Arrow Global Group PLC

Results for the nine months ended
30 September 2014

Arrow Global Group PLC

(“Arrow Global” or “the Group” or “the Company”)

Results for the nine months ended 30 September 2014

Arrow Global, one of Europe’s largest and fastest growing providers of debt purchase and receivables management solutions, is pleased to announce its results for the nine months ended 30 September 2014.

Highlights

- Capquest acquisition expected to complete today[1]
- €225 million raised through the issuance of senior secured notes, due 2021, to fund the Capquest acquisition
- Core collections[2] up 12.6% to £105.0 million (Q3 2013: £93.3 million)
- Adjusted EBITDA up 11.2% to £71.9 million (Q3 2013: £64.7 million); adjusted EBITDA ratio 68.5% (Q3 2013: 69.4%)
- Profit attributable to shareholders up 36.8% to £17.0 million (Q3 2013: £12.4 million)
- Underlying net income up 9.5% to £20.2 million (Q3 2013: £18.5 million) – prior year comparative period included a portfolio write up of £4.7 million
- Acquired debt portfolios with face value of £1,173 million for an aggregate purchase price of £122.9 million, with a 120-month gross cash on cash multiple of 2.2x
- 120-month ERC[3] up 28.6% to £836.3 million at 30 September 2014 (31 December 2013: £650.3 million)
- Underlying basic and diluted earning per share (“EPS”) of £0.12
- LTM[4] underlying return on equity (“ROE”) of 24.7%
- Net debt £255.7 million and Net Debt to LTM Adjusted EBITDA ratio of 2.6x
- Moody's upgrade of Arrow Global's corporate rating to B1
- RCF increased to £100 million on completion of the Capquest acquisition and extended to 2019

Notes:

1. Capquest results to be consolidated following anticipated completion on 28th November 2014
2. Core collections are collections on Arrow Global’s purchased loan portfolios, excluding proceeds from asset disposals
3. Estimated remaining collections
4. Last Twelve Months (“LTM”) is calculated by the addition of the consolidated financial data for the year ended 31 December 2013 and the consolidated financial data for the nine months to September 2014, and the subtraction of the consolidated financial data for the nine months to September 2013

A glossary of terms can be found on pages 25 to 27 which includes a reconciliation of adjusted EBITDA. The directors believe that the presentation of the adjusted EBITDA measure allows the users of the financial statements to gain a better understanding of the underlying performance of the business

Tom Drury, chief executive officer of Arrow Global commented:

"Arrow Global's Q3 results demonstrate yet another strong quarter of growth as we continue to deliver against our key strategic ojectives.

"The acquisition of Capquest, announced in September, is expected to complete today following shareholder approval and a successful Eurobond issue earlier this month. We have already made significant progress in our plans to integrate the two businesses and are very confident that we will be able to deliver the envisaged cost savings.

"Excluding our purchase of Capquest and its associated portfolios, we expect full-year portfolio purchases to be in line with previous expectations.

"Our strong performance and growth is expected to continue and we remain on track to deliver overall full-year results in line with our expectations.

"The debt purchase markets in both the UK and mainland Europe are expected to continue to grow and we are well placed to take advantage of this. We remain a well funded, highly cash generative business and we have a strong pipeline of opportunities into 2015."

28 November 2014

For further information:

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Mike Davies
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There will be a conference call for investors today at 2pm (UK time). Dial in details below:

Participant dial in UK: 08006940257
Participant dial-in International:+44 (0) 1452 555566
Conference ID: 37369351

About Arrow Global (for further information please visit the company website: www.arrowglobalir.net)

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. 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 and financial review of the nine months to 30 September 2014

The Q3 results show Arrow Global's continued progress towards its stated vision of becoming Europe's leading purchaser and manager of debt. Our board and senior management team remains focussed on delivering our core strategy, including pursuing diversification through a disciplined approach to geographic expansion and new asset classes.

Key results

As of and period to	30-Sep-14	30-Sep-13	31-Dec-13
	£m	**£m**	**£m**
Purchases of loan portfolios *	**122.9**	74.0	101.3
Face value of portfolios acquired (billion)	**8.4**	6.9	7.2
Number of accounts ('000)	**5,504**	4,965	5,109
Core collections	**105.0**	93.3	127.8
Collection cost ratio (%)	**23.0%**	22.5%	21.9%
Adjusted EBITDA	**71.9**	64.7	89.6
Adjusted EBITDA ratio	**68.5%**	69.4%	70.1%
Underlying net income	**20.2**	18.5	25.2
84-month ERC	**708.8**	540.0	564.3
120-month ERC	**836.3**	626.9	650.3
Net debt	**255.7**	215.1	178.3
Underlying basic and diluted EPS (£)	**0.12**	0.12	0.16
LTM Underlying ROE (%)	**24.7%**	21.6%	26.5%
Net assets	**120.8**	54.0	105.2

* September 2013 and 31 December 2013 balances include £0.5 million of student loan investments held as loan notes

Portfolio acquisitions and overview

For the nine months ended 30 September 2014, we acquired debt portfolios with a face value of £1,173.2 million for a purchase price of £122.9 million. Of these portfolios, £152.7 million comprises paying accounts, representing 42.1% of the purchase price. This mitigates our downside risk on these portfolios, whilst we use our data assets to seek to penetrate the £1,020.5 million of non-paying accounts.

	Face Value	Purchase Price	% of Investment
Paying Accounts	£152.7m	33.9p	42.1%
Non-paying accounts	£1,020.5m	7.0p	57.9%
Total	**£1,173.2m**	**10.5p**	**100.0%**

These acquisitions, net of amortisation, have increased the balance sheet value of our purchased loan portfolios to £362.8 million at 30 September 2014 (31 December 2013: £273.9 million). As at 30 September 2014, the total face value of assets under management was £10.7 billion, including purchased portfolios of £8.4 billion across 5.5 million customer accounts.

Our data-driven approach is a key strategic differentiator and drives purchasing and collections activities, giving us a greater level of insight and accuracy in our modelling and operations. Our Proprietary Collections Bureau has 18 million records, representing 7.1 million unique customers.

Collections

Core collections increased to £105.0 million (Q3 2013: £93.3 million), reflecting the increase in our portfolio assets base. In addition we have received £4.3 million from our regular IVA disposals which were included in our ERC forecast. As at 30 September 2014 we have cumulatively collected 102% of our original underwriting forecast.

Collection costs

We continue to use our data capabilities and benefits from our outsourced model to maintain collection cost efficiency. During the nine months ended 30 September 2014 there was an increase in the collection cost ratio, to 23.0% (Q3 2013: 22.5%) reflecting additional collection related costs associated with Portugese litigation. We expect this higher cost ratio to continue through Q4 2014.

Adjusted EBITDA

Adjusted EBITDA is our proxy for free cash flow. For the nine months ended 30 September 2014 adjusted EBITDA increased by £7.2 million (11.2%) to £71.9 million (Q3 2013: £64.7 million). This was mainly driven by an increase in core collections net of collection costs. The adjusted EBITDA ratio was 68.5% (Q3 2013: 69.4%), reflecting additional Portguese costs to collect.

Underlying net income

Underlying net income increased 9.5% to 20.2 million for the nine months ending 30 September 2014 (Q3 2013: £18.5 million).

Portfolio overview

Our 120-month ERC – our expected collections from our back book – has increased by £186.0 million from 31 December 2013 to £836.3 million. The ERC is underpinned by paying accounts that have a face value of £1.1 billion, which represents 1.3 times 120-month ERC cover. As at 30 September 2014, we estimate the amount we would need to invest over the next year to maintain our current ERC level is circa £50 million.

Funding, net debt and net assets

In the nine months ended 30 September 2014 we purchased portfolios with a face value of £1,173.2 million for £122.9 million.

The revolving credit facility is currently drawn by £28.6 million to September 2014 – leaving undrawn amounts of £53.9 million. Following completion of the Capquest acquisition the facility has increased to £100 million from £87.5 million, maturing in 2019.

Net debt at 30 September 2014 was £255.7 million, being 2.6 times LTM adjusted EBITDA and a net debt/84-month ERC loan to value ratio of 36.1%, which is significantly below our financial covenants of 75%. These ratios have increased due to timing of the funding of portfolios in September 2014.

On the 26 November 2014 the shareholders approved the acquisition of the Capquest group. To fund this €225,000,000 senior secured floating rate notes due 2021 were issued. The notes bear interest at a rate per annum equal to three-month Euro Interbank Offered Rate (EURIBOR) plus 5.25% per annum.

Net assets increased by £15.6 million during the period, largely reflecting the retained profit for the period.

Shareholder returns

Underlying basic and diluted EPS for the nine months ended 30 September 2014 was 12p (31 December 2013: 16p), and LTM underlying ROE 24.7% (31 December 2013: 26.5%).

Outlook

We will continue to focus on fully integrating the Arrow Global and Capquest businesses now we have successfully completed the acquisition. We have already made significant progress on these plans and are very confident that we will be able to deliver the cost savings envisaged.

Outside of our purchase of Capquest and its associated portfolios, we expect full-year portfolio purchases to be in line with previous expectations.

Our strong performance and growth is expected to continue and we remain on track to deliver overall full-year results in line with our expectations.

The debt purchase markets in both the UK and mainland Europe are expected to continue to grow and we are well placed to take advantage of this. We remain a well funded, highly cash generative business and we have a strong pipeline of opportunities into 2015.

Directors' responsibilities statement in respect of the results for the nine months ended 30 September 2014

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;

- the management report includes a fair review of the information required by:

  a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first nine months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining nine months of the year; and

  b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first nine months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Name	**Function**
Jonathan Bloomer	Non-executive chairman
Tom Drury	Chief executive officer
Rob Memmott	Chief financial officer
Zachary Lewy	Founder and executive director
Sir George Mathewson	Non-executive director and senior independent director
Iain Cornish	Non-executive director
Robin Phipps	Non-executive director

28 November 2014

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 and financial 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	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 oversight of our third party servicer network to ensure industry best practice collection approaches and adherence to regulation
Conduct risk	Risk of inappropriate strategy, systems, behavior, 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. Due diligence takes place at outset of relationship with new third party servicers and ongoing thereafter
	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
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 disaster recovery plan
	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

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 risk of counter-party default is managed through due diligence and ongoing monitoring of financial standing. 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

Unaudited Consolidated Statement Of Comprehensive Income

For the nine months ended 30 September 2014

	Note	Nine months ended 30 September 2014 Underlying	Non-recurring items 2014	Nine months ended 30 September 2014 including non-recurring	Nine months ended 30 September 2013 Underlying	Non-recurring items 2013	Nine months ended 30 September 2013 including non-recurring
		£000	£000	£000	£000	£000	£000
Continuing operations							
Revenue							
Income from purchased loan portfolios		76,132	-	76,132	64,141	-	64,141
Portfolio write up		-	-	-	4,746	-	4,746
Profit on portfolio and loan note sales		825	-	825	115	-	115
		76,957	-	76,957	69,002	-	69,002
Income from asset management		1,360	-	1,360	1,101	-	1,101
Interest income		-	-	-	18	-	18
Total revenue		**78,317**	**-**	**78,317**	**70,121**	**-**	**70,121**
Operating expenses							
Collection activity costs		(24,201)	-	(24,201)	(21,018)	-	(21,018)
Professional fees and services		(1,024)	-	(1,024)	(1,346)	-	(1,346)
Other operating expenses:							
Non recurring items							
Bond related costs			-			*(1,005)*	
Goodwill impairment			-			*(2,309)*	
IPO related costs			*(1,304)*			-	
Settlement provisions			*(2,560)*			-	
	7	(12,241)	(3,864)	(16,105)	(8,333)	(3,314)	(11,647)
Total operating expenses		**(37,466)**	**(3,864)**	**(41,330)**	**(30,697)**	**(3,314)**	**(34,011)**
Operating profit		**40,851**	**(3,864)**	**36,987**	**39,424**	**(3,314)**	**36,110**
Finance income	2	326	-	326	-	-	-
Finance costs:							
Non recurring items							
Bond relating costs			-			*(3,916)*	
Settlement provision			*(143)*			-	
	3,7	(15,238)	(143)	(15,381)	(14,455)	(3,916)	(18,371)
Profit before tax		**25,939**	**(4,007)**	**21,932**	**24,969**	**(7,230)**	**17,739**
Taxation charge on ordinary activities	6	(5,712)	767	(4,945)	(6,467)	1,144	(5,323)
Profit for the year attributable to equity shareholders		**20,227**	**(3,240)**	**16,987**	**18,502**	**(6,086)**	**12,416**
Other comprehensive income: Foreign exchange translation difference arising on revaluation of foreign operations (which may be reclassified subsequently to profit or loss)		(188)	-	(188)	(22)	-	(22)
Total comprehensive income for the period attributable to equity shareholders		**20,039**	**(3,240)**	**16,799**	**18,480**	**(6,086)**	**12,394**
Basic and diluted earnings per share (£)	4	**0.12**		**0.10**	**0.12**		**0.08**
Adjusted earnings per share (£)	4	**0.12**		**0.10**	**0.13**		**0.09**

Unaudited Consolidated Statement Of Comprehensive Income

For the three months ended 30 September 2014

	Note	Three months ended 30 September 2014 Underlying £000	Non-recurring items 2014 £000	Three months ended 30 September 2014 including non-recurring £000	Three months ended 30 September 2013 Underlying £000	Non-recurring items 2013 £000	Three months ended 30 September 2013 including non-recurring £000
Continuing operations							
Revenue							
Income from purchased loan portfolios		26,207	-	26,207	21,422	-	21,422
Portfolio write up		-	-	-	-	-	-
Profit on portfolio and loan note sales		321	-	321	-	-	-
		26,528	-	26,528	21,422	-	21,422
Income from asset management		181	-	181	382	-	382
Interest income		-	-	-	6	-	6
Total revenue		**26,709**	**-**	**26,709**	**21,810**	**-**	**21,810**
Operating expenses							
Collection activity costs		(8,571)	-	(8,571)	(6,708)	-	(6,708)
Professional fees and services		(227)	-	(227)	(310)	-	(310)
Other operating expenses:							
Non recurring items							
IPO related costs			*(434)*			-	
	7	(4,124)	(434)	(4,558)	(3,458)	-	(3,458)
Total operating expenses		**(12,922)**	**(434)**	**(13,356)**	**(10,476)**	**-**	**(10,476)**
Operating profit		**13,787**	**(434)**	**13,353**	**11,334**	**-**	**11,334**
Finance income	2	24	-	24	-	-	-
Finance costs	3,7	(5,018)	-	(5,018)	(4,830)	-	(4,830)
Profit before tax		**8,793**	**(434)**	**8,359**	**6,504**	**-**	**6,504**
Taxation charge on ordinary activities	6	(1,927)	95	(1,832)	(1,577)	-	(1,577)
Profit for the year attributable to equity shareholders		**6,866**	**(339)**	**6,527**	**4,927**	**-**	**4,927**
Other comprehensive income: Foreign exchange translation difference arising on revaluation of foreign operations (which may be reclassified subsequently to profit or loss)		(76)	-	(76)	20	-	20
Total comprehensive income for the period attributable to equity shareholders		**6,790**	**(339)**	**6,451**	**4,947**	**-**	**4,947**
Basic and diluted earnings per share (£)	4	**0.04**		**0.04**	**0.03**		**0.03**
Adjusted earnings per share (£)	4	**0.04**		**0.04**	**0.03**		**0.03**

Unaudited Consolidated Balance Sheet As At 30 September 2014

Assets	*Notes*	30 September 2014 £000	31 December 2013 £000	30 September 2013 £000
Non-current assets				
Intangible assets		2,996	3,444	3,584
Property, plant & equipment		363	259	294
Purchased loan portfolios	8	287,554	211,787	202,356
Loan notes	8	1,748	1,668	1,736
Deferred tax asset		22	12	9
Total non-current assets		**292,683**	**217,170**	**207,979**
Current assets				
Cash and cash equivalents		26,170	47,520	6,301
Other receivables		18,399	11,701	11,656
Purchased loan portfolios	8	75,225	62,145	55,752
Total current assets		**119,794**	**121,366**	**73,709**
Total purchased loan portfolios		*362,779*	*273,932*	*258,108*
Total assets		**412,477**	**338,536**	**281,688**
Equity				
Share capital		1,744	1,744	1,500
Share premium		347,436	347,436	306,000
Retained earnings		49,609	33,841	25,284
Other reserves		(278,036)	(277,848)	(278,739)
Total equity attributable to shareholders		**120,753**	**105,173**	**54,045**
Liabilities				
Non-current liabilities				
Senior secured notes	11	212,379	211,920	211,586
Deferred tax liability		2,244	2,646	2,174
Total non-current liabilities		**214,623**	**214,566**	**213,760**
Current liabilities				
Trade and other payables	9	43,731	10,128	7,863
Current tax liability		3,402	2,894	4,576
Revolving credit facility	11	28,560	-	-
Senior secured notes	11	1,408	5,775	1,444
Total current liabilities		**77,101**	**18,797**	**13,883**
Total liabilities		**291,724**	**233,363**	**227,643**
Total equity and liabilities		**412,477**	**338,536**	**281,688**

Unaudited Consolidated Statement Of Changes In Equity For The Nine Months Ended 30 September 2014

	Ordinary shares	Share premium	Retained earnings	Own Share reserve*	Translation reserve *	Merger reserve *	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2013	**1,351**	**275,623**	**12,868**	**-**	**(326)**	**(276,961)**	**12,555**
Profit for the period	-	-	12,416	-	-	-	12,416
Exchange differences	-	-	-	-	(22)	-	(22)
Total comprehensive income for the period	**-**	**-**	**12,416**	**-**	**(22)**	**-**	**12,394**
Issue of shares on debt conversion	149	30,377	-	-	-	-	30,526
Repurchase of own shares	-	-	-	(1,430)	-	-	(1,430)
Balance at 30 September 2013	**1,500**	**306,000**	**25,284**	**(1,430)**	**(348)**	**(276,961)**	**54,045**
Profit for the period	-	-	2,695	-	-	-	2,695
Exchange differences	-	-	-	-	23	-	23
Total comprehensive income for the period	**-**	**-**	**2,695**	**-**	**23**	**-**	**2,718**
Issue of shares at IPO (net of costs)	244	41,436	-	-	-	-	41,680
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**
Profit for the period	-	-	16,987	-	-	-	16,987
Exchange differences	-	-	-	-	(188)	-	(188)
Total comprehensive income for the period	**-**	**-**	**16,987**	**-**	**(188)**	**-**	**16,799**
Share based payments	-	-	1,742	-	-	-	1,742
Dividend paid	-	-	(2,961)	-	-	-	(2,961)
Balance at 30 September 2014	**1,744**	**347,436**	**49,609**	**(562)**	**(513)**	**(276,961)**	**120,753**

Any exchange differences are recycled to the statement of comprehensive income.

Own share reserve

The own share reserve comprises the cost of the Company's ordinary shares held by the Group. At 30 September 2014 the Group held 244,814 ordinary shares of 1p each, held in an employee benefit trust. This represents 0.1% of the Company share capital at 30 September 2014.

Translation reserve

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

Merger reserve

The merger reserve represents the reserve generated upon consolidation of the Group following the acquisition of Arrow Global One Limited.

* Other reserves total £278,036,000 deficit (31 December 2013: £277,848,000 deficit, 30 September 2013: £278,739,000 deficit)

Unaudited Consolidated Statement of Cash Flows for the Nine Months Ended 30 September 2014

	Nine Months Ended 30 September 2014 £000	Nine Months Ended 30 September 2013 £000
Cash flows from operating activities		
Profit before tax	21,932	17,739
Adjusted for:		
Collections in the period	104,999	93,250
Income from purchased loan portfolios	(76,132)	(64,141)
Portfolio write up	-	(4,746)
Proceeds from disposal of purchased loan portfolios	4,330	558
Profit on disposal of purchased loan portfolios	(825)	(115)
Amortisation of financing costs	458	4,084
Depreciation and amortisation	594	557
Goodwill impairment (non-recurring non cash item)	-	2,309
Increase in rolled up interest on shareholders' loans	-	1,291
Increase in rolled up interest on non-controlling interest loans	-	30
Interest payable	14,324	11,684
Foreign exchange losses	907	81
Loss/ (gain) on fair values on derivatives	287	(306)
Equity settled share-based payment expenses	1,742	-
Cash from secured loan notes from third party	128	-
Operating cash flows before movement in working capital	**72,744**	**62,275**
Increase in other receivables	(5,971)	(4,968)
Increase in trade and other payables	33,324	(373)
Net cash generated by operations	**100,097**	**56,934**
Income taxes and overseas taxation paid	(4,847)	(2,901)
Net cash flows from operating activities before purchases of loan portfolios and loan notes	**95,250**	**54,033**
Purchases of purchased loan portfolios	(125,281)	(56,234)
Purchases of loan notes	-	(1,798)
Net cash used in operating activities	**(30,031)**	**(3,999)**
Investing activities		
Purchase of property, plant and equipment	(215)	(143)
Purchase of intangible assets	(55)	(318)
Repurchase of own shares	-	(1,430)
Acquisition of subsidiary, net of cash acquired	-	(17,826)
Net cash used in investing activities	**(270)**	**(19,717)**
Financing activities		
Proceeds from additional loans	29,149	6,884
Proceeds from senior notes (net of fees)	-	210,626
Repayment of interest on senior notes	(17,325)	(10,202)
Repayment of bank loan	-	(106,859)
Bank interest and fees	(2,939)	-
Repayment of shareholders' loans	-	(77,350)
Repayment of non-controlling interest loans	-	(2,650)
Net cash flows generated by financing activities	**8,885**	**20,449**
Net (decrease)/ increase in cash and cash equivalents	**(21,416)**	**(3,267)**
Cash and cash equivalents at beginning of period	47,520	9,610
Effect of exchange rates on cash and cash equivalents	66	(42)
Cash and cash equivalents at end of period	**26,170**	**6,301**

Notes

1. Statutory Information

Arrow Global Group PLC (the "Company") is a company domiciled in the United Kingdom. The condensed consolidated financial statements of the Company as at and for the nine months ended 30 September 2014 comprise the Company and its subsidiaries (the "Group").

This condensed set of consolidated financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. They do not include all of the information required for a 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 2013.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, these 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 2013.

The consolidated financial statements of the Group as at and for the year ended 31 December 2013 are available upon request from the Company's registered office at Belvedere, 12 Booth Street, Manchester, M2 4AW or online at www.arrowglobalir.net.

The comparative figures for the financial year ended 31 December 2013 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was

(i) 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 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 period ended 31 December 2013.

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 quarterly results.

2. Finance income

	Nine months ended 30 September 2014 £000	**Nine months ended 30 September 2013 £000**	**Three months ended 30 September 2014 £000**	**Three months ended 30 September 2013 £000**
Bank interest	54	-	3	-
Loan note interest	272	-	21	-
	326	**-**	**24**	**-**

3. Finance costs

	Nine months ended 30 September 2014 £000	Nine months ended 30 September 2013 £000	Three months ended 30 September 2014 £000	Three months ended 30 September 2013 £000
Interest on minority interest loans	-	(30)	-	-
Interest and similar charges on bank loans	(1,999)	(6,004)	(1,042)	(653)
Interest on senior secured notes	(12,958)	(11,647)	(3,827)	(4,264)
Other interest	(151)	(19)	-	-
Shareholder interest expense	-	(1,291)	-	-
Total interest costs	**(15,108)**	**(18,991)**	**(4,869)**	**(4,917)**
Fair value gains/(losses) on interest rate swaps	(273)	620	(149)	87
Finance costs including non-recurring items	**(15,381)**	**(18,371)**	**(5,018)**	**(4,830)**
Non-recurring finance costs	143	3,916	-	-
Underlying finance costs	**(15,238)**	**(14,455)**	**(5,018)**	**(4,830)**

4. Earnings per share

	Nine months ended 30 September 2014 £000	Nine months ended 30 September 2013 £000	Three months ended 30 September 2014 £000	Three months ended 30 September 2013 £000
Basic/diluted earnings per share				
Underlying profit for the period attributable to equity shareholders	20,227	18,502	6,866	4,927
Profit for the period attributable to equity shareholders including non-recurring items	16,987	12,416	6,527	4,927
Number of ordinary shares	**174,439**	**150,000**	**174,439**	**150,000**
Underlying basic and diluted earnings per share (£)	**0.12**	**0.12**	**0.04**	**0.03**
Basic and diluted earnings per share including non-recurring (£)	**0.10**	**0.08**	**0.04**	**0.03**

	Nine months ended 30 September 2014 £000	Nine months ended 30 September 2013 £000	Three months ended 30 September 2014 £000	Three months ended 30 September 2013 £000
Underlying profit for the period attributable to equity shareholders	20,227	18,502	6,866	4,927
Profit for the period attributable to equity shareholders including non-recurring items	16,987	12,416	6,527	4,927
Add back: shareholder interest expense	-	1,291	-	-
Underlying	20,227	19,793	6,866	4,927
Including non-recurring	16,987	13,707	6,527	4,927
Number of ordinary shares	174,439	150,000	174,439	150,000
Underlying adjusted earnings per share (£)	**0.12**	**0.13**	**0.04**	**0.03**
Adjusted earnings per share including non-recurring (£)	**0.10**	**0.09**	**0.04**	**0.03**

5. Dividend

A dividend of £3.0 million was declared during the nine months to 30 September 2014 (2013: £nil).

6. Tax

The applicable corporation tax rate for the nine months to 30 September 2014 was 21.5% (30 September 2013: 23.25%). The Group's effective consolidated tax rate for the nine months ended 30 September 2014 was 22.5% (30 September 2013: 30.0%). The effective tax rate in the period to 30 September 2013 was unusually high due to non deductible non recurring expenses and overseas tax differences no longer applicable this year. The current period effective rate tax is reflective of the applicable corporate tax rate for the year and reconciling items.

Non-recurring tax

We have identified non-recurring items in the nine months to 30 September 2014 amounting to £4,007,000 (30 September 2013: £7,230,000).

7. Non-recurring items

	Nine months ended 30 September 2014 £000	Nine months ended 30 September 2013 £000	Three months ended 30 September 2014 £000	Three months ended 30 September 2013 £000
Other operating expenses	3,864	3,314	434	-
Finance costs	143	3,916	-	-
Total non-recurring items	**4,007**	**7,230**	**434**	**-**

Non-recurring items are items that, by virtue of their size and incidence, are not considered to be representative of the underlying performance of the Group.

Non-recurring items amounted to £4.0 million, mainly due to a provision for resolution of a historical tax issue of £2.4 million and share option charges in relation to the IPO of £1.3 million.

In the nine months ended 30 September 2013, the non-recurring items included in other operating expenses and finance costs represented goodwill impaired in connection with the acquisition of Arrow Global Accounts Management Limited, costs associated with the senior secured notes issuance and restructuring costs.

8. Financial assets

	30 September 2014 £000	31 December 2013 £000	30 September 2013 £000
Non Current:			
Purchased loan portfolios	287,554	208,042	198,686
Portfolio write up	-	3,745	3,670
	287,554	**211,787**	**202,356**
Loan notes	1,748	1,668	1,736
	289,302	**213,455**	**204,092**
Current:			
Purchased loan portfolios	75,225	61,047	54,676
Portfolio write up	-	1,098	1,076
	75,225	**62,145**	**55,752**
Total	**364,527**	**275,600**	**259,844**

Purchased loan portfolios

The Group recognises income from purchased loan portfolios in accordance with IAS 39. At 30 September 2014, the carrying amount of the purchased loan portfolio asset was £362,779,000 (31 December 2013: £273,932,000).

The movements in purchased loan portfolio assets were as follows:

	Nine months ended 30 September 2014 £000	Year Ended 31 December 2013 £000	Nine months ended 30 September 2013 £000
As at the period brought forward	273,932	208,171	208,171
Portfolios acquired during the period *	125,281	84,308	56,235
Portfolios acquired through acquisition of a subsidiary	-	18,301	18,301
Collections in the period	(104,999)	(127,840)	(93,250)
Income from purchased loan portfolios	76,132	87,330	64,141
Exchange (loss) / gain on purchased loan portfolios	(4,061)	161	204
Disposal of purchased loan portfolios	(3,506)	(1,342)	(440)
Portfolio write up	-	4,843	4,746
As at the period end	**362,779**	**273,932**	**258,108**

* inclusive of capitalised portfolio expenditure of £2,382,000 (31 December 2013: £1,759,000)

9. Trade and other payables

	30 September 2014 £000	31 December 2013 £000	30 September 2013 £000
Trade payables	3,841	4,375	2,706
Deferred consideration	31,894	2,979	-
Taxation and social security	122	-	64
Other liabilities and accruals	7,874	2,774	5,093
	43,731	**10,128**	**7,863**

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

10. Related party transactions

The Company is the ultimate parent entity of the Group. Intercompany transactions with wholly owned subsidiaries have been excluded from this note, as per the exemption offered in IAS 24.

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

As at 30 September 2014:	**Key management personnel £000**	**Total £000**
Trade	-	-
	-	**-**
As at 31 December 2013:	**£000**	**£000**
Trade	2	2
	2	**2**

Summary of transactions

During the period to 31 December 2013 GKV Limited, owned by director Gillian Key-Vice charged the Group £1,546 in relation to consultancy services provided on Group projects.

11. Borrowings

Secured borrowing at amortised cost	30 September 2014 £000	31 December 2013 £000	30 September 2013 £000
Senior secured notes (net of transaction fees of £7,621,000, December 2013: £8,080,000)	212,379	211,920	211,586
Revolving credit facility (net of transaction fees of £nil)	28,560	-	-
Senior secured notes interest	1,408	5,775	1,444
	242,347	**217,695**	**213,030**
Total borrowings			
Amount due for settlement within 12 months	**29,968**	**5,775**	**1,444**
Amount due for settlement after 12 months	**212,379**	**211,920**	**211,586**

Senior secured notes

On 29 January 2013, the Group issued £220 million of 7.875% senior secured notes due 2020 (the "senior secured notes"). Net proceeds of £211.2 million included 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 the revolving credit facility in place at that time.

The senior secured 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 secured 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 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 "revolving credit facility") with The Royal Bank of Scotland plc ("RBS"), as security agent for a consortium of participating financial institutions. The 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 3.00% 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 £82.5 million on 16 September 2014. During the period the revolving credit facility was drawn down by £1,614,000, with total drawings of £28,650,000 at the 30 September 2014.

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 secured notes. Interest is paid based on agreement when the facility is drawn down, payable every one, three or six months.

12. Segmental reporting

The Group represents a single reportable segment. Collections information is available for the UK and Portuguese operations. Such information does not constitute sufficient information upon which to base resource allocation decisions. This is the only information analysed between the UK and Portugal received on a regular basis by the chief operating decision maker ("CODM") and consequently one segment was identified. The CODM is considered to be the board of directors collectively.

	30 September 2014 £000	30 September 2013 £000
Total revenue	**78,317**	**70,121**
Adjusted EBITDA	71,944	64,715
Portfolio amortisation	(28,867)	(29,109)
Portfolio write up	-	4,746
Depreciation and amortisation	(594)	(557)
Foreign exchange losses	(987)	(81)
Amortisation of acquisition and bank facility fees	(208)	(290)
Share based payments	(437)	-
Exceptional items	(3,864)	(3,314)
Operating profit	**36,987**	**36,110**
Interest income	326	-
Interest costs	(15,108)	(17,751)
Fair value losses on interest rate swaps	(273)	(620)
Profit before tax	**21,932**	**17,739**
Taxation	(4,945)	(5,323)
Profit for the year attributable to equity shareholders	**16,987**	**12,416**

	30 September 2014 £000	31 December 2013 £000
Purchased loan portfolios	362,779	273,932
Balance sheet		
Total segment assets	412,455	338,524
Total segment liabilities	(286,078)	(227,823)
Segment net assets	**126,377**	**110,701**
Unallocated assets which is represented by deferred tax balances	22	12
Unallocated liabilities which is represented by deferred and current tax balances	(5,646)	(5,540)
Consolidated net assets	**120,753**	**105,173**

13. Financial instruments

Fair values

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 financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of 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 differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, using prices from observable current market transactions and dealer quotes for similar instruments and unobservable inputs such as historic performance data and the PCB output. The purchased loan portfolios fair value is calculated using discounted net 84-month forecast cash flows. The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Borrowings are considered to be reported at fair value as these were arm's length transactions at prevailing market rates. The Group has not identified a significant change in the availability of such market rates. Assets and liabilities measured at fair value on a non-recurring basis include goodwill, property, plant and equipment, and other intangible assets. Such assets are reviewed for impairment indicators. If a triggering event has occurred, the assets are re-measured when the estimated fair value of the corresponding asset or asset group is less than the carrying value. The fair value measurements, in such instances, are based on significant unobservable inputs (Level 3). There were no significant impairments recorded during the nine months ended 30 September 2014.

Derivative financial instruments are initially recognised, and subsequently measured, at 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.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
30 September 2014:				
Derivative assets	-	183	-	**183**
Total assets	-	**183**	-	**183**
31 December 2013:				
Derivative assets	-	507	-	**507**
Total assets	-	**507**	-	**507**

Of the above derivative contracts, the net fair value asset of £183,000 (December 2013: asset of £507,000) has been determined as a Level 2 measurement. There have been no transfers in or out of Level 2.

Financial instruments not measured at fair value – fair value hierarchy

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
30 September 2014:				
Purchased loan portfolios	-	-	362,779	**362,779**
Total assets	**-**	**-**	**362,779**	**362,779**
31 December 2013:				
Purchased loan portfolios	-	-	273,932	**273,932**
Total assets	**-**	**-**	**273,932**	**273,932**

There have been no transfers in or out of Level 3.

The balance sheet value of the Group’s purchased loan portfolios is derived from discounted cash flows generated by an 84-month ERC model. The inputs into the ERC model are historic portfolio collection performance data. This ERC is updated with the Core Collections experience to date on a monthly basis.

Estimates of cash flows that determine the effective interest rate are established for each purchased portfolio over 12 months old and are based on the Group’s collection history with respect to portfolios comprising similar attributes and characteristics such as date of purchase, original credit grantor, type of receivable, customer payment histories, customer location, and the time since the original charge off.

Management consider that the valuing of the purchased loan portfolios at amortised cost is comparable to the fair value.

The Group has an established control framework with respect to the measurement of purchased loan portfolio values. This includes regular monitoring of portfolio performance, overseen by the portfolio review committee, which considers actual versus forecast results at an individual portfolio level, re-forecasts cash flows on a quarterly basis, reviews actual against forecast IRR, signs off the latest ERC forecast, assesses the carrying value of the portfolio assets and reviews revenue recognition.

A reconciliation of the opening to closing balances for the period of the purchased loan portfolios can be seen in note 8.

14. Post balance sheet events

On the 26 November 2014 the shareholders approved the acquisition of the Capquest group. To fund this €225,000,000 senior secured floating rate notes due 2021 were issued. The notes bear interest at a rate per annum equal to three-month Euro Interbank Offered Rate (EURIBOR) plus 5.25% per annum. Following completion of the acquisition, the RCF upsizes to £100 million.

Glossary

"**Adjusted EBITDA"** means profit for the period attributable to equity shareholders before interest, tax, depreciation, amortisation, portfolio write up, foreign exchange gains or losses and Non-recurring items and share-based payments. The adjusted EBITDA reconciliations for the period ended 30 September 2014 are shown below:

	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Reconciliation of Net Cash Flow to EBITDA	**£000**	**£000**
Net cash flow used in operating activities	(30,031)	(3,999)
Purchases of loan portfolios	125,281	56,234
Purchases of loan notes	-	1,798
Proceeds from disposal of loan portfolios	(4,330)	(558)
Income taxes paid	4,847	2,901
Working capital adjustments	(27,482)	1,710
Profit on disposal of purchased loan portfolios	825	115
Amortisation of acquisition and bank facility fees	208	848
Foreign exchange losses	66	-
Gain on fair value derivatives	-	306
Fair value gains on interest rate swaps	-	(620)
Interest payable	-	1,059
Non-recurring items	2,560	4,921
Adjusted EBITDA	**71,944**	**64,715**
Reconciliation of Core Collections to EBITDA		
	£000	**£000**
Income from loan portfolios	76,132	64,141
Portfolio amortisation	28,867	29,109
Core collections	**104,999**	**93,250**
Profit on portfolios	825	115
Other income	1,360	1,119
Operating expenses	(41,330)	(34,011)
Depreciation and amortisation	594	557
Foreign exchange losses	987	81
Amortisation of acquisition and bank facility fees	208	290
Share based payments	437	-
Non-recurring items	3,864	3,314
Adjusted EBITDA	**71,944**	**64,715**
Reconciliation of Operating Profit to EBITDA		
	£000	**£000**
Profit for the period attributable to equity shareholders	16,987	12,416
Underlying finance income and costs	14,912	14,455
Taxation charge on ordinary activities	4,945	5,323
Non-recurring items	143	3,916
Operating profit	**36,987**	**36,110**
Portfolio amortisation	28,867	29,109
Portfolio write-up	-	(4,746)
Depreciation and amortisation	594	557
Foreign exchange losses	987	81
Amortisation of acquisition and bank facility fees	208	290
Share based payments	437	-
Non-recurring items	3,864	3,314
Adjusted EBITDA	**71,944**	**64,715**

"**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.

Glossary *(continued)*

"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.

"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.

Glossary *(continued)*

"IRR" means internal rate of return.

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

"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 debt" means the sum of the outstanding principal amount of the senior secured notes, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of loan portfolios, 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 nien months ended 30 September 2014 is as follows:

	30 September 2014 £000	30 September 2013 £000
Cash and cash equivalents	(26,170)	(6,301)
Senior secured notes (pre transaction fees net off)	220,000	220,000
Senior secured notes interest	1,408	1,444
Revolving credit facility	28,560	-
Deferred consideration	31,894	-
Net debt	**255,692**	**215,143**

"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 period attributable to equity shareholders adjusted for the post-tax effect of non-recurring items. The Group presents underlying net income because it excludes the effect of non-recurring items (and the related tax on such items) on the Group's profit or loss for a period and forms the basis of its dividend policy.

"Underlying return on equity" represents the ratio of underlying profit for the period attributable to equity shareholders to average shareholder equity post restructure.