342)	(617)
Portfolio write up	4,843	1,241
As at the year end	**273,932**	**208,171**

* inclusive of capitalised portfolio expenditure of £1,759,000 (2012: £453,000)

10. Trade and other payables

	Year Ended 31 December 2013 £000	Year Ended 31 December 2012 £000
Trade payables	4,375	3,146
Current tax liability	2,894	1,633
Derivative liability	-	451
Taxation and social security	-	69
Other liabilities and accruals	5,753	4,513
	13,022	**9,812**

The directors consider that the carrying amounts approximate to their fair value on the basis that the balances are short term in nature.

11. Related party transactions

Related party balances as at each year end were as follows:

As at 31 December 2013:	**RB Investments 1**	**Key management personnel**	**Other minority shareholders**	**Total**
	£000	**£000**	**£000**	**£000**
Trade	-	2	-	2
	-	**2**	**-**	**2**
As at 31 December 2012:				
	£000	**£000**	**£000**	**£000**
Non-controlling interest loan	-	-	(2,619)	(2,619)
Shareholders’ loans	(106,585)	-	-	(106,585)

(106,585)	**-**	**(2,619)**	**(109,204)**

Summary of transactions

A loan for £11,000,000 was received by Arrow Global Guernsey Holdings Limited from RBS Asset Management Limited on 29 October 2012 and repaid on 2 November 2012. The loan was advanced to facilitate the acquisition of a portfolio while in the process of drawing under the Existing Revolving Credit Facility. Interest on the loan was repayable at 18%.

£1,388,027 in relation to a loan note instrument was repaid in full in January 2013 to Lewylang LP, a party related to Zach Lewy.

All remaining balances on loans were repaid on 29 January 2013 as part of the refinancing and issuance of senior secured notes.

On 6 September 2013, Shawbrook Bank Limited (which is an investment of RBS Special Opportunities Fund) committed £10 million as lender under the Revolving Credit Facility. Shawbrook Bank Limited was paid customary fees by the Group in connection with this commitment (on the same basis as the other lenders under the Revolving Credit Facility).

During the year GKV Limited, owned by director Gillian Key-Vice charged the Group £5,061 in relation to consultancy services provided on Group projects.

12. Borrowings

All amounts are denominated in GBP **Secured borrowing at amortised cost**	**Year Ended 31 December 2013 £000**	**Year Ended 31 December 2012 £000**
Senior secured notes (net of transaction fees of £8,080,000, December 2012: £nil)	211,920	-
Bank loans (net of transaction fees of £nil, December 2012: £2,594,000: £nil)	-	97,381
Shareholder loans	-	106,585
Non-controlling interest loan	-	2,619
Senior secured notes interest	5,775	-
	217,695	**206,585**
Total borrowings		
Amount due for settlement within 12 months	**5,775**	**-**
Amount due for settlement after 12 months	**211,920**	**206,585**

Senior secured notes

On 29 January 2013, the Group issued £220 million of 7.875% senior secured notes due 2020 (the "senior notes"). Net proceeds of £211.2 million included senior secured notes issuance costs that were capitalised within the financial instrument. The proceeds from this issuance were used to repay the bank loans, shareholder loans, and the non-controlling interest loan in full resulting in recognition of a £3,036,000 amortisation of previously capitalised transaction costs. In addition, there was a cancellation fee of £880,000 for early settlement of revolving credit facility in place at that time.

The senior notes can be redeemed in full or in part on or after 1 March 2016 at the Group's option. Prior to 1 March 2016 the Group may redeem, at its option, some or all of the senior notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable "make-whole" premium. The senior notes are secured by substantially all of the assets of the Group. Interest is paid bi-annually.

Revolving credit facility

On 29 January 2013, the Group entered into a revolving credit facility (the "new revolving credit facility") with The Royal Bank of Scotland plc ("RBS"), as security agent for a consortium of participating financial institutions. The new revolving credit facility terminates on 28 January 2018 and bears interest at a rate per annum equal to LIBOR or EURIBOR (as applicable) plus certain mandatory costs and a margin of 4.25% per annum, subject to a margin ratchet based on the loan-to-value ("LTV") ratio at each quarter end. The new revolving credit facility, was increased to £55 million on 22 October 2013.

The Group is also required to pay a commitment fee on available but not utilised or not cancelled commitments under the new revolving credit facility at a rate of 40% of the applicable margin per annum on the undrawn portion of each lender's commitment. The new revolving credit facility is secured by the same assets as the senior notes. Interest is paid based on agreement when the facility is drawn down, either payable every one, three or six months.

Prior to 2013, the Group entered into a £40 million revolving credit facility on 4 October 2011 (the "old revolving credit facility"), which subsequently increased to £110 million, with a term out date of September 2013 and a termination date of September 2014. This old revolving credit facility was repaid in full and terminated on January 2013 upon issuance of the senior notes described above. Interest on the facility was repayable at 4% plus LIBOR up to the term out date and at 5% plus LIBOR after the term out date up until the termination date. The facility was repayable by the termination date and was secured against the portfolio assets of the Group. Monthly loan repayments were based on a percentage of the monthly collections that the facility is secured against. There were no fixed contractual repayment dates prior to the above dates.

Shareholder loan notes

Up to 29 January 2013, the Company has a nominal amount of £66,625,000 of £1 loan stock accruing interest at 15% per annum in issue. The loan stock and accrued interest were repayable at the earliest of the sale of the business or 31 December 2015.

The Company issued £220 million senior secured notes on 29 January 2013. At this date there were shareholders' loan notes of £107.9 million, which included accrued and unpaid interest owing. As part of the process of issuing the senior secured notes, the shareholders' loan notes were settled through a cash repayment of £77.4 million, with the remaining £30.5 million being converted into equity in Arrow Global Guernsey Holdings Limited.

Non controlling interest loan notes

Non-controlling interest loan notes were issued from 10 February 2010 to 7 February 2012. Amounts shown within the borrowings table include accrued interest. On 29 January 2013 capital amounting to £2,067,000 and accrued interest amounting to £552,000, totalling £2,619,000, were repaid in full. The

Group is subject to certain financial and non-financial covenants under the terms of the debt described above. The Group was in compliance with all such covenants during and as of all years presented herein.

13. Acquisitions

On 28 February 2013, the Group acquired 100 per cent of the ordinary share capital of Arrow Global Accounts Management Limited for £18,909,000, satisfied with cash. Goodwill of £2,309,000 was created as part of this acquisition and subsequently impaired. The Company has a similar principal activity as the Group being the acquisition and management of an underperforming portfolio of loans and servicing of debt in relation to third party contracts. In the 10 months to 31 December 2013 the subsidiary contributed revenue of £2,881,000 and operating profit of £2,257,000 to the consolidated results for the year. If the acquisition had occurred on the first day of the 1 January 2013, Group total revenue would have been an estimated £95,513,000 and operating profit would have been an estimated £44,911,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2013.

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Arrow Global Accounts Management Limited book value	**Fair value adjustment**	**Total**
	£000	**£000**	**£000**
Portfolio assets	8,262	10,039	**18,301**
Cash and cash equivalents	1,083	-	**1,083**
Trade payables	(50)	-	**(50)**
Corporation tax liability	(425)	-	**(425)**
Deferred tax liability	-	(2,309)	**(2,309)**
	8,870	**7,730**	**16,600**
Goodwill on acquisition (see note 7)			2,309
			18,909
Consideration:			
Cash			**18,909**

Goodwill of £2,309,000 arises on acquisition and has been immediately written off.

The fair value adjustment on the portfolio asset acquired arises from the alignment of the measurement of fair value using a methodology consistent with the Group's IFRS accounting policies.

The fair value adjustment for of deferred tax liability represents the tax payable due to the fair value adjustment to the portfolio asset.

Glossary

"**Adjusted EBITDA"** means profit for the year attributable to equity shareholders before, interest, tax, depreciation, amortisation, portfolio write up, foreign exchange gains or losses and exceptional items. The adjusted EBITDA reconciliations for the year to 31 December 2013 are shown below:

Reconciliation of Net Cash Flow to EBITDA

	£'000
Net cash flow used in operating activities	(6,717)
Purchases of loan portfolios	84,308
Purchases of loan notes	1,798
Proceeds from disposal of loan portfolios	(2,474)
Income taxes paid	4,269
Working capital adjustments	(814)
Profit on disposal of purchased loan portfolios	1,132
Gain on fair value derivatives	815
Amortisation of acquisition and bank facility fees	916
Fair value gains on interest rate swaps	(894)
Interest payable/receivable	1,381
Exceptional costs	5,846
Adjusted EBITDA	**89,566**

Reconciliation of Core Collections to EBITDA

	£'000
Income from loan portfolios	87,330
Portfolio amortisation	40,510
Core collections	**127,840**
Profit on portfolios	1,132
Other income	1,392
Operating expenses	(50,486)
Depreciation and amortisation	752
Foreign exchange gains	(23)
Amortisation of acquisition and bank facility fees	359
Exceptional costs	8,600
Adjusted EBITDA	**89,566**

Reconciliation of Operating Profit to EBITDA

	£'000
Profit for the year attributable to equity shareholders	15,111
Interest expense	19,302
Taxation charge on ordinary activities	5,882
Exceptional costs	3,916
Operating profit	**44,211**
Portfolio amortisation	40,510
Portfolio write-up	(4,843)
Depreciation and amortisation	752
Foreign exchange gains	(23)
Amortisation of acquisition and bank facility fees	359
Exceptional costs	8,600
Adjusted EBITDA	**89,566**

"**Adjusted EBITDA ratio**" represents the ratio of Adjusted EBITDA to core collections.

"Collection activity costs" represents the direct costs of external collections related to the Group's purchased loan portfolios, such as commissions paid to third party outsourced providers, credit bureau data costs and legal costs associated with collections.

"Core collections" or "core cash collections" mean collections on the Group's existing portfolios.

"Cost-to-collect ratio" is the ratio of collection activity costs to core collections.

Glossary *(continued)*

"Creditors" means financial institutions or other initial credit providers to consumers, certain of which entities choose to sell paying accounts or non-paying accounts receivables related thereto to debt purchasers (such as the Group).

"Customers" means consumers whose unsecured loan obligation is owed to Arrow Global as a result of a portfolio purchase made by the Group.

"Defaulted debt" means a debt where a customer has seriously breached the repayment terms governing that debt such that it is unlikely to be paid. Under the Consumer Credit Act there are specific legal obligations which require a customer to be sent the relevant statutory default notice(s) after which the customer's agreement may ultimately be terminated. Other types of debts may also be defined as defaulted in the event that they remain unpaid for a period of 90 days or more, if there is not an acceptable arrangement in place to bring the account back up to date, in which case the creditor or lender may reasonably believe that the relationship has broken down. Under the Data Protection Act it is a requirement that any organisation seeking to register a default with a credit reference agency must also send a notice of intention to file a default, this notice is very similar in nature to that required under the Consumer Credit Act both of which give the debtor 28 days to bring the account back up to date before action is taken.

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

"EIR" means effective interest rate (which is based on the loan portfolio's gross internal rate of return) calculated using the loan portfolio purchase price and forecast 84-Month Gross ERC at the date of purchase. EIR is reassessed to take account of actual performance and may be adjusted up to 12 months after the purchase of each loan portfolio.

"84-Month ERC" and **"120-Month ERC"** (together **"Gross ERC"**), mean the Group's estimated remaining collections on purchased loan portfolios over an 84-month or 120-month period, respectively, representing the expected future core collections on purchased loan portfolios over an 84-month or 120-month period (calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time).

"Existing Portfolios" or **"purchased loan portfolios"** are on the Group's balance sheet and represent all debt portfolios that the Group owns at the relevant point in time.

"FCA" means financial conduct authority.

"FOS" means the UK financial ombudsman service.

"Free cash flow" means adjusted EBITDA after the effect of capital expenditure and working capital movements.

"**Gross cash-on-cash multiple**" means 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.

"IPO" means initial public offering.

"IRR" means internal rate of return.

“Loan to Value ratio” represents the ratio of 84-month ERC to net debt.

Glossary *(continued)*

“Net cash-on-cash multiple” means collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, net of collection activity costs, all divided by the purchase price for each portfolio.

“Net core collections” are core collections less collection activity costs. The Group presents net core collections in order to calculate its net IRR.

“Net debt” means the sum of the senior secured notes, interest thereon, and amounts outstanding under the revolving credit facility, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after taking out of the Group’s assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt for the year ended 31 December 2013 is as follows:

	£'000
Cash and cash equivalents	47,520
Senior secured notes (pre transaction fees net off)	(220,000)
Senior secured notes interest	(5,775)
Net debt	(178,255)

“Net IRR” or **“unlevered net IRR”** means a loan portfolio’s internal rate of return calculated using expected net core collections for the next 84 months or 120 months, as applicable, subsequent to the date of purchase of the loan portfolio adjusted regularly in line with Gross ERC.

“Paying Account” means an account that has shown at least one payment over the last three months or at least two payments over the last six months.

“PCB” means the Proprietary Collections Bureau.

“Purchased loan portfolios” see **“existing portfolios”**.

“TCF” means the treating customers fairly FCA initiative.

“Underlying net income” means profit for the year attributable to equity shareholders adjusted for the post-tax effect of exceptional items. The Group presents underlying net income because it excludes the effect of exceptional items (and the related tax on such items) on the Group’s profit or loss for a year and forms the basis of its dividend policy.

“Underlying return on equity” represents the ratio of underlying profit for the year attributable to equity shareholders to average shareholder equity post restructure.

“Unlevered net IRR” see **“Net IRR”**