5 March 2015

Arrow Global Group PLC
Preliminary results for the year ended 31 December 2014

Arrow Global Group PLC "the Company" and its subsidiaries (together "the Group"), a leading European purchaser and manager of debt portfolios, is pleased to announce its preliminary results for the year ended 31 December 2014.

Commenting on today's results, Tom Drury, chief executive officer of Arrow Global said:

"Arrow Global had another transformational year in 2014, investing over £300 million whilst maintaining expected levels of returns. We acquired Capquest, a top five firm within the market, following the successful issuance of €225 million senior secured notes. We also expanded our European footprint by entering two new geographies in France and Holland and significantly increased the value of our assets in Portugal.

"We again delivered strong results, with underlying net income up 17.7% to £29.6 million and an underlying ROE of 26.1% which is in line with our medium-term ROE expectations for the Group. We paid our maiden interim dividend in October and are today proposing a final dividend of 3.4p bringing the total full-year dividend to 5.1p."

"Entering 2015, we have a strong investment pipeline and expect portfolio purchases for the year to be in line with expectations, underpinned by a higher level of committed purchases of £36 million for 2015, with a further £25 million already in place for 2016. These committed purchases are important as they allow us to lock in future portfolio acquisitions at our targeted return expectations."

"The integration of Capquest is progressing well and we remain on track to deliver £6.5 million of synergy benefits in 2016. We will continue to evolve our business model in order to meet new regulatory standards and to further embed customers at the heart of our business. We believe that increased regulation of the industry will benefit the leading market players and as such feel we are well placed to deliver continued strong growth."

Highlights

- Over £300 million invested during the year, including organic portfolio purchases of £138 million with a face value of £1.3 billion and a 15% interest in a French market leader, MCS, for £11 million
- Acquisition of Capquest, with an enterprise value of £153 million following successful placing of €225 million of senior secured notes
- Final dividend of 3.4p proposed bringing total dividends for 2014 to 5.1p per share;
- Net debt of £439.7m and Net Debt to Adjusted EBITDA ratio of 4.4x (pro forma 3.4x), balance sheet liquidity further strengthened with our Revolving Credit Facility (RCF) increased to £100 million on better terms
- Total revenue up 16.9% to £110.7 million (2013: £94.7 million), driven by core collections[1] up 14.0% to £148.5 million (2013: £130.3 million), leading to an increase in adjusted EBITDA[2] up 11.1% to £101.0 million (2013: £90.9 million); adjusted EBITDA ratio 68.0% (2013: 69.8%)

- Profit before tax up 14.9% to £24.1 million (2013: £21.0 million) leading to a profit attributable to shareholders up 20.9% to £18.3 million (2013: £15.1 million) and underlying net income up 17.7% to £29.6 million (2013: £25.2 million)
- Underlying basic and diluted earning per share (EPS)[3] of £0.17 (2013: £0.16) delivering underlying return on equity (ROE)[3] of 26.1% (2013: 26.5%)
- Increased total purchased loan portfolios from £273.9 million to £477.5 million with 120-month ERC up 66.9% to £1,085.4 million at 31 December 2014 (2013: £650.3 million) and 84-month ERC up 59.0% to £897.3 million at 31 December 2014 (2013: £564.3 million)

Notes:

1. See note 14, cash flows from operating activities. Includes collections on purchased loan portfolios, ordinary course portfolio disposal proceeds and putbacks
2. Includes ordinary course portfolio disposal proceeds and putbacks
3. Due to transformation changes to the Group brought about by the IPO and strategic acquisitions, in order to understand the perform of the Group, underlying measures are disclosed

A glossary of terms can be found on pages 28 to 31

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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.

CHIEF EXECUTIVE OFFICER'S REVIEW - Growing organically and by acquisition, extending our reach and increasing our customer focus

This past year has seen Arrow Global reinforce its position as one of the leading businesses in our industry. Our business is performing well, thanks to our focus on rigorous underwriting discipline and the quality of our data. Arrow Global is a dynamic, agile and fast-growing business and we are working hard to achieve our vision of becoming Europe's leading purchaser and manager of debt.

We have increased underlying net income by 17.7% to £29.6 million delivering an underlying return on equity (ROE) in 2014 of 26.1%. Our profit attributable to shareholders increased by 20.9% to £18.3 million.

During the year, we invested over £300 million, consolidating our position in the UK with the acquisition of Capquest, and further developing our mainland European footprint. Here, we acquired a 15% interest in a French market leader, MCS, and entered the Dutch market with a small portfolio purchase. We also significantly increased the value of the assets we hold in Portugal.

We continued to focus on portfolio purchases with attractive returns, with organic purchases for the year totalling £1,267.5 million by face value for a purchase price of £137.7 million, and an average 120-month cash-on-cash multiple of 2.1x (84-month 1.8x) from the date of purchase. The new portfolios, combined with the Capquest back book, increased our total purchased loan portfolios by 74.3% to £477.5 million as at 31 December 2014, increasing our 120-month Estimated Remaining Collections (ERC) by 66.9% to £1,085.4 million (our 84-month ERC increased by 59.0% to £897.3 million). This increase in the size of the portfolio assets drives the foundation for future earnings and collections growth.

Migration to the FCA, on 1 April 2014, has led to significant industry consolidation and we expect this to continue with a smaller number of highly compliant providers emerging. The addition of Capquest has further strengthened our expertise by enhancing our customer servicing capabilities and providing access to new origination sources and markets, including, among others, motor finance and secured loans. Importantly, it has reinforced our established commitment to putting the customer at the heart of our business.

Capquest's substantial in-house servicing capability, underpinned by what we believe to be an industry leading IT customer service platform, enhances our business model. In addition, the continued rationalisation of our servicer panel will further increase the level of oversight we have as we work towards full FCA authorisation in 2015, with a Q3 landing slot scheduled.

We are well progressed in combining the two businesses – a new group-wide organisational structure came into effect from 1 December 2014 and the servicer migration activity has also commenced. As a result, we remain confident of achieving the £6.5 million of pre-tax cost savings in 2016. Following completion of the acquisition at the end of November, one month of Capquest figures have been included in our results.

Entering 2015, we have a strong investment pipeline and expect portfolio purchases for the year to be in line with expectations, underpinned by a higher level of committed purchases of £36 million for 2015, with a further £25 million already in place for 2016. These committed purchases are important as they allow us to lock in future portfolio acquisitions at our targeted return expectations.

We will continue to evolve our business model in order to meet new regulatory standards and to further embed customers at the heart of our business. We believe that increased regulation of the industry will benefit the leading market players and, as such, feel we are well placed to deliver continued strong growth.

Tom Drury
Chief executive officer

BUSINESS ENVIRONMENT

There are a number of external factors which, we believe, will shape the coming year for our business and the industry as a whole:

External factor	Overview	Our approach
Regulation and compliance	It is likely that the regulatory requirements applicable to the consumer debt purchase and collection industry will continue to increase, reflecting the new regulatory framework and the fact that the FCA's supervisory and enforcement powers are substantially greater than the OFT's previous powers. The risk, governance and compliance frameworks that will be needed to satisfy FCA requirements will demand continued investment and resources in these frameworks	We will continue to evaluate and evolve risk and compliance activities to align with industry best practice and meet the expectations of the FCA We will also continue to operate under our FCA interim permissions and remain on track to be ready to apply for full FCA authorisation during our allotted FCA application slot of Q3 2015
Market environment	External market forecasts suggest growth rates in the volume of debt outsourced are likely to continue to increase across Europe. A recent OC&C Strategy Consultants report, published in the November 2014 issue of Credit Today, predicted that: "…growth rates in the volume of debt outsourced are likely to continue across Europe" and that in the UK, the face value of debt sold would grow at around 12% In its annual UK Consumer Debt Collection and Debt Purchase market insight report, Apex Insights suggested that the overall market will grow at 8% compound annual growth rate (CAGR) from 2014-18, reaching a total revenue of over £2.4 billion in 2018, with debt purchase accounting for 79% Against a backdrop of changing capital requirements resulting from the introduction of IFRS 9, the Asset Quality Review and Basel III, new sellers are also expected to come to the market	We seek to maintain strong relationships with existing creditors, as well as forge relationships with those entering the market for the first time With our enhanced origination capabilities following the Capquest acquisition and our flexible business model, we continue to look for opportunities in both new asset classes and geographies With the addition of Capquest's servicing capabilities, we can now also offer a much wider range of services and solutions to UK sellers We look to originate opportunities outside of the UK in mainland Europe and target circa half of our annual investments to come from this geography We will continue to develop our relationships with investment funds as they own significant portfolio assets and regularly dispose of these as part of their investment and disposal cycle We will continue to maintain a strong balance sheet which will provide us with the necessary capital for future acquisitions
Panel sizes	We believe that creditors will continue to be discriminating in their choice of purchaser and that for those who haven't already reviewed their purchasing panels, they will inevitably look to reduce and consolidate As a result of shrinking panel sizes and enhanced regulatory requirements, the number of servicers and purchasers in the market will continue to consolidate, leaving fewer, but larger market participants	We have transacted with over 60 creditors, and have repeatedly won business with a core group. Our track record and reputation for data analytics, compliance and service has enabled us to maintain strong relationships with existing creditor clients and will allow us to proactively build new ones Capquest's reputation for being a highly compliant business mirrors our own structure and will only strengthen our offering to prospective sellers Our origination team has grown and now has access

	Those that remain will be the purchasers with scale, superior data capabilities and a proven track record for compliance	to a greater pool of prospective creditor clients with the addition of Capquest's expertise and relationships We remain on the panels of all of our major creditors
Pricing	We expect the supply of debt portfolios to increase in both the UK and mainland Europe, especially within the financial services arena, as sellers get to grips with regulatory, accounting and capital adequacy requirements We also expect to see some portfolios come to market earlier in the collections lifecycle For better performing portfolios and those tendered through an auction, we expect increased competition	We remain focussed on a disciplined approach to purchasing assets at prices that generate attractive returns and with the acquisition of Capquest, we have added to our origination capabilities We continue to benefit from a high proportion of off market/bilateral negotiated investments (70% of invested capital in 2014 was off market) In 2014, we invested in two new European geographies, France and Holland, which are expected to provide additional origination opportunities In the UK our PCB data matching tools continue to improve our collections and pricing capabilities In Portugal, a market where we also hold considerable assets (15% of our overall book by face value), we have improved our match rates with portfolio purchases in 2014 containing on average circa 26% of matched customer records

Outlook

Entering 2015, we have a strong investment pipeline and expect portfolio purchases for the year to be in line with expectations, underpinned by a higher level of committed purchases of £36 million for 2015, with a further £25 million already in place for 2016. These committed purchases are important as they allow us to lock in future portfolio acquisitions at our targeted return expectations. The integration of Capquest is progressing well and we remain on track to deliver £6.5 million of pre-tax cost savings in 2016.

We will continue to evolve our business model in order to meet new regulatory standards and to further embed customers at the heart of our business. We believe that increased regulation of the industry will benefit the leading market players and, as such, feel we are well placed to deliver continued strong growth.

PRINCIPAL RISKS AND UNCERTAINTIES

We have an enterprise-wide risk management 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, conduct, operational, financial and investment.

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 The Group is exposed to Eurozone economic uncertainty through its investment in mainland Europe 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	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 Appropriate currency liquidity management and scenario planning is in place 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 business. All employees and third parties acting on our behalf receive appropriate training. We have an oversight framework focused on compliance, performance, and customer outcomes across our in-house operations and third party panel members. All new third party panel members are rigorously checked to ensure they conform to our compliance and quality standards, and are then monitored on a regular basis
Operational risk	Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events Regulatory risk: risk of failing to comply with the legal and regulatory requirements applying to business arrangements and activities, for example data protection regulation Legal risk: risk of documentation deficiencies within purchased portfolios that are unable to be mitigated through contract and/or warranties	We are partly reliant on a panel of third party partners to manage customer accounts and collect outstanding debts where accounts are outsourced. Should third party debt servicers experience sustained business interruption or are subject to takeover by an unfriendly competitor firm we could suffer financial loss We are also reliant on IT systems for data management and analysis 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 have on-going oversight of our third party panel and in-house collections teams to ensure standards are met and that businesses have plans in place to manage business interruption. Our third party panel is diversified to ensure that we do not become reliant on any one particular third party debt servicer 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. We adhere to ISO27001 standards and we practise ITIL based procedures We employ industry specialists to monitor the latest regulations and update

	Integration risk: risk of failing to successfully integrate Capquest into the wider Arrow Global Group and operating model, for example, IT system integration not executed correctly	Exposure to remediation cost and cases pursued by claims management companies Failure to realise forecast synergies and potential poor customer outcomes	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 Due diligence is undertaken on prospective investment purchases to identify potential documentation weaknesses. Legal team involvement in all purchases and external legal advice is taken where required To ensure the successful integration of Capquest a specialist project team and board is overseeing all integration activities. Work streams are headed by senior business leads and all activities tracked against key deliverables
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 governed by a policy framework 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), movements in foreign exchange rates (foreign exchange risk) and fluctuations in interest rates (interest rate risk)	Liquidity risk is managed through matching the maturity of our funding facilities with the maturity of our assets, forecasting funding requirements and applying appropriate stress testing and ensuring we maintain a balanced maturity profile of debt facilities. We are highly cash generative and aim to maintain a flexible cost base. Portfolio investment is largely discretionary which provides a large degree of control over working capital Foreign exchange risk is managed on a Group level principally through the use of forward contracts Management reduce interest rate risk by principally using interest rate swaps 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
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 through an investment 'gate' process is carried out prior to investment. Portfolio performance is monitored by senior management

BUSINESS STRATEGY AND OBJECTIVES

Our vision is to be Europe's leading purchaser and manager of debt.

Our strategy is to grow by leveraging our sophisticated data-driven business model, newly acquired Capquest servicing platform and leading position in growth markets via the following:

Strategy	**Approach**	**2014 performance and key performance indicators**
To protect and enhance Arrow Global's leading market position and our track record to date	We have established long-term relationships with creditors, many of whom are leading financial services institutions, and we consistently win repeat business with a core group Compliance, risk management and treating customers fairly are at the heart of our business culture and operations. As an important partner to major financial institutions, a reputation for consistency and leadership in these areas is critical to maintaining our position on creditors' preferred purchasing panels. Additionally, these same elements play an important role in reinforcing our position as a sustainable business, recognised as performing an important role in the broader credit system	• 60+ creditor client relationships • Remained on all major financial services business panels and have developed new strategic relationships • Increased total purchased loan portfolios from £273.9 million to £477.5 million with 120-month ERC: £1,085.4 million, up 66.9% (2013: £650.3 million) 84-month up 59.0% to £897.3 million, (2013: £564.3 million) • Purchase of Capquest enhanced portfolio and data assets, origination and servicing capabilities • £137.7 million organic portfolio purchases, with a face value of £1,267.5 million (2013: £101.3 million portfolio purchases) • Implemented enhanced servicer management framework
To deliver attractive risk adjusted investment returns, alongside balance sheet optimisation	To purchase debt portfolios in those areas where we believe we have the strongest competitive advantage and greatest potential to purchase debt outside of auction processes Maintain strong governance around our underwriting processes and be disciplined in ensuring we acquire portfolios in line with our risk-adjusted target returns Funding and capital structure are important parts of our business model. We seek to optimise our balance sheet and, establish the right balance of debt within our capital structure, keeping the ratio of net debt to adjusted EBITDA less than 3.5x and cash cover more than 4x	• Total 2014 purchases gross cash-on-cash multiple of 2.1x over 120-month (84-month 1.7x) (2013 purchases: 120-month 2.2x, 84-month 1.8x) from date of purchase • Adjusted EBITDA: £101.0 million, up 11.1% (2013: £90.9 million) • Core collections: £148.5 million, up 14.0% (2013: £130.3 million) • Performance relative to underwriting of 102% • Profit attributable to shareholders up 20.9% and underlying net income up 17.7% contributing to an underlying EPS of 17p (2013: 16p) • Underlying return on equity: 26.1% (2013: 26.5%) • Total dividends 5.1p per share (2013: nil) • Loan to value (LTV) ratio: 49.0% (2013: 31.6%) • Cash interest coverage of 5.1x times, pro forma 4.4x (2013: 4.7x) • Net debt to adjusted EBITDA ratio of 4.4x , pro forma: 3.4x (2013: 2.0x) • Moody's rating upgraded from B2 to B1
To maintain Arrow Global's leading position in data enhancement, analytical insight and supply chain excellence	We seek to continue to develop our data analysis tools to facilitate a better understanding of individual customers' circumstances. For example, we seek to increase the records held in our Proprietary Collection Bureau (PCB), in order to enable us to identify a larger number of non-paying accounts for which we already have data, before we make the decision to purchase a portfolio	• Increased PCB records to 18.3 million (2013: 16.0 million) • Increased number of owned customer accounts to 8.3 million (2013: 5.1 million) • Match rates for UK portfolios expected to increase from 40% to approximately 50% post Capquest acquisition

	We continuously look to invest in new raw data and processes to improve key activities such as customer tracing and forecasting	
To deliver a best-in-class customer experience and minimise regulatory risk through a cautious approach to product extension	We continue 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. We aim to accomplish this by continuing to build and update consolidated customer profiles through our data models to reflect current customer circumstances. We also seek to continue to engage regularly with consumer groups and other third party stakeholders to enhance our relationships with customers	• Low level of complaints, of 20 FOS complaints per 1 million accounts in the year (2013: 17) • Implemented three lines of defence model, with BDO appointed internal auditor in April 2014 • Highly compliant and industry leading customer service platform acquired through the purchase of Capquest
To pursue diversification through a disciplined approach to geographic expansion and new asset classes	We believe that our flexible approach to outsourcing collections to servicers allows us to move into new geographies and asset classes with reduced risk and investment requirements compared to debt purchasers that operate substantial in-house collections models We are focused on targeted European expansion in the short-to-medium term, and seek to enter a limited number of markets We believe that we have developed a proven approach to purchasing 'pilot' portfolios in new asset classes in the UK ahead of more significant investments	• Entered two new mainland Europe markets, acquiring a 15% interest in a French market leader, MCS, and completing a small pilot portfolio investment in Holland • Motor portfolio acquired via the purchase of Capquest to further diversify our asset classes • Increased investment in Portuguese portfolios, with 49.5% of organic purchases in the year by purchase price • 64% investment by face value from repeat sources and 70% of investments by face value in off market trades

FINANCIAL REVIEW

2014 was another transformational year for Arrow Global with a total investment of over £300 million, of which £242 million represented portfolio acquisitions.

During the year we made a number of significant portfolio purchases in Portugal, another step forward in further developing our mainland Europe business. Two of the portfolios purchased were from domestic Portuguese banks and were the first time they had sold to Arrow Global – recognition of our growing reputation for excellence and European banks, increasing propensity to sell.

In September 2014, we announced the proposed acquisition of Capquest, and with a successful placing of €225 million senior secured notes with a maturity of 2021, and a subsequent positive shareholder vote, we completed the acquisition at the end of November 2014.

We finished the year with entry into another mainland European geography, acquiring a 15% interest of £11.4 million in a French market leader, MCS.

Our strategic UK and mainland Europe purchases have provided significant opportunity and a platform for future growth.

Key results as of and year to	**31-Dec-14 £m**	**31-Dec-13 £m**
Purchases of loan portfolios (organic)	137.7	101.3
Total purchased loan portfolios	477.5	273.9
Core collections	148.5	130.3
Collection cost ratio (%)	23.0%	21.5%
Total revenue	110.7	94.7
Adjusted EBITDA	101.0	90.9
Adjusted EBITDA ratio	68.0%	69.8%
Profit before tax	24.1	21.0
Profit attributable to shareholders	18.3	15.1
Underlying net income	29.6	25.2
84-month ERC	897.3	564.3
120-month ERC	1,085.4	650.3
Net debt	439.7	178.3
Underlying basic and diluted EPS (£)	0.17	0.16
Underlying ROE (%)	26.1%	26.5%
Net assets	121.9	105.2

A glossary of terms can be found on pages 28 to 31.

Portfolio acquisitions
During 2014 we organically acquired debt portfolios with a face value of £1,267.5 million for a purchase price of £137.7 million equating to an average purchase price of 10.9p. For the year to 31 December 2014, the 120-month gross cash-on-cash multiple for this vintage was 2.2x (84-month: 1.8x) from the date of purchase.

These acquisitions and the portfolios acquired through the purchase of Capquest, net of amortisation, have increased the balance sheet value of our purchased loan portfolios to £477.5 million at 31 December 2014 (2013: £273.9 million).

As at 31 December 2014, the total face value of acquired purchased portfolios of £12.7 billion (2013: £7.2 billion) across 8.3 million customer accounts.

Collections
Core collections increased to £148.5 million (2013: £130.3 million), reflecting the increase in our portfolio asset base. Collections were cumulatively 102% of our original underwriting forecast. During the year, 74% of cash collections came from regular small payments, with an average UK monthly payment of £24, reflecting our focus on working with customers to create long-term sustainable payment plans. Figures include December collections for Capquest of £4.6 million, which was circa £0.2 million ahead of our initial forecast.

Collections for the year grew by 14.0%. In Q4 2014 there were some factors inhibiting this result. In Portugal, external factors led to a three-month delay in realising some of our legal collections, when Portuguese courts closed in order to allow for an IT upgrade. This took longer than anticipated and they remained closed for September, October and November, leading to an associated delay in the processing of claims. We estimate this to be the equivalent of €2.4 million in delayed collections. Since the courts reopened they have been working to clear this backlog and we expect to see collections recover during Q1 2015.

Collection costs
We continue to use our data capabilities and benefits from our outsourced model to maintain cost collection efficiency. During the year, there was an increase in the collection cost ratio to 23.0% (2013: 21.5%), reflecting additional collection related costs associated with Portugal.

Adjusted EBITDA
Adjusted EBITDA is our proxy for operating cash flow. During the year, adjusted EBITDA increased by £10.1 million (11.1%) to £101.0 million (2013: £90.9 million). This was mainly driven by an increase in core collections net of collection costs. The adjusted EBITDA ratio was 68.0% (2013: 69.8%).

Profit attributable to shareholders
Profit attributable to shareholders increased 20.9% from £15.1 million to £18.3 million for the year ended 31 December 2014. This was largely driven by increased operational profit of £2.2 million and a reduction in finance income and costs of £1.0 million.

During the year, non-recurring items of £12.8 million were incurred, with an associated tax impact of £1.5 million. The main non-recurring items were £6.0 million arising on the Capquest acquisition, £1.8 million due to IPO related staff costs, £2.4 million in relation to a historic VAT settlement and £2.0 million of non-recurring contract settlements, £1.6 million of which was due to the Capquest acquisition. See note 8 for further information.

After taking account of the non-recurring items discussed above, underlying net income increased 17.7% from £25.2 million to £29.6 million for the year ended 31 December 2014.

Portfolio overview

Our 84-month ERC – the expected collections from our back book – has increased by £247.0 million from £564.3 million in 2013 to £897.3 million, a 59.0% increase (120-month ERC 66.9% increase to £1,085.4 million) (2013: £650.3 million). The ERC is underpinned by paying accounts that have a face value of £1.5 billion, which represents 1.7x 84-month ERC cover (1.4x 120-month ERC cover). As at 31 December 2014, we estimate the amount we would need to invest over the next year to maintain our current 120-month ERC level is circa £68 million.

The table below illustrates the returns on portfolios by vintage:

			84-month		120-month		
Vintage	Purchase price £m	Collections to date £m	ERC £m	Total estimated collections £m	ERC £m	Total estimated collections £m	Gross money multiple[1]
Pre-2010	43.3	93.5	45.4	138.9	55.4	148.9	3.4
2010	30.1	65.1	47.1	112.2	54.5	119.6	4.0
2011	110.2	152.1	151.7	303.8	183.4	335.5	3.1
2012	83.8	73.9	112.0	185.9	133.5	207.4	2.5
2013	101.3	64.4	145.8	210.2	178.6	243.0	2.4
2014	241.7	35.4	395.3	430.7	480.0	515.4	2.1
Total	**610.4**	**484.4**	**897.3**	**1,381.7**	**1,085.4**	**1,569.8**	**2.6**

1. *Collections to date plus 120-month ERC divided by purchase price*

The gross cash-on-cash money multiple over all portfolios is expected to be 2.0x on an 84-month basis from the date of purchase, as shown below. Recent vintages reflect a higher proportion of paying accounts and, therefore a lower gross cash on cash money multiple.

Vintage	Purchase price £m	Face value acquired £m	Price per £	84-month gross cash on cash money multiple from purchase date[1]	120-month gross cash on cash money multiple from purchase date[1]
Pre-2010	43.3	1,200.7	4p	2.4x	2.9x
2010	30.1	1,375.9	2p	3.0x	3.6x
2011	110.2	2,371.7	5p	2.2x	2.7x
2012	83.8	924.1	9p	1.9x	2.5x
2013	101.3	1,395.9	7p	1.8x	2.2x
2014	241.7	5,432.8	4p	1.7x	2.1x
Total	610.4	12,701.0	5p	2.0x	2.4x

1. *Collection to date plus proportion of ERC to 84/120 month from date of purchase*

Funding, net debt and net assets

In 2014, we successfully increased our revolving credit facility (RCF) to £100 million, reducing the interest margin by 50 basis points, and extended the term from January 2018 to January 2019. The RCF was drawn by £39.0 million as at 31 December 2014. As at 31 December 2014, we had cash and RCF resources of £75.5 million available and cash cover of 5.4x (pro forma 4.0x).

Net debt at 31 December 2014 was £439.7 million, being 4.4x adjusted EBITDA (pro forma 3.4x) and a net debt/84-month ERC loan to value ratio of 49.0%, which is significantly below our financial covenants of 75%. Net debt to adjusted EBITDA is expected to reduce in 2015, with the benefits of the Capquest acquisition.

Net assets increased £16.7 million during the year, mostly reflecting the retained profit for the year.

Shareholder returns

Underlying basic and diluted EPS for the year was 17p (2013: 16p), and underlying ROE was 26.1% (2013: 26.5%). A final dividend of 3.4p is proposed, bringing the total dividends for the year to 5.1p. See note 6.

Consolidated statement of comprehensive income
For the year ended 31 December 2014

	Note	Year ended 31Dec 2014 underlying £000	Non-recurring items 2014 £000	Year ended 31 Dec 2014 Including non-recurring £000	Year ended 31 Dec 2013 underlying £000	Non-recurring items 2013 £000	Year ended 31 Dec 2013 Including non-recurring £000
Continuing operations	Note						
Revenue							
Income from purchased loan portfolios	9	107,348	-	107,348	87,330	-	87,330
Portfolio write up	9	636	-	636	4,843	-	4,843
Profit on portfolio		825	-	825	1,132	-	1,132
Total revenue from portfolios		108,809	-	108,809	93,305	-	93,305
Income from asset management		1,933	-	1,933	1,392	-	1,392
Total revenue		**110,742**	**-**	**110,742**	**94,697**	**-**	**94,697**
Operating expenses							
Collection activity costs		(34,150)	-	(34,150)	(27,994)	-	(27,994)
Professional fees and services		(1,737)	-	(1,737)	(1,733)	-	(1,733)
Recurring other operating expenses		**(16,484)**	**-**	**(16,484)**	**(12,159)**	**-**	**(12,159)**
Non-recurring other operating expenses	8						
Costs arising from acquisition		-	*(6,026)*	*(6,026)*	-	-	-
Bond related costs		-	-	-	-	*(1,005)*	*(1,005)*
Goodwill impairment		-	-	-	-	*(2,309)*	*(2,309)*
IPO related costs		-	*(1,760)*	*(1,760)*	-	*(5,286)*	*(5,286)*
Settlement provisions		-	*(4,205)*	*(4,205)*	-	-	-
Total other operating expenses		**(16,484)**	**(11,991)**	**(28,475)**	**(12,159)**	**(8,600)**	**(20,759)**
Total operating expenses		**(52,371)**	**(11,991)**	**(64,362)**	**(41,886)**	**(8,600)**	**(50,486)**
Operating profit		**58,371**	**(11,991)**	**46,380**	**52,811**	**(8,600)**	**44,211**
Finance Income	3	344	-	344	57	-	57
Recurring finance costs		(21,753)	-	(21,753)	(19,359)	-	(19,359)
Non-recurring finance costs	8						
Bond related costs		-	*(705)*	*(705)*	-	*(3,916)*	*(3,916)*
Settlement provisions		-	*(143)*	*(143)*	-	-	-
Total finance costs	4	(21,753)	(848)	(22,601)	(19,359)	(3,916)	(23,275)
Profit before tax		**36,962**	**(12,839)**	**24,123**	**33,509**	**(12,516)**	**20,993**
Taxation charge on ordinary activities	7	(7,355)	1,503	(5,852)	(8,350)	2,468	(5,882)
Profit for the year attributable to equity shareholders		**29,607**	**(11,336)**	**18,271**	**25,159**	**(10,048)**	**15,111**
Other comprehensive income:							
Foreign exchange translation difference arising on revaluation of foreign operations		(250)	-	(250)	1	-	1
Hedging movement		(687)	-	(687)	-	-	-
Total comprehensive income for the year attributable to equity shareholders		**28,670**	**(11,336)**	**17,334**	**25,160**	**(10,048)**	**15,112**
Basic and diluted EPS (£)	5	**0.17**	**-**	**0.10**	**0.16**	**-**	**0.10**
Adjusted EPS (£)	5	**0.17**	**-**	**0.10**	**0.17**	**-**	**0.11**

Consolidated balance sheet
As at 31 December 2014

Assets	Note	31 Dec 14 £000	31 Dec 13 £000
Non-current assets			
Intangible assets		58,666	3,444
Property, plant & equipment		2,881	259
Purchased loan portfolios	9	377,900	211,787
Investment in associates		11,419	-
Loan notes	9	1,378	1,668
Deferred tax asset		300	12
Total non-current assets		**452,544**	**217,170**
Current assets			
Cash and cash equivalents		14,542	47,520
Other receivables		16,569	11,194
Purchased loan portfolios	9	99,613	62,145
Derivative asset		-	507
Total current assets		**130,724**	**121,366**
Total purchased loan portfolios		*477,513*	*273,932*
Total assets		**583,268**	**338,536**
Equity			
Share capital		1,744	1,744
Share premium		347,436	347,436
Retained earnings		51,479	33,841
Hedging reserve		(687)	-
Other reserves		(278,098)	(277,848)
Total equity attributable to shareholders		**121,874**	**105,173**
Liabilities			
Non-current liabilities			
Senior secured notes	12	378,564	211,920
Deferred tax liability		2,852	2,646
Total non-current liabilities		**381,416**	**214,566**
Current liabilities			
Trade and other payables	10	33,058	10,128
Derivative liability		1,872	-
Current tax liability		2,355	2,894
Revolving credit facility	12	35,404	-
Senior secured notes	12	7,289	5,775
Total current liabilities		**79,978**	**18,797**
Total liabilities		**461,394**	**233,363**
Total equity and liabilities		**583,268**	**338,536**

Consolidated statement of changes in equity
For the year ended 31 December 2014

	Ordinary shares £000	Share premium £000	Retained earnings £000	Hedging reserve £000	Own share reserve* £000	Translation reserve* £000	Merger reserve* £000	Total £000
Balance at 1 January 2013	**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**
Profit for the year	-	-	18,271	-	-	-	-	18,271
Exchange differences	-	-	-	-	-	(250)	-	(250)
Net fair value gains/(losses) - cash flow hedges	-	-	-	(859)	-	-	-	(859)
Tax on hedged items	-	-	-	172	-	-	-	172
Total comprehensive income for the year	-	-	18,271	(687)	-	(250)	-	17,334
Share-based payments	-	-	2,328	-	-	-	-	2,328
Dividend paid	-	-	(2,961)	-	-	-	-	(2,961)
Balance at 31 December 2014	**1,744**	**347,436**	**51,479**	**(687)**	**(562)**	**(575)**	**(276,961)**	**121,874**

* Other reserves total £278,098 deficit (2013: £277,848 deficit)

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 Group reconstruction as part of the IPO where Arrow Global became the parent Company.

Own share reserve
The own share reserve comprises the cost of the Company's ordinary shares held by the Group. At 31 December 2014, the Company held 154,562 ordinary shares of 1p each, held in an employee benefit trust. This represents 0.1% of the Company share capital at 31 December 2014.

Consolidated statement of cash flows	Note	year ended 31 Dec 2014 £000	year ended 31 Dec 2013 £000
Net cash used in operating activities	14	**(52,431)**	**(6,717)**
Investing activities			
Purchase of property, plant and equipment		(279)	(143)
Purchase of intangible assets		(851)	(341)
Repurchase of own shares		-	(1,430)
Sale of own shares		-	2,369
Acquisition of associate		(11,419)	-
Acquisition of subsidiary, net of cash acquired		(97,121)	(17,826)
Net cash (used in)/generated by investing activities		**(109,670)**	**(17,371)**
Financing activities			
Proceeds of issued share capital		-	41,680
Proceeds from additional loans		47,087	6,884
Proceeds from senior notes (net of fees)		168,333	210,626
Repayment of interest on senior notes		(17,325)	(10,202)
Repayment of other interest		(718)	-
Repayment of bank loan		(42,579)	(106,859)
Repayment of shareholders' loans		-	(77,350)
Repayment of non-controlling interest loans		-	(2,650)
Repayment of loan and loan notes		(19,990)	-
Bank fees paid		(2,790)	-
Payment of dividends		(2,961)	-
Net cash flow generated by financing activities		**129,057**	**62,129**
Net increase in cash and cash equivalents		**(33,044)**	**38,041**
Cash and cash equivalents at beginning of year		47,520	9,610
Effect of exchange rates on cash and cash equivalents		66	(131)
Cash and cash equivalents at end of year		**14,542**	**47,520**

1. STATUTORY INFORMATION

This document does not constitute the Group's statutory accounts for the years ended 31 December 2013 or 31 December 2014 but is derived from those accounts. Statutory accounts for 31 December 2013 have been delivered to the Registrar of Companies, and those for 2014 will be delivered to the Registrar of Companies following the Group's annual general meeting.

The auditors have reported on the 2013 and 2014 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 Annual Report 2014, including the auditor's report, can be obtained free of charge on request to the Group at Belvedere, 12 Booth Street, Manchester, M2 4AW or, alternatively, can be downloaded at www.arrowglobal.net from 27 April 2014. The Annual Report 2013 is already available via these routes.

The financial statements of the Group have been prepared under the historical cost convention. The accounting policies are the same as those given in the annual report and accounts for the year ended 31 December 2014. The financial information included in this preliminary announcement is based on the Group's annual report and accounts for the year ended 31 December 2014, 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 2014 will be posted to shareholders in April 2015. The annual general meeting will take place on 3 June 2015.

The Group has one operating segment in line with the reporting in the Annual Reports and the carrying value of assets and liabilities is in line with their fair value.

2. GENERAL INFORMATION

Arrow Global Group PLC is a company incorporated in England and Wales and is the ultimate parent company of the Group. The financial statements are presented in pounds sterling as the currency of the primary economic environment in which the Group operates.

Through its subsidiary companies, the Group acquires certain pools of semi-performing and/or charged-off consumer loans pursuant to the terms of each specific purchase agreement. In addition, the Group enters into contractual servicing agreements with other third parties to collect the receivables, to administer and disburse the proceeds of the receivables.

The Group's financial statements for the year ended 31 December 2014 have been prepared in accordance with IFRS as adopted for use in the EU, and therefore comply with Article 4 of the EU IFRS Regulation. The accounting policies have been applied consistently in the current and prior periods.

3. FINANCE INCOME

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Finance income		
Bank interest	55	57
Loan note interest	289	-
	344	**57**

4. FINANCE COSTS

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Finance costs		
Interest on minority interest loans	-	30
Interest and similar charges on bank loans	3,168	6,524
Interest on senior secured notes	18,134	15,978
Other interest	856	346
Shareholder interest expense	-	1,291
Total interest costs	**22,158**	**24,169**
Fair value gains/(losses) on interest rate swaps	443	(894)
Total finance costs including non-recurring items	**22,601**	**23,275**
Non-recurring finance costs	(848)	(3,916)
Total finance costs	**21,753**	**19,359**

5. EARNINGS PER SHARE (EPS)

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Basic/diluted EPS		
Underlying profit for the year attributable to equity shareholders	29,607	25,159
Profit for the year attributable to equity shareholders including non-recurring items	18,271	15,111
Number of ordinary shares	**174,439**	**154,427**
Underlying basic and diluted earnings per share (£)	**0.17**	**0.16**
Basic and diluted earnings per share including non-recurring items (£)	**0.10**	**0.10**

Adjusted earnings per share	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Underlying profit for the year attributable to equity shareholders	29,607	25,159
Profit for the year attributable to equity shareholders including non-recurring items	18,271	15,111
Add back: shareholder interest expense	-	1,291
Underlying	**29,607**	**26,450**
Including non-recurring items	**18,271**	**16,402**
Number of ordinary shares	**174,439**	**154,427**
Underlying adjusted earnings per share (£)	**0.17**	**0.17**
Adjusted earnings per share including non-recurring items (£)	**0.10**	**0.11**

Due to no shareholder interest being applicable in the 2014, the basic and diluted EPS and adjusted EPS are the same.

6. DIVIDEND

A final dividend has been proposed of 3.4 pence (£5,921,000) taking the total dividends for the year to 5.1 pence (£8,882,000), being 30% of profit after tax attributable to shareholder. The proposed final dividend is subject to approval at the annual general meeting and has not yet been included as a liability in these financial statements. The Board continues to pursue a progressive dividend policy targeting a payout ratio of between 25 and 35 per cent of annual underlying net income as set out in the IPO prospectus. However, rather than the annual dividend being split between the interim and final dividend in the proportion 1/3 to 2/3 as previously anticipated, in the future, the interim dividend (from H1 2015 onwards) is expected to be declared at 50% of the prior year's final dividend with the subsequent final dividend being proposed based on the underlying net income for the year and in accordance with the payout ratio above.

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 2014 is higher than the standard rate of corporation tax in the UK at 21.49% (2013: 23.25%). The differences are as follows:

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Profit before tax	**24,123**	**20,993**
Tax charge at standard UK corporation tax rate	5,185	4,881
Adjustment in respect of prior years	(651)	33
Expenses not deductible for tax purposes	1,772	922
Differences on share based payments	(463)	(15)
Differences in tax rates	6	(410)
Differences on hedging arrangements	-	85
Differing overseas tax rates	3	386
Tax charge	**5,852**	**5,882**
Effective tax rate relating to continuing operations	**24.3%**	**28.0%**
Standard UK corporation rate for the year	**21.49%**	**23.25%**
Effective tax rate higher/lower than standard UK corporation rate for the year	**Higher**	**Higher**

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Tax charge for the year consists of:		
Current tax charge:		
UK and foreign corporation tax based on profit for the year	7,085	5,471
Adjustment in respect of prior years	(543)	78
Total current tax charge	**6,542**	**5,549**
Deferred tax charge/(credit):		
Origination and reversal of temporary differences	(631)	788
Adjustment in respect of prior years	(108)	(45)
Differences in tax rates	49	(410)
Total tax charge	**5,852**	**5,882**

Deferred tax
The Group has not recognised a deferred tax asset in respect of £25,728,000 (2013: £249,000) of tax losses carried forward. The increase in unrecognised tax losses is due to the Capquest acquisition. These losses may be available for offset against future non-trading profits and have no expiry date.

The Finance Act 2013, which was substantively enacted in July 2014, included provisions to reduce the rate of UK corporation tax from 23% 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 calculated using a rate of 20% in these accounts.

Non-recurring tax
We have identified non-recurring items in the year amounting to £12,839,000 (2013: £12,516,000), with a £1,503,000 (2013: £2,468,000) associated tax impact.

8. RECONCILIATION OF NON-RECURRING ITEMS

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Other operating expenses	11,991	8,600
Financial costs	848	3,916
Total non-recurring items	**12,839**	**12,516**

Non-recurring items include items that, by virtue of their size and nature (i.e. outside of the normal operating activities of the Group), are not considered to be representative of the on-going performance of the Group. Due to transformation changes to the Group brought about by the IPO and strategic acquisitions, such as the sterling senior secured notes leading onto the IPO in 2013 and the euro senior secured notes to acquire the Capquest Group in 2014, significant costs have been incurred in the current and comparative period, which are not reflective of expected principal Group activity. The Capquest acquisition took place on 28 November 2014 and therefore there is still an element of acquisition costs to be incurred in 2015.

Other operating expenses
In the year to 31 December 2014, costs incurred due to the acquisition of Capquest group amounted to £6,026,000, being fees incurred of £5,452,000 and specific staff costs including £374,000 redundancy costs, as a direct result of the acquisition due to duplication of senior roles and £200,000 related bonuses. £1,760,000 related to remaining IPO related share issuance charges. In other operating expenses were £4,205,000 of non-recurring costs, made up of £2,210,000 in relation to a historic VAT settlement and £1,995,000 of non-recurring contract settlements, £1,645,000 of which was directly due to the Capquest acquisition, terminating a duplicate servicing contract.

In the year to 31 December 2013, goodwill arose upon the acquisition of Arrow Global Accounts Management Limited. As the goodwill was not supportable, this was fully impaired. The remaining non-recurring items in the year were non-recurring 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.

Finance costs

Non recurring items 2014 related to interest incurred on a historic HMRC VAT settlement and the issuance of €225 million floating rate notes due 2021.

Non-recurring items in 2013 related to accelerated amortisation and settlement fees incurred, when loans and facilities were settled as part of the £220 million sterling senior secured note issue.

9. FINANCIAL ASSETS

	Year ended 31 December 2014 £000	**Year ended 31 December 2013 £000**
Non current:		
Purchased loan portfolios	377,397	208,042
Portfolio write up	503	3,745
	377,900	**211,787**
Loan notes	1,378	1,668
	379,278	**213,455**
Current:		
Purchased loan portfolios	99,480	61,047
Portfolio write up	133	1,098
	99,613	62,145
Total	**478,891**	**275,600**

Purchased loan portfolios

The Group recognises income from purchased loan portfolios in accordance with IAS 39. At 31 December 2014, the carrying amount of the purchased loan portfolio asset was £477,513,000 (2013: £273,932,000).

The movements in purchased loan portfolio assets were as follows:

	Year ended 31 December 2014 £000	**Year ended 31 December 2013 £000**
As at the year brought forward	273,932	208,171
Portfolios acquired during the year *	143,220	84,308
Portfolios acquired through acquisition of a subsidiary	104,038	18,301
Collections in the year	(148,547)	(127,840)
Income from purchased loan portfolios	107,348	87,330
Exchange gain/(loss) on purchased loan portfolios	(3,939)	161
Amortisation of legal acquisition fees on portfolios	-	-
Disposal of purchased loan portfolios	825	(1,342)
Portfolio write up	636	4,843
As at the year end	**477,513**	**273,932**

* Inclusive of capitalised portfolio expenditure of £4,882,000 (2013: £1,759,000)

10. TRADE AND OTHER PAYABLES

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Trade payables	6,873	4,375
Deferred consideration	11,928	2,979
Taxation and social security	324	-
Other liabilities and accruals	13,933	2,774
	33,058	**10,128**

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

In 2014, a European Court of Justice ruling indicated that, under the European Working Time Directive, 'normal pay' for the purposes of calculating statutory holiday pay includes contractual overtime and commission, rather than being limited to basic salary. On 4 November 2014 a UK Employment Tribunal, considering the implications for UK employers, under the Working Time Regulations 1998, ruled that overtime pay should be included in calculating holiday pay. A UK Employment Appeal Tribunal is also considering whether commission payments should be included in the calculation and is expected to conclude in 2015. As a result of these tribunals, there is a possibility that workers and employees may seek compensation for a shortfall in their holiday pay in prior years. This gives rise to a possible obligation for the Group. The directors do not consider any compensation required to be a material amount, particularly as any claims are likely to be capped at two years.

11. RELATED PARTY TRANSACTIONS

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

As at 31 December 2014:	**Key management personnel £000**	**Total £000**
Trade	3	3
	3	**3**
As at 31 December 2013:	**£000**	**£000**
Trade	2	2
	2	**2**

Summary of transactions

During the year until the end of her term as non-executive director, Gillian Key-Vice, through her company GKV Limited, charged the Group £3,401 in relation to consultancy services provided on Group projects.

In January 2013, £1,388,027 in relation to a loan note instrument was repaid in full to Lewylang LP, a party related to Zachary Lewy. Also, remaining balances on loans were repaid on 29 January 2013 as part of the refinancing and issuance of senior secured notes described in note 12.

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). RBS Special Opportunity Fund sold its remaining shares in Arrow Global Group PLC in March 2014, Shawbrook Bank Limited is therefore no longer considered to be a related party of the Group.

12. BORROWINGS AND FACILITIES

External borrowings comprise the £220 million fixed rate senior secured notes due 2020, the €225 million floating rate senior secured notes due 2021 and the £100 million revolving credit facility.

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Secured borrowing at amortised cost		
Senior secured notes (net of transaction fees of £17,506,000, 2013: £8,080,000)	378,564	211,920
Revolving credit facility (net of transaction fees of £3,595,000, 2013: £nil)	35,404	-
Senior secured notes interest	7,289	5,775
	421,257	**217,695**
Total borrowings:		
Amount due for settlement within 12 months	**42,693**	**5,775**
Amount due for settlement after 12 months	**378,564**	**211,920**

Senior secured notes

On 4 November 2014, the Group issued €225 million floating rate senior secured notes (“the euro senior notes”) at a margin of 5.25% over three- month EURIBOR, although derivative contracts have been used to fixed the borrowing costs for the period through to November 2017. Interest is paid quarterly. The euro senior notes can be redeemed in full or in part on or after 1 November 2017 at the Group’s option. Prior to 1 November 2017, the Group may redeem, at its option, some or all of the euro 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.

On 29 January 2013, the Group issued £220 million senior secured notes at a fixed rate of 7.875% due 2020 (the “sterling senior notes”). Interest is paid bi-annually. The sterling 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 sterling 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 euro senior notes and sterling senior notes are secured by substantially all of the assets of the Group.

Revolving credit facility
On 16 September 2014, the Group amended its revolving credit facility with The Royal Bank of Scotland PLC acting as security agent for a syndicate of participating financial institutions. The commitments under the facility were increased from £55 million to £82.5 million and the facility was extended to January 2019. In addition the margin on the facility was reduced by 0.5% to 3.75% per annum over the relevant reference rate, subject to a margin ratchet based on the loan-to-value ratio at each quarter end. The commitments under the revolving credit facility were further increased to £100 million on completion of the Capquest group acquisition on 28 November 2014.

The Group is required to pay a commitment fee at a rate of 40% of the applicable margin per annum on the undrawn portion of each lender's commitment. The revolving credit facility is secured by the same assets as the euro and sterling senior notes and sterling senior notes and ranks supersenior to these. The assets that are secured are those of the Arrow Global Guernsey Holdings Limited group.

Treasury related risks
The board approves treasury policies and the treasury function manages the day-to-day operations. The board delegates certain responsibilities to the treasury committee. The treasury committee, which is chaired by the chief financial officer, is empowered to take decisions within that delegated authority. Treasury activities and compliance with treasury policies are reported to the board on a regular basis and are subject to periodic independent reviews and audits, both internal and external. Treasury policies are designed to manage the main financial risks faced by the Group in relation to funding and liquidity risks, counterparty credit risk and market risks being interest rate risk and foreign currency risk. This is to ensure the Group is properly funded, that financial counterparties are of appropriate credit quality and that interest rate and currency risk is managed within set limits. Policies also set out the specific instruments that can be used for risk management.

13. ACQUISITION OF SUBSIDIARY UNDERTAKING

On 28 November 2014, the Group acquired 100% of the ordinary share capital of Quest Topco Limited and settled secured loan notes at the point of acquisition for £104,574,000, satisfied with cash and a deferred payment, with the additional requirement to repay outstanding loans and other costs post acquisition of £55,000,000. The deferred payment has subsequently been paid in full. Quest Topco Limited and subsidiaries, "the Capquest group", have 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.

Goodwill of £45,655,000 was created as part of this acquisition. The primary reasons for the acquisition, which make up the goodwill, were to strengthen market position, reinforce the business model, diversify origination sources, enhance data capabilities, achieve strong synergies and the deal was considered financially attractive for shareholders. Synergies arise from overhead cost savings through removal of overlapping and duplicated activities, operating cost savings through better management of collection resources and greater customer insight from collections operations expected. Included in goodwill are certain intangible assets including the anticipated impact of the primary reasons for the acquisition above that cannot be individually separated and reliably measured due to their nature.

In the one month from acquisition to 31 December 2014, the Capquest group contributed revenue of £2,514,000 and operating profit of £738,000 to the consolidated results for the year. If the acquisition had occurred on the first day of 1 January 2014, Group total revenue would have been an estimated £137,122,000 and operating profit would have been an estimated £41,900,000.

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 2014.

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

	Book value £000	Fair value adjustment £000	Total £000
Purchased loan portfolios	100,238	3,800	104,038
Goodwill	24,732	(24,732)	-
Intangible assets	9,570	-	9,570
Property, plant and equipment	2,743	(131)	2,612
Cash and cash equivalents	7,286	-	7,286
Other receivables	1,670	(237)	1,433
Trade and other payables	(8,218)	(2,369)	(10,587)
Loans and unsercured loan notes	(54,690)	-	(54,690)
Deferred tax liability	-	(743)	(743)
	83,331	**(24,412)**	**58,919**
Goodwill on acquisition			45,655
			104,574
Consideration: Cash			102,974
Deferred consideration			1,600
			104,574

The fair value adjustment on the portfolio asset acquired arises from a difference between carrying value and management's assessment of fair value.

Goodwill previously recognised in the acquired Group is not an identifiable asset when applying acquisition accounting and therefore, has been written off through the fair value adjustments accordingly.

The Capquest Group undertook a review of plant, property and equipment on 28 November 2014, and £131,000 of assets were written off post acquisition.

Other receivables in the acquired entities comprise gross contracted amounts of £1,670,000. There is doubt over the collectability of £237,000 of this amount, being those in excess of 90 days outstanding.

A VAT provision was included of £2,395,000 after post acquisition discussions with HRMC, which is still on-going.

The fair value adjustments created a deferred tax liability of £213,000. The Company previously adjusted its numbers on 1 April 2012 from UK GAAP to EU IFRS and a deferred tax liability arising on the difference to the fair value of the portfolio assets at this point was not recorded, this amounted to £1,088,000 at acquisition and has been included in the fair value adjustments above. Also, a deferred tax asset of £558,000 in relation to losses not previously recognised has been included.

Acquisition expenses

The Group incurred acquisition expenses of £5,402,000 in relation to the acquisition, which has been charged to the statement of comprehensive income and included within other operating expenses.

Measurement period

Whilst the Group believes the acquisition accounting fair value adjustments to be complete, IFRS 3 allows a measurement period of up to one year after acquisition to reflect any new information obtained about facts and circumstances that were not in existence at the acquisition date. If any additional material changes are required within this measurement period, these will be reflected in the 2015 half year results of the Group.

14. NOTES TO THE CASH FLOW STATEMENT

	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities	**£000**	**£000**
Adjusted for:		
Profit before tax	**24,123**	**20,993**
Collections in the year*	148,547	130,314
Income from purchased loan portfolios*	(107,348)	(87,330)
Portfolio write up	(636)	(4,843)
Profit on disposal of purchased loan portfolios	(825)	(1,132)
Profit on disposal of property, plant, equipment & intangibles	143	-
Amortisation of legal acquisition fees on portfolios	1,501	4,554
Depreciation and amortisation	1,090	752
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	20,313	15,978
Foreign exchange losses/ (gains)	894	(23)
Loss/ (gain) on fair values on derivatives	457	(815)
Equity settled share-based payment expenses	2,328	4,361
Cash from secured loan notes from third party	-	100
Operating cash flows before movement in working capital	**90,587**	**86,539**
Decrease/ (increase) in other receivables	5,006	(4,701)
Increase in amounts due from subsidiary undertakings	-	-
(Decrease)/ increase in trade and other payables	1,646	1,820
Cash generated by/(used in) operations	**97,239**	**83,658**
Income taxes and overseas taxation paid	(7,039)	(4,269)
Net cash flow from operating activities before purchases of loan portfolios and loan notes	**90,200**	**79,389**
Purchases of purchased loan portfolios	(142,631)	(84,308)
Purchases of loan notes	-	(1,798)
Net cash used in operating activities	**(52,431)**	**(6,717)**

*Amortisation is the net of collections in the year and income from purchased loan portfolios

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 non-recurring items. The adjusted EBITDA reconciliations for the year to 31 December 2014 are shown below:

Reconciliation of net cash flow to EBITDA	31 December 2014 £000	31 December 2013 £000
Net cash flow used in operating activities	(52,431)	(6,717)
Purchases of loan portfolios	142,631	84,308
Purchases of loan notes	-	1,798
Income taxes paid	4,848	4,269
Working capital adjustments	(4,461)	(814)
Amortisation of acquisition and bank facility fee	278	916
Gain on disposal of property, plant, equipment & intangibles	(143)	-
Effect of exchange rates on cash and cash equivalents	66	-
Gain on fair value derivatives	-	815
Fair value gains on interest rate swaps	-	(894)
Interest payable/receivable	-	1,381
Non-recurring items	10,232	5,846
Adjusted EBITDA	**101,020**	**90,908**
Reconciliation of core collections to EBITDA	**£000**	**£000**
Income from loan portfolios	107,348	87,330
Portfolio amortisation	41,199	42,984
Core collections (includes proceeds from disposal of purchased loan portfolios)	**148,547**	**130,314**
Other income	1,933	1,392
Operating expenses	(64,362)	(50,486)
Depreciation and amortisation	1,090	752
Foreign exchange (gains)/losses	975	(23)
Amortisation of acquisition and bank facility fees	278	359
Share based payments	568	-
Non-recurring items	11,991	8,600
Adjusted EBITDA	**101,020**	**90,908**
Reconciliation of operating profit to EBITDA	**£000**	**£000**
Profit for the period attributable to equity shareholders	18,271	15,111
Underlying finance income and costs	21,409	19,302
Taxation charge on ordinary activities	5,852	5,882
Non-recurring items	848	3,916
Operating profit	**46,380**	**44,211**
Portfolio amortisation	41,199	42,984
Portfolio write up	(636)	(4,843)
Depreciation and amortisation	1,090	752
Foreign exchange (gains)/losses	975	(23)
Profit on disposal of purchased loan portfolios	(825)	(1,132)
Amortisation of acquisition and bank facility fees	278	359
Share based payments	568	-
Non-recurring items	11,991	8,600
Adjusted EBITDA	**101,020**	**90,908**

“Adjusted EBITDA ratio” represents the ratio of adjusted EBITDA to core collections

“CGU” means cash generating unit

“Collection activity costs” represent 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 cash collections on the Group’s existing portfolios including ordinary course portfolio sales and put backs

“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)

“CSA” means Credit Services Association

“Customers” means consumers whose unsecured loan obligation is owed to the Group as a result of a portfolio purchase made by the Group

“Defaulted debt” means a debt where a customer has breached the repayment terms governing that debt such that it is unlikely to be paid. Under the Consumer Credit Act 1974 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 1990 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

“DSBP” means the Arrow Global deferred share bonus plan

“EBITDA” means earnings before interest, taxation, depreciation and amortisation

“EBT” means employee benefit trust

“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. On acquisition, there is a short period that is required to determine the EIR, due to the complexity of the portfolios acquired

“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)

“EPS” means earnings per share

“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 the Financial Conduct Authority

“FOS” means the UK Financial Ombudsman Service

“FRC” means the Financial Reporting Council

“Free cash flow” means adjusted EBITDA after the effect of capital expenditure and working capital movements

“Gross cash-on-cash multiple” means core 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

“ICO” means the Information Commissioner’s Office

“IFRS” means international financial reporting standards

“IPO” means initial public offering

“ISOP” means the initial share option plan

“Lending Code” means the voluntary code of practice issued by the Lending Standards Board and describes minimum standards of good practice for banks, building societies, credit card providers and their agents

“Loan to value” or **“LTV ratio”** represents the ratio of 84-month ERC to net debt

“LTIP” means the Arrow Global long-term incentive plan

“MOJ” means Ministry of Justice

“Net cash-on-cash multiple” means collections to date plus the 84-month ERC or 120-month 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 2014 is as follows:

	£000
Cash and cash equivalents	(14,542)
Senior secured notes (pre transaction fees net off)	396,070
Senior secured notes interest	7,289
Revolving credit facility (pre transaction fees net off)	38,999
Deferred consideration	11,928
Net debt	**439,744**

"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 ERC

"OFT" means the Office of Fair Trading

"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, a data matching tool designed by Arrow Global and Experian

"Purchased loan portfolios" see **"existing portfolios"**

"PwC" means PricewaterhouseCoopers

"RCF" means revolving credit facility

"ROE" means the return on equity

"SID" means the senior independent director of the Group

"SIP" means the Arrow Global all-employee share incentive plan

"TCF" means the treating customers fairly FCA initiative

"TSR" means total shareholder return

"Underlying net income" means profit for the year 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 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