Annual Report & Accounts
2014

Arrow Global

Fair solutions.

Intelligent analysis.

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Introduction

Across most of Europe's economies, there's a weight of debt that is bearing down on people and businesses, creating strains upon the individuals, balance sheets and societies. What can we do about it?

Relieving the burden of problem debt.

As a leading purchaser and manager of debt, Arrow Global has a very simple, powerful ethos. We firmly believe that by putting the interests of our customers – those in debt – first, we are also able to best serve the interests of creditors, our own business, people, investors and partners, and society at large. The scale of unmanageable debt is a major issue for societies across Europe. In the UK alone, approximately 9 million people are struggling with it. 1.5 million are seeking advice and a further 1.8 million are said to be in denial.

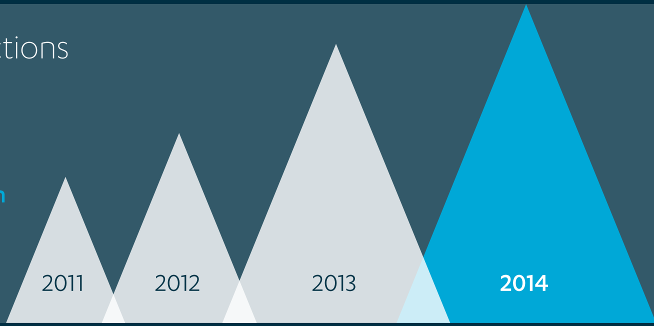
Making problem debt manageable. We are currently helping more than 465,000 people repay their debts and in 2014, 77,000 Arrow Global customers were able to clear their debt with the company.

At Arrow Global we're here to turn this potentially very negative circumstance upside down, and by putting customers' interests at the top of our agenda, create better outcomes for the customer, our clients and business.

Financial highlights

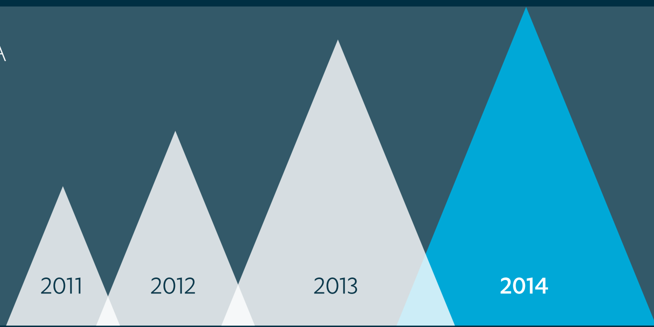
Core cash collections

2011 £68.2 million
2012 £88.7 million
2013 £130.3 million
2014 £148.5 million



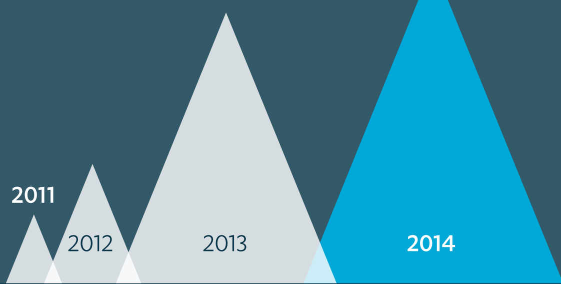
Adjusted EBITDA

2011 £44.3 million
2012 £61.9 million
2013 £90.9 million
2014 £101 million



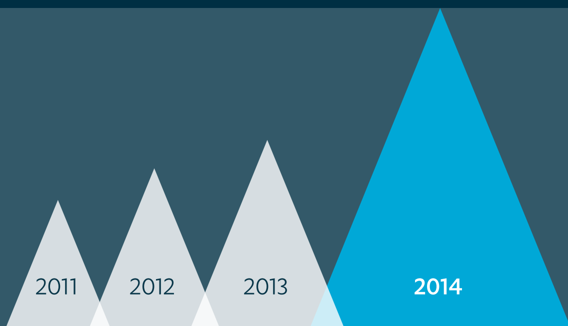
Underlying net income

2011 £6.4 million
2012 £11.1 million
2013 £25.2 million
2014 £29.6 million



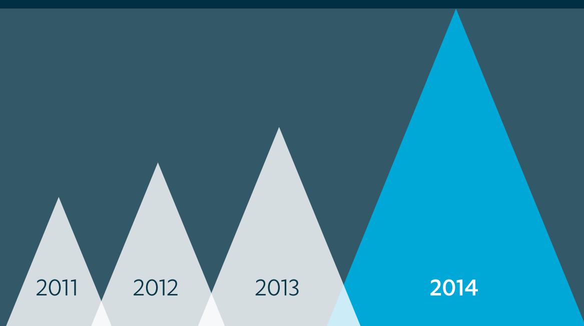
120-month gross ERC

2011 £441.0 million
2012 £551.3 million
2013 £650.3 million
2014 £1,085.4 million



84-month gross ERC

2011 £367.3 million
2012 £464.4 million
2013 £564.3 million
2014 £897.3 million



A glossary of terms can be found on pages 119 to 122.

Successful placing of
€225m
senior secured notes

Dividends
5.1p
total declared dividends for 2014

Net assets
£121.9m ▲
(2013: £105.2 million)

Increased RCF to
£100m ▲
(2013: £55 million)

Profit before tax
£24.1m ▲
(2013: £21.0 million)

Total revenue
£110.7m ▲
(2013: £94.7 million)

Invested
£302m
MCS – £11 million
Capquest – £153 million
Organic purchase portfolios – £138 million

Profit attributable to shareholders
£18.3m ▲
(2013: £15.1 million)

Underlying return on equity (ROE)
26.1%
(2013: 26.5%)

Moody's rating upgrade to
B1
(Previously B2)

Underlying basic & diluted earnings per share (EPS)
17p ▲
(2013: 16p)

Gross 120-month cash-on-cash multiples
2.2x[1]
(2013: 2.2x)

Successful acquisition of
Capquest

Financial Ombudsman Service (FOS) complaints remain low
20
per 1 million accounts
(7 per 1 million upheld)
(2013: 17 per 1 million accounts)

Total purchased loan portfolios
£477.5m ▲
(2013: 273.9 million)

A glossary of terms can be found on pages 119 to 122.

[1]Vintage organic purchases.

Jonathan Bloomer
Chairman
5 March 2015

Chairman's statement

2014 was another transformational year for Arrow Global Group PLC, perhaps most notably because of the acquisition of Capquest, following resounding shareholder approval at our general meeting in November. As part of the acquisition, we successfully raised €225 million through the issue of senior secured notes.

Against a backdrop of increased regulation, we expect the trend for market consolidation to continue, with a smaller number of large, highly compliant providers emerging.

Arrow Global has been a FTSE-listed company for a little over a year and has settled into life as a PLC very successfully, having paid its maiden interim dividend and proposed a final dividend of 3.4p bringing the total full-year dividend to 5.1p.

Our achievements this year couldn't have been delivered without the hard work of my fellow directors, the Group's executive committee and colleagues from across the business as a whole.

We continue to refresh the composition of the board to ensure that it is best placed to operate effectively. On the retirement of Gillian Key-Vice from the board on 27 November 2014, we announced that we were seeking a replacement. We were delighted to announce on 3 March 2015 the appointment of Lan Tu as a non-executive director with effect from 9 March 2015. Her strong financial and commercial pedigree, especially in the area of regulated financial services within Europe, will enable her to make a strong contribution to the Group and will complement the existing experience of the board.

As a board of directors, we remain firmly committed to serving customers and creditors, and have a very strong focus on treating customers fairly, which is also a key pillar of the Financial Conduct Authority's (FCA's) oversight regime.

Our landing slot for full FCA authorisation is Q3 2015. This is an important date for us and a key deliverable for the business this year. As part of our preparations, we have embedded our three lines of defence model and, in April 2014, formally appointed BDO as internal auditors.

Having reviewed the information in this report, my fellow directors and I confirm that the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the performance, strategy and business model of the company.

We look forward to a successful 2015, where we will continue to deliver for customers and shareholders alike, and hope to see many of you at our annual general meeting on 3 June 2015 in Manchester.

Our landing slot for full FCA authorisation is Q3 2015. This is an important date for us and a key deliverable for the business this year.

Tom Drury
Chief executive officer
5 March 2015

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 2.2x (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, with a Q3 2015 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 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.

As we move into 2015, we have a strong investment pipeline and expect portfolio purchases for the year to be in line with our 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 prices that meet 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.

Our five strategic objectives

To help us achieve our vision, we have developed five strategic objectives. These are as follows:

1. To protect and enhance Arrow Global's leading market position and build on the platform created by our public listing and track record to date.
2. To deliver attractive risk-adjusted investment returns alongside balance sheet optimisation.
3. To maintain Arrow Global's leading position in data enhancement, analytical insight and supply chain excellence.
4. To deliver a best-in-class customer experience and to minimise regulatory risk through a cautious approach to product extension.
5. To pursue diversification through a disciplined approach to geographic expansion and new asset classes.

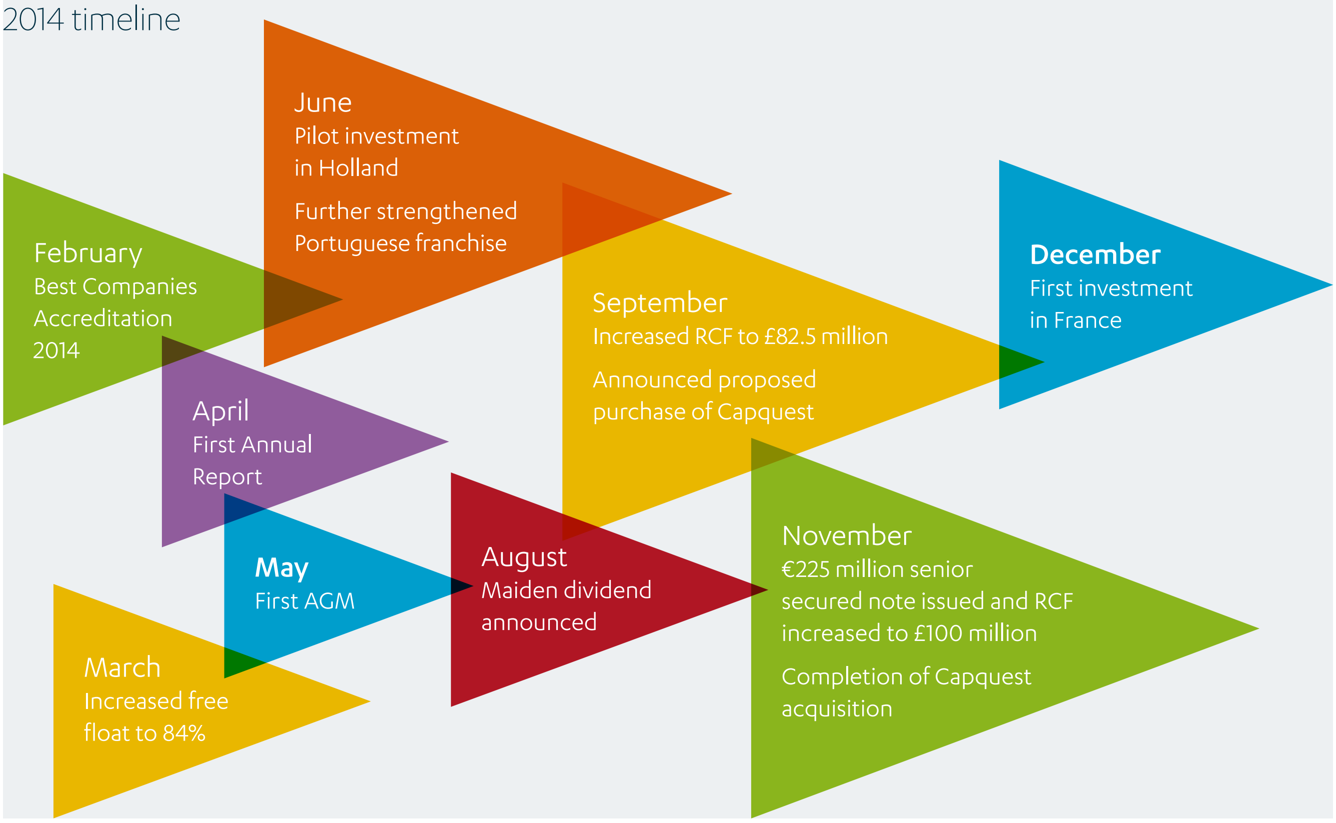
For more on our progress against our strategic objectives, please see pages 28 to 31.

Strategic report

Arrow Global Group PLC ((‘the Company’) and its subsidiaries, together (‘the Group’)), is a debt purchase and management business that uses proprietary data and analytics capabilities to acquire and manage debt portfolios from financial institutions and other credit providers.

We purchase secured and unsecured non-performing debt portfolios consisting of both consumer and SME accounts from across the UK and mainland Europe.

2014 timeline



Zachary Lewy
Founder and executive director

Who we are

- Arrow Global was established in the UK in 2005.
- Following the successful acquisition of Capquest, as at 31 December 2014, Arrow Global employs 485 people across four sites in Manchester, Farnborough, Glasgow and London.
- We hold assets in the UK as well as mainland Europe, including France, Holland and Portugal.
- In the last ten years, we have invested in assets from more than 60 different sellers.

Arrow Global is one of the UK's largest and fastest growing purchasers and managers of debt.

We are a Financial Conduct Authority (FCA) regulated business that buys predominantly non-performing loans (NPLs) and, as at 31 December 2014, the Group had purchased loan portfolios with a face value of £12.7 billion, across 8.3 million customer accounts (2013: £7.2 billion across 5.1 million customer accounts).

Industry context

The debt purchase and collections industry is an integral part of the credit ecosystem. As part of their underwriting decisions and wider business models, creditors (e.g. banks or building societies) factor in a certain level of customer default. Their appetite for accepting this risk will be determined by a multitude of factors and ultimately, will be reflected in the lending rates and decisions they make.

In order to release capital, maintain a healthy balance sheet and focus on their core specialism of lending, creditors will often sell defaulted loans to companies like Arrow Global, who have the expertise and data resources to better understand customers who have previously defaulted on their accounts.

By the time lending institutions come to sell debt, they have normally been either heavily or fully provisioned for. As accounting rules and regulatory requirements continue to evolve, we believe that the need for credit institutions to move asset risk of defaulted debt portfolios to third party specialists will continue and is likely to increase.

Regulation

As the market consolidates against the backdrop of a tighter regulatory environment, the number of debt purchase and collection agencies in the UK is decreasing.

As a company we are now regulated by the FCA and, rightly, the FCA expects all firms within the credit ecosystem to put customers at the heart of what they do. In order to meet these higher standards, banks and other credit originators have increased their level of oversight and we, in turn, have continued to increase our own level of oversight of those on our servicer panel.

This heightened focus on the customer ensures they receive the right outcomes and are therefore treated fairly. Putting customers' interests first makes it considerably easier to meet the stringent requirements of CONC, the specialist consumer credit sourcebook, which details requirements and obligations for firms undertaking credit-related regulated activities.

Strategic report

A data-driven business

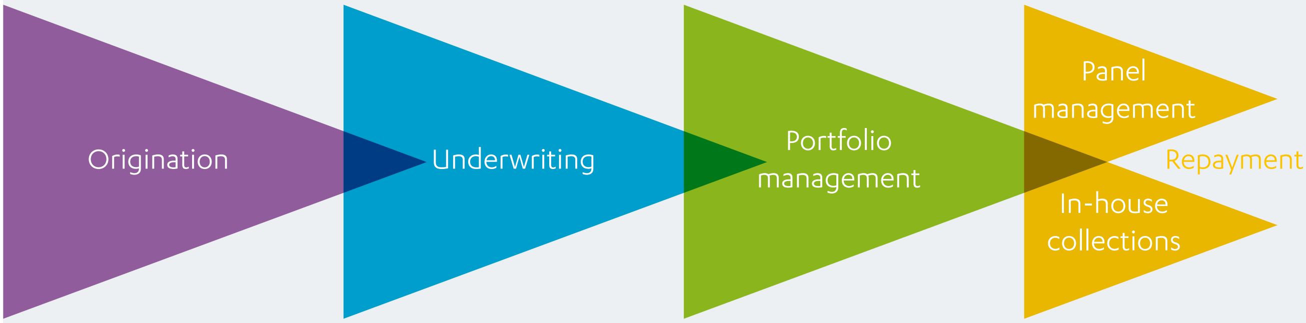
Defaulted debts purchased at a significant discount to face value.

Data-driven business model.

Affordable and compliant repayment plans or settlement agreed. Defaulted debts converted into sustainable long-term repayment plans.

Data enabler

Our model is built around using data and analytics to understand customer circumstances and create the most appropriate long-term solutions for customers. Supported by circa 18.5 million proprietary collections bureau (PCB) records, including 8.3 million Arrow Global accounts.



We have established relationships with creditors throughout the consumer credit industry, leading to repeat business with a core group of 60+ creditors.

Robust governance and independent review characterise the underwriting process, while highly accurate portfolio collection estimates enable competitive pricing and strong unlevered returns.

Post purchase, we seek to build consolidated customer profiles through our data models to better understand and serve customers. These profiles are constantly updated to reflect current customer circumstances.

We work with a carefully selected and monitored network of specialist third parties who manage customer accounts on our behalf. Our panel approach ensures customers are looked after by organisations most suited to assisting in light of each individual's circumstances.

Following the acquisition of Capquest we also have an in-house collections capability giving us added flexibility and the ability to undertake, test and learn activity for specific groups of customers.

64%
of portfolio purchases in 2014 were via existing creditor relationships.

102%
collected against original pre-acquisition underwriting projections.

£1.5 billion
customers with a current face value of £1.5 billion paid Arrow Global between October 2014 and December 2014.

20/1 million
Low complaint ratio of 20 FOS complaints per million accounts (7 per 1 million upheld for 2014).

What we do

When Arrow Global buys portfolios of non-performing loans, we look to build consolidated profiles of our customers by using our superior data assets.

By taking the time to better understand our customers and their current financial situation, we are able to set up affordable repayment plans. Importantly, we do not charge customers interest or fees on defaulted debt, unless there is a statutory requirement, in effect freezing the amount they owe.

Our approach enables our customers to restructure and settle their outstanding balances in a more manageable way, rehabilitate and improve their credit score, and ultimately, enhances their ability to gain access to affordable credit in the future.

Our financial model

Using our data and collection capabilities, we establish sustainable repayment plans with customers that result in long-term, annuity like cash flows. We forecast future cash flows at an individual customer account level and the aggregate of these forecasts is our estimated remaining collection (ERC). We report this on a seven-year (84-month) or ten-year (120-month) time period.

The debt we buy is sold at a discount. By using our enhanced data capabilities we are typically able to recoup more than the purchase price paid, whilst at the same time helping customers clear any outstanding balances and start to rehabilitate their credit records.

Following the purchase of Capquest, we will use a mixture of in-house collections as well as a panel of specialist third party servicers. It is envisaged that we will employ an approximate mix of 40% in-house versus 60% third party collections by value of repayments received.

Because of the purchases we make through the year and portfolios from earlier years, we have good earnings visibility and predictable future cash flows. In 2014, 76% of our adjusted EBITDA came from assets we owned on 1 January 2014.

Common reasons for debt problems

A significant piece of research by StepChange Debt Charity* suggests that 87% of people who find themselves in unmanageable debt, are in the situation due to circumstances beyond their control. This can leave them feeling trapped, often creating an unbearable strain on them. Some of the most common reasons are:

- Divorce/relationship breakdown.
- Loss of job, redundancy or loss of income.
- Death of a loved one.
- Drug, alcohol and gambling addiction.
- Poor physical and mental health.

Our customers

- Across the Arrow Global Group we have acquired portfolios made up of 8.3 million customer accounts.
- Circa 800,000 individual customers made one or more payments against their accounts to Arrow Global in 2014.
- 1.1 million customers have set up repayment plans with us over the last five years.
- In the UK, the average Arrow Global customer account balance at 31 December 2014 is £1,389.
- The average monthly payment received by Arrow Global in 2014 is £24.35.
- Where appropriate, we take every opportunity to signpost our customers to free impartial advice, and we estimate that 33% use the services of a not-for-profit third party debt manager.**

Illustrative economics (£m)[1]

84-month	120-month	
100	100	Face value of purchased balances owed
4.5	4.5	Price paid for the portfolio
7.9	9.5	Gross cash collections
1.8x	2.1x	Gross cash-on-cash multiple
19%	19%	Cost-to-collect ratio
6.4	7.7	Net cash collections
1.4x	1.7x	Net cash-on-cash multiple

*StepChange Debt Charity (2014). *Statistics Yearbook – Personal Debt 2013.*

**Figures for Arrow Global customers – excludes Capquest figures.

[1]Reflective of 2014 organic purchases and the Capquest backbook.

Our risk and compliance model

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.

► Strategic risk

Definition
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.

Effect on the Group

- 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 news and attention 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.

Approach
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

Definition
Risk of inappropriate strategy, systems, behaviours, or processes leads to poor and/or unfair customer outcomes or customer detriment.

Effect on the Group
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 damage to our brand.

Approach
Conduct risk and treating customers fairly (TCF) are at the heart of our business. All employees and third parties acting on our behalf receive TCF 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

Definition
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.
- 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.

Effect on the Group

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.

Exposure to remediation cost and cases pursued by claims management companies.

Failure to realise forecast synergies and potential poor customer outcomes.

Approach

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 practise ITIL-based procedures.

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.

Due diligence is undertaken on prospective investment purchases to identify potential documentation weaknesses. Our legal team are involved in all purchases and external legal advice is taken where required

To ensure the successful integration of Capquest, a specialist project team and board are overseeing all integration activities. Work streams are headed by senior business leads and all activities tracked against key deliverables.

► Financial risk

Definition

- 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 its obligations in a timely manner.
- Tax risk: tax compliance risks arise from the complex nature of tax legislation and practice.

Effect on the Group

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).

Approach

Liquidity risk is managed through matching the maturity of our funding facilities with the maturity 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 about its tax compliance obligations, and the application of tax legislation and practice to the transactions and activities it undertakes.

The Group's risk management policies on foreign exchange, interest rates, credit risk and market risk are explained in more detail within note 24 on pages 102 to 107.

► Investment risk

Definition

The risk of returns adverse to forecast as a result of inadequate portfolio purchase analysis and consequent mispricing.

Effect on the Group

The statistical models and analytics used, including the calculation ERC, may prove to be inaccurate, which could lead to poor decision making and the Group failing to achieve its anticipated recoveries.

Approach

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.

Continuous monitoring of risk

We have a continuous process for monitoring risk, with senior management owning individual risk registers, which are reviewed and updated on a regular basis, and are reported to the quarterly audit and risk committee meetings. During the year, the risk structure was further enhanced through the appointment of a number of additional experienced risk professionals.

Risk awareness and management is an integral part of all employees' roles and responsibilities, and employees are supported through briefings and training, which includes testing. During 2014, following a competitive tendering process, the Group appointed BDO as its internal auditors. In addition, creditors continue to undertake frequent audits of the Group to satisfy their own risk management models.

Our three lines of defence model

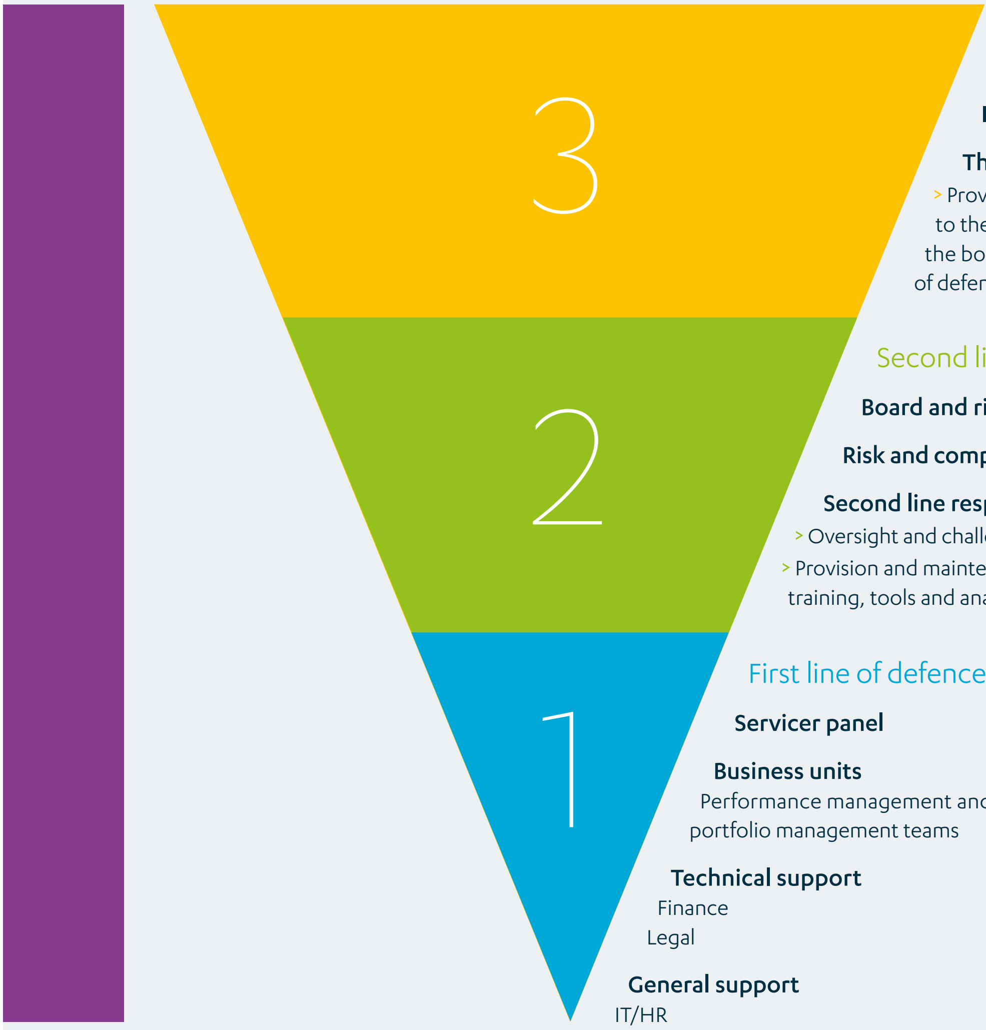
We have designed a typical financial services three lines of defence model. Risk is owned by management and integrated within business processes, and there are supporting arrangements to ensure independent risk expertise and assurance is available through a chief risk officer, who reports to the audit and risk committee.

Rob Memmott
Chief financial officer

"This year we implemented our three lines of defence model appointing BDO as internal auditors in April 2014."

Our three lines of defence model

The board



Third line of defence

Audit and risk committee

Internal audit

Third line responsibilities:

- Provision of independent assurance to the executive leadership and the board over first and second lines of defence.

Second line of defence

Board and risk management committees

Risk and compliance management function

Second line responsibilities:

- Oversight and challenge to the first line of defence.
- Provision and maintenance of policies, frameworks, training, tools and analysis.

First line of defence

Servicer panel

Business units
Performance management and portfolio management teams

Technical support
Finance
Legal

General support
IT/HR

First line responsibilities:

- Ensure effective risk and control environment and a risk-aware culture.
- Ongoing assessment and reporting on risk exposures.
- Ensure compliance with risk policies and manage risks within appetite.

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

To protect and enhance Arrow Global's leading market position and build on the platform created by our track record to date.

To deliver attractive, risk adjusted investment returns, alongside balance sheet optimisation.

Approach

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.

To purchase debt portfolios in those areas where we believe we have the strongest competitive advantage and greatest potential to purchase debt of outside auction processes.

We 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 on a pro forma basis and cash cover more than 4x.

2014 performance and key performance indicators

- 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.
- Completed our first transaction with a portuguese bank, evidencing increasing propensity to sell.

- 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 the 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.

We also continuously look to invest in new raw data and processes to improve key activities such as customer tracing and forecasting.

- Increased records in our PCB to 18.3 million (2013: 16.0 million).
- Increased 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 continue working with customers to understand their circumstances and establish long-term affordable repayment plans, which allow them to restore their financial standing at a rate that meets their needs.

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, which 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, average of 20 FOS complaints per 1 million accounts in the year, 7 per 1 million upheld (2013: 17).
- Implemented three lines of defence model, with BDO appointed internal auditor in April 2014.
- Access to 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 aim 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 circa 49% 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.

Strengthening our business model and seizing new opportunities

Capquest acquisition

In September 2014, Arrow Global announced the proposed acquisition of Capquest, a top 5 UK player based on 120-month ERC. Following shareholder approval and a successful debt capital raising exercise, the purchase was completed on 28 November 2014.

Above: Capquest, Glasgow. Left: Capquest, Farnborough.

> The financial benefits of the acquisition have already started to be realised, with a new organisation structure implemented from the beginning of December 2014.

The Capquest acquisition has given Arrow Global:

- An in-house collections capability which boasts a best-in-class customer service and IT platform.
- Enhanced data assets that will further improve underwriting and collections operations and enhance customers' experience.
- New and broader sources of origination.
- Expertise across a wider range of debt type.
- Greater customer insight from expertise held within the Capquest collection operations.
- Greater collection flexibility.
- Additional economies of scale and cost savings.

The financial benefits

The financial benefits of the acquisition have already started to be realised, with a new organisational structure being implemented from the beginning of December 2014.

We expect the majority of financial benefits to be realised in the next year and we remain confident of achieving annual pre-tax cost savings of £6.5 million in 2016.

Importantly, as part of the acquisition we also acquired over £104.0 million of UK portfolio assets at returns in line with Arrow Global's usual targets, with a 2.1 times 120-month gross cash-on-cash money multiple and 120-month ERC of £214.5 million (84-month: £181.4 million).

New services and revenue streams

With a collections capability housed in Farnborough and Glasgow, we can now offer contingency collections, additional asset management services, and the ability to work with creditors on a place-to-sell basis (i.e. placed with Arrow Global in a management capacity, with a view to sell at a later date).

Benefits to customers

As discussed in more depth later in this report, Arrow Global operates in an increasingly regulated sector.

The acquisition of Capquest brings together two businesses with a shared commitment to customer engagement and compliance. The enhanced data assets and servicing platform, which the new enlarged Group now enjoys, will provide yet greater customer insight and enhance Arrow Global's ability to deliver a high quality offering to customers and creditor clients.

Increasing regulation is likely to benefit our business and fuel our expansion into Europe

European markets

In the last year, there have been a significant number of regulatory and market changes across Europe that have caused financial services organisations – banks and building societies especially – to review their balance sheets.

The regulatory environment has continued to tighten, both in the UK and mainland Europe, and we believe that this will increase the propensity of financial institutions to sell and is likely to continue to do so. In particular, the trilogy of the International Financial Reporting Standards 9 (IFRS9), Asset Quality Review (AQR) and Basel III have had a significant effect.

We have strong links with financial institutions across the UK and mainland Europe and expect to benefit from sales generated as a result of these drivers. Across Arrow Global's current portfolio, 77.5% by purchase cost is classed as financial services.

IFRS 9

IFRS 9 is a new accounting standard, expected to be implemented from 1 January 2018, which will require banks to calculate expected losses for accounting purposes more prudently on assets that have seen a 'significant' deterioration in credit quality, on a lifetime rather than one-year basis.

AQR

Under the European Banking Authority definition, loans will be considered non-performing when they are more than 90 days overdue or unlikely to be repaid. This definition means that a higher proportion of loans in bank portfolios will have to be classified as non-performing.

As part of the AQR, in a review by the European Central Bank, where institutions were found to be under-reporting credit impaired loans, they were required to write down the value of those assets and increase levels of capital to cover them.

Basel III

The Basel III framework requires a certain amount of a bank's regulatory capital to be allocated to every loan or commitment. This restricts the amount of business a bank may do before it raises fresh capital.

As a result of these changes, banks in particular are already taking a more active approach to balance sheet management and loss provisioning. This is likely to cause an increase in the volume of debts financial institutions sell.

Expanding in mainland Europe

Arrow Global first entered the mainland Europe market in 2009, when we invested in Portugal, buying from an international bank that was already an existing creditor client in the UK.

We look to enter markets where we believe we have an opportunity to lead in key asset classes with good data assets, quality creditor clients, and a robust supply chain. In 2014, Arrow Global continued to expand in mainland Europe, by choosing to enter two new markets, Holland and France.

In France, we acquired a 15% interest in a market leader, MCS. Here, the market is still relatively underdeveloped, with the proportion of debt sold by French banks estimated to be less than 5% versus 20-80% in more developed markets, such as the UK and US, providing significant potential headroom for future growth. MCS focuses on high-balance SME loans, personal guarantee segments and consumer loans.

In Holland, we obtained our licence to operate and completed a €1 million portfolio investment.

We have continued to invest in new portfolios in Portugal, purchasing from domestic, rather than international banks, for the first time in 2014. During the year, we grew the value of assets (by face value) we hold in the geography to over €2 billion. This investment has significantly increased our data assets and, as part of the acquisition of new portfolios earlier in the year, we were able to match approximately 26% of customer records to existing Arrow Global records. As at 31 December 2014, we now have circa 500,000 accounts in Portugal, equating to circa 400,000 individual customers, across consumer and commercial SME portfolios and estimate that this equates to approximately 5% of the total adult population of the country.

Arrow Global has a history of leading the way in the fairer treatment of customers

Putting the customer first

Arrow Global's approach to customer engagement is to use data to understand our customers' individual circumstances and further enhance their experience. This enables us to make more informed decisions about the method and way in which we correspond with customers.

Ensuring colleagues put the customer first

- We don't charge interest or fees once a customers account is in arrears or defaulted.
- We undertake extensive call quality monitoring and calibration work.
- For collections colleagues in our Capquest operation, the outcome of this quality monitoring work is used to determine overall remuneration.
- We have a specialist training programme 'Care' which helps to ensure we provide support to customers who experience financial difficulty for a variety of reasons (including health issues).
- For all colleagues within Arrow Global Group, we test their knowledge to assess their understanding.
- Across Arrow Global Group, non-customer facing staff are also required to undertake call listening activity to help embed a customer-focused approach.
- Where appropriate, we take every opportunity to sign-post our customers to free impartial advice.
- Monthly customer surveys are undertaken to ensure customer satisfaction.
- Colleagues in our conduct management team work with our service partners to ensure Arrow Global best practice is adopted into our wider network. This work includes side-by-side call listening activity, end-to-end customer journey assessments, review of complaints handling activity and wider policy and procedure monitoring.

Arrow Global's approach to customer engagement is to use data to understand our customers' individual circumstances and further enhance their experience. This enables us to make more informed decisions about the method and way in which we correspond with customers.

We know that this approach is only part of a very complex puzzle, which has lots of component parts. With the addition of Capquest's industry leading customer service platform and an enhanced servicer oversight model, we continue to focus on and analyse the detail of the services we provide and how we interact with our customers.

We have a history of leading thinking in the way in which customers who find themselves in difficult financial situations should be treated. We are proud of the work we have done with a number of debt charities, as well as our own research into barriers to engagement, carried out in conjunction with the Personal Finance Research Centre at the University of Bristol, the Royal College of Psychiatrists and Plymouth Focus Advice Centre.

Like many in the consumer credit industry, we have invested heavily in our preparations to operate in a new FCA regulatory environment. Over the last two years we have been building and strengthening our risk and compliance capability, including the appointment of our internal auditor, BDO, in April 2014.

We welcome the FCA taking over regulation of the industry from 1 April 2014 as we believe that this philosophy of putting the customers at the heart of what debt purchasing and management companies do has encouraged the industry to fundamentally re-examine the way it works. For Arrow Global, this has meant reviewing and consolidating our own third party servicer network, mirroring what our creditor clients have done with their debt purchaser panels.

Our creditor clients are increasingly interested in the way in which their customers are handled once their debts have been sold and they only want to deal with purchasers who can protect their reputations. Ultimately, they want to work with a small number of large, highly capable and compliant partners, as this will allow them to maintain and develop more meaningful relationships with both purchasers and their customers. Arrow Global is currently on all major bank selling panels.

We are also looking at different ways in which we remunerate our network of servicers to ensure they are rewarded not just for what they collect, but for the customer outcomes they achieve and the activities they undertake.

Internally, we formally test employees to ensure that they have appropriate knowledge and understanding of their risk and compliance responsibilities.

Like others in the industry, in order to truly embed and foster the FCA's 'treating customers fairly' culture, we have invested in building a new risk management and compliance framework, guided by our specialist in-house team.

At Arrow Global, we take our corporate social responsibilities as a business very seriously

Corporate and social responsibility

We are committed to supporting the local communities in which we work, and many of our colleagues volunteer and assist local community organisations, both in and out of company time.

Our company-sponsored Arrow Global Engage programme – run for and by employees – enables colleagues to spend company time throughout the year volunteering for charity or community projects.

Through the Engage programme, colleagues support a number of community-based initiatives, such as a budgeting workshop for young people and assembling Christmas care packages for underprivileged families, as well as other fundraising activities throughout the year.

We further support colleagues' contributions to the community by matching funds raised by them for our chosen charities.

Financial education matters

As a company that sees first hand the issues that problem debts can cause, we took the decision in 2014 to focus on an initiative that could help people avoid these types of problems in the future. As part of this work, we partnered with the Personal Finance Education Group (pfeg) to sponsor a secondary school in Manchester, Oakwood Academy, to attain the Personal Finance Education Group's 'Centre of Excellence' accreditation mark for financial education. Once attained, Oakwood will be a beacon of financial education good practice in the local Manchester education community and it will open up volunteering opportunities for Arrow Global staff within the school.

Free money advice

Arrow Global continues to develop and strengthen partnerships with those in the not for profit debt advice sector to ensure the best possible customer outcomes. We have direct relationships with StepChange Debt Charity, Citizens Advice Bureau and Christians Against Poverty, and take an active role in industry forums, such as the Money Advice Liaison Group.

In 2014, we sought to build on our close partnership with StepChange Debt Charity and worked with them on a number of initiatives designed to promote awareness of the charity. This included taking part in and publicising 'Debt Awareness Week' as well as facilitating bespoke training sessions run by the charity for our service partners.

In November 2014, we piloted a contact initiative with a number of customers who had previously sought debt advice, but had then disengaged from further contact. The aim was to introduce these customers to StepChange for an assessment of their financial circumstances and, if appropriate, commence a debt management plan. The initiative used a bespoke communication package of letters, telephony, SMS and a dedicated web page (**www.stepchange.org/getbackontrack**). It focused on providing practical assistance and used some of the key findings from the Bristol University research we commissioned in 2013 about customer engagement. StepChange provided assistance in designing the bespoke communication package around the initiative, which we then implemented in conjunction with one of our service partners.

Caring for the environment

The environmental impacts have been considered more thoroughly in the report of the directors on pages 46 and 47, but given the nature of our business as a debt purchaser and manager, they are considered to be relatively minimal.

Following the acquisition of Capquest, the Group now has four sites across the UK and in order to reduce travel and thus the potential carbon footprint that colleagues might generate by additional travel between sites, a special video conferencing facility was established and went live in December 2014.

Across the Group, we offer colleagues a cycle to work scheme and at appropriate sites, we also have car share schemes in place, where, people who car share are given preferential parking.

Human rights

The Group's activities are carried out in developed countries that have strong legislation governing human rights. The Group complies with applicable legislation in the countries in which it operates.

Why Arrow Global?

This year Arrow Global will be celebrating ten years since its UK incorporation. As a business, we quickly gained market share and a reputation for excellence in both data analysis and customer service.

We have continued to grow and more recently have made big strides in mainland Europe markets. In 2014, we made significant portfolio purchases in Portugal, acquired a 15% interest in a French market leader, MCS, and completed a small portfolio investment in Holland.

Arrow Global operates a data driven business model, which along with a number of other key factors has helped us become an industry leader.

Within our business we have:

1 Experienced management and skilled staff

Arrow Global is managed by a seven-strong executive committee with complementary skills and extensive experience of risk management, credit, and business process outsourcing and finance.

The acquisition of Capquest in November 2014, further strengthened our existing senior leadership team, with Helen Ashton, Capquest's former chief executive officer joining Arrow Global's executive team as group chief operating officer.

Data assets and analytics are at the core of our business and this is reflected in our highly qualified and skilled staff. Across the Group, the percentage of colleagues in central functions with a degree level qualification is approximately 48%, and approximately 33% have a postgraduate or professional qualification.

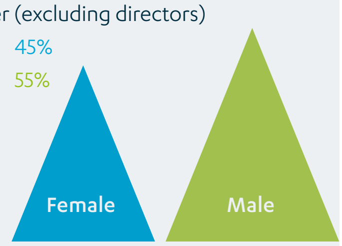
A new starter working in our in-house collections operations will receive approximately 150 hours of training in the first year; thereafter they will receive approximately 45 hours of training annually.

Whilst at 31 December 2014 our seven-strong board was 100% male, we have subsequently appointed Lan Tu to the board with effect from 9 March 2015. An additional four senior managers in addition to the three executive directors, constitute our executive committee, of these additional managers 50% are male and 50% female.

1 Staff split

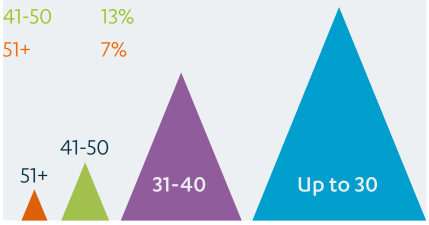
By gender (excluding directors)

Female 45%
Male 55%



By age (at 31 December 2014)

Up to 30 47%
31-40 33%
41-50 13%
51+ 7%



2 Diversified origination capabilities

Over the past ten years, Arrow Global has acquired portfolios from over 60 creditor clients across the UK and mainland Europe. Our portfolio consists of credit cards, personal loans, motor finance, retail, second liens, telecommunications, student loans and SME commercial loans.

Importantly, following a period of panel consolidation amongst sellers, we remain on all major bank panels. Following the acquisition of Capquest, we now offer creditor clients a wider range of options: debt purchase, asset management, place to sell and contingency collections.

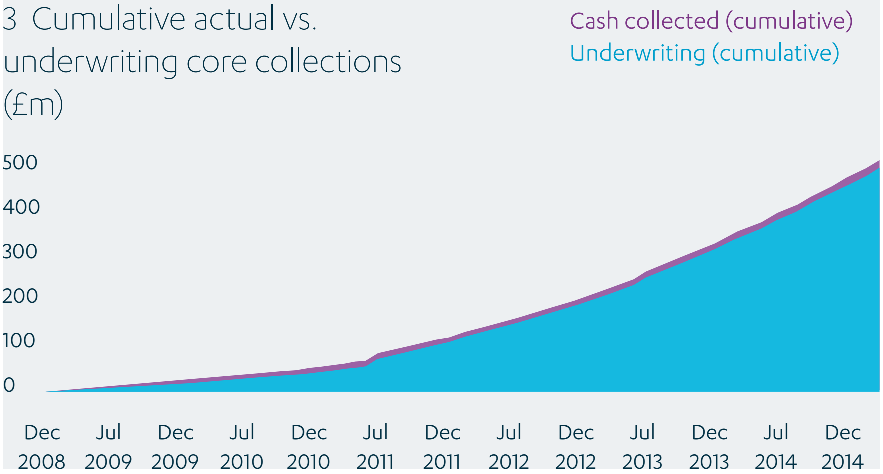
We continue to look to diversify our holdings by both asset class and geography in a considered manner and within our existing risk management framework.

3 Disciplined underwriting

We believe we have a robust underwriting and risk management framework in place to ensure a disciplined approach to portfolio purchases. We have an established track record of achieving collections on purchased portfolios against our original underwriting projections across both vintages and asset classes, having collected 102% of our gross original underwriting collections forecast.

The following graph sets out our cumulative cash flows actually collected, compared to the estimated cash flows at the time of underwriting:

3 Cumulative actual vs. underwriting core collections (£m)

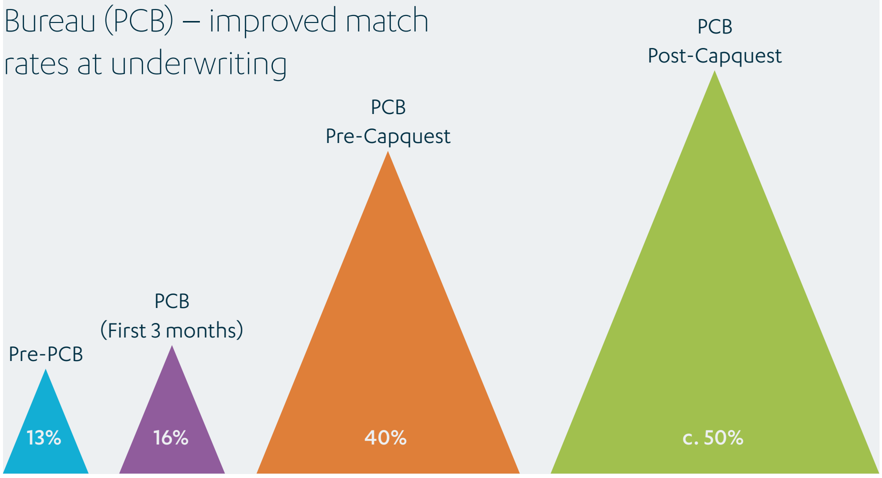


4 Leading data and analytics capabilities

Our data is key to optimising our collections performance, reducing risk and most importantly ensuring we achieve good customer outcomes.

We have 18.3 million records in our PCB, including the records for approximately 5.4 million accounts held in our own database. In addition, we have purchased 2.8 million accounts with the acquisition of Capquest, which we intend to integrate in 2015. Through our single customer view, we have been able to increase match rates to approximately 50% (i.e. the number of customers we can already identify through the data assets we hold).

4 Proprietary Collections Bureau (PCB) – improved match rates at underwriting



Why Arrow Global?

5 A flexible collection model

Historically, Arrow Global has worked with a carefully selected panel of specialist third parties to manage customer accounts on our behalf. This panel approach seeks to ensure customers are with the servicer best placed to help them. Following the acquisition of Capquest, Arrow Global expects to manage approximately 40% of the Group's UK business collections in-house. For the remaining 60%, Arrow Global will continue to work with a panel of third party servicers, but against the backdrop of a changing regulatory environment, and in line with other creditors, we are accelerating the rationalisation of this network to a core group of strategic partners.

We believe that this flexible model will enable us to fully utilise what we believe is a high-quality customer-focused servicing platform. This will further improve our ability to oversee a smaller outsourced servicer panel, thereby improving the overall experience of our customers.

In Portugal we have over €2 billion of assets by face value, with the total number of accounts owned at circa 500,000 representing 5% of the adult population of the country.

Our unique business models mean we have:

6 A market leading position in high growth markets

Following the acquisition of Capquest, Arrow Global now has £14.8 billion of owned assets under management and a combined 120-month ERC of over £1 billion – we are one of only two companies in the sector to break through this significant milestone.

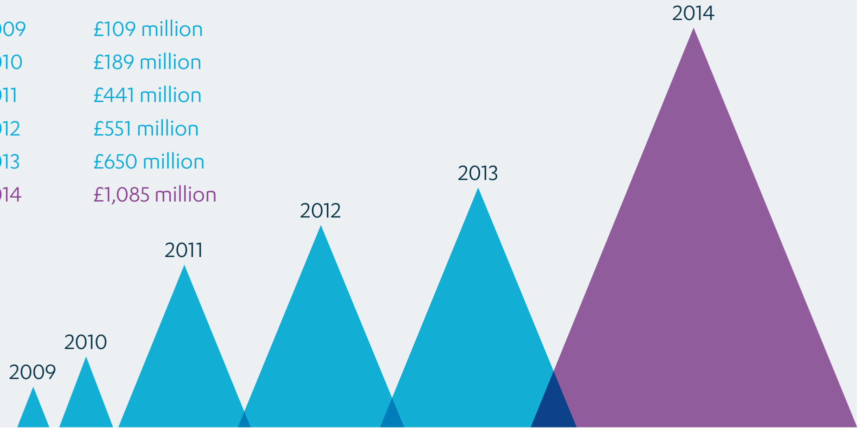
In its recent industry report in November 2014, OC&C strategy consultants predicted the volumes of debt outsourced would likely continue to increase across Europe. In the UK market, it predicted debt sold to grow at around 12% per annum over the next three to four years.

In Portugal, we have over €2 billion of assets by face value, with the total number of accounts owned at circa 500,000 representing 5% of the adult population of the country.

This year we also acquired a 15% interest in a French market leader, MCS.

6 120-month ERC

2009	£109 million
2010	£189 million
2011	£441 million
2012	£551 million
2013	£650 million
2014	£1,085 million



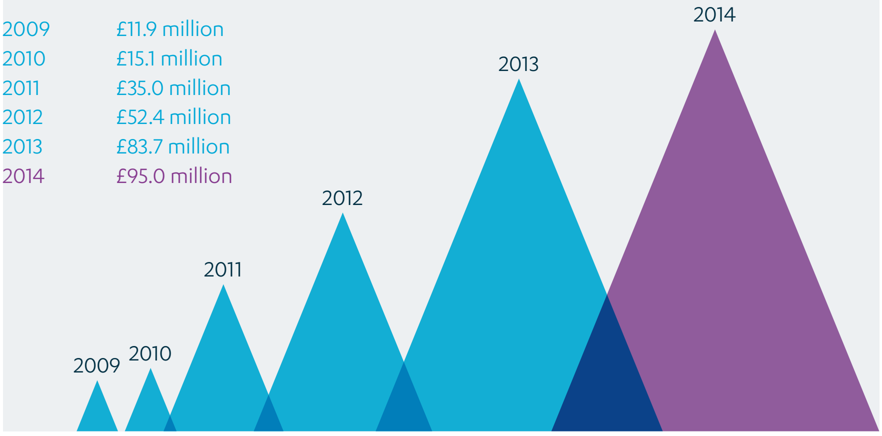
7 Highly cash generative business

We are highly cash generative, meaning that we have surplus cash available to grow and reinvest in our business. In 2014, the Group had cash generated from operations before purchases of loan portfolios of £97.2 million in 2014 (£107.5 million underlying).

We continue to pursue a progressive dividend policy targeting a pay-out ratio of between 25% and 35% of annual underlying net income.

7 Cash from operations

2009	£11.9 million
2010	£15.1 million
2011	£35.0 million
2012	£52.4 million
2013	£83.7 million
2014	£95.0 million



8 Earning and cash flow visibility, supported by value embedded in existing assets

Our existing portfolios provide visibility around future earnings and cash flow generation. As a result, we have significant value and predictable future cash flows embedded in our existing portfolios, with 120-month gross ERC of £1,085.4 million (84-month £897.3 million).

Core collections increased to £148.5 million in 2014 (2013: £130.3 million) with 76% coming from assets owned on 1 January 2014.

9 Strong balance sheet

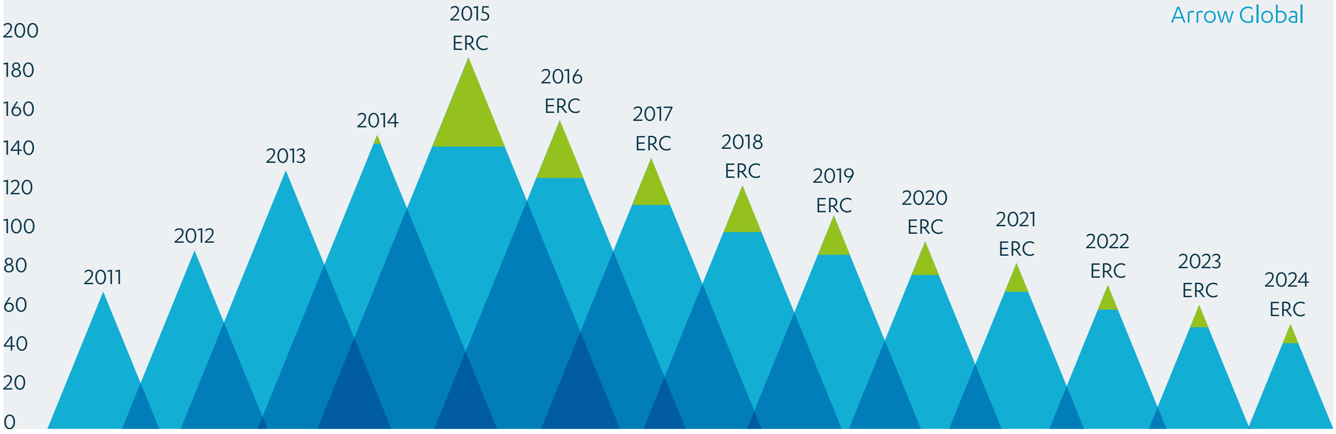
Long-term funding is a key part of our business model. In 2014, as part of our acquisition of Capquest, we issued a €225 million senior secured floating rate note at a price which was reflective of Arrow Global's increased standing amongst investors (a coupon of the three-month Euribor rate + 5.25%).

During the year, we also increased our revolving credit facility from £55 million to £100 million with the maturity extending from January 2018 to January 2019, on improved terms.

The combination of strong cash generation from the business and available funding resource means we are confident that we have sufficient liquidity and capacity to realise Arrow Global's growth ambitions.

At 31 December 2014, our net debt to adjusted EBITDA ratio was 4.4x (pro forma 3.6x). We monitor key credit ratios to ensure sufficient coverage and, as at 31 December 2014, our cash cover was 5.4x (pro forma 4.0x) and net debt to 84-month ERC 49.0%.

8 Value embedded in existing book (£m)



Data driven business model

A data driven business model, serving everyone's best interests. Ensuring the right initial customer contact is a core part of what we do. When we purchase defaulted customer accounts, they often comprise a high proportion of missing or erroneous data, also known as 'distressed' data.

Depending on the credit originator and asset type, there can be a number of reasons for the 'distressed' nature of this data such as:

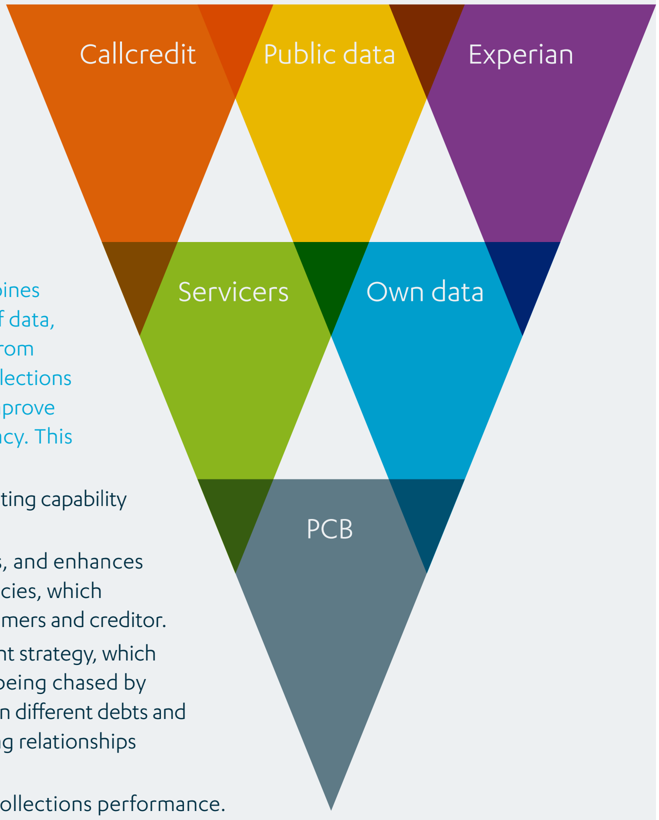
- Absence of a single national identity system.
- Customers moving frequently.
- Creditor IT system migrations leading to loss or degradation of data.
- Poor information gathering at the point of origination.
- Purposeful supply of inaccurate information by the customer.

These and other factors can ultimately give rise to incorrect customer information and make collection by the original lending institution and account owner difficult or unsuccessful.

Once Arrow Global takes ownership of a debt portfolio, we seek to repair missing and erroneous customer data in order to find lost customers and more accurately assess their circumstances.

By getting the right data, we can ensure a better customer experience and reduce our own underwriting risk. Ultimately, improved data drives collections and operational efficiency and helps improve compliance.

Improving data



Arrow Global combines multiple sources of data, including records from the Proprietary Collections Bureau (PCB), to improve overall data accuracy. This leads to:

- Enhanced underwriting capability and pricing.
- Reduced mistraces, and enhances collections efficiencies, which benefits both customers and creditor.
- Improved placement strategy, which avoids customers being chased by multiple servicers on different debts and ensures that existing relationships are honoured.
- Improved overall collections performance.

More complete understanding of customer and more accurate business modelling

PCB – Solving an important part of the data puzzle

Data processing restrictions in the UK mean that customers cannot be matched to a credit referencing agency database prior to the purchase of an account, therefore, many debt purchasers face significant data limitations. In the UK, this is compounded by a lack of a national identity system (a problem we don't encounter in some of the other markets, in which we operate).

Couple this lack of data and data access, before the purchase of a debt portfolio, with the drivers of distressed data above and you can see there is a clear need for a comprehensive tool which has the capability to remove this uncertainty.

Arrow Global's PCB, which is the only one of its kind in the current market, provides a solution. Now with 18.3 million records in its data set, PCB aggregates information from our servicer partners, third party debt collection managers (3PDMs) and information from creditors with our own data.

By using the PCB, we are able to analyse debt portfolios and their individual customer records both pre and post purchase.

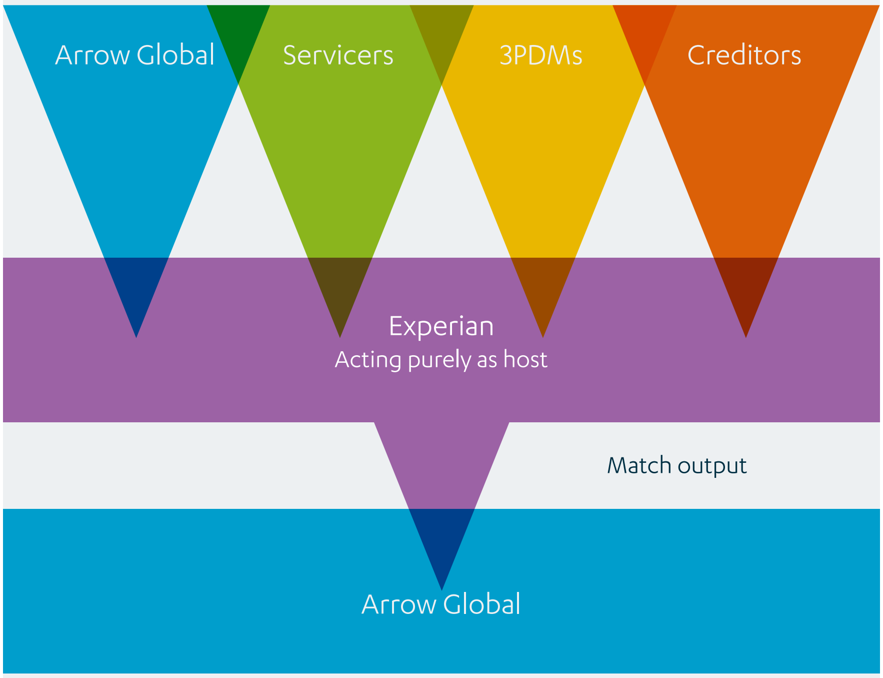
Pre-acquisition, we are able to establish the percentage of customers in a given portfolio that we already have information for. Here, an overall 'match rate' across the portfolio can be established. Before PCB was developed, match rates for a typical financial services defaulted debt portfolio would be as low as 13% – because of PCB, for Arrow Global, this has risen to an industry leading 50% in many cases.

Improved match rates give us greater underwriting insight when buying or bidding for a portfolio. Once a portfolio has been purchased by Arrow Global, PCB adds to the customer experience. Inaccurate data can significantly increase the likelihood of mistraces, leading to frustrations among individuals wrongly linked to inaccurate accounts. It can also lead to lost income for us and the creditors we collect on behalf of.

The PCB is now a core part of our customer contact and collections strategy, because it captures important customer payment point information that is not contained in traditional credit bureau files.

Without upfront co-ordination during the data matching process, a customer's creditors might appoint multiple servicers. With data matching, this can be avoided. PCB identifies any existing customer-3PDM and customer-servicer relationships, enabling us to take a more streamlined and importantly, a more compliant approach to an account, ensuring we meet our obligations under the 'Lending Code'. In short, collecting on an informed basis always outperforms collecting 'blind' and is better for our customers.

Proprietary Collections Bureau (PCB)



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.

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 as at 31 December 2014 (2013: £273.9 million).

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

Key results as of and year to	**31 December 2014 £m**	**31 December 2013 £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 119 to 122.

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 2014 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 Portugal.

84-month ERC bridge from December 2013 to December 2014 (£m)

Financial review

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 notes 8 and 10 on pages 92 and 94 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 expected collections £m**	**ERC £m**	**Total expected collections £m**	**Gross money multiple[1]**
Pre-2010	43.3	93.5	45.4	138.9	55.4	150.2	3.4
2010	30.14	65.1	47.1	112.2	54.5	120.3	4.0
2011	110.2	152.1	151.7	303.8	183.4	339.1	3.1
2012	83.8	73.9	112.0	185.9	133.5	209.6	2.5
2013	101.3	64.4	145.8	210.2	178.6	245.7	2.4
2014	241.7	35.4	395.3	430.7	480.0	516.7	2.1
Total	**610.4**	**484.4**	**897.3**	**1,381.7**	**1,085.4**	**1,581.6**	**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.

► Funding, net debt and net assets

In 2014, we successfully increased our 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).

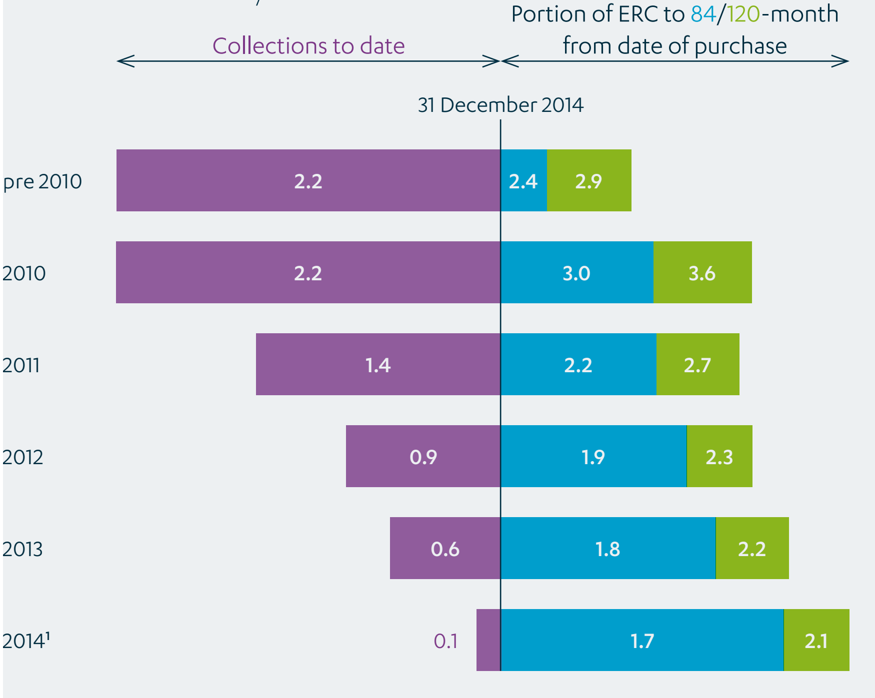
Net debt at 31 December 2014 was £439.7 million, being 4.4x adjusted EBITDA (pro forma 3.4x) and a net debt/84-month ERC loan to value ratio of 49.0%, which is significantly below our financial covenants of 75%. Net debt to adjusted EBITDA is expected to reduce in 2015, with the benefits of the Capquest 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 13.

Money multiples: gross collections to date and ERC from 1 January 2015



[1]2014 numbers include Capquest backbook and organic purchases at 2.2x.

Vintage	Purchase price £m	Face value acquired £m	Pence per £m	84-month gross cash-on cash-money multiple	120-month gross cash-on cash-money multiple
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	2.3x
2013	101.3	1,395.9	7p	1.8x	2.2x
2014	240.5	5,432.8	4p	1.7x	2.1x
Total	**609.2**	**12,701.1**	**5p**	**2.0x**	**2.4x**

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:

Regulation and compliance

Overview
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.

Our approach
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

Overview
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, AQR and Basel III, new sellers are also expected to come to the market.

Our approach
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.

> With our enhanced origination capabilities following the Capquest acquisition and flexible business model we continue to look for opportunities in both new asset classes and geographies.

Panel sizes

Overview
We believe that creditors will continue to be discriminating in their choice of purchaser and that for those who have not 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.

Those that remain will be the purchasers with scale, superior data capabilities and a proven track record for compliance.

Our approach
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 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

Overview
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.

Our approach
We remain focused on a disciplined approach to diversification by asset class 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 continues 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.

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 prices that meet 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. 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 growth.

Approved by the board of directors 5 March 2015, signed and authorised for issue on its behalf by:

T. Drury

Tom Drury
Chief executive officer
5 March 2015

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Board of directors

Jonathan Bloomer

Non-executive chairman, age 61
Appointment: 5 October 2013
Experience: Currently Chairman of the employee benefit business of Jardine Lloyd Thompson PLC, Chairman of Shepherd Direct Ltd, and a member of the code committee of the Takeover Panel. His previous positions include Chief Executive of Prudential PLC, Senior Independent Director of Hargreaves Lansdown PLC, Chairman of the Audit Committee of Autonomy PLC, Chairman of the Practitioner Panel of the FSA and board membership of the Geneva Association.
Committee membership: Remuneration committee, nomination committee (Chair)

Tom Drury

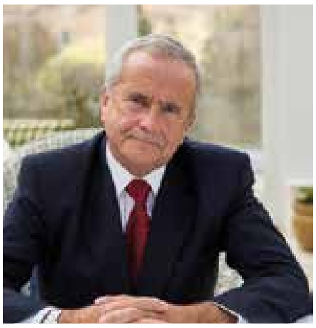
Chief executive officer, age 53
Appointment: 5 October 2013
Experience: 18 years executive leadership experience. Joined Arrow Global from Shanks Group PLC in 2011, where he served as Group Chief Executive from 2007. Previous roles include Managing Director of Vertex Data Science Limited for 11 years, board member of United Utilities from 2005 to 2007 and management consultant at PricewaterhouseCoopers.

Rob Memmott

Chief financial officer, age 42
Appointment: 14 August 2013
Experience: 13 years experience as a Chief Financial Officer and 17 years experience in senior financial leadership roles. Previous roles included Chief Financial Officer for Leeds Bradford International Airport Limited and Servisair and Finance Director for Alfred McAlpine. He qualified as a chartered accountant with KPMG in Manchester.
Committee membership: Disclosure committee

Zachary Lewy

Founder and executive director, age 40
Appointment: 5 October 2013
Experience: Zachary Lewy is the Founder and Executive Director of Arrow Global. 16 years of executive experience in consumer finance and business process outsourcing. Previous roles include working for Vertex where he served as President of Vertex North America and Group Corporate Development Director. Co-Founder and Executive Director of 7C Limited which was acquired by Vertex in 2002. Zachary is a former board member of the Credit Services Association having been Chairman of the UK Debt Buyers and Sellers Group since 2012.



Sir George Mathewson

Non-executive director and senior independent director, age 74
Appointment: 5 October 2013
Experience: Joined 3i Group PLC in 1972 and served as Chief Executive Officer at the Scottish Development Agency from 1981. He joined The Royal Bank of Scotland Group PLC in 1987 and was subsequently appointed Group Chief Executive Officer in 1992, Executive Deputy Chairman in 2000 and Chairman in 2001. He also served as the President of the International Monetary Conference. In 1999, he was knighted in the New Year honours list for services to economic development and banking. He holds several other board positions in the UK and US.
Committee membership: Audit and risk committee, remuneration committee

Iain Cornish

Non-executive director, age 54
Appointment: 15 October 2013
Experience: 20 years to 2011 at Yorkshire Building Society, including eight years as Chief Executive Officer. Iain is currently an independent Non-Executive Director of the Prudential Regulatory Authority and St James' Place Wealth Management. He was previously Non-Executive Director of Vanquis Bank, Chairman of the Practitioner Panel of the FSA and of the Building Societies Association and executive committee member of the Council of Mortgage Lenders.
Committee membership: Audit and risk committee (chair), disclosure committee (chair), nomination committee

Robin Phipps

Non-executive director, age 64
Appointment: 5 October 2013
Experience: 25 years to 2007 at Legal & General PLC, working as Group Executive Director for the UK business and in a wide range of other senior positions, including Group Director of Sales and Marketing, Group Director of Retail, Managing Director of Customer Services and Director of Information Technology. He is currently Chairman of BUPA Insurance, Non-Executive Director of Friends Life Group PLC, IFG Group PLC and Chairman of Saunderson House.
Committee membership: Remuneration committee (chair)

Lan Tu

Non-executive director, age 47
Appointment: 9 March 2015
Experience: Over 10 years of experience in senior leadership roles within American Express. Lan currently heads its Emerging Payment and Services business in Europe, Middle East and Africa. Prior to this, she was the General Manager for its UK and Nordics Merchant Services business and previously ran its International Strategic Planning group. Previous experience also includes 12 years at McKinsey & Company, working primarily in the financial services sector.
Committee membership: Audit and risk committee, nomination committee

Stewart Hamilton

General counsel and company secretary, age 39
Appointment: 24 September 2013
Experience: 13 years experience as a solicitor in corporate and commercial law. Joined Arrow Global from Addleshaw Goddard in 2011. He qualified as a solicitor with Linklaters in 2002 before working for Baker & McKenzie in London.

Report of the directors

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2014. The corporate governance report set out on page 49 forms part of this report. The Company's principal subsidiaries are listed in note 23.

Results and going concern

The Group's results are discussed in the financial highlights, chairman's statement, chief executive officer's review and strategic report on pages 4, 6 and 8 respectively, which are incorporated into this report by reference.

Consideration of going concern can be seen on page 85. After making appropriate enquiries, the directors have a reasonable expectation that the Company and the Group will be able to continue in operational existence for the foreseeable future, owing to the fact that forecasts show sufficient resources are available throughout the period under review. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Fair, balanced and understandable

As required by the UK Corporate Governance Code 2012 Edition ('the Code'), the directors confirm that they consider that this annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The board came to this view following a rigorous review process throughout the production schedule. The annual report is drafted by appropriate members of the reporting and leadership teams and is managed by the investor relations co-ordinator to ensure consistency. A series of planned reviews are undertaken by the reporting team, leadership team and directors in advance of final consideration by the board. The annual report is also reviewed by the audit and risk committee.

Dividends

The directors recommend the payment of a final dividend of 3.4p per ordinary share for the financial year ended 31 December 2014 (2013: £nil) to be paid (assuming shareholder approval is obtained) on 9 July 2015 to ordinary shareholders on the register on 12 June 2015. This together with the interim dividend of 1.7p per share (2013: nil) paid on 9 October 2014 brings the total dividend for the year to 5.1p per share (2013: nil).

Share capital

As at 31 December 2014, the Company had 174.4 million ordinary shares in issue, of one class, with a nominal value of 1p each. On a show of hands at a general meeting of the Company, each member present in person or by proxy, and entitled to vote, shall have one vote and, on a poll, every member shall have one vote for every ordinary share held. There are no issued shares in the Company with special rights with regard to control of the Company.

Purchase of own shares

At the 2014 annual general meeting, shareholders authorised the Company to make market purchases of up to 17,443,902 ordinary shares representing 10% of the issued share capital at that time, and to allot up to an aggregate nominal amount of £1,162,926.84. These authorities expire at the 2015 annual general meeting. During the year to 31 December 2014, no shares were allotted or repurchased. Resolutions to renew these authorities will be proposed at the 2015 annual general meeting.

The Company operates an independent employee benefit trust for future benefit to employees of the Group. Bedell Trustees Limited is the trustee of the Arrow Global Group PLC employee benefit trust ('the Trust'). During the financial year, the Trust transferred shares to the Trustee of the Arrow Global Share Incentive Plan ('the SIP') to satisfy awards of shares to participating employees under the SIP. As at 31 December 2014, the Trust held 154,562 ordinary shares (2013: 251,572 shares) representing 0.1% (2013: 0.1 %) of the Company's issued share capital. The Trust deed contains a dividend waiver provision in relation to these shares. There were no purchases of shares by the Trust during the year.

Transfer of securities

There are no restrictions on the transfer of shares, limitations on the holding of shares or requirements to obtain prior approval of the Company, or of other holders of securities in the Company, to a transfer of shares, except as laid out below.

As part of the IPO, certain directors agreed not to sell or dispose of any shares in the Company for a period of 24 months from the date of the IPO, save with the written consent of the Global co-ordinator, Goldman Sachs International.

The board may decline to register a transfer of any share which is not fully paid. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the articles of association) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four. The board may decline to register a transfer of a certificated share unless the instrument of transfer: (i) is duly stamped or certified or otherwise shown to the satisfaction of the board to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the board may reasonably require; (ii) is in respect of only one class of share; and (iii) if joint transferees, is in favour of not more than four such transferees. Further, the board may decline to register a transfer of a certificated share where the transfer is requested by a person with more than a 0.25% interest in the issued share capital of the Company (excluding treasury shares) if such a person has been served with a restriction notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006, unless the transfer is shown to the board to be pursuant to an arm's length sale (as defined in the articles of association).

The articles of association also contain certain restrictions on transfer which are designed to ensure that the assets of the Company are not deemed to constitute 'plan assets' within the meaning of the Plan Asset Regulations (as defined in the articles of association) because the directors have been advised that this could result in the Company becoming subject to certain onerous obligations under US law. Accordingly, the articles of association provide that the board may refuse to register a transfer of shares, or compulsorily require the transfer of shares, where a transfer of shares, or continued holding of shares, would cause, or is likely to cause (i) the assets of the Company to be considered 'plan assets' under the Plan Asset Regulations or (ii) the Company to suffer any pecuniary disadvantage, including any excise tax, penalties or liabilities, under ERISA or the IR Code (each as defined in the articles of association).

No shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights except that a shareholder has no right to vote in respect of a share unless all sums due in respect of that share are fully paid. There are no known agreements between holders of securities that may result in restrictions on the transfer of securities or voting rights and no known arrangements under which financial rights are held by a person other than the holders of the shares.

Substantial shareholdings

As at 3 March 2015, the following interests amounting to 3% or more in the Company's shares had been notified to the Company:

Shareholder	Holding	% of total ordinary shares
Schroder Investment Management	20,965,112	12.02%
Legal & General Asset Management	12,628,457	7.24%
Jupiter Asset Management	10,907,311	6.25%
SEB Asset Management	10,753,474	6.16%
BlackRock	8,806,100	5.05%
Tom Drury	8,775,362	5.03%
Zachary Lewy	7,451,079	4.27%

Report of the directors

Directors

Biographical details of the directors of the Company during the year and to the date of this report can be seen on pages 42 and 43. Lan Tu was appointed as non-executive director post year end, with effect from 9 March 2015.

The directors are aware of the retirement by rotation provisions in the Code that apply to FTSE 350 companies and have adopted these provisions. Lan Tu offers herself for election by shareholders for the first time at the 2015 annual general meeting. All other directors will offer themselves for re-election at the 2015 annual general meeting.

Directors' interests

The directors' interests in the share capital of the Company at 31 December 2014 are set out on page 59.

Directors' indemnities

The Company has granted indemnities to all of its directors on terms consistent with the applicable statutory provisions. Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the year, and remain in force at the date of this report.

Interim report

Current regulations permit the Company not to send copies of its interim reports to shareholders. Furthermore, the 2015 interim results will not be sent to shareholders. Interim results and other information about the Company will be available on the Company's website at **www.arrowglobalir.net**

Electronic and website communication with shareholders

The Company's articles of association permit electronic communication with shareholders as provided in the Companies Act 2006. The Company obtained authority from its shareholders at the 2014 annual general meeting to implement electronic communication. It is intended that the 2014 annual report and notice of annual general meeting 2015 will be distributed electronically and via the Company's website to shareholders who have consented, or deemed to have consented. Shareholders who have requested shareholder information in hard copy form will continue to receive this.

Employee consultation

The Group places considerable value on the involvement of its employees and uses a number of ways to engage with the team on matters that impact them and the performance of the Group. These include regular Company-wide update meetings and email communication, use of the colleague council, the distribution of a weekly newsletter, focus group meetings, annual employee surveys and regular Company-wide business update meetings and workshops. Our people managers carry out monthly one-to-one meetings with their direct reports and the senior management team has an open door policy which allows all employees to discuss any concerns or new initiatives. The Group also has a whistleblowing policy available on the employee intranet and employees are made aware of this at induction and through regular on-going refresher training.

Disabled persons

The Company adopts a consistent, non-discriminatory approach to all applicants, with due regard to their skills and abilities. In the event of an employee becoming disabled, every effort is made to ensure that their employment within the Company continues and that appropriate training is arranged where necessary. It is the policy of the Company that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Environmental policy

Due to the nature of its business activities, the Group's environmental impact is considered minimal. An environmental policy is in place to increase employee awareness of environmental issues and complies with all relevant regulatory requirements. The Group's environmental impacts are through resource use and business travel. Key areas of the policy addressing the business' environmental impact are as follows:

- Minimising paper usage and the purchase of recycled paper and packaging where possible.
- Energy efficient office products.
- Recycling office waste.
- Increased use of video and conference calls.
- Supporting cycling to work through a cycle to work scheme.

Carbon reporting – methodology

We have followed the requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the Carbon Trust conversion factors to measure and report greenhouse gas emissions, as well as the disclosure requirements in Part 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The financial control method, which captures the sources that fall within our consolidated financial statements, has been used. Although we operate an outsourced model working with partners, these partners do not work exclusively for the Group and therefore it is not deemed appropriate to include emissions outside of the Group consolidated financial statements. The reporting period aligns to the financial period (i.e. the year to 31 December 2014) and the Group's carbon reporting falls under three scopes:

Scope	Type	Reportable items
1	Direct emissions from sources owned by the Company	Air conditioning and refrigeration leaks*
2	Indirect energy consumed but not owned by the Company	Electricity usage
3	Other indirect emissions not included in scope two	Business travel

*Considered under the screening method with an estimated 5% leakage.

Activities that the Group was responsible for led to 106.4 tonnes of annual CO_2 emissions in 2014 as documented below:

Scope	CO_2 emissions (tonnes) per annum 2014	CO_2 emissions (tonnes) per annum 2013
1	1.3	0.9
2	56.8	54.4
Total scope 1 and 2	**58.1**	**55.3**
3	48.4	28.2
Total	**106.5**	**83.5**
Tonne of CO_2e per employee (using average number of employees for the year)	**0.68**	**0.77**

Whilst we consider our carbon emissions to be low, the main area we can control is business travel and we will continue to make employees aware of environmental impacts.

Statement of disclosure of information to the auditor

Each of the persons who is a director at the date of approval of the financial statements confirms that:

1. so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. the director has taken all steps he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

Resolutions to reappoint KPMG LLP as independent auditor to the Company and to authorise the directors to determine their remuneration will be proposed at the forthcoming annual general meeting.

Annual general meeting

The forthcoming annual general meeting of the Company will take place at Manchester Town Hall, Albert Square, Manchester, M60 2LA on Wednesday, 3 June 2015 at 2pm. Notice of the forthcoming annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appear in the document accompanying this report and accounts.

By order of the board:

Stewart Hamilton

Company secretary

5 March 2015

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent Company financial statements with UK Accounting Standards. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether they have been prepared in accordance with IFRSs as adopted by the EU
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy

By order of the board:

Rob Memmott
Chief financial officer
5 March 2015

Tom Drury
Chief executive officer
5 March 2015

Corporate governance report

The board considers that active dialogue with its shareholders, bondholders and revolving credit facility providers to be vital to the success of the business.

Compliance statement

This corporate governance report, together with the reports of the audit and risk committee, nomination committee, disclosure committee and the directors' remuneration report, provide a description of how the main principles of the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in September 2012 ('the Code'), have been applied by the Company in 2014. The Code is available on the FRC website at **www.frc.org.uk**

FRC issued an updated version of the Code in September 2014, to apply to accounting periods beginning after 1 October 2014. The Company is reporting against the 2012 edition of the Code.

During the year, the Company was in compliance with the relevant provisions of the Code and intends to continue to comply with the requirements of the Code, which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

The board currently comprises seven members, including me, as chairman, three executive directors (Tom Drury, Rob Memmott, Zachary Lewy) and three independent non-executive directors (Sir George Mathewson, Iain Cornish and Robin Phipps). The board regarded me, as chairman, as independent upon my appointment, and considers that I continue to meet the independence criteria. Lan Tu joins the board on 9 March 2015 as an independent non-executive director bringing the board total to eight members.

Sir George Mathewson is the Company's senior independent director (SID). The board is satisfied that Sir George is independent in character and judgment and with skills and experience that make him well suited to the role. Where a company is outside the FTSE 350, the Code recommends that the board of directors includes at least two 'independent' non-executive directors. The Company (being outside the FTSE 350) currently has four independent non-executive directors, including me as chairman, and therefore complies with the recommendations of the Code.

Biographical details of all the directors are set on pages 42 and 43. The board adopted the provision regarding the annual re-election of all directors at the first annual general meeting in 2014 and intends to continue this at the 2015 annual general meeting. Lan Tu will offer herself for election by shareholders for the first time at the 2015 annual general meeting.

Shareholder, bondholder and revolving credit facility provider engagement

The board considers that active dialogue with its shareholders, bondholders and revolving credit facility providers to be vital to the success of the business. Further details regarding these engagements are set out on page 52.

Jonathan Bloomer

Non-executive chairman

5 March 2015

Corporate governance report

Leadership

The board

The board is responsible to the Company's shareholders for the long-term success of the Company, its strategy, values and governance. The board maintains a formal schedule of matters for consideration, which include:

- establishing long-term strategic objectives
- approving annual operating and capital budgets
- reviewing business performance
- overseeing the Company's risk management and internal control systems
- reviewing corporate governance arrangements
- approving shareholder return policy
- ensuring appropriate resources are in place to enable the Company to meet its objectives
- ensuring appropriate oversight of portfolio investments

Chairman and chief executive officer

The positions of the chairman and chief executive officer are held by separate individuals and the board has clearly defined their responsibilities. The chairman is primarily responsible for the effective working of the board and ensuring that each director, particularly the non-executive directors, is able to make an effective contribution.

The chief executive officer has responsibility for operational matters, which includes the implementation of the Group strategy and policies approved by the board.

Non-executive directors

Non-executive directors are appointed for periods of three years, subject to shareholder approval. Terms in excess of six years are subject to a more rigorous review. The non-executive directors meet periodically without the executive directors present.

Recruitment of directors

Executive search firms are appointed on an as needed basis. JCA Group were retained in relation to the appointment of Lan Tu. This firm has no other connection with the Company.

Diversity

In line with proposals outlined in Lord Davies report 'Women on Boards: February 2011', from Lan Tu's appointment on 9 March 2015, the company has a 12.5% female representation on the board (1 female director out of eight board members).

Effectiveness

Time commitment

The individual letters of appointment set out the expected time commitment for non-executive directors and are available for inspection at our registered office. Other significant commitments are disclosed to the board on each occasion that these commitments change. Undertakings are given that non-executive directors will have sufficient time to meet requirements of the role. Details of the chairman's and other directors' commitments can be seen in the director biographies on pages 42 and 43.

Attendance

The board held ten scheduled meetings in 2014 with an additional meeting to approve the acquisition of the Capquest Group. Details of board and committee attendances by all directors who held office during the year are set out below:

Director	Main Board (11 meetings)	Audit and Risk Committee (5 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (1 meeting)	Disclosure Committee (adhoc)
Jonathan Bloomer	11	n/a	4	1	n/a
Tom Drury	11	n/a	n/a	n/a	n/a
Rob Memmott	11	n/a	n/a	n/a	6
Zachary Lewy	11	n/a	n/a	n/a	n/a
Sir George Mathewson	9	5	4	n/a	n/a
Iain Cornish	11	5	n/a	1	6
Robin Phipps	10	n/a	4	n/a	n/a
Gillian Key-Vice (resigned 27 November 2014)	10	4	n/a	n/a	n/a
Lindsey McMurray (resigned 19 March 2014)	2	n/a	1	nil	n/a
Ian Gascoigne (resigned 19 March 2014)	2	n/a	n/a	n/a	n/a

Continued professional development undertaken during the year

New appointments to the board generally have previous experience as a director of a listed company. Training is offered to all new directors as necessary. The chairman, together with the chief executive officer and company secretary, ensure new directors receive a full, formal and tailored induction upon joining the board, including full briefing packs. As part of a tailored induction programme, new directors meet with key advisors and members of the executive team. On-going training was provided during the year for existing directors.

Major shareholders are offered the opportunity to meet newly appointed non-executive directors should they express a desire to do so.

Access to independent advice

An approved procedure for all directors to take independent professional advice, at the Company's expense, is in place. The committees are provided with sufficient resources, including the ability to appoint external advisors when they deem it appropriate to call upon a particular resource.

All directors have access to the advice and services of the company secretary and are entitled to rely on the impartial and independent nature of such advice and services. The company secretary is responsible to the board for both the proper administration of procedures and arrangements established by the board for the conduct of its own business, and the Company's compliance with internal and external rules and regulations. The board receives agendas and supporting papers well in advance of board meetings.

Evaluation of the board and committees

The board undertook a process of self-evaluation of its performance during the year. A questionnaire was issued to board members for review and completion and was subsequently submitted to the chairman, who has reviewed the responses and reported on the conclusions to the board. An internal evaluation of both the audit and risk and remuneration committees took place adopting the same procedure. The board has confirmed that its performance, as well as the contribution of each of the executive and non-executive directors, demonstrates commitment to their respective roles and that the board members' respective skills complement each other and enhance the overall operation of the board.

Accountability

Adequacy of risk management and internal control systems

The board complies with this Code provision in line with the guidance published by the FRC, 'Internal Guide: Guidance for Directors' (formerly known as the Turnbull Guidance). In this context, the board undertakes a regular review of the Group's systems of internal control (which includes financial, operational and compliance controls and risk management). The board is responsible for the Group's systems of internal control. Risk management is designed to identify and mitigate risks, but it does not eliminate all risks. The board has approved an appropriate suite of policies on internal control, and seeks regular assurance that it is able to satisfy itself that the systems of internal control are effective in managing risks in the manner in which it has approved. During the year, the board carried out a review of key risks affecting the business, which are documented on pages 14 and 15 of the strategic report. The following activities are considered to cover the most critical business processes and associated risks:

- A disciplined underwriting process, overseen by the investment committee (which includes the chairman and executive directors, and with delegated authority to the executive committee for certain smaller transactions), whose function is to ensure an objective, rigorous and consistent approach to pricing and due diligence. Additionally, any transactions greater than £20 million in investment value are escalated to the board for approval. The processes and controls are documented in an underwriting process manual.
- A strong risk and compliance framework is embedded across the business via the audit and risk committee, executive and management teams and supported by the risk management framework and maintenance of the Group and departmental risk registers.
- 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, signs off the latest ERC forecast, assesses the carrying value of the portfolio assets and reviews revenue recognition.
- Internal controls exist over all key processes of the Group that have an impact on the financial results. Full documentation of these processes is well progressed via the Group accounting manual and other departmental manuals and new processes are documented as business need arises. The committee has not identified or been advised of any material failing or weakness deemed to be significant.

Comprehensive reporting to the board on the above activities takes place throughout the year.

Non-audit services provided by the auditor

The provision of non-audit services by the external auditor is monitored throughout the year. The audit and risk committee recognised that the non-audit fees were significant in 2013 mainly as a result of one-off projects, namely the issuance of senior secured notes in January 2013 and the IPO in October 2013 and a specific policy was developed and adopted in 2014. The committee was mindful that, whilst these were one off non-recurring items, the aim was to maintain a lower level of non-audit fees going forward.

The level of non-audit fees provided by the external auditor for the year is vastly reduced from the 2013 level as can be see on from note 9 on page 93.

Corporate governance report

The Chairman of the audit and risk committee regularly reviews the level of non-audit fees with all non-audit services requiring approval, in advance of being incurred. The committee has concluded that the provision of non-audit services to date has not compromised auditor independence and objectivity. Future non-audit services will be undertaken in line with the non-audit services policy approved by the committee, taking into account ethical guidance regarding the provision of non-audit services by the external auditors. This includes the rotation of senior partners and professional staff and the involvement of additional partners and specialists to carry out reviews of the work performed and to advise where necessary.

Internal audit function

The audit and risk committee is responsible for monitoring and reviewing the effectiveness of internal audit activities. The audit and risk committee approved the appointment of an outsourced internal audit provider, BDO, in April 2014. BDO report at each meeting on their activities to the audit and risk committee, which agrees their work programme in advance.

Conflicts of interests

Company policy requires that if a director becomes aware that they have a direct or indirect interest in an existing or proposed transaction with the Company, they should notify the board at the next board meeting or by providing a written declaration. Directors have a continuing duty to update any changes in such interests. See also the related party transactions note 22.

Approving significant transactions and investment decisions

The business acquires non-performing loan portfolios as part of its ordinary course of business. The Group applies a multi-stage approach to its underwriting and pricing process, with the aim of achieving attractive adjusted returns, based on the Group's underwriting models, analytical processes and servicing strategies.

The origination team reviews approximately 100 transactions per year, with circa 25 completed transactions. Transactions range from repeat transactions with creditors and asset classes familiar to the Group, through to more complex consortium trades with special purpose vehicle structures.

An authority matrix sets out the delegated authority to the investment committee and executive committee. The board retains authority for any new asset classes or geography, complex deals over £10 million and any transaction over £20 million. Based upon recent performance, the board will be asked to consider circa four to five transactions per annum.

Bribery Act compliance

The Company has an anti-bribery policy that is available on the Company's intranet and website and is in line with Ministry of Justice (MOJ) Guidelines. The policy contains a gifts and hospitality procedure and prohibits facilitation payments. Adequate and regular training on the policy and the principles outlined therein is provided to staff and directors. The Company considers it to have adequate procedures within the meaning of the MOJ Guidelines. The chief risk officer has primary and day-to-day responsibility for implementing this policy, while the Company's chief financial officer has ultimate responsibility to the board for compliance with the policy.

Remuneration

In line with the Code and the Directors' Remuneration Disclosure Regulations 2013, details on remuneration, including the policy report to be approved at the annual general meeting and the annual report on remuneration, can be seen on pages 54 to 71.

Relations with shareholders

In March 2014, RBS Special Opportunities Fund executed an agreement for the disposal of its entire shareholding in the Company, consisting of 41,712,397 ordinary shares and representing approximately 23.9% of the Company's issued share capital. This disposal was effected by way of a placing of shares to institutional investors (the 'Placing'), thereby terminating the relationship agreement.

As a result of the disposal of the RBS Special Opportunities Fund's entire shareholding, Lindsey McMurray and Ian Gascoigne, directors of the Company appointed by the RBS Special Opportunities Fund, stepped down from the board of the Company on 19 March 2014.

Dialogue with shareholders, bondholders and revolving credit facility providers

Following meetings or telephone conversations with brokers, the chairman communicates to the entire board the views of shareholders, bond holders and revolving credit facility providers ('key stakeholders'). The chief executive officer and the chief financial officer regularly speak and meet with key stakeholders. The chairman is available to discuss governance and strategy with key stakeholders. Non-executive directors and the SID have the opportunity to attend meetings with key stakeholders and would attend if requested.

Following the announcement of the preliminary and interim results and the executive directors' presentations to analysts and shareholders, the board receives a report on institutional feedback, prepared by the Company's advisors. The chief executive officer and the chief financial officer also verbally report on their meetings with shareholders. Copies of analysts' and brokers' briefings are circulated to the board.

Annual general meeting

The annual general meeting is an opportunity for all shareholders to both vote on resolutions put forward and ask the board any questions they may have. The notice of meeting and annual report will be sent out at least 20 working days before the meeting. Separate votes will be held for each proposed resolution and a proxy count will be given in each case. The proxy forms will provide a 'vote withheld' option. The chairmen of the audit and risk, remuneration and nomination committees attend and are available to answer questions.

Disclosure committee

The disclosure committee is made up of one non-executive director, Iain Cornish, who chairs the committee, and one executive director, Rob Memmott, the chief financial officer. The disclosure committee meets at such times as may be necessary or appropriate.

The disclosure committee is responsible for monitoring, evaluating and enhancing disclosure controls and procedures of the Group. In particular, responsibilities set out in the terms of reference include identification of inside information and maintenance of insider lists, the design, implementation and evaluation of disclosure procedures and the resolution of any questions concerning the materiality of certain information. The disclosure committee is also required to help the Company and the Group to make timely and accurate disclosure of all information where disclosure is required to meet legal and regulatory obligations.

Audit and risk committee

Details regarding the audit and risk committee and its responsibilities can be seen on pages 72 to 74.

Nomination committee

The nomination committee is responsible for considering and making recommendations to the board in respect of appointments to the board, the board committees and the chairmanship of the board committees. It is also responsible for keeping the structure, size and composition of the board under regular review, and for making recommendations to the board with regard to any changes necessary. Furthermore, the nomination committee is required to ensure that the evaluation of the board is externally facilitated at least every three years should the Company become a FTSE 350 member.

The work of the committee has included:

- Reviewing the terms of reference of the committee.
- Continued monitoring of the structure, size, composition and diversity of both the board and its committees.
- The recruitment of a new non-executive director.
- Making recommendations to the board on the re-appointment of non-executives directors.
- Approaches to the 2014 board and committee performance evaluation review (details of which can be found on page 51).

Diversity, whether in terms of skill, knowledge, experience or gender, is considered by the nomination committee when reviewing board composition and making recommendations for board appointments.

The Code recommends that a majority of the members of the nomination committee should be independent non-executive directors. The committee should be chaired by the chairman of the board or an independent non-executive director. The nomination committee is chaired by the chairman, Jonathan Bloomer, who was regarded as independent on appointment, and also comprises an independent non-executive director, Iain Cornish. Lindsey McMurray, a representative director appointed by RBS Special Opportunities Fund, was a member of this committee until her resignation on 19 March 2014. Lan Tu, will join the committee as an independent non-executive director following her appointment to the board with effect from 9 March 2015. The chairman will not chair the committee when it is dealing with the matter of succession to the chairmanship. There is compliance with the Code on this committee's composition.

JCA Group was retained to assist with the search for a suitable candidate to be appointed to the role of non-executive director to replace Gillian Key-Vice who resigned in November 2014. In accordance with the committees' appointment procedures, a number of candidates were identified, based on an agreed profile, and interviews were held. Following a thorough process, and taking into account the skills and experience required for the role, the board approved the committee's recommendation to appoint Lan Tu as an independent non-executive director with effect from 9 March 2015.

Remuneration committee

Details on the remuneration committee and its responsibilities can be seen on pages 54 and 71.

The terms of reference for the audit and risk committee, remuneration committee and nomination committee can be found on the Group's website (**www.arrowglobalir.net**).

By order of the board:

Stewart Hamilton
Company secretary
5 March 2015

Directors' remuneration report

Annual statement

On behalf of the board, I am pleased to present our directors' remuneration report for 2014, which sets out the amounts earned in respect of the year ended 31 December 2014 under the remuneration policy for the directors of Arrow Global Group PLC, which was approved by shareholders at the 2014 annual general meeting.

The report complies with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the 2012 edition of the UK Corporate Governance Code ('the Code') and the Financial Conduct Authority's Listing Rules.

The year ended 31 December 2014 has seen the Group make strong progress in a competitive environment, as detailed within this annual report.

2014 incentive out-turns

Throughout the year the remuneration committee has continued to apply the remuneration policy prudently with a strong alignment to shareholders. To encourage behaviours that facilitate continued profitable growth and future development of the business, the 2014 annual bonus was based on profit before tax and the Group's key strategic priorities in 2014.

As described in the business review section of this annual report, the Group has performed strongly since IPO delivering profitable earnings growth and strong progress against the Group's key strategic priorities. As set out on page 80, the underlying profit before tax for the year was £37.0 million and the strategic objectives were met in full, consequently an annual bonus of 78.125% of salary was awarded to the executive directors. The bonus earned will be delivered through the Deferred Share Bonus Plan (DSBP) under which 33% of the bonus is delivered as shares vesting after three years with the balance delivered in cash on award.

The performance period for the long-term incentive plan (LTIP) award granted on 11 March 2014 is from 1 January 2014 to 31 December 2016 and there is therefore no vesting of the LTIP awards in respect of the year ended 31 December 2014.

Proposed changes in executive remuneration for 2015

After consultation with, and support from shareholders, the following changes in executive remuneration are proposed for 2015. These changes are within the remuneration policy approved by shareholders at the 2014 annual general meeting.

- Return on equity (ROE) to be included as a performance metric for the 2015 LTIP awards to increase alignment to the Group's strategy to grow the business whilst maintaining a strong focus on the underwriting discipline and portfolio returns. The LTIP awards made in 2014 vest 75% based on earnings per share (EPS) and 25% based on relative total shareholder return (TSR) against the FTSE 350. The committee is of the view that whilst these metrics continue to be appropriate, the absence of a return measure does not fully support the strategic goals of the Group, and therefore does not properly align executive behaviour with the Group's strategy. The committee is therefore introducing ROE as a metric for 25% of the LTIP award alongside EPS (50% of the award) and TSR against the FTSE 350 (25% of the award) for the 2015 LTIP awards.
- The remuneration committee has determined that base salaries should be increased with effect from 1 March 2015 as detailed below:
  - The base salary of our chief executive officer, Tom Drury, will be increased by 9.1% from £330,000 to £360,000 with effect from 1 March 2015 and it is intended that a further increase of 9.7% to £395,000 will apply from 1 March 2016.
  - The base salary of our chief financial officer, Rob Memmott, will be increased by 9.6% from £260,000 to £285,000 with effect from 1 March 2015 and it is intended that a further increase of 8.8% to £310,000 will apply from 1 March 2016.
  - The base salary of our founder and executive director, Zachary Lewy, will be increased by 7.1% from £280,000 to £300,000 with effect from 1 March 2015.

  The remuneration committee took a range of factors into account when considering these increases. In particular:

  - The increases take account of the overall scale and complexity of the Group (including the internationality of the business and range of asset classes) and also reflect the strong performance of the executive directors and continued transformation of the Group since IPO, including the transition to FCA regulation.
  - The committee recognises that it will take time to realise the full benefit of the Capquest acquisition and this was not the underlying reason for the increases.
  - The committee is mindful of institutional investors' concerns on the upward ratchet of base salaries and does not consider benchmark data in isolation. The remuneration policy is to set salaries within a market range to provide flexibility to take account of experience

and performance and to recognise the limitations of market data by not targeting a specific statistical point. However, the committee is strongly of the view that, in hindsight, the base salaries set at IPO were lower than would be anticipated when considering the scale and complexity of the business.

- Internal relativities and the risks posed by uncompetitive executive remuneration packages were also considered recognising the importance of ensuring that salaries reflect individual skills, experience and scope of responsibility.
- A responsible approach has been adopted by the remuneration committee such that these increases will be phased over two years and the decision to award a salary increase in each year will be subject to the continuing strength and growth of the enlarged group and the continued contribution and performance of the executive directors personally.
- The committee considered whether some of the increase should be provided through variable remuneration. However, the committee believes that the balance between fixed and variable pay is appropriate as base salaries are positioned within the competitive range and the current annual bonus and LTIP opportunities reward strong business performance and drive the delivery of shareholder value whilst not seeking to encourage inappropriate business risks being taken.

> For the avoidance of doubt, no changes are proposed to the maximum quantum of the annual bonus and LTIP for 2015 or 2016 for the current executive directors (which limits the growth in the rest of the reward package during the two-year period over which these salary increases are being made). The maximum annual bonus opportunity under the binding remuneration policy will remain at 125% salary. There is also no current intention to increase the LTIP awards above the current 150% of salary. As a further assurance, there will be no LTIP awards to the current executive directors above the 2015 levels until 2017 at the earliest and, only then, if the committee considers there to be a strong commercial rationale (for example, there is a change in the scope of the role or increase in responsibility, a reduction to other elements of the remuneration package, or a significant change in the size and complexity of the Group).

> In addition to the above changes, the minimum shareholding requirement is being increased from 150% to 200% of base salary for the chief executive officer and from 100% to 150% of base salary for the other executive directors.

Minor amendments to the remuneration policy

Some minor amendments are also being made to the remuneration policy that was approved by shareholders at the annual general meeting on 28 May 2014. Shareholder approval is being sought for these amendments to ensure that the remuneration policy is consistent with the intended operation of the share plans adopted at IPO. These changes:

- permit the element of the annual bonus deferred into shares under the Company's DSBP to be deferred on a gross (pre tax) as well as a net (post tax) basis
- allow the grant of part of an award under the LTIP to take the form of a tax qualifying option over shares to a value prescribed by the applicable tax legislation (currently £30,000), without increasing the gross value delivered to participants
- permit the making of dividend equivalent payments under the LTIP and DSBP in respect of dividends that would have been paid over the period to vesting on shares that vest

Miscellaneous

For completeness, the statement issued on 15 May 2014 on the company website confirming that the committee's discretion to make payments or awards of variable remuneration outside the policy will only be used in response to regulatory or legislative changes and would not exceed the limits in the policy table, has been incorporated in this policy on page 64.

This report is prepared in accordance with the regulations for directors' remuneration reporting and is presented in two sections: the annual report on remuneration and the directors' remuneration policy.

> The annual report on remuneration provides details of the amounts earned in respect of the year ended 31 December 2014 and how the directors' remuneration policy will be operated for the year ended 31 December 2015. This is subject to an advisory vote at the 2015 annual general meeting.

> The directors' remuneration policy will be tabled at the forthcoming 2015 annual general meeting in order for the proposed administrative amendments to be considered by shareholders. The amended directors remuneration policy will, subject to shareholder approval, be binding from the date of the 2015 annual general meeting to be held on 3 June 2015.

Robin Phipps
Chairman of the remuneration committee
5 March 2015

Directors' remuneration report

Annual report on remuneration

Remuneration philosophy

The remuneration committee is responsible to the board of directors for determining a remuneration policy for executive directors, together with the specific terms and conditions of employment of each individual director, and for reviewing the overall policy for executive remuneration. In summary, the objective of the remuneration policy is to enable the Group to offer a package of rewards that is aligned with the strategy for the business by:

> Ensuring remuneration is competitive but not excessive by reference to pay levels in comparable groups.

> Taking into account the individual contribution and performance of each executive.

> A substantial proportion of the remuneration is variable and linked to Group performance, in particular, to the delivery of our vision and our strategy and the performance of the individual.

> To encourage behaviours that facilitate profitable and maintainable growth and the future development of the business, short-term performance is assessed against both profit and a balanced range of specific strategic, personal and other key Group objectives.

> Long-term performance is measured by assessing the growth in EPS, ROE and TSR. These metrics are a key measure of the success of the delivery of shareholder value.

> The committee considers the performance outcomes in the wider context of personal performance (including values and behaviours), risk, market and other factors.

> Malus and clawback provisions apply under the variable incentives and the reward framework is designed to ensure an appropriate level of risk is maintained by the executive directors.

> To best align the interests of executives with shareholders a significant proportion of remuneration is performance related and delivered in shares. The executive directors are expected to build up and retain legal share ownership equivalent to at least 150% of salary (200% for the chief executive officer).

Directors' remuneration (audited information)

Details of the executive directors' remuneration are as follows:

	Salary and Fees £000		Taxable benefits[1] £000		Performance related bonus[2] £000		Vesting remuneration[3] £000		Pension-related benefits[4] £000		Total compensation £000	
Director	2014	2013*	2014	2013*	2014	2013*	2014	2013*	2014	2013*	2014	2013*
Tom Drury	**327**	84	**4**	1	**255**	69	**–**	–	**45**	–	**631**	154
Rob Memmott	**258**	87	**–**	–	**202**	80	**–**	1,876	**36**	5	**496**	2,048
Zachary Lewy	**275**	63	**4**	2	**215**	55	**–**	–	**38**	5	**532**	125
Total	**860**	234	**8**	3	**672**	204	**–**	1,876	**119**	10	**1,659**	2,327

*Period from incorporation of the Company to 31 December 2013.

[1]Private medical and dental cover.

[2]Bonus is the cash value of the bonus earned in respect of the year including the value of the deferred shares which must be held for at least three years. A description of the performance conditions applied for the year is provided on page 57.

[3]As disclosed last year, on IPO, Initial Share Option Plan (ISOP) options were granted to and exercised by Mr Memmott over 1,676,562 ordinary shares in the Company. 915,266 vested and were sold immediately to cover his tax liability and national insurance contributions arising on exercise. The balance of 761,296 shares are restricted shares for a period of two years following the IPO conditional on continued employment.

[4]Mr Memmott and Mr Lewy receive a monthly contribution from the Group into a self-invested pension plan. These contributions are circa 15% of salary. Mr Drury receives a monthly cash allowance in lieu of participation in a pension arrangement as salary. This amount is not included in the annual bonus or LTIP allocation.

Executive directors were eligible for an annual performance related bonus of up to 125% of salary only in circumstances where stretching performance targets have been satisfied. To encourage behaviours that facilitate continued profitable growth and future development of business the 2014 annual bonus was based on the following performance targets:

Measure	Weighting	Performance targets
Underlying profit before tax pre exceptionals	75% of maximum	> £35.15m – no vesting > £35.15m 20% of this element vests > £37.00m 50% of this element vests > £40.70m 100% of this element vests > Straight line vest between these points
Strategic targets	25% of maximum	> Originate £120m of purchases at or above target return > Enter 1 new European geography > Acquire 1 new asset class > Be on track with FCA readiness plan > No material regulatory/compliance issues

Underlying profit before tax pre-exceptionals was £37.0 million and 50% of this element vested and all the strategic targets were met. Consequently an annual bonus of 78.125% of salary vested to the executive directors.

Annual bonus payments to executive directors also have the following restrictions:

- 33% of the bonus earned is deferred into shares in the Company for a period of three-years.
- Clawback provisions are operated which give the remuneration committee the right to reduce any deferred bonus award which has not yet vested or clawback any vested cash bonus or vested deferred bonus in the circumstances detailed in the policy report.

Long-term Incentive Plan

The table below outlines LTIP awards made to executive directors during 2014:

Date of grant	Participant	Basis of award	Number of shares	Face value of award £*	Performance period
11 March 2014	Tom Drury	150% of salary	199,275	497,202	1 Jan 2014 to 31 Dec 2016
11 March 2014	Rob Memmott	150% of salary	157,004	389,367	1 Jan 2014 to 31 Dec 2016
11 March 2014	Zachary Lewy	150% of salary	169,082	419,323	1 Jan 2014 to 31 Dec 2016

*Based on the average closing middle market quotation price during the 5 business days ending on the business day before the Award date being £2.484.

Directors' remuneration report

The performance conditions attaching to these awards are as follows:

- 75% based on EPS growth.
- 25% based on relative TSR v the constituents of the FTSE 350; and

Measure	EPS growth (per annum)	Relative TSR performance	Vesting amount
Below threshold	below 10%	Below median	0%
Threshold	10%	Median	25%
Maximum	20%	Upper quartile	100%

Clawback provisions are operated which give the remuneration committee the right to reduce any LTIP award which has not yet vested or clawback any vested LTIP award in the circumstances detailed in the policy report.

Non-executive directors' remuneration (audited information)

Details of the non-executive directors' remuneration for the year ended 31 December 2014 are as follows:

	Salary and Fees £000		Taxable benefits £000		Performance related bonus £000		Vesting remuneration £000		Pension-related benefits £000		Total compensation £000	
Director	2014	2013*	2014	2013*	2014	2013*	2014	2013*	2014	2013*	2014	2013*
Jonathan Bloomer	**160**	40	–	–	–	–	–	–	–	–	**160**	40
Sir George Mathewson	**53**	13	–	–	–	–	–	–	–	–	**53**	13
Iain Cornish	**53**	13	–	–	–	–	–	–	–	–	**53**	13
Gillian Key-Vice	**38**	9	–	–	–	–	–	–	–	–	**38**	9
Robin Phipps	**53**	13	–	–	–	–	–	–	–	–	**53**	13
Total	**357**	88	–	–	–	–	–	–	–	–	**357**	88

*Period from IPO to 31 December 2013.

Prior to their resignation on 19 March 2014, Ian Gascoigne and Lindsey McMurray were not remunerated by the Company but fees were paid to RBS Asset Management Ltd.

Gillian Key-Vice's consultancy company charged the Group for consultancy work; see note 22 to the financial statements for further information.

The non-executive directors were paid a standard fee of £45,000 per annum, with further fees of £7,500 per annum being paid for additional responsibilities such as committee chair and SID. The non-executive chairman's fee is £160,000 per annum.

Payments to past directors for loss of office

There were no payments to past directors or payments for loss of office during 2014 (2013: £nil).

Directors' shareholdings (audited information)

As set out in the remuneration policy, the remuneration committee encourages share ownership by the executive directors in order to align their interests with those of shareholders. It does this by ensuring that a significant proportion of remuneration is delivered in shares (as well as being subject to performance conditions).

The shareholding requirement for executive directors was increased in March 2015 from 100% to 150% of salary (and 150% to 200% for the chief executive officer). Those guidelines were exceeded at 31 December 2014:

Director	Type	Owned outright	Unvested subject to performance conditions	Unvested not subject to performance conditions	Total shareholding
Tom Drury	Shares	8,775,144	–	–	8,775,144
	LTIP		199,275	–	199,275
	DSBP	–	–	–	–
	SIP			218	218
Rob Memmott	Shares	2,228,064	–	–	2,228,064
	LTIP	–	157,004		157,004
	DSBP	–	–	–	–
	ISOP	–	761,296	–	761,296
	SIP			218	218
Zachary Lewy	Shares	7,449,733	–	–	7,449,733
	LTIP	–	169,082	–	169,082
	DSBP	–	–	–	–
	SIP			1,212	1,212

Newly appointed directors are expected to acquire shares with a value of 100% of base salary within five years of appointment and 150% of base salary as soon as possible thereafter. Until the requirement has been met, executive directors must retain 50% of all vested LTIP awards (net of tax).

258 shares have been allocated to Zachary Lewy under the SIP post year end.

Non-executive directors

Director	Type	Owned outright	Unvested subject to performance conditions	Unvested not subject to performance conditions	Total shareholding
Jonathan Bloomer	Shares	24,391	–	–	24,391
Sir George Mathewson	Shares	2,544,633	–	–	2,544,633
Iain Cornish	Shares	nil	–	–	nil
Gillian Key – Vice[1]	Shares	6,357	–	–	6,357
Robin Phipps	Shares	24,391	–	–	24,391
Lindsey McMurray[2]	Shares	nil	–	–	nil
Ian Gascoigne[2]	Shares	nil	–	–	nil

[1]Resigned from the Board 27 November 2014.

[2]Resigned from the Board 19 March 2014.

There were no changes in the above interests between 31 December 2014 and 5 March 2015.

Directors' remuneration report

Chief executive officer disclosures

The table below sets out the total pay of the chief executive officer since the IPO on 11 October 2013.

	Chief executive officer name £000	Chief executive officer pay £000	Chief executive officer bonus* £000	Chief executive officer LTIP* vesting £000
2014	Tom Drury	327	255	–
2013*	Tom Drury	84	69	–

*The salary and bonus figures relate to the salary paid and bonus earned from the IPO to 31 December 2013.

The Company was only established shortly before the IPO and therefore, information prior to this does not exist.

The table below shows how the percentage change in the chief executive officer's salary, benefits and bonus between 2013 and 2014 compared with the percentage change in the average of each of those components of pay for the workforce as a whole.

	% change in salary and fees	% change in taxable benefits	% change in performance related bonus
Chief executive officer	5.6%	69.3%	(37.6%)
Workforce	3.2%	85.6%	(33.7%)

Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay compared with distributions to shareholders.

	Total employee remuneration* £000	Shareholder distributions £000
2014	11,117	8,882
2013	14,118	–
Difference	(3,001)	8,882

*£1,960,000 (2013: £6,112,000) of the balance is in relation to exceptional items as discussed in note 10.

TSR performance

The graph below shows TSR performance of the Company from IPO to 31 December 2014 versus the FTSE Small Cap Index, as the committee has selected this given that the Company was a member of this group during the period under review:

Statement of implementation of remuneration policy in 2015

The remuneration arrangements for 2015 will be implemented in line with the policy section of this report as follows:

Base salaries

After consultation with, and support from our major shareholders, the remuneration committee has determined that base salaries should be increased with effect from 1 March 2015 as detailed below.

Director	Base salary as at 1 March 2015 £000	Base salary from 1 March 2014 £000	% increase
Tom Drury	360	330	9.1%
Rob Memmott	285	260	9.6%
Zachary Lewy	300	280	7.1%

The remuneration committee considers the proposed salary increases are appropriate taking account of:

- the strong performance of the executive directors and the strength of the management team
- the continued transformation of the Group since IPO, including the transition to FCA regulation
- the overall scale and complexity and scale of the Group (including the internationality of the business and range of assets classes)
- the strong view of the committee that, in hindsight, the base salaries set at IPO were lower than would be anticipated when considering the complexity of the business
- internal relativities and the risks posed by uncompetitive executive remuneration packages were also considered recognising the importance of ensuring that salaries reflect individual skills, experience and scope of responsibility

The committee recognises that it will take time to realise the full benefit of the Capquest acquisition and this was not the underlying reason for the increases.

Directors' remuneration report

Annual bonus

The maximum opportunity will remain at 125% of base salary. 50% of the bonus will be based on underlying profit for the year attributable to equity shareholders and 50% of the bonus will be assessed against a balanced range of financial, strategic, personal and other key Group objectives.

The directors consider the targets under the annual bonus plan to be commercially sensitive because they provide the Group's competitors with insight into the Group's business plans, expectations and strategic actions. However, the committee will continue to disclose how the bonus pay-out delivered relates to performance against the targets on a retrospective basis.

33% of any bonus for 2015 is proposed to be deferred into shares under the DSBP on a gross basis in line with the new remuneration policy.

LTIP

The remuneration committee is not proposing any changes to the LTIP policy for 2015 (other than the introduction of the ability to grant 'qualifying LTIP awards' as referred to on pages 55 and 66 and the introduction of ROE as a performance metric) and the maximum opportunity for 2015 will remain at 150%.

To ensure that the performance metrics and targets for the LTIP are consistent with the Group's objectives, the remuneration committee is introducing ROE as a performance metric alongside EPS and TSR against the FTSE 350. This will increase alignment to the Group's strategy to grow the business whilst maintaining a strong focus on the underwriting discipline and portfolio returns. The introduction of ROE alongside the existing metrics fully supports the Group's strategy over the medium/long-term and is an internal KPI fully recognised and used in the day-to-day management of the business. The weightings for each measure have been set to balance what the committee consider to be the direction of focus for management in its day-to-day direction of the business with its ultimate responsibility to shareholders.

Details of the performance targets for the 2015 LTIP awards are set out in the table below.

Measure and alignment with strategy and shareholder value creation	Weighting		Vesting level	Performance target
Growth in EPS – used under the existing LTIP awards, is well understood by all stakeholders and aligns clearly to the Company's strategy to deliver earnings growth.	50%	Threshold Maximum	25 100	10% per annum 20% per annum
ROE (three-year average) – a key driver of shareholder value and reflects the importance of purchasing debt of a suitable quality with an appropriate return.	25%	Threshold Maximum	25 100	20% 26%
TSR relative to FTSE 350 – used under the existing LTIP awards, clearly aligned to shareholders and maintains a direct link to share price performance.	25%	Threshold Maximum	25 100	Median Upper quartile

In each case, performance will be measured over three years with straight line vesting between each point for each performance metric.

In calculating TSR, a three-month average is used at both the start and the end of the performance period to ensure that the calculation is not impacted by potential volatility arising from day-to-day share price fluctuations. The TSR data and relative positioning will be independently verified.

The remuneration committee will have the discretion to reduce the level of LTIP vesting based on the committee's assessment of whether vesting delivered by the formulaic output of the three performance measures reflects the underlying performance of the Company. The committee's assessment of underlying performance would include, amongst other things, objective measurement of other financial metrics, customer satisfaction and assessment of regulatory compliance.

Malus and clawback will apply to the LTIP with clawback continuing to apply for a three-year period after vesting and will also apply in the event of a significant regulatory risk failure.

The remuneration committee

The remuneration committee during the year consisted of three non-executive directors, who are each considered independent under the Code, namely Robin Phipps as chair, Sir George Mathewson, Jonathan Bloomer, and one non-independent non-executive, Lindsey McMurray. Ms McMurray resigned from the Company on 19 March 2014. Although not deemed independent within the meaning of the Code, Ms McMurray's position, representing the major shareholder, provided a strong interest in challenging and scrutinising management. The Company complies with the recommendations of the Code concerning the number of independent non-executive directors that the remuneration committee should have.

Advisors

During the year the remuneration committee was assisted in its work by the following external consultants.

Advisor	Details of appointment	Services provided by the advisor	Fees paid by the Company for advice to the remuneration committee	Other services provided to the Company in the year ended 31 December 2014
Pricewaterhouse Coopers (PwC)	Appointed by the remuneration committee in January 2014.	General advice on remuneration matters.	£7,800	Accountancy services on Group projects relating to the migration of data.
Deloitte	Appointed by the Board in July 2014 following a competitive tender process.	General advice on remuneration matters. Benchmarking Advice on market practise and shareholder perspectives.	£51,940	Provision of audit services until 2 July 2014 prior to appointment as remuneration consultants. Provision of due diligence services, share scheme advice, VAT and corporation tax advice throughout 2014.

Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK.

The committee will assess from time to time whether the appointment of Deloitte remains appropriate or should be put out to tender. The chief executive officer has also attended remuneration committee meetings to provide advice and respond to specific questions, but is not in attendance when their own remuneration is discussed. The company secretary acts as secretary to the remuneration committee.

Directors' remuneration report

Statement of shareholder voting

% of votes	For	Against	Withheld votes
Approval of the Remuneration Policy Report	100.00%	0.00%	0
Approval of the Annual Remuneration Report	100.00%	0.00%	0

Remuneration policy

Some minor amendments are proposed to the remuneration policy to ensure that it is consistent with the intended operation share plans adopted at IPO. These changes:

> permit the element of the annual bonus deferred into shares under the Company's DSBP to be deferred on a gross (pre tax) as well as a net (post tax) basis

> allow the grant of part of an award under the LTIP to take the form of a tax qualifying option over shares to a value prescribed by the applicable tax legislation (currently £30,000), without increasing the gross value delivered to participants

> permit the making of dividend equivalent payments under the LTIP and DSBP in respect of dividends that would have been paid over the period to vesting on shares that vest

For completeness, the statement issued on 15 May 2014 on the Company website confirming that the committee's discretion to make payments or awards of variable remuneration outside the policy will only be used in response to regulatory or legislative changes and would not exceed the limits in the policy table, has been incorporated into this policy.

The remuneration policy will, subject to shareholder approval, be binding from the date of the 2015 annual general meeting.

Consideration of remuneration of employees generally

When determining the remuneration arrangements for executive directors, the remuneration committee takes into consideration, as a matter of course, the pay and conditions of employees throughout the Group. In particular, the remuneration committee is kept informed of salary increases for the general employee population, the overall spend on annual bonus and participation levels in the annual bonus and share plans.

No consultation with employees takes place in relation to determining the directors' remuneration policy, although the Group has various ways of engaging with its employees collectively as teams and one to one, and the board receives updates and feedback on employee engagement.

Consideration of shareholder views

The remuneration committee is committed to an open and transparent dialogue with shareholders on the issues of executive remuneration. Where appropriate, the committee will actively engage with shareholders and shareholder representative bodies, seeking views which may be taken into account when making any decisions about changes to directors' remuneration policy. The remuneration committee chairman is available to answer questions at the annual general meeting. The remuneration committee chairman consulted with and received support from shareholders in respect of introduction of ROE as a performance metrics for the LTIP, the proposed changes to the executive directors' base salaries and the minor changes to the remuneration policy for 2015.

Remuneration structure – executive directors

The following table sets out the elements which are included in the remuneration package for executive directors from the date the policy is approved by shareholders and explains how each element of the package operates:

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity	Changes to policy
Salaries Provides core remuneration for the role at a level to recruit and retain executive directors with the required skills and experience.	> Positioned within a broad range around the mid-market level for the role. > Paid monthly and reviewed annually. > The current salaries of the executive directors are set out in the annual remuneration report.	> Base salaries are reviewed annually, though not necessarily increased, having regard to market conditions, benchmark data and other relevant factors such as pay increases for the Group's employees, internal relativities and individual performance. > The maximum annual salary increase will not normally exceed the average increase which applies across the wider workforce. Larger increases may be awarded in certain circumstances including, but not limited to: - increase in scope or responsibilities of the role - to apply salary progression for a newly appointed director - where the director's salary has fallen significantly below the market conditions	> No changes.
Benefits Provide a competitive benefits package at a level to recruit and retain executive directors with the required skills and experience.	> Typically comprises private medical and dental cover, life insurance and permanent health insurance. > Reviewed from time to time to ensure market competitive and meet operational needs of the business. Benefits may be extended in certain circumstances (such as relocation expenses). > Access to flexible benefits on same basis as the wider workforce.	> None > The cost of providing benefits is borne by the Group and varies from time to time.	> No changes.
Pension Provide a competitive level of long-term retirement saving for executives.	> Contribution into self-invested personal pensions or monthly cash allowance in lieu of pension.	> Up to 18% contributions or cash allowance provided, but currently set at 15% for 2014. > Only basic salary is pensionable.	> No changes.

Directors' remuneration report

Remuneration structure – executive directors (continued)

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity	Changes to policy
Annual bonus Reward achievement of annual objectives whilst encouraging a long-term focus through the use of deferred shares via the deferred share bonus plan DSBP.	> Performance targets set annually. > Pay outs determined by remuneration committee following the financial year end. > Up to 50% of the bonus earned is deferred into shares for up to three-years via the DSBP, subject to continued employment during the vesting period. > The remuneration committee may make a dividend equivalent payment to reflect dividends that would have been paid over the period to vesting on shares that vest (and which may assume the reinvestment of the dividend equivalents). The payment may be in the form of additional shares or a cash payment equal to the value of those additional shares. > Malus and clawback provisions apply (see pages 68 and 69).	> Maximum bonus opportunity of 125% of annual base salary. > Split between financial and strategic performance measures in support of business strategy. > Bonus for achieving threshold financial performance target is up to 20% of the maximum opportunity for that element.	In line with the terms of the DSBP adopted at the time of the IPO: > Up to 50% of bonus may be deferred into shares on a net (i.e. post tax) or a gross basis (i.e. before tax) for up to three years. > Dividend equivalent payments may be made under DSBP over the period to vesting.
LTIP awards Reward the achievement of long-term objectives; promotes retention and aligns interests of executives with those of shareholders.	> Nil cost share options, conditional awards or restricted shares can be awarded. Share awards can be settled in cash at the election of the committee. > Three-year vesting period subject to performance conditions. > LTIP awards normally granted post announcement of preliminary/interim results. > Where exceptional circumstances exist, the committee has overriding discretion. > The remuneration committee may, at its discretion structure awards as qualifying LTIP awards consisting of both an HMRC tax qualifying option and an LTIP award. Qualifying LTIP awards enable the participant and the Company to benefit from tax advantaged treatment in respect of part of the award without increasing the pre tax value delivered to participants. The qualifying LTIP awards will be structured as a tax qualifying option and an LTIP award with the vesting of the LTIP award scaled back to take account of any gain made in the exercise of the tax advantaged option. > The remuneration committee may make a dividend equivalent payment to reflect dividends that would have been paid over the period to vesting on shares that vest and over the period to exercise in the case of options (and which may assume the reinvestment of the dividend equivalents). The payment may be in form of additional shares or a cash payment equal to the value of those additional shares. > Malus and clawback provisions apply (see pages 68 and 69).	> Maximum award of 200% of annual base salary. For 2015 and 2016 awards to be 150% of annual base salary for current executive directors. Furthermore, any LTIP awards to the current executive directors above the 2015 levels will only be made where the committee considers there to be a commercial rationale (for example, there is a change in the scope of the role or increase in responsibility, a reduction to other elements of the remuneration package;, or a significant change in the size and complexity of the Group). > Tax qualifying option may be granted. Shares subject to a tax qualifying option granted as part of a qualifying LTIP award are not taken into account for the purposes of the individual limits because, as referred to in the operation column, the LTIP award will be scaled back to reflect the gain made on the exercise of the tax advantaged option. > Performance targets based on financial measures, such as EPS growth, ROE and TSR. > 25% of award vests for threshold performance rising to 100% for maximum performance. > Where a tax advantaged option grant is made the same performance conditions apply as applies to the LTIP award.	> Tax advantaged options may be granted as part of a qualifying LTIP award. To enable the participants and the Company to benefit from tax advantaged treatment without increasing the pre-tax value delivered to participants. > Dividend equivalent payments may be made under LTIP over the period to vesting.

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity	Changes to policy
Share incentive plan (SIP) HMRC requires participation on an all-employee basis. Promotes alignment with shareholders across Group's entire employee base.	> HMRC approved plan of free, partnership, matching or dividend shares (or cash in lieu of dividends). > Minimum three year vesting period. > Open to all employees generally.	> No performance targets. > Maximum awards and matching share ratio aligned to HMRC limits.	> No changes.
Save as you earn plan ('sharesave') HMRC requires SAYE options to be offered on an all-employee basis. Promotes further alignment with shareholders across Group's entire employee base.	> The Group may consider the implementation of a sharesave in the future to complement the SIP. > In the event that a sharesave is introduced, the executive directors will be eligible to participate in the sharesave on the same terms as other eligible employees.	> There would be no performance targets on share acquisitions under the sharesave. > The sharesave would enable participants to invest in share of the Group up to the limits in place at that time.	> The flexibility to introduce a sharesave in the future is being added to the policy this year.

Directors' remuneration report

Notes to the policy table

Salaries

Salary positioning takes into account the complexity of the role and performance of the individual, overall corporate performance, movements in the employment market and the general economic environment. They should be sufficiently competitive to enable recruitment and reward of executives of a suitable calibre for the role and duties required. Setting salaries within a range provides the remuneration committee with flexibility to take account of experience and performance and to recruit new hires. It also recognises the limitations of market data by not targeting a specific statistical point.

Base salaries are reviewed annually, though not necessarily increased, having regard to market conditions, benchmark data and other relevant factors, such as pay increases for the Group's employees, internal relativities and individual performance. The committee is mindful of institutional investors' concerns on the upward ratchet of base salaries and does not consider benchmark data in isolation.

Annual bonus – performance metrics

The annual bonus is assessed against both financial and a balanced range of specific strategic, personal and other key Group objectives determined by the remuneration committee. This incentivises executives to focus on delivering the key financial goals of the Company as well as specific strategic objectives which are aligned to delivering the overall business strategy and to encourage behaviours which facilitate profitable growth and the future development of the business.

The precise choice of measures and the weightings between them will be reviewed by the committee year-on-year. Performance targets will be set at the beginning of each year, and bonus pay outs are determined by the remuneration committee after the year end, based on performance against targets.

LTIP awards – performance metrics

Performance is based on financial performance targets, such as EPS growth, return on equity and total shareholder return measured over three years.

The committee will review these performance conditions when determining LTIP awards in each year, in order to reflect changes in the outlook of the sector and the Group, and to ensure that the targets remain challenging.

Performance measures are set in line with the key drivers of sustainable performance. Targets are set by the committee at the start of the performance period, taking into account external advice on market and best practice. Performance is assessed at the end of the relevant period to determine the extent to which awards may vest. The committee also monitors progress against targets throughout the period.

The remuneration committee retains the ability to adjust/or set different performance measures if events occur (such as a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions), which cause the committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose.

Awards may be adjusted in the event of a variation of capital in accordance with the scheme rules.

Malus and clawback

All cash bonuses paid are subject to potential malus and clawback, at the committee's discretion, for a period of three years from the date of payment where there are exceptional circumstances, such as a material misstatement of the published results of the Group, any error in the calculation of any performance condition linked to the calculation of a bonus, material risk failure or gross misconduct. The committee will also operate malus and clawback if there is a major regulatory issue including significant regulatory risk failure. In any of the above clawback circumstances, the committee have discretion to operate malus provisions on share based incentive plans (other than any HM Revenue & Customs qualifying plans) operated by the Group instead of pursuing clawback on the cash bonuses.

The LTIP and DSBP awards are subject to malus provisions such that, at the discretion of the committee, unvested awards may lapse where there has been a material inaccuracy or misleading results, or there has been a loss to the Group's business which could have been reasonably risk managed by the participant. In addition, malus may take place where there is conduct, capability or performance of a participant which would make the operation of malus appropriate, or where the committee deems there to be exceptional circumstances which appear relevant. The committee will operate malus if there is a major regulatory issue including significant regulatory risk failure.

The LTIP and DSBP include a clawback facility where, at the discretion of the committee, during a three year period post vesting, shares acquired through vesting or where held by the participant can be transferred to the Group or the employee benefit trust where there has been a material inaccuracy or misleading results, or there has been a loss to the Group's business which could have been reasonably risk managed by the participant. In addition, clawback may take place where there is conduct, capability or performance of a participant which would make such transfer appropriate, or where the committee deems there to be exceptional circumstances which appear relevant to such a transfer. The committee will operate clawback if there is a major regulatory issue including significant regulatory risk failure. In any of the above circumstances, in place of pursuing clawback on the LTIP and DSBP, the committee have discretion to operate malus provisions on share based incentive plans (other than any HM Revenue & Customs qualifying plans) operated by the Group.

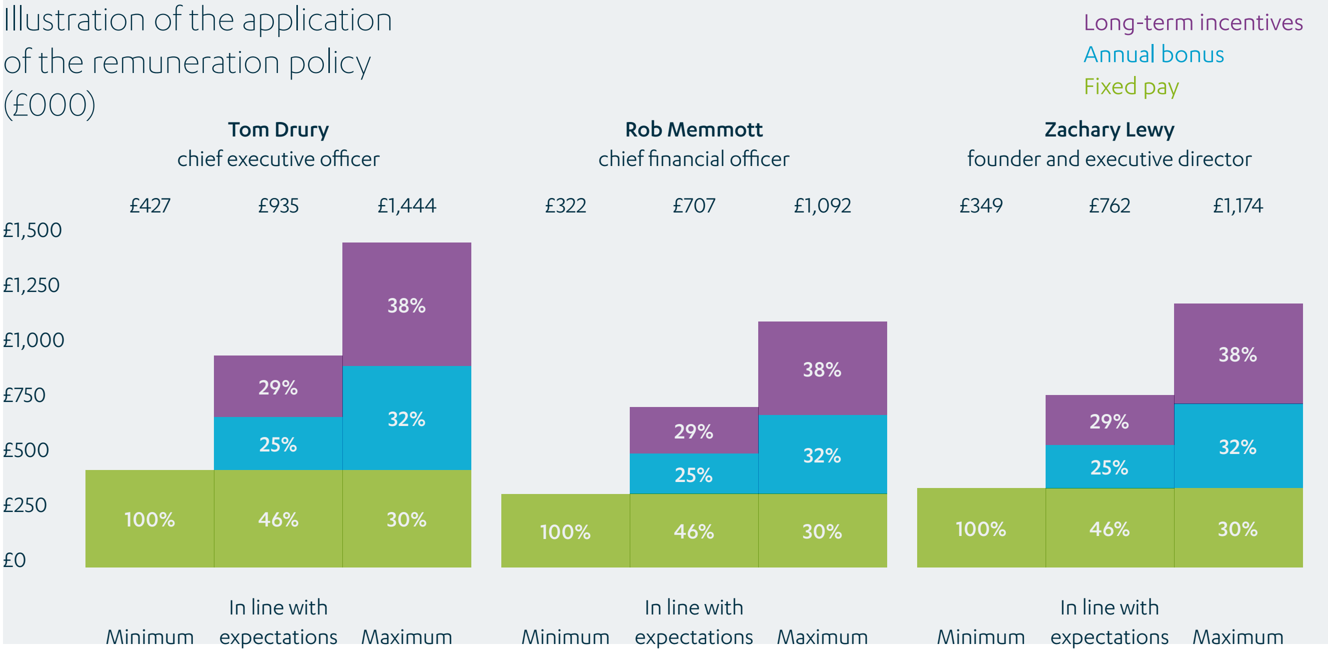
Clawback will apply to HM Revenue & Customs qualifying plans to the extent permitted by HM Revenue & Customs.

Differences between remuneration policy for executive directors and employees generally

The remuneration policy applied to the most senior executives in the Group is similar to the policy for the executive directors in that a significant element of remuneration is dependent on Group and individual performance. The key principles for the remuneration policy are applied consistently across the Group below executive director level taking into account seniority and local market practice.

Illustration of the application of the remuneration policy.

Illustration of the application of the remuneration policy (£000)



The chart above illustrates the total remuneration, in line with the remuneration policy, that could arise for each executive director under three different performance levels.

The figures are calculated as follows:

- Fixed pay is basic salary and pension benefits as at 1 March 2015, plus the value of benefits based on 2014 figures.
- Annual variable remuneration is the annual bonus including any deferred bonus going forward.
- Long-term variable remuneration represents the potential value of the LTIP going forward.
- On target performance is the level required to deliver 50% of the maximum annual bonus (62.5% of salary) and 50% of the maximum LTIP (75% of salary).
- Maximum performance would result in the maximum annual bonus (125% of salary) and full vesting of the LTIP (150% of salary).

Directors' remuneration report

Discretion

The areas of policy where the committee has discretion are set out in this report. In addition, the committee may exercise operational and administrative discretions under the relevant plan rules as set out in those rules.

The committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the committee, disproportionate to seek or await shareholder approval.

Emergency discretion

The committee retains discretion to grant variable performance remuneration outside of the approved policy where this discretion is required to comply with applicable legislation or regulation. In such circumstances, the remuneration committee has confirmed that it will not exercise discretion in a manner that would exceed the maximum opportunity noted in the policy table and the committee will endeavour to consult with shareholders ahead of such exercise as well as clearly disclosing and explaining the details in the annual report.

Executive director service contracts

Each executive director has been appointed under a service contract which is terminable on 12 months' notice by either the Company or the director. Contracts are available for inspection at our registered office. Contracts may be terminated immediately with payments in lieu of notice being paid in phased instalments and reduced by amounts earned from alternative remunerative positions obtained during the notice period.

Termination policy	
Notice period/pay in lieu	> Rolling contracts with 12 month notice periods. > Payment in lieu of notice at Group discretion – monthly instalments with appropriate reductions for mitigation. Payment calculated by reference to base salary and the cost to Group of providing contractual benefits (including pension contributions/cash in lieu of pension contributions), but excludes bonus.
Long-term incentives	> Lapse on cessation of employment, unless 'good leaver' circumstances (ill health, injury, disability, retirement, transfer of employing company or undertaking, redundancy or at the discretion of the remuneration committee). > If good leaver, generally award to vest on normal vesting date following application of performance targets at a pro-rata reduction for proportion of vesting period elapsed unless exceptional circumstances considered.
Annual bonus	> No bonus payable (unless special circumstance exists) if under notice at payment date.
Deferred share bonus awards	> Lapse on cessation of employment, unless good leaver. > If good leaver, generally vest on normal vesting date unless exceptional circumstances considered.

Where deemed suitable, the committee reserves the right to agree additional exit payments where they are in the best interests of the Group and shareholders and reflecting the directors' contractual and legal rights. Any discretion exercised by the committee would be reported to shareholders in the subsequent annual report. The Group, in any settlement agreement recording the terms of the termination, may include provisions as to out placement counselling, the payment of the director's reasonable legal costs up to an agreed amount and other reasonable payments of a similar nature.

Non-executive directors receive no payments for loss of office.

Approach to recruitment remuneration

Where a new executive director is appointed, the principles outlined above in relation to the structure, components and maximum opportunities of the existing executive directors' remuneration package and service contract terms will also apply to any newly appointed director. Salaries for new hires will be set to reflect their skills and experience, the Group's intended pay positioning and the market rate for the role. Existing incentive arrangements will be used where possible and guaranteed bonuses will not be offered. The level of pay will be what is necessary but not excessive to recruit the new executive director.

The remuneration committee will have the discretion to determine additional remuneration which constitutes compensation for the forfeiture of awards under variable remuneration arrangements with any previous employer on a like-for-like basis (comparable time horizon, value and subject to performance conditions) and/or any additional remuneration relating to relocation or similar expenses. Similarly, the remuneration committee will have discretion to retain existing contractual arrangements for employees who are internally promoted to board level. In addition, in exceptional circumstances, the remuneration committee reserves the right to grant additional remuneration which it feels is appropriate, taking into account the specific circumstances of the individual in order to facilitate such recruitment, provided that the total variable pay (excluding any buy-out awards) for the first year will not exceed 400% of salary (i.e. 75% above maximum in the policy table).

Fees for newly appointed non-executive directors will be determined in line with the policy set out below.

Components and structure of remuneration – non-executive directors

The board reviews non-executive directors' fees periodically in the light of fees payable in comparable companies and the importance attached to the retention and attraction of high calibre individuals as non-executive directors. This table sets out the elements which are included in the remuneration package for non-executive directors and explains how they operate:

Element and purpose	Operation and link to business strategy	Maximum opportunity
Fees To attract and retain high calibre non-executive directors by offering competitive fees.	> Per annum basis. > Additional fees may be paid to reflect extra responsibilities such as committee chairman or SID. > With the agreement of the chairman of the Group, non-executive directors can carry out specific project work for the Group on fees to be agreed. > Non-executive directors may be eligible for benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate.	Reviewed periodically to comparable companies' pay.

Non-executive directors' letters of appointment

The terms of appointment of independent non-executive directors (including the chairman) are contained in letters of appointment rather than under service contracts. The duration of the appointment is usually three years, and it is anticipated that the period will be extended for a second term of three years with the agreement of the board and the non-executive director, although a reappointment is not automatic.

Either party may terminate on one month's written notice.

The reappointment of all non-executive directors is subject to election by the Group's shareholders at the first annual general meeting, and re-election at any subsequent annual general meeting where they are due for re-election.

By order of the board:

Robin Phipps

Chairman of the remuneration committee

5 March 2015

Audit and risk committee report

The committee has responsibility for the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's external auditor in that process. It focuses in particular on compliance with accounting policies and ensuring the maintenance of an effective system of internal financial control. It also monitors and reviews the effectiveness of the Group's internal audit function.

The ultimate responsibility for reviewing and approving the annual report remains with the board. The committee is also responsible for advising the board on the Company's overall risk appetite and strategy.

The committee reviews the Group's risk assessment processes and methodology and its capability for identifying and managing new risk, alongside advising on proposed transactions and reviewing reports on material breaches of risk limits.

The audit and risk committee normally meets four times a year at the appropriate times in the financial reporting and audit cycle, and at such other times as required. Also, as appropriate during these meetings, the committee will meet separately with representatives of the external auditor and the head of the internal audit function without any other persons present.

The terms of reference of the committee cover issues such as membership and the frequency of meetings, together with the requirements of any quorum for, and the right to attend, meetings. The categories of responsibility of the committee covered in the terms of reference are: external audit, internal audit, financial reporting, narrative reporting, internal controls and risk management. The terms of reference also set out the authority of the committee to carry out its responsibilities.

The Code recommends that, for companies outside the FTSE 350, the audit and risk committee comprises at least two members who are independent non-executive directors and includes one member with recent and relevant financial experience.

For meetings held in 2014, the committee comprised of three members – Iain Cornish (chair), Sir George Mathewson and Gillian Key-Vice, who are independent non-executive directors and therefore satisfies the Code's requirements. Iain Cornish has recent and relevant financial experience, having held senior positions at Yorkshire Building Society until his retirement in 2011, as well as a number of other non-executive directorships as outlined on pages 42 and 43. Gillian Key-Vice resigned from the board on 27 November 2014. Lan Tu will join the committee as an independent non-executive director with effect from her appointment as a director on 9 March 2015.

Work of the committee

During the period under review, the following work was carried out:

- monitoring the financial reporting process
- considering the appropriateness of accounting policies
- reviewing interim and annual results and reports to shareholders including significant financial reporting judgments
- recommending to the board the appointment of an external professional service firm (BDO) to carry out an internal audit function
- reviewing the internal audit work programme and reports
- reporting to the board on how the external auditor has discharged their responsibilities
- reviewing reports from, and consulting with, the external auditor, monitoring their independence and effectiveness and recommending their re-appointment
- recommending to the board the appointment of KPMG LLP as external auditor following a comprehensive and thorough competitive tender
- holding private meetings with the external auditor
- reviewing risk management and internal control systems
- developing a policy on the provision of non-audit services by the external auditor
- providing advice to the board on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy
- discussion of management letters from external auditors
- reviewing FCA authorisation progress
- reviewing the FCA readiness status of servicers and their ability to achieve FCA authorisation
- reviewing credit or audits
- considering portfolio committee documentation
- assurance reviews of servicers
- assessing risk management policies
- conducting review assessments in relation to customers
- approving new hedging regime in order to manage the Group's overall liquidity position and foreign exchange risks
- reviewing the tax status report
- considering legal claims and litigation affecting the Group
- reviewing internal evaluation of committee findings
- considering committee terms of reference.

Significant areas

Significant areas considered by the committee and discussed with the external auditor during the year were:

Estimation of future cash collections from purchased loan portfolios:

- The estimation of remaining collections from debt portfolios is complex and requires management to make significant judgment in relation to expected life, probability and value of related cash flows for each loan. The committee considered the value of the loan portfolio by reference to cash flow models. Management's key assumptions were examined carefully by the committee, including the profile of expected future cash collection based on the Group's historical collection experience and changes in collection strategies.

Value of purchased loan portfolio assets and setting of the EIR:

- On acquisition of purchased loan portfolios, a short period of time is required to determine the EIR due to the complexity of the loan portfolios acquired. The committee considered the EIR of all portfolios and the judgments made by management relating to the expected life and related cash flows. The committee, together with the external auditor, considered the robustness of the EIRs which were found to be acceptable and agreed to incorporate the external auditor's observations on improving the processes around model governance, reconciliations and data inputs. The portfolios are reviewed by management for any possible indications of impairment or enhancement at the balance sheet date in accordance with IAS 39 – Financial Instruments: Recognition and Measurement. The committee, together with the external auditor, considered the value of the loan portfolio by reference to cash flow models.

Capquest acquisition:

- During the year the Group acquired the entire share capital of Capquest. Management used the acquisition method in considering the appropriate acquisition accounting, following the steps required by IFRS 3 (revised) – business combinations, to recognise assets acquired, liabilities assumed and measure goodwill. The committee reviewed the appropriateness of management's fair value considerations and recognition of assets and liabilities on acquisition and approved management's methodology.

Accounting for material transactions:

- The Group is increasingly making equity investments in addition to purchasing portfolios in different asset classes and geographies, which can lead to new and sometimes complex transactions and accounting. The buying process is a multi-stage approach. The underwriting process includes a four-stage approval, or gate, process before presentation of the investment memorandum to the investment committee. The committee then determines whether to recommend the purchase to the board (when material or complex) in advance of submission of a final bid. Where accounting during the year was complicated, the finance team was brought into the process early and accounting papers were produced and disclosed for discussions with the external auditor and approval by the audit and risk committee.

Audit and risk committee report

External auditor

The committee carried out the following in relation to the external auditor:

- Recommended to the board the appointment of KPMG LLP as external auditor following a comprehensive and thorough competitive tender process
- Considered and approved the proposed materiality and audit plan prepared.
- Monitored the independence of the external auditor and the effectiveness of the external audit process.
- Developed and implemented the Group's policy on the provision of non-audit services by the external auditor.

Deloitte LLP resigned as auditor and KPMG LLP was appointed by the board in July 2014. The reasons for the external audit contract tender are set out in the 2013 Annual Report on page 61. Both the committee and the external auditor have in place safeguards to avoid any compromise of the independence and objectivity of the external auditor. The committee considers the independence of the external auditor annually and the Group has a formal policy for the engagement of its external auditor to supply non-audit services. The policy is designed to ensure that neither the nature of the service to be provided nor the level of reliance placed on the services could impact the objectivity of the external auditor's opinion on the Group's financial statements.

The policy precludes the appointment of the external auditor to provide any service where there is involvement in management functions or decision making, or any service on which management may place primary reliance in determining the adequacy of internal controls, financial systems or financial reporting. Proposed non-audit fees are notified to the chairman of the audit and risk committee for his approval in advance of being incurred.

Having considered KPMG LLP's independence, compliance with regulatory and ethical standards, and assessed its objectivity, the committee unanimously recommended to the board that a resolution for the re-appointment of KPMG LLP as the Group's external auditor be proposed to shareholders at the 2015 annual general meeting.

Internal audit

Following a comprehensive and thorough competitive tender, BDO were appointed by the board in April 2014 to provide an internal audit function to the Group.

During the year the committee has considered and approved the Group's internal audit plan, which is based on an assessment of the key risks faced by the Group. It has monitored progress of the internal audit function against that plan, ensuring that the internal audit function has sufficient resource to carry out its duties effectively. Reports on internal audit work have been received by the committee and, where necessary appropriate actions have been recommended to the board. The results of this work, together with the committee's engagement with the management information of the Group and the executive directors, has enabled them to conclude that the statements given on page 51 of the corporate governance report relating to the Group's systems of internal control and its management of risk are appropriate.

Iain Cornish
Chairman of the audit and risk committee
5 March 2015

Independent auditor's report to the members of Arrow Global Group PLC only.

Opinions and conclusions arising from our audit.

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Arrow Global Group PLC for the year ended 31 December 2014 set out on pages 73 to 116. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Estimation of future cash collections from debt portfolios

Refer to page 73 (Audit and Risk Committee Report), page 86 (accounting policy) and page 90 (financial disclosures).

The risk: In line with accounting standards, income from purchased loan portfolios is recognised using the Effective Interest Rate (EIR) method. The carrying value of assets is reassessed based on the Estimated Remaining Collections ('ERCs') discounted at the EIR rate which can result in a 'write up' (increase in portfolio carrying value) or a 'write down' (decrease in the carrying value). ERCs are used to calculate both the initial effective interest rate ('EIR'), on which revenue is recognised, and the initial and ongoing asset carrying values for acquired credit impaired debt portfolios. The Group uses cash flow forecasting models to calculate the ERCs which are an estimate of future cash flows recoverable from debt portfolios. It is the key judgment area for our audit due to the level of subjectivity inherent in certain assumptions used in its estimation, such as the probability, value and timing of expected future cash flows. There is a risk that these judgments may not appropriately reflect all the facts which would skew the recognition of debt portfolio income and the carrying amount of the assets.

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Our response: Our audit procedures included:

- We tested the controls designed and applied by the Group to provide assurance that the assumptions described above had been regularly reviewed and updated. Also, we tested that changes in debt portfolio performance was monitored and scrutinised by appropriate personnel and that the updated ERCs used had been appropriately approved.
- We critically assessed the estimates of future cash flows and any manual adjustments made to the estimates against our understanding of the Group, the historical accuracy of its estimates and the current and past performance of the Group's portfolios including recent cash collections. We challenged the appropriateness of timing and forecast period of cash flows, by comparing these to historical trends within the Group, our own expectations based on our knowledge of the Group and experience of the industry in which the Group operates.

Mathematical integrity and inputs of the EIR and NPV models

Refer to page 73 (Audit and Risk Committee Report), page 90 (accounting policy).

The risk: The Group uses models to calculate the EIR and carrying value of debt portfolios. Manual inputs to the models lead to added risk in the calculation of both income and asset carrying value. An incorrect import of data or an error in the application of the EIR and estimated cash flows can result in the income and the related balance sheet carrying amounts being over or understated.

Our response: Our audit procedures included:

- We involved our modelling specialists to satisfy ourselves as to the integrity of the models used by the Group which utilise the estimated cash flow forecasts and EIRs to determine the revenue and asset carrying amounts.
- We evaluated the application of EIR methodology in the models used by the Group. This included re-performing a sample of calculations for EIR and asset carrying values and testing the consistent application of formula.
- We tested the controls designed and applied by the Group to provide assurance on accuracy and completeness of data inputs to these models, and agreed a sample of inputs and ERCs, to administration systems.

Accounting for the acquisition of Capquest Group

Refer to page 73 (Audit and Risk Committee Report).

The risk: During the year ended 31 December 2014, the Group acquired Quest Topco Limited and its subsidiaries (the Capquest Group). The key judgment required in respect of the acquisition is the appropriateness of the fair value of the acquisition balance sheet, specifically the fair value of acquired debt portfolios and recognition and valuation of any identifiable intangibles.

Our response: Our audit procedures included:

- We inspected the underlying sale and purchase agreement and other information produced by the Group and its advisers to verify the purchase price and the existing identifiable assets acquired.
- We evaluated the fair values allocated to the acquired assets and liabilities, which included testing the cash flow models used to fair value the acquired loan portfolios and reconciling underlying model data back to administration systems. We assessed whether the discount rate used in the calculation of fair values aligned to market expectations based on our knowledge of the industry. We also challenged the assumptions, such as the benefits expected by the group, used to support the fair value of the acquired IT platform.
- We analysed the Group's rationale for not recognising certain other acquisition intangibles by assessing whether items were both separable and identifiable under the relevant accounting standards and by inspecting the terms of the underlying legal and contractual documentation where appropriate.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £1.7million, determined with reference to a benchmark of Group adjusted profit before tax, of which it represents 5%. The statutory profit before tax balance has been adjusted to add back one off, non-recurring items. We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £85,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's three reporting components, we subjected all three to audits for Group reporting purposes. These audits covered 100% of Group revenue, 100% of Group profit before tax and 100% of Group total assets.

The Group audit team performed the audits of the key reporting components in accordance with the materiality levels used for local audits, which ranged from £0.2 million to £1.7 million. The work on all components was performed by the Group audit team.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 85, in relation to going concern; and
- the part of the Corporate Governance Statement on page 49 relating to the company's compliance with the ten provisions of the UK Corporate Governance Code 2012 specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate** This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2014a** which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Richard Gabbertas
Senior Statutory Auditor
for and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants
Manchester
5 March 2015

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Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 underlying £000	Non-recurring items 2014 £000	Year ended 31 December 2014 including non-recurring £000	Year ended 31 December 2013 underlying £000	Non-recurring items 2013 £000	Year ended 31 December 2013 including non-recurring £000
Continuing operations	**Note**						
Revenue							
Income from purchased loan portfolios	16	107,348	–	107,348	87,330	–	87,330
Portfolio write up	6, 16	636	–	636	4,843	–	4,843
Profit on portfolio sales		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	11	(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							
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	10	**(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	7	344	–	344	57	–	57
Recurring finance costs		(21,753)	–	(21,753)	(19,359)	–	(19,359)
Non-recurring finance costs							
Bond related costs		–	*(705)*	*(705)*	–	*(3,916)*	*(3,916)*
Settlement provisions		–	*(143)*	*(143)*	–	–	–
Total finance costs	8	**(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	12	(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:							
Reclassified in the statement of 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 (£)	29	**0.17**	**–**	**0.10**	**0.16**	**–**	**0.10**
Adjusted EPS (£)	29	**0.17**	**–**	**0.10**	**0.17**	**–**	**0.11**

Consolidated and parent Company balance sheet

As at 31 December 2014

Assets	Note	Group 31 December 2014 £000	Group 31 December 2013 £000	Company 31 December 2014 £000	Company 31 December 2013 £000
Non-current assets					
Intangible assets	14	58,666	3,444	–	–
Property, plant and equipment	15	2,881	259	–	–
Purchased loan portfolios	16	377,900	211,787	–	–
Investment in subsidiary undertakings	23	–	–	307,500	307,500
Investment in associates	23	11,419	–	–	–
Loan notes	16	1,378	1,668	–	–
Deferred tax asset		300	12	–	–
Total non-current assets		**452,544**	**217,170**	**307,500**	**307,500**
Current assets					
Cash and cash equivalents		14,542	47,520	15	77
Other receivables	17	16,569	11,194	53,528	49,456
Purchased loan portfolios	16	99,613	62,145	–	–
Derivative asset	25	–	507	–	–
Total current assets		**130,724**	**121,366**	**53,543**	**49,533**
Total purchased loan portfolios		477,513	273,932	–	–
Total assets		**583,268**	**338,536**	**361,043**	**357,033**
Equity					
Share capital	20	1,744	1,744	1,744	1,744
Share premium	20	347,436	347,436	347,436	347,436
Retained earnings		51,479	33,841	10,100	6,373
Hedging reserve		(687)	–	–	–
Other reserves		(278,098)	(277,848)	(562)	(562)
Total equity attributable to shareholders		**121,874**	**105,173**	**358,718**	**354,991**
Liabilities					
Non-current liabilities					
Senior secured notes	28	378,564	211,920	–	–
Deferred tax liability	19	2,852	2,646	–	–
Total non-current liabilities		**381,416**	**214,566**	**–**	**–**
Current liabilities					
Trade and other payables	18	33,058	10,128	2,257	1,849
Derivative liability	25	1,872	–	–	–
Current tax liability		2,355	2,894	68	193
Revolving credit facility	28	35,404	–	–	–
Senior secured notes	28	7,289	5,775	–	–
Total current liabilities		**79,978**	**18,797**	**2,325**	**2,042**
Total liabilities		**461,394**	**233,363**	**2,325**	**2,042**
Total equity and liabilities		**583,268**	**338,536**	**361,043**	**357,033**

Approved by the board of directors on 5 March 2015, signed and authorised for issue on its behalf by:

Rob Memmott

Chief financial officer

Company Number: 08649661

Consolidated and parent Company statement of changes in equity

For the year ended 31 December 2014

Group	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 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)

Company	Ordinary shares £000	Share premium £000	Retained earnings £000	Own share reserve £000	Total £000
Balance at 1 January 2013	**–**	**–**	**–**	**–**	**–**
Profit for the year	–	–	511	–	511
Total comprehensive income for the year	–	–	511	–	511
Issue of shares	1,744	347,436	–	–	349,180
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**	**6,373**	**(562)**	**354,991**
Profit for the year	–	–	4,360	–	4,360
Exchange differences	–	–	–	–	–
Total comprehensive income for the year	–	–	4,360	–	4,360
Share-based payments	–	–	2,328	–	2,328
Dividend paid	–	–	(2,961)	–	(2,961)
Balance at 31 December 2014	**1,744**	**347,436**	**10,100**	**(562)**	**358,718**

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 and parent Company statement of cash flows

For the year ended 31 December 2014

	Note	Group year ended 31 December 2014 £000	Group year ended 31 December 2013 £000	Company year ended 31 December 2014 £000	Company year ended 31 December 2013 £000
Net cash used in operating activities	31	**(52,431)**	**(6,717)**	**2,899**	**(42,542)**
Investing activities					
Purchase of property, plant and equipment		(279)	(143)	–	–
Purchase of intangible assets		(851)	(341)	–	–
Repurchase of own shares		–	(1,430)	–	(1,430)
Sale of own shares		–	2,369	–	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)**	**–**	**939**
Financing activities					
Proceeds of issued share capital		–	41,680	–	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)	–	(2,961)	–
Net cash flow generated by financing activities		**129,057**	**62,129**	**(2,961)**	**41,680**
Net increase in cash and cash equivalents		**(33,044)**	**38,041**	**(62)**	**77**
Cash and cash equivalents at beginning of year		47,520	9,610	77	–
Effect of exchange rates on cash and cash equivalents		66	(131)	–	–
Cash and cash equivalents at end of year		**14,542**	**47,520**	**15**	**77**

Notes to the financial statements

1 General information

Arrow Global Group PLC is a company incorporated in England and Wales and is the ultimate parent company of the Group. The address of the registered office is presented on page 117. The financial statements are presented in pounds sterling as the currency of the primary economic environment in which the Group operates.

The Company's subsidiaries and associates, both direct and indirect, at this date are listed in note 23.

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.

As permitted by section 408 of the Companies Act 2006, a separate income statement and related notes of the Company have not been presented in this annual report and accounts.

2 Adoption of new and revised standards

The following new standards, amendments to standards and interpretations are mandatory for the first time for the year beginning 1 January 2014:

- IFRS 10 — Consolidated Financial Statements
- IFRS 10, IFRS 12 and IAS 27 — Investment entities (amended)
- IFRS 11 — Joint Arrangements
- IFRS 12 — Disclosure of Interests in Other Entities
- IAS 27 (revised) — Separate Financial Statements
- IAS 28 (revised) — Investments in Associates and Joint Ventures
- IAS 32 (amended) — Offsetting Financial Assets and Financial Liabilities
- IAS 19 (amended) — Employee Benefits
- IAS 39 (amended) — Novation of Derivatives and Continuation of Hedge Accounting

The following new and revised Standards and Interpretations have been endorsed but are not yet effective for these financial statements:

- IAS 36 (amended) — Requirement for Recoverable Amount Disclosures for Non-Financial Assets

No new or revised standards and interpretations that have been endorsed but are not yet effective in these financial statements are deemed to have a material impact on future financial statements.

The following standard is not yet endorsed however may have a material impact and affect disclosure requirements in future periods:

- IFRS 9 — Financial Instruments

IFRS 9 will impact the measurement and disclosures for Financial Instruments. The adoption of effective interest rate is thought to be in line with current IFRS 9 guidance, however, additional disclosure requirements, over and above those from IFRS 7 will be required. In particular more specific disclosures around compliance with applicable regulation and the management of risk. Management are still assessing the impact of IFRS 9 on future periods.

Notes to the financial statements

3 Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with IFRS. The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore, the Group financial statements comply with EU IAS Regulation.

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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2014 and comparative period. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with its investee entity and has the ability to affect these returns through its power over the investee entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Also see the accounting policy 'shares held in an employee benefit trust' (EBT).

Going concern

The directors are required to make an assessment of the Group's ability to continue to trade as a going concern for the foreseeable future. The directors have given this matter due consideration through a review of forecast cash flow models and scenarios and current cash availability and have concluded that it is appropriate to prepare the Group financial statements on a going concern basis.

The main considerations were as follows:

The Group is highly cash generative receiving weekly cash flows and has a low fixed cost base. As at 31 December 2014, the Group had an available £100 million overdraft facility, drawn by £39 million. The Group also had £15 million cash balance as at 31 December 2014. The directors have reviewed the available headroom of the Group, and confirmed that the Group has sufficient resources to meet future obligations as they fall due.

The principal covenants of the revolving credit facility that the Group currently has in place are loan to value (LTV) ratio of no more than 75% and a super senior loan to value (SSLTV) ratio of no more than 25%, both tested quarterly.

The SSLTV ratio as at 31 December 2014 was 2.7% and the LTV ratio 49.0%. Both covenants were comfortably met throughout the year to 31 December 2014. The directors have reviewed the Group's financial projections covering a minimum period of at least 12 months from the date of signing of these financial statements and the projections show covenant compliance.

The Company had a profit for the year to 31 December 2014 of £4,360,000. With net current assets of £51,218,000, the directors deem this sufficient to cover a minimum period of at least 12 months from the date of signing these financial statements.

The Group is able to generate strong cash flows even in difficult general market conditions. The Group's cash flow projections confirm that the Group will remain well within its facilities for a minimum period of at least 12 months from the data of signing these financial statements.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) (Business Combinations) are recognised at their fair value at the acquisition date, except that of deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements that are recognised and measured in accordance with IAS 12 (Income Taxes) and IAS 19 (Employee Benefits) respectively.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year from the date of acquisition.

Notes to the financial statements

3 Significant accounting policies (continued)

Goodwill

Goodwill arising on a business combination is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired.

The Group calculates the recoverable amount of each CGU by determining the higher of its fair value less costs to sell, and value in use. Certain assumptions are made in relation to the value in use calculation including forecast cash flows, growth rates, and an appropriate discount rate.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis in relation to the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On a business combination the portfolio investments are remeasured to fair value using an appropriate discount rate at the date of acquisition, calculated based on actual performance and forecasts at that date.

On disposal of a subsidiary, the goodwill attributable to that subsidiary is included when calculating the profit or loss on disposal.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 to 50 per cent of the voting power of another entity or evidence through a number of aspects such as representation on the board of directors, participation in policy making and decisions, material transactions between the entity and investee, interchange of managerial personnel or provision of essential technical information. Associates are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of the associate from the date that significant influence commences until the date that it ceases.

Revenue recognition and effective interest rate method (EIR)

Income from purchased loan portfolios

Income from purchased loan portfolios represents the yield from acquired portfolio investments. Purchased loan portfolios are financial instruments that are accounted for under IAS 39 and are measured at amortised cost using the EIR method.

The EIR method is a method of calculating the amortised cost of a purchased loan portfolio and of allocating interest income over the expressed life of the portfolio. The EIR is the rate that exactly discounts 84-months of estimated future cash receipts of the purchased portfolio asset to the net carrying amount at initial recognition (i.e. the price paid to acquire the asset). On acquisition, there is a short period that is required to determine the EIR, due to the complexity of the portfolios acquired.

Unallocated cash is held as a liability in the balance sheet until it is reconciled. Unallocated cash is held for a period of six years, only being released to the consolidated statement of comprehensive income at this point.

Where the Group acquires purchased loan portfolios via forward flow agreements, there is no difference in accounting treatment than described above.

Portfolio write up

Upward revaluations ('write ups') are increases to carrying values, discounted at the EIR rate, of the acquired debt portfolios as a result of reassessments to their estimated cash flows and are recognised in the portfolio write-up line within revenue, with any subsequent reversals to write ups also recorded in this line.

Impairment of purchased loan portfolios

The portfolios are reviewed for indications of impairment at the balance sheet date, such as variances to historical cash curves, in accordance with IAS 39. This is considered on a portfolio basis. Where portfolios exhibit objective evidence of impairment, an adjustment, being the difference between the current carrying value and the net present value of future estimated cash flows, is recorded to the carrying value of the portfolio.

If the forecast portfolio collections are lower than previous forecasts the revenue from any previous write-ups are reversed and this reversal is recognised in revenue recorded in the same line, up to the point that any reversals equal the previously recognised cumulative write-ups. If these reversals exceed any previously recognised cumulative write-ups then an impairment is recognised as a separate statement of comprehensive income line ('write downs').

Revenue on assets under management

In accordance with IAS 18, the Company recognises revenue on its managed services contracts when the right to receive such revenue is reasonably assured and can be measured reliably.

Notes to the financial statements

3 Significant accounting policies (continued)

Non-recurring items

Non-recurring items are those which are separately identified by virtue of their size and nature (i.e. outside of the normal underlying operating activities of the Group) to allow a full understanding of the underlying performance of the Group. These are disclosed separately on the face of the statement of comprehensive income. Current year non-recurring items are explained in notes 8 and 10.

Interest income from secured loan notes

The Group has entered into lending arrangements with third parties to provide capital to purchase non-performing consumer debt portfolios (see note 16). Interest income is recognised throughout the year using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life.

Retirement benefit costs

Payments to defined contribution retirement schemes are charged as an expense as they fall due.

The Group has, for the period covered by these financial statements, only made contributions to defined contribution plans to provide pension benefits for employees upon retirement and, otherwise, has no residual obligation or commitments in respect of any defined benefit scheme.

Foreign currency translation

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in the other-comprehensive income.

Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current taxation, including UK corporation tax and foreign tax, is based on the taxable profit for the year and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at each reporting date. Taxable profit differs from the net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current taxation is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited to equity, in which case the corporation taxation is also dealt with in equity.

Deferred tax

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at each reporting date.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation is measured at the average tax rates that are expected to apply in the years in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at each reporting date. The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred taxation is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited to equity, in which case the deferred taxation is also dealt with in equity.

Notes to the financial statements

3 Significant accounting policies (continued)

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

The grant date fair value of the share based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employee become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model were required, taking into accounts the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share based payments with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. Where the Company grants rights to its equity instruments to employees of its subsidiaries, the costs are recharged to the subsidiary in line with the requirements of IFRS 2 'Share based payments'.

Shares held in an employee benefit trust (EBT)

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

Property, plant and equipment and other intangibles

Property, plant and equipment and other intangibles, as discussed below, are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method on the following basis:

Furniture	> five years
Computer equipment	> three years
Leasehold improvements	> five years
Software licences	> shorter of contractual life and useful economic life
IT platform	> ten years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment and other intangibles is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Acquired licences, such as software licences, are capitalised at cost and amortised over the shorter of contractual life and useful economic life.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Purchased loan portfolios and secured loan notes

The Group's purchased loan portfolios and secured loan notes are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Under IAS 39, such assets are classified as 'loans and receivables' and are measured at amortised cost using the EIR method less any impairment.

Purchased loan portfolios are acquired at a deep discount and as a result the estimated future cash flows reflect the likely credit losses within each portfolio. The portfolio investments are initially recorded at their fair value, being their acquisition price, and are subsequently measured at amortised cost using the EIR method.

The portfolio asset is analysed between current and non-current in the balance sheet. The current asset is determined using the expected cash flows arising in the next 12 months after the balance sheet date. The residual amount is classified as non-current.

Litigation costs

As part of the Group's litigation strategy to recover customer balances, the Group incurs recoverable upfront legal costs, which are capitalised and amortised in line with their expected recovery profile.

Impairment of financial assets

Financial assets, are assessed for indicators of impairment at each period end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Notes to the financial statements

3 Significant accounting policies (continued)

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in the OCI is recognised in the statement of comprehensive income. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities, such as loan notes, or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRS.

Financial liabilities are held at amortised cost using the EIR method. The EIR is calculated by estimating the cash flows arising from the contractual terms of the instrument over its expected life. Transaction costs are included within the EIR and deducted from the initial carrying value of the debt instrument.

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group uses derivative financial instruments, principally interest rate swaps and forward currency contracts, to manage the interest rate and currency risks arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39. The majority of the Group's derivatives are cash flow hedges of highly probably forecast transactions and meet the hedge accounting requirements of IAS 39. Derivatives are initially recognised at the fair value on the date a derivative contract is entered into and are subsequently re-measured at each reporting date at their fair value. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately within the statement of comprehensive income. For derivatives that are designated as cash flow hedges and where the hedge accounting criteria are met, the effective portion of changes in the fair value is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income as part of finance costs. Amounts accumulated in equity are recognised in the statement of comprehensive income when the income or expense on the hedged item is recognised in the statement of comprehensive income.

The Group discontinues hedge accounting when:

- it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated or exercised; or,
- the underlying hedged item matures or is sold or repaired.

Cash and cash equivalents

Cash and cash equivalents comprise demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Capitalisation of legal transaction fees

Legal transaction fees associated with the purchase of portfolios are allocated to the purchase price of the portfolio and included within the EIR applied against the asset value.

Operating expenses

Operating expenses relate to administration and costs associated with collection activities. All operating costs are accounted for on an accruals basis.

Fair value measurements

The fair value of financial instruments is determined in accordance with IFRS 13 in the manner described in note 25.

Other reserves

Other reserves include the own share reserve, the translation reserve and the merger reserve. These reserves are further explained on the consolidated statement of changes in equity on page 82.

Notes to the financial statements

4 Critical accounting judgments and estimates

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

Critical judgments in applying accounting policies

The following are the critical judgments that have been made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

a) Fair value of acquisition balance sheet and carrying value of goodwill

The Group capitalises goodwill on the acquisition of entities as discussed in the significant accounting policies. Goodwill is the excess of the consideration paid over the fair value of its net assets. The determination of the fair value of acquired net assets requires the exercise of management judgment, particularly for those financial assets or liabilities for which there are no quoted prices, or assets such as acquired investment portfolios where valuations reflect estimates and timing of future cash flows. Different valuations would result in changes to the goodwill arising and to the post acquisition performance of the acquisition.

The fair value of assets acquired directly impacts the amount of goodwill recognised on acquisition. Goodwill is not amortised but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. Calculation of the value in use requires an estimate and timing of future cash flows expected to arise from the reduced CGU after a suitable discount rate has been applied to calculate present value. This inherently involves a number of judgments in that cash flow forecasts are prepared for periods that are beyond the normal requirement of management reporting, and the appropriate discount rate relevant to the business is an estimate.

Key sources of assumption and estimation uncertainty in applying accounting policies

The following are the key sources of assumption and estimation uncertainty that have been made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

b) Carrying value and EIR of purchased loan portfolios

A 12-month cash flow forecast is prepared for each account, based on predictions of probability to pay and value of total payments within the 12-month period. These predictions are generated using a bespoke statistical model (the PV model), which utilises customer and account level data, credit agency data and our historic experience with accounts which have similar key attributes. Management also review the model on a portfolio basis to take into account unforeseen external factors, which have impacted historical performance. Where necessary portfolios are calibrated to take into account these known factors. A separate model, using the 'stock and flow' method then takes the 12-month estimate and uses this to form an 84-month forecast of ERCs at a portfolio level. Key factors in this model are the assumptions made on the conversion of accounts from non-paying to paying, and vice-versa either through breakdown of the account or settlement/pay down of the balances due. Campaign overlays are also built into the model which allows the effect of performance improvements resulting from new initiatives to be factored into future cash flows. The ERCs created from the stock and flow model are regularly benchmarked at a portfolio level against actuals, which forms the impairment review.

Notes to the financial statements

5 Segmental reporting

The Group represents a single reportable segment. Its operations are all managed from the UK.

Collections information is available for the UK and Portugal operations. This is the only information analysed between the UK and Portugal received on a regular basis by the chief operating decision maker (CODM), and does not constitute sufficient information upon which to base resource allocation decisions, consequently one segment was identified. In line with the business strategy we expect this to be developing in the next 12 months. The CODM is considered to be the board of directors collectively.

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Total revenue	**110,742**	**94,697**
Collection activity costs	(34,150)	(27,994)
Professional fees and services	(1,737)	(1,733)
Recurring other operating expenses	(16,484)	(12,159)
Non-recurring items	(11,991)	(8,600)
Operating profit	**46,380**	**44,211**
Interest income	344	57
Interest costs	(22,158)	(24,169)
Fair value (losses)/gains on interest rate swaps	(443)	894
Profit before tax	**24,123**	**20,993**
Taxation	(5,852)	(5,882)
Profit for the year attributable to equity shareholders	**18,271**	**15,111**

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Purchased loan portfolios	477,513	273,932
Balance sheet		
Total segment assets	582,968	338,524
Total segment liabilities	(458,542)	(227,823)
Segment net assets	**124,426**	**110,701**
Unallocated assets which is represented by deferred tax balances	300	9
Unallocated liabilities which is represented by deferred and current tax balances	(2,852)	(5,537)
Consolidated net assets	**121,874**	**105,173**

See the glossary for the breakdown of adjusted EBITDA.

Notes to the financial statements

6 Profit for the year

Profit for the year has been arrived at after (charging)/crediting:	Note	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Net foreign exchange (losses)/gains		(975)	23
Operating leases – properties		(413)	(249)
Portfolio write up	**16**	1,533	4,843
Depreciation and amortisation	**14, 15**	(1,090)	(752)
Goodwill impairment	**12**	–	(2,309)
Profit on disposal of plant, property and equipment		143	–
Staff costs (see note 10.b)		(11,117)	(14,118)

7 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**

8 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**

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. See note 28 for further information.

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.

Notes to the financial statements

9 Auditor's remuneration

The analysis of auditor remuneration is as follows:	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Fees payable for audit services – Company	35	40
Fees payable for audit services – subsidiaries	280	94
Total fees payable for audit services	**315**	**134**
Fees payable for audit-related assurance services – Company	45	–
Total fees payable for audit-related assurance services	**45**	**–**
Fees payable for tax compliance	–	93
Fees payable for tax advisory services	–	605
Total fees payable for taxation services	**–**	**698**
Fees payable for corporate finance services – advisory	–	108
Fees payable for corporate finance services – other	–	631
Total fees payable for corporate finance services	**–**	**739**
Fees payable for other assurance services	267	110
Total fees payable for non-audit services	**267**	**1,547**
Total fees payable	**627**	**1,681**

The 2013 auditor's remuneration for statutory audit services relate solely to amounts paid to Deloitte LLP. The 2014 amounts relate solely to amounts paid to KPMG LLP.

10 Staff costs and other operating expenses

a) Other operating expenses

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Staff costs (10. b)	11,117	14,118
Other staff related costs	1,745	1,142
Premises	889	574
IT	1,095	913
Depreciation and amortisation	1,090	752
Net foreign exchange losses/(gains)	975	(23)
Goodwill impairment	–	2,309
Acquisition of subsidiary	6,026	–
Other operating expenses	5,538	974
Total operating expenses including non-recurring items	**28,475**	**20,759**
Non-recurring items:		
Acquisition of subsidiary, other	(6,026)	–
Goodwill impairment	–	(2,309)
Staff costs	(1,760)	(6,112)
Other	(4,205)	(179)
Total non-recurring items	**(11,991)**	**(8,600)**
Total operating expenses excluding non-recurring items	**16,484**	**12,159**

Notes to the financial statements

10 Staff costs and other operating expenses (continued)

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 the Group believe 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.

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.

b) Staff costs

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Wages, bonuses and salaries	9,880	13,019
Pension costs	291	227
Social security costs	946	872
	11,117	**14,118**

The total directors' personnel remuneration (including non-executive directors) during the year was £2,016,000 (2013: £3,876,000), including £nil of non-recurring costs (2013: £2,126,000) and included £119,000 in relation to pension costs (2013: £31,000). See the remuneration report for more disclosure of directors' remuneration.

The average monthly number of employees (including executive directors) are analysed below:

	Year ended 31 December 2014	Year ended 31 December 2013
Collections	45	22
Data and analytics	41	34
Finance, pricing and legal	19	16
IT and change	23	19
Management	17	13
Risk	7	3
Support services	5	2
	157	**109**

11 Professional fees and services

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Professional fees and services	**1,737**	**1,733**

Professional fees and services includes costs incurred in relation to business advisors and auditor's fees.

Notes to the financial statements

12 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 2013, 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.

Notes to the financial statements

13 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.

14 Intangible assets

Cost	IT platform £000	Software licences £000	Goodwill £000	Total £000
At 1 January 2014	–	2,793	4,277	7,070
Goodwill on acquisition of subsidiary	–	–	45,655	45,655
Assets acquired on acquisition of a subsidiary	9,422	869	–	10,291
Additions	273	202	–	475
Disposals	(56)	(188)	–	(244)
At 31 December 2014	**9,639**	**3,676**	**49,932**	**63,247**
Amortisation and impairment				
At 1 January 2014	–	1,317	2,309	3,626
Assets acquired on acquisition of a subsidiary	27	316	–	343
Amortisation charge for the year	–	806	–	806
Disposals	–	(194)	–	(194)
At 31 December 2014	**27**	**2,245**	**2,309**	**4,581**
Net book value				
At 31 December 2014	**9,612**	**1,431**	**47,623**	**58,666**
At 31 December 2013	–	1,476	1,968	3,444

An impairment review was carried out at 31 December 2014 that resulted in the no impairment to goodwill. The goodwill was assessed to be appropriately stated.

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to two aggregated CGUs on the basis that these represent the lowest level at which goodwill is monitored for internal management purposes, and are not larger than the single operating segment defined under IFRS 8 (Operating Segments). In relation to goodwill, the two CGU's identified are the Capquest group, comprising of all group companies within the acquired group, which represent the cash flows generated principally from collections on acquired purchased loan portfolios and management of third party debt, and Arrow Global Receivables Management Limited, which represents the cash flows generated principally from collections on purchased loan portfolios.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGUs is determined as the higher of fair value less cost to sell and value in use. The key assumptions for the value in use calculations are those regarding the discount rate and forecast cash collections net of direct collection costs, allowable forecast synergies and growth rates.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The rate used to discount the forecast cash flows for the CGU's are based upon the Group's weighted average cost of capital ('WACC') of 7.45%.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows into perpetuity based on models and growth rates. The forecasts assume growth rates in collection activity which in turn drive the forecast collections and cost figures. As at 31 December 2014 the five-year forecast assumed growth of 5% per annum, which is in keeping with the directors' prudent expectations of future growth of the CGUs.

The Group has conducted a sensitivity analysis on the impairment test of the CGU's carrying value. Based on the value in use a fall in the forecast cash flows of circa 20% would result in an impairment at 31 December 2014. For the Arrow Group CGU and 40% for the Arrow Global Receivable Management Limited CGU.

Notes to the financial statements

15 Property, plant and equipment

Cost	Leasehold improvements £000	Computer equipment £000	Furniture £000	Total property, plant and equipment £000
At 1 January 2014	346	342	287	975
Assets acquired on acquisition of a subsidiary	1,593	1,550	433	3,576
Additions	153	73	53	279
Disposals	(47)	(160)	(59)	(266)
At 31 December 2014	**2,045**	**1,805**	**714**	**4,564**
Accumulated depreciation				
At 1 January 2014	292	296	128	716
Assets acquired on acquisition of a subsidiary	220	503	109	832
Disposal	(25)	(100)	(24)	(149)
Charge for the year	162	53	69	284
At 31 December 2014	**649**	**752**	**282**	**1,683**
Carrying amount				
At 31 December 2014	**1,396**	**1,053**	**432**	**2,881**
At 31 December 2013	54	46	159	259

16 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).

Notes to the financial statements

16 Financial assets (continued)

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).

17 Other receivables and prepayments

	Note	Group Year ended 31 December 2014 £000	Group Year ended 31 December 2013 £000	Company Year ended 31 December 2014 £000	Company Year ended 31 December 2013 £000
Prepayments		14,049	9,033	30	–
Due from subsidiary undertakings	22	–	–	53,495	49,456
Other receivables		2,515	2,116	3	–
Current tax asset		–	–	–	–
Deposits		5	45	–	–
		16,569	**11,194**	**53,528**	**49,456**

The directors consider that the carrying amounts approximate to their fair value as balances are readily converted to cash.

18 Trade and other payables

	Note	Group Year ended 31 December 2014 £000	Group Year ended 31 December 2013 £000	Company Year ended 31 December 2014 £000	Company Year ended 31 December 2013 £000
Trade payables		6,873	4,375	890	–
Deferred consideration		11,928	2,979	–	–
Taxation and social security		324	–	–	–
Due to subsidiary undertakings	22	–	–	1,367	1,329
Other liabilities and accruals		13,933	2,774	–	520
		33,058	**10,128**	**2,257**	**1,849**

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

Notes to the financial statements

18 Trade and other payables (continued)

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.

19 Deferred tax liability

	Group Year ended 31 December 2014 £000	Group Year ended 31 December 2013 £000
Fair value adjustment on acquisition of subsidiaries*	2,383	1,841
Share schemes**	262	598
Other	207	207
	2,852	**2,646**

*A deferred tax liability of £743,000 was recognised in the year on acquisition of Capquest and a deferred tax liability of £2,309,000 was recognised in 2013 on acquisition of Arrow Global Accounts Management Limited. The liabilities are being unwound over ten years.

**An election under section 4gr31 ITEPA 2003 was in relation to share options on IPO, to take a corporate tax deduction on the total shares options immediately, creating a deferred tax liability.

20 Share capital

Issued and fully paid – 31 December 2014 and 2013	£000
174,439,026 ordinary shares of 1p each	1,744
	1,744

Total consideration for the shares was £349,180,000, giving rise to a share premium of £347,436,000. £41,680,000 was raised as part of the IPO, net of £8,420,000 of IPO costs, which were netted against the share premium account in accordance with the Companies Act 2006, section 610. The Company's ordinary shares carry the right to receive dividends and distributions paid by the Company.

The shareholders have the right to receive notice of and to attend and vote at all general meetings of the Company.

21 Lease commitments

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group Year ended 31 December 2014 £000	Group Year ended 31 December 2013 £000
Less than 1 year	1,063	105
1-5 years	2,098	198
5+ years	–	655
	3,161	**958**

Operating lease payments represent rentals payable by the Group for certain of its office properties. Lease commitments have increased with the acquisition of the Capquest group.

Notes to the financial statements

22 Related party transactions

Group

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

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

Remuneration for directors has been disclosed in note 10 along with the statement of comprehensive income charges in the year and in the remuneration report. The P&L charges for other balances are disclosed in note 6.

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 28.

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.

Company

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

Company	Arrow Global Group Holdings Limited £000s	Arrow Global Limited £000s	Arrow Global Finance PLC £000s	Arrow Global One Limited £000s	Total £000s
As at 31 December 2014					
Due from subsidiary undertakings	–	4,990	655	47,850	53,495
Due to subsidiary undertakings	(1,367)	–	–	–	(1,367)
	(1,367)	**4,990**	**655**	**47,850**	**52,128**

	Arrow Global Group Holdings Limited £000s	Arrow Global Limited £000s	Total £000s
As at 31 December 2013			
Due from subsidiary undertakings	–	49,456	49,456
Due to subsidiary undertakings	(1,329)	–	(1,329)
	(1,329)	**49,456**	**48,127**

On 27 August 2014 the Company converted £41,680,000 held as intercompany with Arrow Global One Limited to subordinated shareholder funding. Apart from the loan with Arrow Global One Limited, the remaining balances relate to intercompany loans that are repayable on demand and are therefore held as current liabilities or assets. No other transactions occurred between the related parties, excluding those disclosed above.

Notes to the financial statements

23 Investments in subsidiaries and associates

Details of the Company's subsidiaries at 31 December 2014 are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ordinary shares ownership (%)	Current status	Parent company
Arrow Global One Limited (AGOL)	UK – England and Wales	100	Trading	AGGP
Arrow Global Guernsey Holdings Limited	Guernsey	100	Trading	AGOL
Arrow Global Investment (Holdings) Limited (AGIHL)	UK – England and Wales	100	Trading	AGGHL
Arrow Global (Holdings) Limited (AG(H)L)	UK – England and Wales	100	Trading	AGIHL
Arrow Global Finance PLC	UK – England and Wales	100	Trading	AGIHL
Arrow Global Europe Limited	UK – England and Wales	100	Trading	AGIHL
Arrow Global Limited (AGL)	UK – England and Wales	100	Trading	AG(H)L
Arrow Global Receivables Management Limited	UK – England and Wales	100	Trading	AG(H)L
Arrow Global Management Limited	UK – England and Wales	100	Trading	AG(H)L
Arrow Global Portugal Limited (AGPL)	UK – England and Wales	100	Trading	AG(H)L
Arrow Global Luna Limited	UK – England and Wales	100	Trading	AG(H)L
Arrow Global Portugal Investments Limited	UK – England and Wales	100	Trading	AGL
Arrow Global Accounts Management Limited	UK – England and Wales	100	Trading	AGL
Arrow Global Guernsey Limited	Guernsey	100	Non-Trading	AGIHL
Arrow Global Debt Limited (AGDL)	Guernsey	100	Dormant	AGGHL
Arrow Global Massey Limited	UK – England and Wales	100	Dormant	AG(H)L
Arrow Global Legh Limited	UK – England and Wales	100	Dormant	AG(H)L
Arrow Global Egerton Limited	UK – England and Wales	100	Dormant	AG(H)L
Arrow Global Guernsey Limited	UK – England and Wales	100	Dormant	AG(H)L
Arrow Global Guernsey Management Limited	Guernsey	100	Dormant	AGDL
Strzala Sp. z o.o.	Poland	100	Dormant	AG(H)L/AGL
Quest TopCo Limited (QTL)	UK – England and Wales	100	Trading	AGIHL
Quest Bidco Limited (QBL)	UK – England and Wales	100	Trading	QTL
Quest Newco Limited (QNL)	UK – England and Wales	100	Trading	QBL
Capquest Group Limited (CGL)	UK – England and Wales	100	Trading	QNL
Capquest Investments Limited	UK – England and Wales	100	Trading	CGL
Capquest Debt Recovery Limited (CDRL)	UK – England and Wales	100	Trading	CGL
Capquest Mortgage Servicing Limited	UK – England and Wales	100	Trading	CGL
Capquest Asset Management Limited	UK – England and Wales	100	Trading	CGL
Capquest Debt Recovery Services Limited	UK – England and Wales	100	Dormant	CGL
Capquest Debt Recovery S.A (pty) Limited	South Africa	100	Trading	CDRL
Capquest Investments 2 Limited	UK – England and Wales	100	Dormant	CGL
Capquest Limited	UK – England and Wales	100	Dormant	CGL
Capquest UK Limited	UK – England and Wales	100	Dormant	CGL
Care Debt Management Limited	UK – England and Wales	100	Dormant	CGL
Data Verification Services Limited	UK – England and Wales	100	Dormant	CGL

All subsidiaries are included in the Group consolidation.

Subsidiaries	Arrow Global One Limited £000	Total £000
At 31 December 2013 & 31 December 2014	**307,500**	**307,500**

The investments in subsidiaries are all stated at cost.

Notes to the financial statements

23 Investments in subsidiary and associates (continued)

Details of the Company's associates at 31 December 2014 are as follows:

Name	Place of incorporation (or registration) and operation	Economic interest (%)	Current status	Parent company
Promontoria MCS Holding SAS	France	15%	Trading	AGL

Associates	2014 £000	2013 £000
Arrow Global Limited	**11,419**	**–**

The Group acquired an indirect 15% economic interest in Promontoria MCS Holding SAS through a participation agreement on 15 December 2014 for £11,419,000. The terms of the participation agreement meant that the Group demonstrated significant influence over the MCS group.

Promontoria MCS Holding SAS is a holding company of the MCS group, a specialist acquirer and manager of retail banking assets, which is seen as complementing the Group's operations and contributing to achieving the Group's overall strategy. The associate is accounted for using the equity method.

24 Risks arising from financial instruments

Risk Management

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.

The treasury function enters into derivative transactions, principally interest rate swap, currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken and written options may only be used when matched by purchased options. No written options were entered into during 2014 (2013: £nil).

Liquidity risk

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

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plans for growth. The treasury policy adopted by the Group serves to reduce this risk by setting a specific policy parameter that there are sufficient committed debt facilities to cover forecast borrowings plus operational headroom plus appropriate stress testing for the next 18 months on a rolling basis. Further, the aim is to ensure that there is a balanced refinancing profile with phased maturity dates, diversification of debt funding sources and no over-reliance on a single or small group of lenders. At 31 December 2014, the Group's senior secured notes and revolving credit facility had an average period to maturity of 5.3 years (2013: 4.6 years). Total undrawn facilities as at 31 December 2014 were £61,001,000 (2013: £55,000,000).

The treasury function monitors cash through daily reporting, the management accounts and periodic review meetings. Management has well established models used to predict collectability of cash receipts and this represents a key performance indicator of the business. The Group has a low fixed cost base, is highly cash generative with weekly cash receipts and portfolio purchases are discretionary, which helps to mitigate liquidity risk.

Notes to the financial statements

24 Risks arising from financial instruments (continued)

The table below includes both interest and principal cash flows, payable over the contractual life of the non-derivative financial liabilities.

Group As at 31 December 2014	within 1 year £000	1-2 years £000	2-5 years £000	5 years and over £000	Total £000
Amounts due to:					
Non Interest bearing					
Trade and other payables	33,058	–	–	–	33,058
Interest bearing					
£220 million secured senior note (7.875%)	17,325	17,325	51,975	227,123	313,748
€225 million secured senior note (5.25% plus EURIBOR)	9,395	9,395	28,185	194,860	241,835
Revolving credit facility	2,414	2,414	4,828	–	9,656
Total	**62,192**	**29,134**	**84,988**	**421,983**	**598,297**

Group As at 31 December 2013	within 1 year £000	1-2 years £000	2-5 years £000	5 years and over £000	Total £000
Amounts due to:					
Non Interest bearing					
Trade and other payables	10,128	–	–	–	10,128
Interest bearing					
£220 million secured senior note (7.875%)	17,325	17,325	51,975	244,448	331,073
Revolving credit facility	770	770	1,540	–	3,080
Total	**28,223**	**18,095**	**53,515**	**244,448**	**344,281**

Company As at 31 December 2014	within 1 year £000	1-2 years £000	2-5 years £000	5 years and over £000	Total £000
Amounts due to:					
Non Interest bearing					
Trade and other payables	**2,257**	**–**	**–**	**–**	**2,257**

Company As at 31 December 2013	within 1 year £000	1-2 years £000	2-5 years £000	5 years and over £000	Total £000
Amounts due to:					
Non Interest bearing					
Trade and other payables	**1,849**	**–**	**–**	**–**	**1,849**

The analysis above includes the contractual cash flow for borrowings and the total amount of interest payable over the life of the loan. Where borrowings are subject to a floating rate, an estimate of interest payable is taken. The rate is derived from interest rate yield curves at the balance sheet date.

Notes to the financial statements

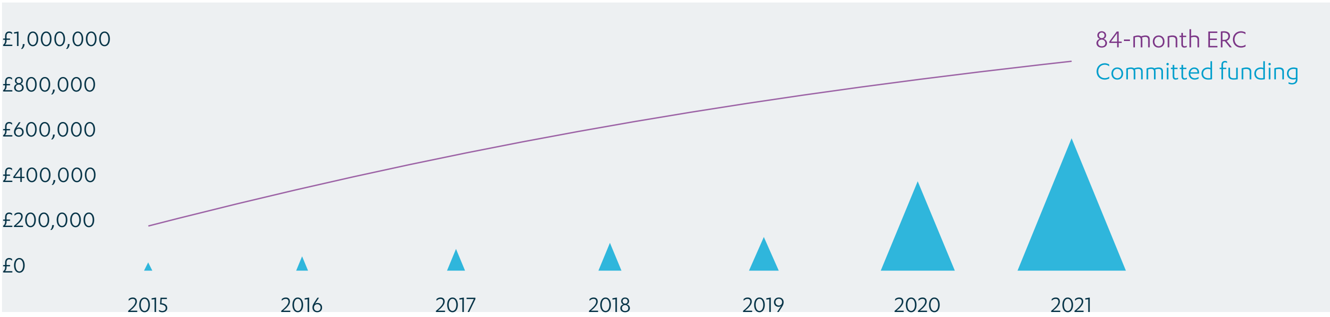
24 Risks arising from financial instruments (continued)

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

	2014		2013	
	Outflow £000	Inflow £000	Outflow £000	Inflow £000
Not later than one month	62,780	62,315	–	–
Later than one month and not later than six months	78,897	78,185	4,393	4,464
Later than six months and not later than one year	193	133	–	–
Later than one year and not later than two years	387	281	–	–
Later than two years and not later than five years	361	340	–	–
	142,618	**141,254**	**4,393**	**4,464**

When the amount payable or receivable is not fixed, the amount disclosed has been determined with reference to the projected interest rates as illustrated by the interest rate yield curves existing at the balance sheet date.

A maturity analysis of the Group's current 84-month ERC and comparison to borrowing facilities as at 31 December 2014 is presented below on a cumulative basis:



This demonstrates the headroom on the Group's committed funding facility repayments in comparison to the current purchased loan portfolio's estimated collections over a 84-month period.

Market risk

Market risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk principally comprises interest rate risk and currency risk considered further below.

Interest rate risk

The Group has an exposure to interest rate risk arising on changes in interest rates in each of the countries in which it operates and therefore seeks to limit this exposure. This is achieved by the use of techniques to fix interest rate costs, including fixed rate funding (predominantly longer-term bond funding), forward currency contracts used for non-functional currency funding, bank borrowing loan draw down periods and interest rate hedging instruments. These techniques are used to hedge the interest rate costs on a proportion of borrowings over a certain period of time. Most hedging is for up to three years.

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

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Increase in fair value of derivatives taken to equity	2,939	–
Reduction in profit before taxation	195	1
	3,134	**1**

Notes to the financial statements

24 Risks arising from financial instruments (continued)

This sensitivity analysis is based on the following assumptions:

- the change in market interest rates occurs in all countries where the Group has borrowings and/or derivative financial instruments
- where financial liabilities are subject to fixed interest rates or have their interest rate fixed by hedging instruments it is assumed that there is no impact from a change in interest rates; and
- changes in market interest rates affect the fair value of derivative financial instruments.

Currency risk

The Group is subject to three types of currency risk; cash flow exposure, net asset exposure and income statement exposure.

Cash flow exposure

The Group is subject to currency risk in respect of future cash flows which are denominated in foreign currency. The policy of the Group is to hedge a large proportion of this currency risk in respect of cash flows which are expected to arise in the following 12 months. Where cash flow hedges have been entered into, they are designated as cash flow hedges on specific future transactions.

Net asset exposure

A proportion of the Group's net assets are denominated in Euro. The balance sheet is reported in sterling and this means that there is a risk that a fluctuation in foreign exchange rates will have an impact on the net assets of the Group. The Group aims to minimise the value of net assets denominated in euro by funding portfolio assets with euro denominated borrowings where possible.

Income statement exposure

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

Foreign currency sensitivity analysis

If foreign exchange rates had been 10% weaker than sterling than those at the balance sheet date and all other variables were held constant, the Group's net assets and net profit for each denomination of currency would increase/(decrease) as follows:

Equity and net assets	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Currency		
Euro (EUR)	2,229	(395)
US Dollar (USD)	(1)	2
Polish Zloty (PLN)	(9)	(7)
	2,219	**(400)**

Net profit	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Currency		
Euro (EUR)	613	(1,445)
US Dollar (USD)	2	(1)
Polish Zloty (PLN)	–	1
	615	**(1,445)**

Notes to the financial statements

24 Risks arising from financial instruments (continued)

If foreign exchange rates had been 10% stronger than sterling than those at the balance sheet date and all other variables were held constant, the Group's net assets and net profit for each denomination of currency would increase/(decrease) as follows:

Equity and net assets	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Currency		
Euro (EUR)	(2,725)	483
US Dollar (USD)	1	(2)
Polish Zloty (PLN)	–	8
	(2,724)	**489**

Net profit	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Currency		
Euro (EUR)	(750)	1,766
US Dollar (USD)	(2)	1
Polish Zloty (PLN)	–	(2)
	(752)	**1,765**

10% is considered to be a reasonable expectation of possible fluctuations in rates. The above also assumes that there is no impact on retained earnings or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

Counterparty risks

The Group is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks and foreign currency and derivative financial instruments.

The Group only deposits cash and only undertakes currency and derivative transactions, generally with highly rated banks and sets strict limits in respect of amounts of exposure to any one institution. Institutions with lower credit ratings can only be used with board approval.

No collateral or credit enhancements are held in respect of any financial assets. The maximum exposure to counterparty risk is as follows:

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Cash and cash equivalents	14,542	47,520
Derivative financial assets	–	507
	14,542	**48,027**

The table represents a worst case scenario of the counterparty risk that the Group is exposed to.

The key risks and uncertainties faced by the Group are managed within an established risk management framework. The Group's day-to-day working capital is funded by its cash and cash equivalents. The key risks identified for the Group are discussed below.

The Group has exposure to credit risk, liquidity risk and market risk that arises throughout the normal course of the Group's business.

Notes to the financial statements

24 Risks arising from financial instruments (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual payment obligations.

The risk from the concentration of customer credit risk is limited due to the high number of individual customers and the relatively low value of each of the individual's debts. At 31 December 2014 the Group had 8.3 million customer accounts, with an average balance of £1,389.

Credit risk is considered upon the acquisition of a financial asset by assessing the expected return. The Group manages this risk by monitoring the performance of the financial asset throughout its economic life. Cash collections are continually monitored and the carrying value of the asset is impaired where it is deemed that, based on collections profiles, the asset is underperforming compared to the initial expected return determined at the acquisition date. The financial assets subjected to credit risk are portfolio assets, loan notes and derivative assets.

The maximum credit risk exposure in relation to the financial assets is disclosed below:

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Purchased loan portfolio	477,513	273,932
Cash and cash equivalents	14,542	47,520
Loan notes	1,378	1,668
Derivative asset	–	507
Other receivables	16,569	11,194
	510,002	**334,821**

The Group's principal activity is the acquisition and management of underperforming consumer debt portfolios. Most portfolios by their nature are impaired on acquisition and the Group continually monitors cash collections and the carrying values are impaired where the underlying performance does not meet initial expectations. The on-going risk is managed through a portfolio valuation process including modelling current expectations of recoverability based on historical information on debt types. A pricing gateway process is in place which is includes at least two members of the executive board as well as other key members from all areas of the business.

This process is in place to scrutinise all aspects of a portfolio acquisition from reputational and regulatory risk through to the financial assumptions and maximum bid price.

All purchased loan portfolios are measured at amortised cost using the EIR method. Impairment is assessed on a regular basis by management and is identified on a portfolio basis following evidence that the financial asset is impaired.

All loan notes are measured at amortised cost. Impairment is assessed on a regular basis by management and is identified on a portfolio basis following evidence that the financial asset is impaired.

Capital risk management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group is currently not required to hold regulatory capital.

The Group aims to maintain appropriate capital to ensure that it has a strong balance sheet but at the same time is providing a good return on equity to its shareholders. The Group's long-term aim is to ensure that the capital structure results in an optimal ratio of debt and equity finance. The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, cash and cash equivalents and equity.

Management reviews the capital structure on an on-going basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group's position as at the 31 December 2014 was:

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Ordinary share capital and premium	349,180	349,180
Secured senior notes (net of transaction fees of £17,506,000, December 2013: £8,080,000)	378,564	211,920
	727,744	**561,100**

Notes to the financial statements

25 Financial instruments

Fair value estimation

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment 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 Proprietary Collections Bureau output. The purchased loan portfolios fair value is calculated using our 84-month ERC through our own in-house models. Derivative financial instruments are initially recognised, and subsequently measured, at fair value. 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.

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 balance sheet. All of the Group's financial instruments fall into hierarchy level 2.

Level 2	31 December 2014 £000	31 December 2013 £000
Assets		
Foreign currency contracts	(1,301)	64
Interest rate swaps	(571)	443
Total (liabilities)/assets	**(1,872)**	**507**

There have been no transfers in or out of Level 2.

The fair value of derivative financial instruments has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at 31 December.

The Company has not entered into any derivative financial instruments.

Notes to the financial statements

25 Financial instruments (continued)

Financial instruments not measured at fair value – fair value hierarchy

The following table analyses financial instruments not measured at fair value at the reporting date, by the level in the fair value hierarchy into which the measurement is categorised. The amounts are based on the values recognised in the balance sheet. All of the Group's financial instruments fall into hierarchy level 3.

Level 3	31 December 2014 £000	31 December 2013 £000
Assets		
31 December 2014:		
Purchased loan portfolios	477,513	273,932
Total assets	**477,513**	**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 EIR 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 gross cash on cash money multiples, signs off the latest ERC forecast and 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 16.

Cash flow hedges

The Group uses foreign currency contracts ('cash flow hedges') to hedge foreign currency cash flows that are highly probable to occur within 12 months of the balance sheet date and interest rate swaps ('cash flow hedges') to hedge those interest cash flows that are expected to occur during the period to November 2017. The effect on the statement of comprehensive income will also be within these periods. An amount of £859,000 has been charges to equity for the Group in the period in respect of cash flow hedges (2013: £nil). No charge has been made to the Company's equity.

Interest rate swaps

The Group has interest rate swaps in place for a notional amount of £176,070,000 (2013: £66,667,000). In 2014, these interest rate swaps cover current borrowings relating to the floating rate euro notes.

Interest rate swaps in place at the balance sheet date are designated, and are effective under IAS39, as cash flow hedges, and the fair value thereof has been deferred in equity within the hedging reserve. A credit of £443,000 (2013: £894,000 charge) has been made to the statement of comprehensive income in the year representing the movement in the fair value of the ineffective portion of the interest rate swaps.

The weighted average interest rate and period to maturity of the Group interest rate swaps were as follows:

Interest rate hedges at December	Weighted average interest rate 2014	Maturity date	Fair Value 2014 £000	Weighted average interest rate 2013	Maturity date	Fair Value 2013 £000
Sterling	–	–	–	1.15%	10 Oct 2014/ 10 Feb 2018	443
Euro	0.22%	Nov 2017	(572)	–	–	–

The Company did not hold any interest rate swaps at 31 December 2014 (31 December 2013: £nil).

Notes to the financial statements

25 Financial instruments (continued)

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts and exposure to currency rate fluctuations.

The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2014 is £143,145,000 (2013: £6,145,000). These comprise:

> foreign currency contracts to sell sterling for a total notional of £141,580,000 (2013: £nil). These contracts have maturity dates to June 2015. These contracts have been designated and are effective as cash flow hedges under IAS 39 and, accordingly, the fair value thereof has been deferred in equity; and

> foreign currency contracts to sell euro for a total notional of £1,565,000 (2013: £6,145,000). These contracts have maturity dates to May 2015. These contracts are not designated as effective cash flow hedges under IAS 39 and, accordingly, the fair value thereof has been taken to the statement of comprehensive income. As at 31 December 2014 the aggregate amount of net gain/loss under forward foreign exchange contracts that have been recognised in the consolidated statement of comprehensive income relating to the exposure on these anticipated future transactions is £64,000 gain (2013: £79,000 loss).

26 Financial assets and financial liabilities

Financial assets	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Purchased loan portfolios	477,513	273,932
Derivative assets	–	507
Loan notes	1,378	1,668
Cash and cash equivalents	14,542	47,520
Other receivables	16,569	11,194
	510,002	**334,821**

Financial liabilities	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Senior secured notes (excluding fees)	396,070	220,000
Revolving credit facility (excluding fees)	38,999	–
Derivative liabilities	1,872	–
Trade and other payables	33,058	10,128
Current tax liabilities	2,355	2,894
	472,354	**233,022**

Fair values of financial assets and liabilities

The fair value and carrying value of the financial assets and liabilities of the Group are set out below:

	Fair value Year ended 31 December 2014 £000	Book value Year ended 31 December 2014 £000	Fair value Year ended 31 December 2013 £000	Book value Year ended 31 December 2013 £000
Purchased loan portfolios	477,513	477,513	273,932	273,932
Derivative assets	–	–	507	507
Loan notes	1,378	1,378	1,668	1,668
Cash and cash equivalents	14,542	14,542	47,520	47,520
Other receivables	16,569	16,569	11,194	11,194
	510,002	**510,002**	**334,821**	**334,821**

Notes to the financial statements

26 Financial assets and financial liabilities (continued)

	Fair value Year ended 31 December 2014 £000	Book value Year ended 31 December 2014 £000	Fair value Year ended 31 December 2013 £000	Book value Year ended 31 December 2013 £000
Senior secured notes (excluding fees)	400,200	396,070	236,170	220,000
Revolving credit facility (excluding fees)	38,999	38,999	–	–
Derivative liabilities	1,872	1,872	–	–
Trade and other payables	33,058	33,058	10,128	10,128
Current tax liabilities	2,252	2,252	2,894	2,894
	476,381	**472,251**	**249,192**	**233,022**

The carrying value of the bank borrowings is deemed to be a good approximation of their fair value. Bank borrowings can be repaid within six months if the Group decides not to roll over for further periods up to the contractual repayment date. The impact of discounting is therefore negligible.

The fair value of the bonds has been calculated with reference to their market value.

Derivative financial instruments are held at fair value, which is equal to the expected future cash flows arising as a results of the derivative transaction.

For other financial assets and liabilities, which are all short-term in nature, the carrying value is a reasonable approximation of fair value.

27 Share based payments – group and company

Share incentive plan scheme (SIP)

On 30 December 2014, the Group provided eligible employees with a free share award worth £500, with a grant date price per share of £2.29 as part of the Arrow Global Group SIP. The free shares vest at the end of three years, with employees required to stay in employment to receive the shares.

In April 2014, the Group offered to all employees the opportunity to participate in the above SIP, where the Company gives the participating employees one matching share for each partnership share acquired on behalf of the employee using the participating employees' gross salaries. The shares vest at the end of three years on a rolling basis as they are purchased, with employees required to stay in employment to receive the shares.

Upon listing in October 2013, the Group provided eligible employees with a one off award of free shares worth up to £3,000, with a grant price per share of £2.425, as part of the Arrow Global Group SIP. The value of SIP shares awarded was dependent on a linear scale of length of service. The free shares vest at the end of three years, with employees required to stay in employment to receive the shares.

Initial share option plan (ISOP)

On 7 October 2013, and 21 October 2013, 3,566,000 ISOP options were granted to employees of the Group. These ISOP options were exercisable conditional upon, and with effect from IPO for those granted on 7 October 2013 and from the grant date for those granted on 21 October 2013. 1,934,000 vested immediately with the remaining to vest in two years from the date they take effect, with employees required to stay in employment to receive the shares.

Long-term incentive plan (LTIP)

On 11 March 2014, nil cost share options were granted to eligible employees based on a maximum of 150% of base salary. The LTIP awards vest at the end of three years, subject to the achievement of performance conditions.

For each eligible employee, 75% of the LTIP awards are subject to EPS growth criteria, and vests as follows:

Performance condition	Percentage vesting
Less than 10% EPS growth per annum	0%
10% EPS growth per annum over the vesting period ('threshold performance')	25%
20% EPS growth per annum over the vesting period ('maximum performance')	100%
Between 10% and 20% EPS growth per annum over the vesting period	Between the threshold performance and maximum performance on a straight line basis

Notes to the financial statements

27 Share based payments – group and company (continued)

For each eligible employee, 25% of the LTIP awards are subject to total shareholder return criteria, being share price growth plus the value of dividend. The Group is compared against the FTSE 350 Index, with the LTIP awards vesting as follows:

Performance condition	Percentage vesting
Below median ranking	0%
Median ranking (top 50%) ('threshold performance')	25%
Upper quartile ranking (top 25%) ('maximum performance')	100%
Between top 50% and top 25% ranking	Between the threshold performance and maximum performance on a straight line basis

Further nil cost share option LTIP awards were made on 30 May 2014 and 8 December 2014, both of which vest at the same time as the 11 March 2014 LTIP awards and have the same criteria for vesting. An LTIP conditional award was made on 30 May 2014. This award vests at the end of two years subject to continuity of employment.

Grant information

The terms and conditions of the grant are as follows:

	Method of settlement accounting	Number of instruments	Vesting period	Contractual life of options
Grant date/employees entitled				
Equity settled award – SIP	Equity	81,298	3 years	31 October 2016
Equity settled award – ISOP	Equity	3,391,228	2 years	1,851,335 vested immediately*
				1,539,893 – 7 October 2015
Equity settled award – ISOP	Equity	175,000	2 years	82,665 vested immediately*
				92,335 – 20 October 2015
Equity settled award – SIP	Equity	90,252	3 years	30 December 2017
Equity settled award – LTIP	Equity	1,478,751	2.3 – 3 years	11 March 2017
Equity settled award – LTIP	Equity	88,202	2 years	30 May 2016
Equity settled award – SIP	Equity	16,676	3 years rolling	30 May 2017

*The options which vested immediately in 2013 were used to cover taxation and other withholdings, deducted at source.

The following table shows the weighted average exercise prices (WAEP) and number of options movements during the year.

	2014 WAEP	2014 Number of options	2013 WAEP	2013 Number of options
Outstanding at the beginning of the year	£nil	1,713,526	–	–
Granted during the year	£nil	1,657,205	£nil	3,647,526
Forfeited during the year	£nil	(272,285)	–	–
Exercised during the year	£nil	(48,752)	–	(1,934,000)
Expired during the year	–	–	–	–
Outstanding at 31 December	**£nil**	**3,049,694**	**£nil**	**1,713,526**
Exercisable at 31 December	**–**	**–**	**–**	**–**

The weighted average share price at the date of exercise of share options exercised during the year was £nil (2013: £2.06).

The share options outstanding at 31 December 2014 have a weighted average contractual life of 2.2 years (2013: 1.8 years).

The weighted average fair value of options granted during the year was £2.21 (2013: £2.07). The majority of options granted to date are nil cost options (2013: nil cost options).

The fair value of equity settled share based payments has been estimated as at date of grant using the Black Scholes model.

Notes to the financial statements

27 Share based payments – group and company (continued)

The inputs to the models used to determine the valuations fell within the following ranges.

	2014	2013
SIP		
Expected life of options (years)	3	3
Share prices at date of grant	£2.29	£2.05
ISOP		
Expected life of options (years)	–	2
Share prices at date of grant	–	£2.05 - £2.24
LTIP		
Expected life of options (years)	3	–
Share prices at date of grant	£2.36 - £2.46	–
Expected share price volatility (%)	27.10%	–
Risk free interest rate (%)	0.47%	–

The total expenses recognised for the year arising from share-based payments are as follows:

	2014 £000	2013 £000
Equity settled share based payment expense recognised immediately	–	3,979
Equity settled share based payment expense spread across vesting period	2,328	382
Total equity settled share based payment expense recognised in the statement of comprehensive income	**2,328**	**4,361**

The Company holds the obligation to settle the share options; however, the benefit arises in the subsidiary Arrow Global Limited (AGL) with the charge in the statement of comprehensive income recharged to AGL.

28 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.

Secured borrowing at amortised cost	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
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.

Notes to the financial statements

28 Borrowings and facilities (continued)

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 ranks supersenior to these. The assets that are secured are those of the Arrow Global Guernsey Holdings Limited group.

29 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 basis and diluted EPS and adjusted EPS are the same.

30 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.

Notes to the financial statements

30 Acquisition of subsidiary undertaking (continued)

Effect of the acquisition

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

Acquisitions	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.

Notes to the financial statements

31 Notes to the cash flow statement

Cash flows from operating activities	Group year ended 31 December 2014 £000	Group year ended 31 December 2013 £000	Company year ended 31 December 2014 £000	Company year ended 31 December 2013 £000
Adjusted for:				
Profit before tax	24,123	20,993	4,596	705
Collections in the year*	148,547	130,314	–	–
Income from purchased loan portfolios*	(106,451)	(87,330)	–	–
Portfolio write up	(1,533)	(4,843)	–	–
Profit on disposal of purchased loan portfolios	(825)	(1,132)	–	–
Gain on disposal of property, plant, equipment and intangibles	143	–	–	–
Amortisation of legal acquisition fees on portfolios and financing costs	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	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**	**6,924**	**5,066**
Decrease/(increase) in other receivables	5,006	(4,701)	(34)	–
Increase in amounts due from subsidiary undertakings	–	–	(4,001)	(48,128)
Increase/(decrease) in trade and other payables	1,646	1,820	371	520
Cash generated by/(used in) operations	**97,239**	**83,658**	**3,260**	**(42,542)**
Income taxes and overseas taxation paid	(7,039)	(4,269)	(361)	–
Net cash flow from operating activities before purchases of loan portfolios and loan notes	**90,200**	**79,389**	**2,899**	**(42,542)**
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)**	**2,899**	**(42,542)**

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

Shareholder information

Registered and head office
Belvedere
12 Booth Street
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United Kingdom
Telephone: +44 161 242 1724

Company secretary
Stewart Hamilton

Auditor
KPMG LLP
St James Square
Manchester
M2 6DS

Legal advisors
Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4ZF

Annual general meeting
The forthcoming annual general meeting of the Company will take place at Manchester Town Hall, Albert Square, Manchester, M60 2LA on Wednesday, 3 June 2015 at 2pm. Notice of the annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appear in the document accompanying this annual report and accounts.

Shareholder information and website
Capita Asset Services is our registrar, and they offer many services to make managing your shareholding easier and more efficient. You can find out further information about the Group and view this annual report and accounts, results, other announcements and presentations, together with the latest share price information on the Company's investor relations website (**http://www.arrowglobalir.net/**).

Share portal
To register for the share portal, visit **www.capitashareportal.com**. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.

Customer support centre
You can contact Capita's customer support centre, which is available to answer any queries you have in relation to your shareholding:

By phone:
UK: 0871 664 0300 (UK calls cost 10p per minute plus network extras)
From overseas: +44 20 8639 3399
Lines are open from 09.00 to 17.30, Monday to Friday, excluding public holidays.

By email:
shareholderenquiries@capita.co.uk

By post:
Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Shareholder information

Dividends
If you have a UK bank account, you can sign up for this service on the share portal (by clicking on 'your dividend options' and following the on screen instructions) or by contacting the customer support centre.

Share dealing service
A share dealing service is provided by Capita Asset Services. For further information on this service, or to buy and sell shares, visit **www.capitadeal.com** or call 0871 664 0454 (calls cost 10p per minute plus network extras; lines are open from 08.00 to 16.30, Monday to Friday. From outside the UK dial + 44 20 3367 2699).

Please note the directors of the Company are not seeking to encourage shareholders to either buy or sell shares. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial advisor authorised by the Financial Services Markets Act 2000.

Financial calendar for 2015

Announcement of 2014 full-year results	5 March 2015
Announcement of the 3 months to 31 March 2015 results	28 May 2015
Annual general meeting	3 June 2015
Ex-dividend date for 2014 final dividend	11 June 2015
Record date for 2014 final dividend	12 June 2015
Payment date of 2014 final dividend	9 July 2015
Announcement of 2015 half-yearly results	27 August 2015
Announcement of the 9 months to 30 September 2015 results	*November 2015
Full-year end	31 December 2015

*Exact date to be confirmed.

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	7,039	4,269
Working capital adjustments	(6,652)	(814)
Amortisation of acquisition and bank facility fee	278	916
Gain on disposal of property, plant, equipment and 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**

Glossary

'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.

Glossary

'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.

Glossary

'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.

Notes

Notes

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Company No. 08649661

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