Annual Report & Accounts
2015

Always moving forward.
Never standing still.

Contents

Introduction

A business taking flight

At Arrow Global, we are the debt experts, specialising in the purchase and collection of non-performing loans – NPLs.

We are a regulated business and use sophisticated analytics to identify, acquire and manage defaulted consumer credit portfolios, primarily from banks and other financial institutions, such as credit card companies, and we have a simple, powerful ethos.

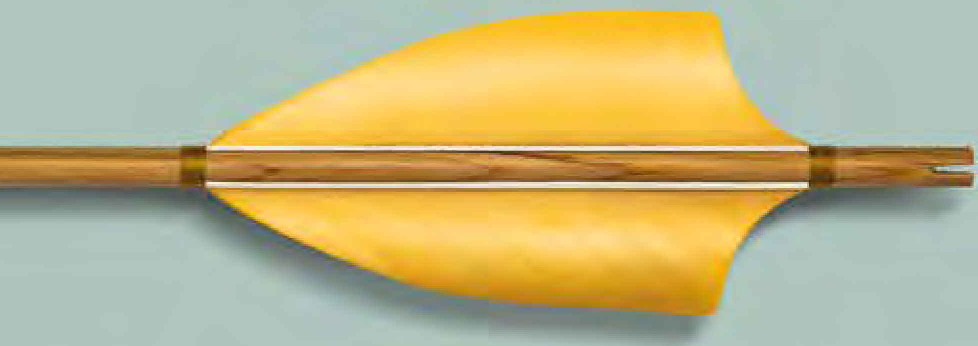
We believe that by putting the interests of our customers – those struggling with debt – first, we can also best serve the interests of creditors, our own business and people, and those of our investors, partners and society at large.

In the 10 years since our founding, we have applied this ethos to achieve strong and sustained growth, becoming one of Europe's leading purchasers and managers of debt.

Over the past year, we have continued to move forward at a pace, diversifying in both geographies and asset classes.

As part of this process, we have acquired and invested in further debt collection companies, seizing strategic opportunities and improving our already strong business model.

There is the sense of a step-change, as the Company's growth seems set to continue and accelerate, a feeling of never standing still, and of a successful and dynamic business ready to move on to the next stage of its evolution.



The point of the arrow
The arrow is a symbol of our business. At its point, we are here to purchase and manage debt in a way that benefits our customers, our business and all our stakeholders.

Behind this are the culture, craft and expertise that drive our business: our customer-led ethos, our data driven business model, our strategic and innovative approach to purchasing and managing debt, the high standards we set, the structure of our business and above all, the quality, skills and experience of our people. It's the fletching – the feathered flights – behind the point of the arrow that guides it and enables us to deliver on our promises and achieve positive results.

Our strategy

Arrow Global Group Plc (the 'Group') continues to target profitable growth in both the UK and mainland Europe to 'achieve our vision' of becoming Europe's leading purchaser and manager of debt

We have a clear strategy in place to help us achieve this, which reflects the core strengths and direction of the business.

Strategy

To be a top three player in each of our chosen markets, building on our market leading platforms	To focus on delivering strong returns through deep understanding of our customers and clients	To be industry leaders in data and analytics	To transform the customer journey within our industry and deliver great customer outcomes	To further diversify the business

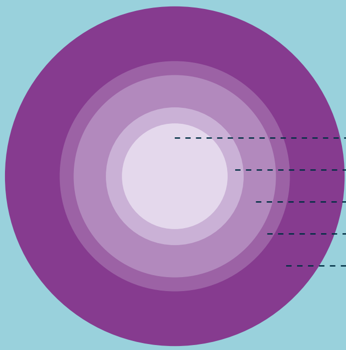
In 2015, Arrow Global grew significantly. We successfully integrated Capquest in the UK, and in April, we also acquired Whitestar and Gesphone in Portugal.

During the year, we made further investments in Portugal and acquired a number of portfolios in the Netherlands. We saw positive results from the first full year of our 15% interest in French market leader, MCS.

As a result of our acquisitions, we now employ approximately 750 people and have total assets under management in excess of £19.2 billion.

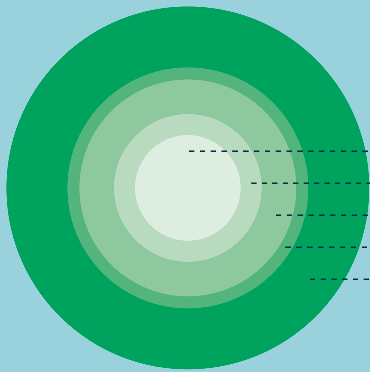
To learn more about how we delivered against our strategy see pages 14 and 15.

Financial highlights



Core cash collections

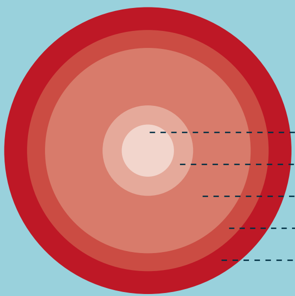
- 2011 £68.2 million
- 2012 £88.7 million
- 2013 £130.3 million
- 2014 £148.5 million
- **2015 £218.5 million**



Adjusted EBITDA*

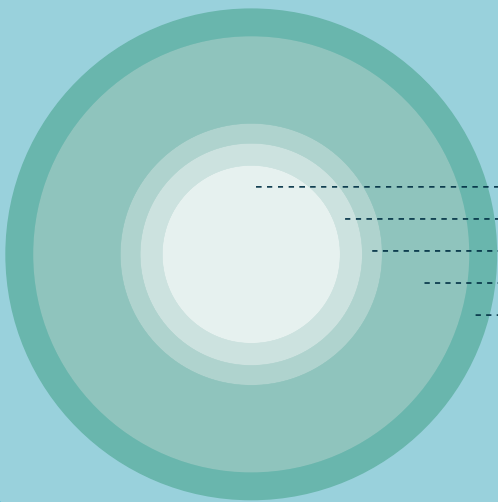
- 2011 £44.3 million
- 2012 £61.9 million
- 2013 £90.9 million
- 2014 £101.0 million
- **2015 £153.1 million**

*The reconciliation of EBITDA can be seen in the glossary on page 121.



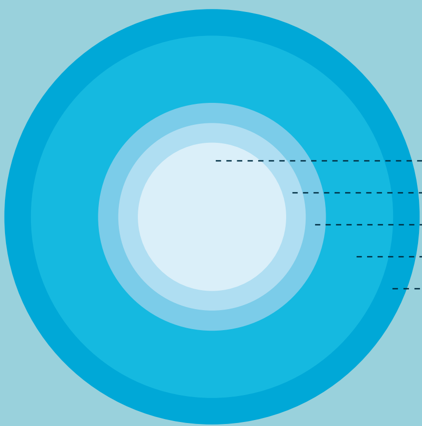
Underlying net income

- 2011 £6.4 million
- 2012 £11.1 million
- 2013 £25.2 million
- 2014 £29.6 million
- **2015 £35.4 million**



120-month ERC

- 2011 £441.0 million
- 2012 £551.3 million
- 2013 £650.3 million
- 2014 £1,085.4 million
- **2015 £1,224.5 million**



84-month ERC

- 2011 £367.3 million
- 2012 £464.4 million
- 2013 £564.3 million
- 2014 £897.3 million
- **2015 £1,028.6 million**

Financial highlights

Successful issuance of

€110m

Bond

Dividends

7.1p

Total declared and proposed dividends for 2015 (2014: 5.1p)

Net assets

£145.4m

(2014: £121.9 million)

Increased RCF to

£165m

(2014: £100 million)

Profit before tax

£39.3m

(2014: £24.1 million)

Total revenue

£165.5m

(2014: £110.7 million)

Invested

£216.3m

Organic – £176.3 million
Whitestar – £34.3 million
Gesphone – £5.8 million

Profit attributable to shareholders

£31.7m

(2014: £18.3 million)

Underlying return on equity (ROE)

26.5%

(2014: 26.1%)

A glossary of terms can be found on pages 122 to 124.

Underlying basic earnings per share (EPS)

20.3p

(2014: 17.0p)

Total purchased loan portfolios

£586.3m*

(2014: £477.5 million)

*Excluding £23.5 million of portfolios due to be resold.

In 2015, Arrow Global continued to grow, diversifying by asset class, geography and revenue stream

Jonathan Bloomer
Chairman
3 March 2016

Chairman's statement

We increased our expertise and holdings in areas of strategic focus such as secured loans, became the clear market leader in Portugal, as well as significantly increasing our portfolio holdings in the Netherlands. In the UK, we retained our position as a market leader and added a number of new clients to our franchise.

As we realised the benefits of the Capquest acquisition, and started to realise the benefits of the Whitestar and Gesphone acquisitions, we increased our servicing revenues and further diversified the business' income streams – a trend we expect to continue into 2016 and beyond.

Measured growth that pays dividends
2015 saw us celebrate our 10th anniversary and another year of strong results. The Group remains focused on pursuing a programme of both organic and acquisitive growth in a controlled and deliberate manner.

We are confident that the foundations laid during the year will see us continue to prosper, and aligned to our on going success, have proposed a final dividend of 5.4p, bringing the full-year dividend to 7.1p, an increase of 39.4% on 2014.

With our acquisitions in Portugal and our continued growth in the UK, we were able to welcome more than 250 new colleagues to the Group, and I would like to thank them and all our colleagues for a strong year which yielded record results.

Changes to the board as the business grows
During the year, we re-shaped our board of directors to ensure that it was well-equipped to continue to guide the business as it grows, diversifies and delivers on its proven strategy.

In March, Lan Tu was appointed as a non-executive director and also to the audit and risk and nomination committees. She brings a wealth of experience to the business in European financial services, data, digital and technology arenas.

In April, we announced changes in the responsibilities of Arrow Global founder, Zachary Lewy, who stepped down from the board to allow him to focus on leading the expanded origination team, and on his board positions with our recently acquired European subsidiaries and interests.

At our annual general meeting in June, Sir George Mathewson retired from the board. As Chairman of Arrow Global from 2009 to 2013, Sir George guided the Company through its successful IPO in October 2013, and then became our Senior Independent Director. He made a significant contribution to the success of the Company and left with the gratitude of the entire board.

We were delighted to announce on 3 March 2016 the appointment of Maria Luís Albuquerque as non-executive director with effect from 7 March 2016. As a serving member of the Portuguese Parliament who has held senior finance and treasury positions in the Portuguese public sector, she brings a wealth of international and financial sector experience and will complement the existing experience of the board.

Full authorisation. Fair and balanced reporting
During 2015 we submitted our Financial Conduct Authority (FCA) authorisation applications and look forward to receiving confirmation of authorisation later in 2016. We continue to engage with our regulator and welcome the significant changes that it has helped bring to the industry as a whole.

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 Group's position and performance, business model and strategy.

Arrow Global achieved another set of record results, welcoming new businesses and colleagues to the Group

Tom Drury
Chief executive officer
3 March 2016

Chief executive officer's review

We continued to lay the foundations of further success by increasing both the volume and diversity of the assets we hold, while at the same time, increasing our servicing capabilities.

By focusing on doing the right thing for our customers, we have made significant strides towards achieving our vision of becoming Europe's leading purchaser and manager of debt.

Our proven strategy continues to provide the roadmap for all our activities. We are already a leading player in the UK and Portuguese markets, and we have a 15% interest in the French market leader, MCS, and have increased our asset base in the Netherlands. We have also invested in our servicing capabilities, significantly enhancing our client and customer proposition.

In summary, we are a well diversified business that continues to pursue disciplined growth and remains confident in its ability to deliver growth in operating cash flow and EPS and a ROE percentage in the mid-twenties.

Transforming the customer journey

This year, we developed a new set of values, designed to better reflect the evolving culture of our growing business (see page 12). Importantly, they outline the behaviours we aspire to when striving to achieve our mission of helping our customers repay their debts in a timely and affordable way.

In 2015, we also implemented a number of new initiatives which will further enhance our customer journey. Our new integrated customer service platform went live, we enhanced our digital offering and we continued to rationalise our servicer panel to create a core group of highly capable and compliant specialist providers.

Improving performance and profitability

During the year, our profit for the year attributable to equity shareholders increased by 73.8% to £31.7 million.

We grew the Group's underlying net income by 19.6% to £35.4 million, delivering an underlying return on equity (ROE) of 26.5%.

We also achieved a record level of organic portfolio investments of £176.3 million, with total portfolio purchases for the year totalling £180.3 million, well in excess of our 2015 replacement rate of £68 million.

2015 is a balanced vintage of portfolio purchases, and we are particularly pleased at investing at an expected average 120-month cash-on-cash multiple of 2.0 times (84-month 1.7 times) from date of purchase. Importantly, 32.3% of purchases by purchase price were in secured assets, more than in any previous year of our Group's history.

Enhancing our servicing and our portfolios

Following the acquisitions of Capquest at the end of 2014 and Whitestar and Gesphone in the first half of 2015, we significantly enhanced our servicing capabilities and during the year our servicing businesses generated £14.7 million of revenue. This is up from £1.9 million in 2014 and we expect servicing revenues to be circa 15% of Group revenue in 2016.

Our new portfolio purchases increased our total purchased loan portfolios by 22.8% to £586.3 million as at 31 December 2015. Our 120-month Estimated Remaining Collection (ERC) increased by 12.8% to £1,224.5 million and our 84-month ERC increased by 14.6% to £1,028.6 million.

In 2015, we also successfully issued a €110 million bond, ensuring we continue to have the right capital structure in place to help us grow.

Strength in four core markets

We now operate and hold significant assets in four core markets, with each of them contributing to our strong results in 2015:

- In the UK, as well as integrating the Capquest business, we successfully migrated the servicing of the Erudio Student Loans portfolio in-house, and continued to benefit from a number of forward-flow purchase agreements
- In Portugal, in addition to the purchase of two servicing businesses, we made significant portfolio purchases, especially in secured assets. We also entered into a strategic origination and servicing partnership with one of our key fund partners, and secured a number of deals from the agreement throughout the year
- In the Netherlands, we continued to build our presence with the purchase of two portfolios
- In France, we saw our first full-year results from our 15% interest in market leader, MCS, and we saw our first positive results from this investment

Addressing regulation. Deepening understanding

We continue to use data and additional research to deepen our understanding of our customers and have completed a new piece of research called Debt Britain (see page 22 and 23 for more detail), which provides insight into the current debt landscape, as well as making predictions about what will happen as lending increases in line with improving economic conditions.

In 2014, we saw the change in regulator from the Office of Fair Trading (OFT) to the FCA, and as our new regulator gets to grips with the consumer credit sector, we have continued to see a wave of consolidation reflecting the high cost of meeting regulatory standards.

The year ahead

We will continue to evolve our business model to make sure we offer our customers and clients the service that best suits their needs.

We are a well diversified business with a strong origination pipeline – starting 2016 with awarded purchases of £71 million.

We are confident in maintaining portfolio investments at approximately twice our average annual replacement rate of £78 million. This, combined with the continued delivery of the Capquest and Whitestar businesses, supports continued high earnings growth in 2016, and we remain confident of our ability to deliver a medium-term ROE percentage in the mid-twenties and a progressive dividend policy.

How we work and how we help

The debt purchase and management industry plays a key role in helping create an efficient credit market

By passing the debt on to us, our clients, who are typically financial services institutions, are able to focus on their core activity of lending, safe in the knowledge their customers are in good hands. Our ultimate aim is to help our customers clear their debts and rehabilitate their credit file, which in turn, allows them to gain access to more affordable main-stream financial products. For our customers, we provide a number important services. In the UK, for example, we do not charge interest or fees once a customer account is in arrears or in default. When we buy a non-performing loan, in effect, we freeze the amount owed.

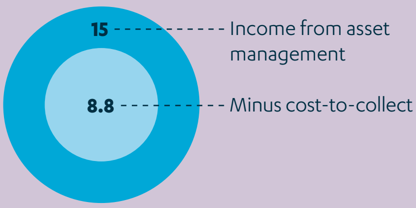
We then look to make contact with the customer, so we can fully understand their circumstances and then, and only then, will we agree a payment plan that will help them repay their debts in a timely and affordable way. We are patient owners of customer debt, as we look to establish long-term relationships with clients and customers alike.

How we generate value – our business model

We generate value in our business in one of two ways:

- We buy debt at a discount from its face value and use our expertise in data, analytics and collections to help us establish affordable repayment plans and settlements with our customers. We expect to collect approximately twice our investment over a period of 10 years
- We also advise on and manage debt portfolios on behalf of others and charge a fee for this service

An illustration of debt servicing economics (£m)



6.2 Net contribution to profit

An illustration of debt purchase economics (£m)

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

Debt purchase markets in Europe

The size of the European debt purchase market has grown significantly in recent years. Industry reports from Deloitte and PwC estimate the total value of debt sold in the European market in 2015 at between approximately €105 billion and €160 billion, significantly up from the €46 billion estimated sold in Europe in 2012.

There continues to be a number of structural and economic drivers contributing to this increase, including, but not limited to:

- Increase in the sale of government held debts
- Increased regulation and associated capital adequacy requirements, especially for financial institutions, such as the Asset Quality Review (AQR) and accounting changes, such as IFRS 9
- On going consolidation amongst financial institutions (and subsequent disposal of non-core assets)
- On going consolidation within the debt purchase industry, with resulting opportunity to purchase portfolios in the secondary market
- Efficient debt purchasers being able to pay sellers attractive prices
- Generally improving economic conditions in many European markets have seen a corresponding increase in the volume of lending and thus an associated increase in new NPLs coming to market

Our business model

We remain a data driven business and in the last 12 months have continued to diversify our revenue streams

The acquisitions we made in the UK (Capquest) and mainland Europe (Whitestar and Gesphone) have added to and enhanced our existing offering.

We continue to operate in the traditional debt purchase arena, buying debt portfolios at a discount with a focus on collecting more than double our initial investment over a 10-year period. However, in the last year, we have also significantly grown our servicing solutions and our ability to offer advisory services.

Our business activities can be divided into three broad phases:

Origination and underwriting
- Debt purchase
- Sourcing of servicing contracts
- Sell-side advisory
- Buy-side advisory

In the UK, our Proprietary Collections Bureau (PCB) contains over 22.5 million records. In mainland Europe, we have also significantly increased the number of customer accounts we own – more than 700,000 as at 31 December 2015.

Portfolio management
- Management of Arrow Global owned debt purchase accounts
- Master servicing
- Hybrid structures (part owned, part serviced)
- Data insights and analytics

Across the Group we manage over 8.6 million owned customer accounts.

Repayment
- In-house collections (owned and third party accounts)
- Panel management (for owned and third party accounts) – specialist and core*

*We work with a core panel of compliant servicers that offer a range of collection specialisms including, insolvency, bankruptcy and deceased customer accounts.

In 2015, across the Group we collected more than 7.6 million individual payments.

Our Group values

Although our European markets have different cultural, regulatory and economic conditions, we believe passionately in operating as a single team

We actively seek to share best practice and draw on expertise from across the entire Group. Core to this, is the alignment of our corporate culture. Following consultation with colleagues from across the Group, this year we have sought to establish a single set of core values. These are designed to guide our business and the activities it undertakes and will provide a framework with which to evaluate and reward our most powerful asset – our people.

Our values

We succeed together

We take ownership and ensure a positive outcome for both our customers and the Group. We're collaborative and support each other.

We do the right thing

We keep our promises. We help our customers repay their debts in a timely and affordable way. We empathise with our customers and treat them fairly.

We're trusted & valued

We earn trust from our customers by treating them as individuals. We learn and change based on our customer feedback. We take our corporate responsibilities seriously. We will act as an example to all in our industry.

We're brave & creative

We thrive on positivity, flexibility and challenge. We share ideas and have the courage to lead – we are not afraid to do things differently. We use insight to lead change and innovation.

2015 in view

2015 saw our business continue to diversify by geography, asset class and revenue stream

The acquisitions and strategic partnerships that we put in place mean that the longevity and growth of the business is secured. Importantly, we achieved this whilst protecting returns across the Group.

The year in review

First quarter

- Go-live of our new integrated customer service platform in the UK
- 2014 final dividend of 3.4p bringing the total 2014 full-year dividend to 5.1p
- Lan Tu joined as non-executive director

Second quarter

- Purchase of Whitestar and Gesphone
- Five-year strategic origination and servicing partnership signed with CarVal Investors
- Secured our first servicing contract in Portugal from this strategic partnership – a 10-year contract worth more than €50 million of revenue
- Assets under management (AUM) in Europe reached €5.5 billion face value (Group AUM reached £18.6 billion)

Third quarter

- Increased Revolving Credit Facility (RCF) to £165 million across five banks
- Successfully issued €110 million bond
- Submitted FCA authorisation applications

Fourth quarter

- Acquired loan portfolios in the Netherlands with a face value of approximately €300 million
- Upgraded synergy savings from our Capquest acquisition following one full year since acquisition
- In Portugal, we secured our first portfolio investment from our strategic origination partnership
- Won Debt Purchaser & Collection Provider of the Year – UK/Europe at the Credit Today Debt Collection Awards 2015
- Successfully migrated servicing of Erudio Student Loans portfolio in-house
- Full-year portfolio investments exceeded £180 million
- Launched Debt Britain research, providing new insight into unmanageable debt

Delivering on our strategy

Our approach

Our performance

Throughout the year, we have remained firmly focused on delivering on our five-point strategy

1

To be a top 3 player in each of our chosen markets, building on our market leading platforms.

We continue to enjoy long-term relationships with our creditor partners in both the debt purchase and third-party servicing markets.

A comprehensive compliance and risk management framework is core to our offering. In an industry that continues to consolidate, we benefit from a good reputation for consistency of service. As one of the larger players in the European market, we are seen as a sustainable business and are one of the net beneficiaries of the consolidation process.

We actively participate in industry bodies that help lead change in legislation and best practice. In the UK, our executives hold senior positions in organisations such as the Credit Services Association (CSA), the national association for our industry, and the Steering Committee on Reciprocity (SCOR), which administers the usage of credit data.

- For debt purchase in the UK, we remain on the panels of all the major financial service providers. We have rationalised our servicer panel to ensure greater oversight
- In Portugal, we have established a leading position, acquiring servicers with more than eight and 15 years experience respectively, and have set up a strategic origination and servicing contract. The agreement provides for long-term sustainable revenues
- In both the UK and Portugal, we benefit from industry leading in-house servicing capabilities. In Portugal, we are the market leading debt servicing business, with circa €6.8 billion of assets under management, of which circa €3.4 billion are owned
- In the Netherlands, following a small initial investment in 2014, we have also made significant progress. In Q4, we purchased loan portfolios with a face value of approximately €300 million
- In France, we saw positive results from the first full year of our 15% interest in French market leader, MCS
- Across the Group we have 100+ creditor client relationships
- And in 2015, we increased our total purchased loan portfolios from £477.5 million in 2014 to £586.3 million (excluding £23.5 million of portfolios due to be resold) with our 120-month ERC increasing to £1,224.5 million (84-month ERC £1,028.6 million). This increase was driven by organic portfolio purchases of £176.3 million

2

To focus on delivering strong returns through deep understanding of our customers and clients.

We purchase portfolios where we believe we have the strongest competitive advantage and which offer the best returns for our investment, and we source attractive portfolio investments from a wide range of leading institutions.

We operate a well-defined underwriting and investment process and have a robust governance structure in place, helping to ensure that we acquire portfolios in line with our risk-adjusted target returns.

The investment process draws on expertise from across the Group. As a business, we have long-term capital in place that provides on going funding and allows us to take advantage of opportunities as they arise.

Because of the significant portfolio assets we hold, and the unique data systems at our disposal, when we assess a portfolio, we are able to identify and match a large percentage of its customers. This allows us to price more accurately and supports us in treating customers fairly when we look to collect on the portfolio.

We target a net debt to adjusted EBITDA ratio of 3.8 times and cash interest cover of more than 4 times and a ROE percentage in the mid-twenties.

- Profit attributable to equity shareholders up 73.8% and underlying net income up 19.6% contributing to an underlying EPS of 20.3 pence (2014: 17.0 pence)
- Total purchases in 2015 achieved a gross cash-on-cash multiple of 2.0 times over 120 month and 1.7 times over 84 months (2014 purchases: 2.1 times over 120 month and 1.7 times over 84-month)
- Cash generated by operations of £150.2 million (2014: £97.2 million)
- Underlying return on equity of 26.5% (2014: 26.1%)
- Total dividends of 7.1 pence per share (2014: 5.1 pence)

3

To be industry leaders in data and analytics.

We are continuously looking to evolve our data assets and models to keep improving our understanding of our customers' individual circumstances. The volume, accuracy and richness of the data we have access to is key. As well as developing our own in-house tools and data sets, we also invest in third party raw data.

Data analytics informs decision making throughout our business. It not only helps inform our initial investment decision, but allows us to ensure the best contact strategy and treatments for our customers. It also and makes sure that, when we do use third party servicers, we are placing the customer with the servicer best placed to help them.

We believe that superior data provides a competitive advantage. It allows us to pay a fair price for a portfolio whilst still maintaining our returns.

- The number of records in our Proprietary Collection Bureau (PCB), our unique data matching tool designed in conjunction with Experian, has grown to 22.5 million (2014: 18.5 million)
- Our data driven model is constantly evolving and PCB now works alongside other elements of a wider data warehouse developed after our acquisition of Capquest. All of this feeds into our new integrated IT platform
- For a typical UK financial services portfolio, we are able to match approximately 50% of records. We therefore know or already have a relationship with this proportion of the portfolio
- In Portugal, we now have over 650,000 owned customer accounts. In 2015, match rates on portfolio sales in Portugal reached approximately 30%
- After two significant portfolio purchases in the Netherlands in Q4 2015, we have substantially enhanced our data capabilities in the geography and now hold information on customers across multiple asset classes, including secured, unsecured, commercial real estate, and telco. These represent approximately 40,000 customer accounts

4

To transform the customer journey within our industry and deliver great customer outcomes.

We work with our customers, leading debt charities, industry bodies and third party research agencies to help us understand our customers' needs. We aim to establish long-term affordable repayment plans, which help our customers rehabilitate their credit listing and gain access to more affordable mainstream financial products.

Through our data models, we are able to build consolidated customer profiles that reflect customers' current circumstances and invest in leading customer service platforms to ensure that all our customers get the best service.

In the UK, our collections colleagues are rewarded based on the customer outcomes they achieve, rather than the amount they collect.

- 2015 saw further development of our digital capability, with a significant increase in the number of customers choosing to interact with and repay us online
- In the UK, our customer net promoter score (NPS), a measure of customer satisfaction on a scale of 0-9, regularly exceeds 6.5, which is a strong performance given the nature of the relationship
- In the UK, our new fully integrated customer service platform gives us greater flexibility to work across multiple asset classes, performing and non-performing loans. This allows us to develop a true single customer view and assist in making more informed collections decisions
- In the UK, we commissioned our new 'Debt Britain' research, which built on our previous barriers-to-entry study and has highlighted where those in financial difficulty can struggle and the impact debt can have on their lives
- In the Credit Today Debt Collection Awards 2015, where we were named Debt Purchase & Collection Provider of the Year – UK/Europe, the criteria judged included 'positive, appropriate and improving customer outcomes'
- In Portugal, predominantly a litigated collections market, we are piloting a number of initiatives designed to lessen the use of litigation and reduce the stigma
- Every collections colleague receives specialist training in handling vulnerable customers and all collection staff regularly undertake refresher courses

5

To diversify the business.

A major part of our strategy is to further diversify the business by investing in new geographies and asset classes, and by adding additional services to our business offering.

We have an established approach to purchasing 'pilot' portfolios in new geographies and asset classes across Europe, to understand the market and potential collection capabilities and returns.

Our flexible business model gives us the ability to enter new geographies and asset classes in a controlled and low-risk manner. By partnering with specialist servicers and our fund partners, who often have existing knowledge of the markets, we can diversify our business confident in the knowledge that we have the right strategic relationships in place.

- We have opened up new markets and pioneered new deals. In Portugal, in 2014, we were the first to purchase NPL loan portfolios from a leading domestic Portuguese bank, post credit crisis. Then, in 2015, in partnership with one of our fund partners, we became the first to be involved in the purchase and outsourcing of a major bank's collections operations
- In Portugal, we bought the Whitestar and Gesphone servicing businesses
- In the UK in 2015, we bought a portfolio of secured assets from a challenger bank, and we also acquired more of the Erudio Student Loans portfolio
- We continued to develop forward flow/committed purchasing contracts, with a number of our contracts progressing into 2017 and beyond
- In the Netherlands, we have progressed from a pilot investment phase, completing a number of portfolio investments in Q4 2015, which means we now operate across numerous asset classes in this geography
- Overall, in 2015, we achieved a 34% and 66% split of purchases by purchase price in the UK and mainland Europe respectively
- Across the Group, we grew our servicing revenue from £1.9 million in 2014 to £14.7 million
- Our service contracts provide long-term revenue, with some extending as far as 10 years

Principal risks and uncertainties

At Arrow Global, we have an enterprise-wide risk management framework, which sits alongside the strategic business plan and is designed to support the identification, assessment, management and control of the principal risks that threaten the achievement of our business objectives

The overall framework is underpinned by our risk appetite statements and a suite of high level risk policies. Risk is governed by the board, executive management and various risk committees, and the Group has a formal three lines of defence model, with third line provided by Deloitte LLP, our internal auditor.

Our principal risks are categorised as strategic, conduct, operational and financial. The disclosures below should not be regarded as a comprehensive list of all the risks and uncertainties facing the Group, but rather provide a summary of some of the key areas that could have the biggest impact.

1

Strategic risk

The 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.

The Group's growth strategy is primarily based on the future purchase of, and collection from, distressed loan portfolios. Changes in the economic, political or regulatory environment could impact our ability to collect from portfolios, or the amount of debt portfolios that are sold. The Group is also exposed to Eurozone economic uncertainty through its investment in mainland Europe.

Negative attention and news regarding the debt collection industry and/or the Group's collections activity may impact our reputation and therefore the Group's ability to acquire portfolios and customers' willingness to repay the debt that the Group acquires.

Key mitigating actions

Management monitor the economic, political and regulatory environments in which we operate to influence future strategy. In addition, appropriate currency liquidity management and scenario planning is in place.

Strong relationships have been developed with our creditor client base in order to mitigate the risk of reduced debt purchase opportunities in the market, and our reputational risk is managed by meeting all regulatory requirements and jurisdictional industry best practice.

2

Conduct risk

The risk of inappropriate strategy, systems, behaviour, or processes that leads to poor customer outcomes or impacts market integrity.

In the UK, we operate in a highly regulated environment and any action that leads to poor customer outcomes or customer detriment could lead to our inability to secure or maintain FCA authorisation, result in regulatory censure, financial loss and reputational damage to our brand. Poor customer outcomes or customer detriment could arise through the debt collection activities within our in-house operations or the third-party servicer network of collection agencies, whether we are collecting debt which we have acquired or on behalf of clients.

Key mitigating actions
Conduct risk and Treating Customers Fairly (TCF) are at the heart of our business. All employees and third parties acting on our behalf receive mandatory training, including conduct risk, handling vulnerable customers and complaints. We consider customer outcomes when developing our strategy, systems, policy and processes and ensure that our HR framework and Company values support appropriate customer outcomes.

We have a rigorous oversight framework, focused on compliance, independent assurance, performance, and customer outcomes across both our in-house operations and third party 'partner' network, with a continuous programme of reporting and reviews. Governance over conduct risk is provided by the risk committees, principally through the conduct and compliance committee. This committee provides oversight of the Group's processes and procedures, monitoring their effectiveness in fulfilling regulatory obligations and the management of risk that may result in non-compliance and /or poor outcomes for customers. Conduct risk exposures are also managed and monitored against the board's risk appetite.

In non-UK jurisdictions, FCA consumer credit regulation does not apply; however, we always seek to ensure we adhere to all local best practice collections approaches.

3
Operational risk
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including those relating to legal issues and IT security weaknesses.

In the UK, we are partly reliant on a panel of outsourced third party partners to manage customer accounts and collect on our behalf. Should these partners experience sustained business interruption or are subject to takeover by an unfriendly competitor, we could suffer financial loss.

The Group relies on IT systems for customer and data management and data analytics. Should these systems experience performance issues or outage through, for example, cyber attack, our customers would be impacted, and we could experience financial loss.

Failure to comply with relevant legal and regulatory requirements through failed internal processes could result in the suspension or termination of our ability to conduct business, and could lead to regulatory censure and financial loss.

There is also a risk of documentation deficiencies in purchased portfolios that are unable to be remediated or mitigated through contract and/or warranties.

Key mitigating actions
We have on going oversight of our partner network, including consideration of their business continuity arrangements. We monitor industry consolidation activity and have a diversified panel to ensure that we are not reliant on any particular third party servicer.

IT systems are regularly tested, backed up and managed through a tight set of quality and security policies, supported by a robust disaster recovery plan. In the UK, we adhere to ISO27001 standards and we practise ITIL-based procedures.

We have a quarterly Risk and Control Self-Assessment (RCSA) process to identify and assess key operational and regulatory risks. We employ industry specialists to monitor the latest regulations and update our internal policies accordingly, and 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.

4
Financial risk includes
Market risk: *the risk of losses in portfolios due to changes in foreign exchange rates and the level of interest rates.*

Funding and liquidity risk: *the risk that the Group is unable to meet its obligations as they fall due.*

Credit risk: *the risk to earnings or capital arising when a customer or counterparty defaults on its contractual obligations, including failure to perform obligations in a timely manner.*

Tax risk: *tax compliance risks arise from the complex nature of tax legislation and practice.*

Investment risk: *the risk of returns adverse to forecast as a result of inadequate portfolio purchase analysis and consequent mispricing therefore affecting ERC.*

The Group is exposed to a range of financial risks including; market risk as a result of foreign exchange and interest rate fluctuations; funding and liquidity risk as a result of our funding model; credit risk through our use of counterparties; and investment risk through new portfolio purchases.

Key mitigating actions
The Group's overarching financial risk management strategy is governed by a robust policy framework and is overseen by the treasury and tax committee, which is a delegated committee from the board and executive risk committees.

The Group aims to mitigate foreign exchange risk (a market risk) by matching foreign currency assets with foreign currency liabilities. The Group manages remaining exposures to foreign exchange at a Group level principally through the use of forward contracts. Interest rate risk is managed principally using interest rate swaps.

Funding and liquidity risk is managed through matching the maturity of our funding facilities with the maturity of our assets; forecasting funding requirements and applying appropriate stress testing, and ensuring that 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 and this provides us with a large degree of control over working capital.

Counterparty credit risk is managed through regular monitoring of the quality of new and existing counterparties and of our exposure to each. Counterparty risk with debt sellers is managed through warranties. Credit risk is taken on through the purchase of customer debt and is governed by the performance and inventory committee which meets monthly to review collection performance.

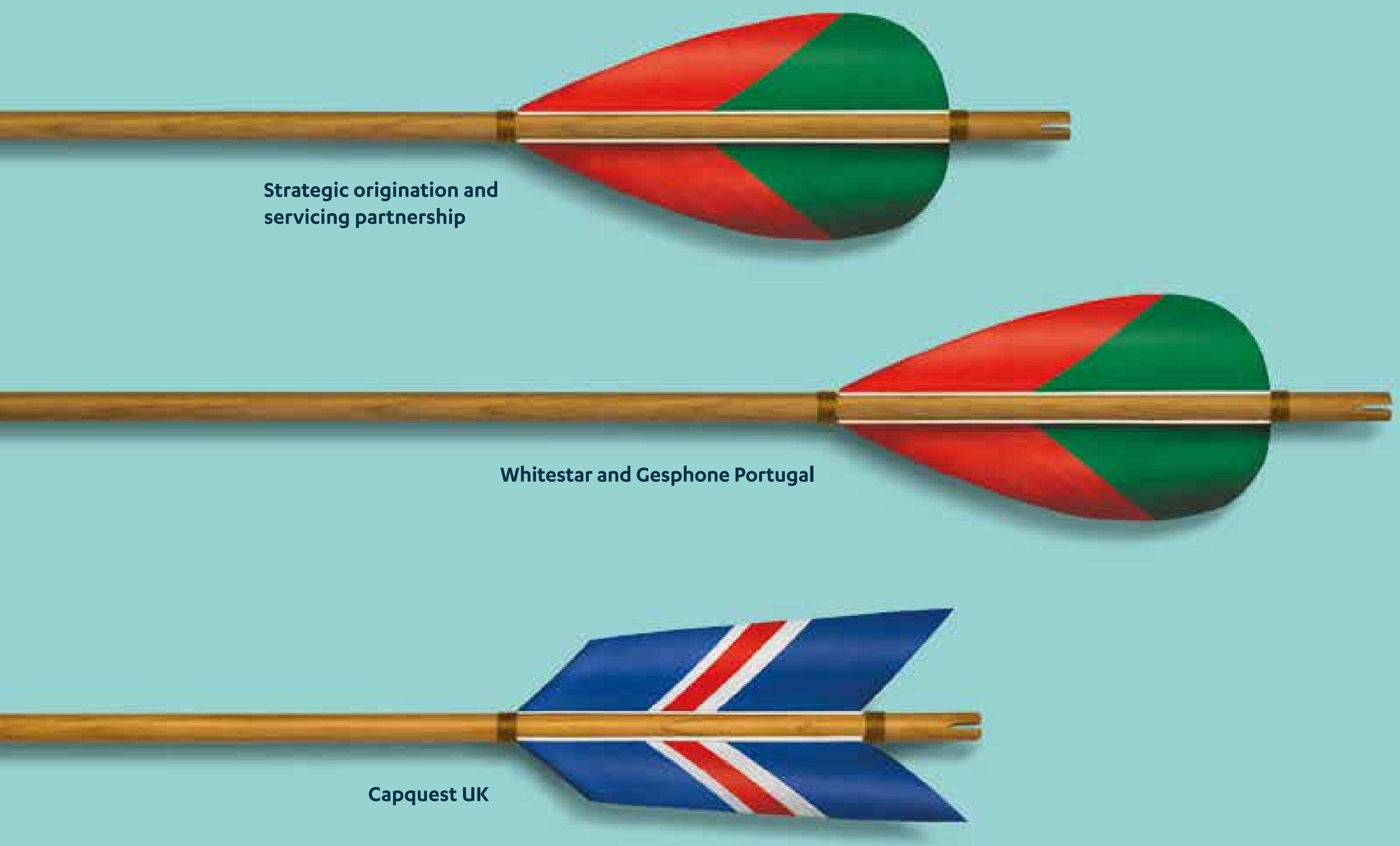
Tax risk is addressed through the use of tax specialists who advise the Group on its tax compliance obligations, application of tax legislation, and the transactions and activities undertaken by the Group.

Investment risk is managed through rigorous due diligence and controls to accurately price new investment opportunities. These include executive review through an investment 'gate' process prior to purchase execution. Portfolio performance is regularly monitored by senior management and the risk committees.

Origination

The acquisitions of Capquest, Whitestar and Gesphone have further enhanced our origination capability, expanding our client base, asset classes and customer servicing capabilities

Currently, we hold relationships with over 100 creditors across Europe as well as a number of partner funds. Our origination and underwriting teams work closely to ensure that we leverage our data assets and analytics capabilities.



We operate a clearly defined strategy for differentiated origination:

Develop and use our data advantage to boost accurate underwriting and strong collections

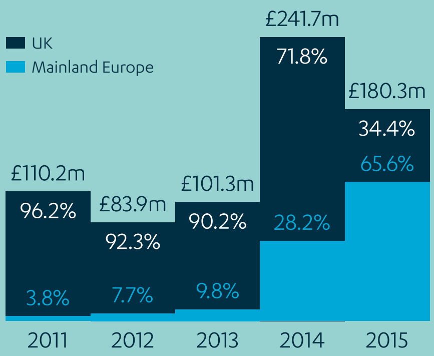
Actively pursue geographic expansion into markets where competitive dynamics are more attractive

Look to establish new asset classes

Establish off-market bilateral trades outside auctions

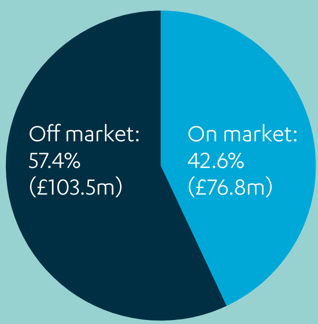
Offer an enhanced asset management proposition, including with credit funds to create a 'walled garden' of future purchase opportunities

We delivered portfolio purchases for the year totalling £180.3 million with a face value of £1,505.8 million



Total portfolio investments by purchase price

We continue to leverage our ability to secure off-market trades

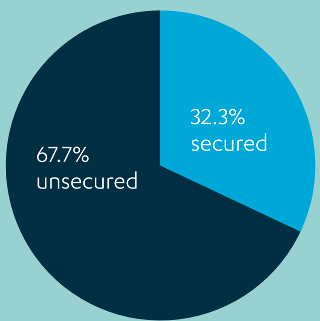


Data – Auction: on/off-market trades for 2015

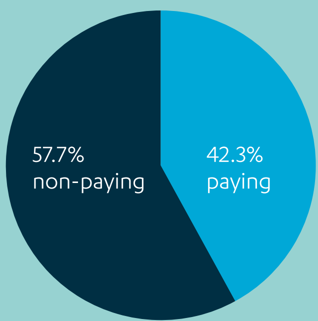
We now hold portfolios in 10 different asset classes

- Unsecured loans
- Credit cards
- 1st liens
- 2nd liens
- Motor
- SME
- Student loans
- Utilities
- Telco
- Retail

32.3% of investments in 2015 were underpinned by secured assets



42.3% of investments in 2015 were underpinned by paying accounts



Of the deals we completed in 2015, approximately 24% by purchase price were as partners in consortium transactions, where we have the ability to create future 'tail' acquisition opportunities.

24%

In addition to our servicing capability and our ability to deploy capital, we work with fund partners to further enhance our market proposition.

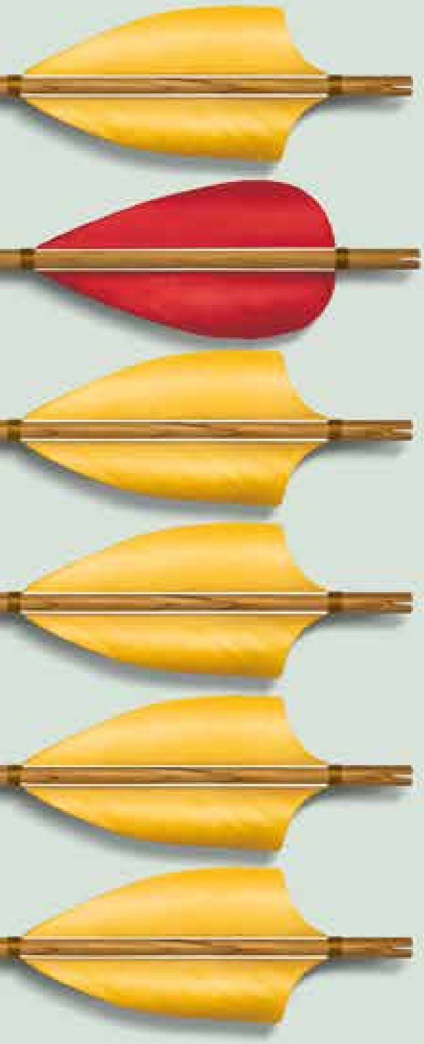
Diversification

Diversification by revenue stream

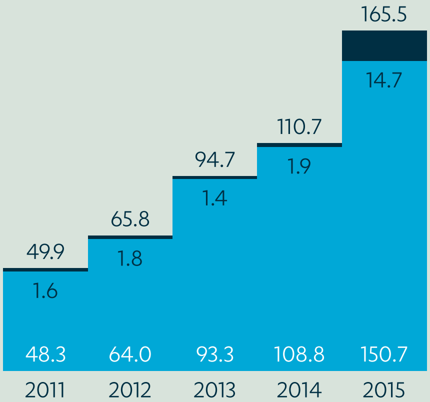
In 2015, we continued to diversify our business offering, and we now combine a growing in-house servicing capability with a network of compliant third party providers.

Our Capquest and Whitestar businesses offer our clients a well-invested customer focused service platform. This allows us to offer our clients data, analytics and collections services (asset management), the ability to place portfolios with us and then sell them to us at a later date (place to sell), or sell portfolios to us initially (sell).

Our servicing businesses also provide us with greater economies of scale, and enable us to offer greater customer insights. We are able to better challenge, test, and champion collection strategies, and work more effectively to find the best solutions for all involved.



Revenue growth (£m)

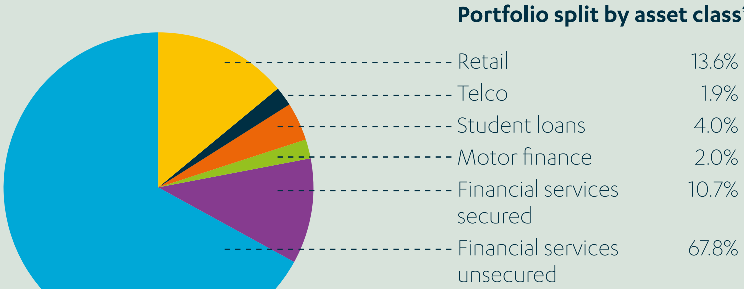


Income from asset management (£000s)
Total revenue from portfolios (£000s)

In 2016, we expect to diversify our revenues still further, with 15% coming from asset management services.

Diversification by asset class
We also diversified our business by asset class, as shown in the graph. In 2015, we added new asset classes to both our Portuguese secured and telco, and Dutch secured and SME asset holdings.

Portfolio split by asset class*



*Cumulative by purchase price.

Diversification by geography
2015 also saw us ramp up our investment in the Netherlands, by purchasing assets with a total face value of approximately €300 million. This is in addition to our existing holdings and investments in the UK, Portugal and France.

With the acquisition of Whitestar, Gesphone and other portfolio investments in 2015, Europe now represents 29.8% of Group ERC and 7% of revenue.

Diversification by originator/client
We sourced portfolio purchases and asset management contracts from 32 different providers in 2015. Approximately 70% in the UK and 30% in Portugal were from clients we already held a commercial relationship with prior to the start of the year (i.e. repeat sources).

	Unsecured							Secured			
Vintage	Loans	Cards	Utilities	Telco	Motor	SME	Retail	2nd liens	1st liens	Student loans	Servicing revenues
Pre 2010*	UK, Portugal	UK, Portugal	UK	UK	Portugal	Portugal					
2010	UK, Portugal	UK, Portugal	UK	UK	Portugal	Portugal					
2011	UK, Portugal	UK, Portugal	UK	UK	Portugal	Portugal	UK				
2012	UK, Portugal	UK, Portugal	UK	UK	Portugal	Portugal	UK	UK			
2013	UK, Portugal	UK, Portugal	UK	UK	Portugal	Portugal	UK	UK		UK	
2014	UK, Portugal	UK, Portugal	UK	UK	UK, Portugal	UK, Portugal	UK	UK		UK	UK
2015	UK, Portugal, Holland	UK, Portugal, Holland	UK	UK, Portugal, Holland	UK, Portugal	UK, Portugal, Holland	UK	UK, Portugal, Holland	Portugal, Holland	UK	UK, Portugal

*Servicing revenues doesn't include MCS in France as it is accounted for as associate.

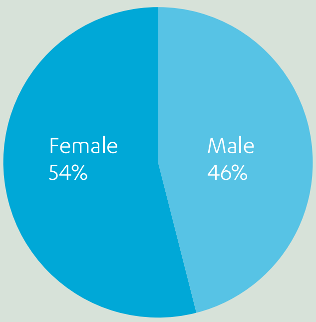
UK Portugal Holland

Arrow Global's people

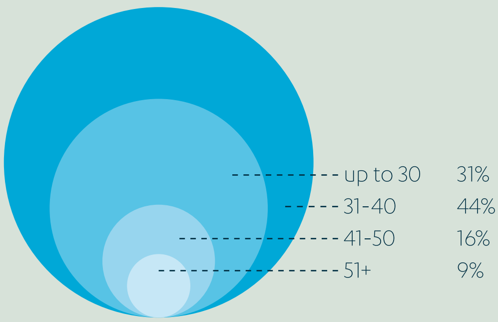
The acquisitions we have made this year have seen us increase the number of employees we have across the Group, from approximately 500 to almost 750. The staff split by gender and age across the Group is as shown:

Whilst at 31 December 2015, our six-strong board was 83% male and 17% female, we have subsequently appointed Maria Luís Albuquerque to the board with effect from 7 March 2016. An additional five senior managers, as well as the two executive directors, constitute our executive committee, and of these additional managers 60% are male and 40% female.

Staff split
By gender (at 31 December 2015)



Staff split
By age (at 31 December 2015)



Customers

As the Group continues to grow across multiple geographies, our customer base is constantly expanding

We now own 8.6 million customer accounts and service a further 0.9 million on behalf of third parties through our master servicing contracts.

Debt can be a very emotive topic. Unmanageable debt can often carry a social stigma and prevent people accessing more affordable mainstream financial products. Our approach is always to work with customers and find the most suitable solution for their individual circumstances.

In the UK, we commissioned our Debt Britain study to further enhance our knowledge and understanding of customers in unmanageable debt. The study revealed a number of key findings across different customer groups, which we will take forward and use to help shape our service offering.

Most borrowers default through no fault of their own

Findings

- 25% of borrowers admit to having made a late payment
- The most common cause for default is illness – 25% of debt defaulters
- Borrowers are most likely to miss paying credit card debts
- 60% of borrowers struggling with repayments have trouble sleeping and 16% have abused drugs or alcohol as a result

Call to action

- Do not deal with financial problems in isolation. It is important to understand the underlying cause and deal with this as well as the financial issues themselves

Financial literacy and understanding amongst young adults

Findings

- 66% of young adults who have sought a loan either do not know what APR means or see it as unimportant
- 45% of young adults say it is not very important to repay their debts on time
- 22% – nearly a quarter of young adults struggle with the basic numeracy that is crucial to understanding borrowing

Call to action

- Debt needs to be discussed more, so that everyone understands how to borrow and manage their finances effectively, without taking on more debt than they can afford to repay
- These conversations need to happen earlier in life, so that everyone understands how to use debt positively and not risk it being a problem that they simply don't understand

Over two thirds of debt defaulters avoid talking to their lenders

Findings

- 69% of defaulters have avoided talking to their lenders
- 47% said that even the possibility of restructuring the loan would not encourage them to communicate with lenders
- However, 63% would communicate more if it would improve their access to credit in the future

Call to action

- Although there is always more that can be done to help prevent people getting into unmanageable debt in the first place, it is important to communicate why addressing the problem early on can benefit them in the future
- The credit and data industry needs to develop tools that demonstrate and show how positive action contributes to rehabilitating your finance

4.7 million households likely to experience unmanageable debt problems by 2020

Findings

- A rise in consumer borrowing, coupled with higher interest rates will fuel a 17% increase in the number of households in default by 2020
- The rise is expected to see an additional 700,000 households default by 2020, increasing the current estimate of 4 million households to 4.7 million

Call to action

- The consumer debt industry needs to work closely with consumer advisory bodies now to plan for the rise, so that borrowers in difficulty can be given the best help and advice in managing their finances

In the UK, Arrow Global collection colleagues receive a minimum of 150 hours training in their first year. After their first year, they are then given an additional 45 hours training annually and in addition, we operate a buddy/mentoring system.

In the UK, our customer net promoter score (a measure of customer satisfaction of a scale of 0-9) regularly exceeds 6.5.

In the last year, across the Group, we helped more than 750,000 customers clear or start to clear their Arrow Global debt.

Corporate and social responsibility

Supporting debt charities and the local communities in which we work

Arrow Global takes its corporate and social responsibilities very seriously, and has a clear charity strategy that focuses on financial education, financial support, and the communities in which we work.

We work closely with the Citizens Advice Bureau (CAB) and a range of debt charities, including StepChange, which we supported once again this year, by taking part in and publicising 'Debt Awareness Week'. In addition to supporting charities like these, we support charities local to our sites; such as Oakwood Academy, the youth and education charity, City Year, and the Christie Charity in Manchester; the Beatson West of Scotland Cancer Centre in Glasgow; the children and young people's charity, Creating Futures, in Farnborough, Hampshire; and the family education, rehabilitation and care charity, Cerci Oeiras, in Lisbon.

We also support colleagues' contributions to the community by matching funds raised by them for our chosen charities and we encourage our staff to volunteer and assist local community organisations, both in and out of company time.

Moving and making a difference

Throughout the year, our colleagues participate in a variety of organised charity events. This year, for example, Arrow Global celebrated its 10-year anniversary, and as part of our celebrations, we launched our 'Move and Make a Difference' charity challenge.

Here, colleagues are encouraged to 'donate a mile' to one of the charities we support, completing a mile in any way they choose. The Company then makes a fixed donation on their behalf, or they can gain additional sponsorship and we will match the funds that they raise. The challenge will run into 2016, and to date some of the more adventurous and fun activities that people have come up with are a team sled pull, rowing, running and cycling, and a group skydive over a vertical mile.

A Centre of Excellence

In Manchester, we have supported the Oakwood Academy School for some time in its work to become a Centre for Excellence in financial education, combining both our local community and financial education charitable goals.

Working alongside the Personal Finance Education Group (PFEG) over a two-year period, in November 2015, the school was successful in achieving this sought after status, and Oakwood is now seen as a beacon of financial education and good practice in the local education community.

As well as providing financial sponsorship to the Academy, Arrow Global colleagues gave over 120 hours of volunteering support to the school.

Volunteering and mentoring with City Year

As with Oakwood, our involvement with City Year combines both sponsorship and volunteering activities. City Year challenges young adults to tackle inequality through the life-changing power of a year in service in school. It encourages young adults to become 'near peer' role models, mentors and tutors to support children from disadvantaged backgrounds, and help them enjoy and succeed at school.

In turn, the volunteers are helped to develop as leaders, receiving coaching on presentation and vocational skills. Arrow Global colleagues act as mentors, helping them with business skills, such as looking for employment, preparing CVs, interviewing and networking.

Caring for the environment

Our concern for the environment and the environmental impacts we make as a business are considered more thoroughly in the report of the directors on pages 40 and 41, but given the nature of our business as a debt purchaser and manager, they are relatively minimal.

With the acquisition of Whitestar and Gesphone, the Group now has a site in Portugal, in addition to the four across the UK. This has inevitably seen an increase in international travel, but to reduce the impact of this and other travel on our carbon footprint, we actively encourage colleagues to increase the use of video and telephone conferencing facilities.

In the UK, we offer colleagues a cycle to work scheme and at appropriate sites, we have car shares and group transport schemes in place.

Supporting human rights

All the Group's current activities are carried out in developed countries that have strong legislation governing human rights, and Arrow Global complies with applicable legislation in every country where it operates.

Financial review

2015 was a year of record growth for Arrow Global with a total investment of over £216.3 million, of which £180.3 million represented portfolio acquisitions

During the year, we made a number of significant portfolio purchases in Portugal and the Netherlands, as well as acquiring the Whitestar and Gesphone servicing businesses in Portugal, extending our growth in mainland Europe (for details see note 30).

Our strategic UK and mainland European purchases continue to provide significant opportunity and a platform for future growth in both existing and new asset classes and geographies.

Key results as of and year to	31 Dec 2015 £m	31 Dec 2014 £m
Total purchased loan portfolios	180.3	242.3
Total purchased loan portfolios*	586.3	477.5
Core collections	218.5	148.5
Collection cost ratio (%)	23.9%	23.0%
Total revenue	165.5	110.7
Adjusted EBITDA	153.1	101.0
Adjusted EBITDA ratio	70.0%	68.0%
Profit before tax	39.3	24.1
Profit attributable to shareholders	31.7	18.3
Underlying net income	35.4	29.6
84-month ERC	1,028.6	897.3
120-month ERC	1,224.5	1,085.4
Net debt	588.6	439.7
Underlying basic and diluted EPS (£)	0.20	0.17
Underlying ROE (%)	26.5%	26.1%
Net assets	145.4	121.9

*Excluding £23.5 million of portfolios due to be resold.

A glossary of terms can be found on pages 122 to 124.

Purchased loan portfolios

During 2015, we acquired debt portfolios (including those through acquisitions) with a face value of £1,505.8 million for a purchase price of £180.3 million equating to an average purchase price of 12p per £1. For the year to 31 December 2015, the 120-month gross cash-on-cash multiple for this vintage was 2.0 times (84-month: 1.7 times) from the date of purchase. Of the purchase price invested 32.3% related to secured portfolios.

These portfolios acquired, net of amortisation, have increased the balance sheet value of our purchased loan portfolios to £586.3 million as at 31 December 2015 (2014: £477.5 million). The balance excludes a £23.5 million portfolio of assets which had been acquired at the year end, and will shortly be resold to an investment partner.

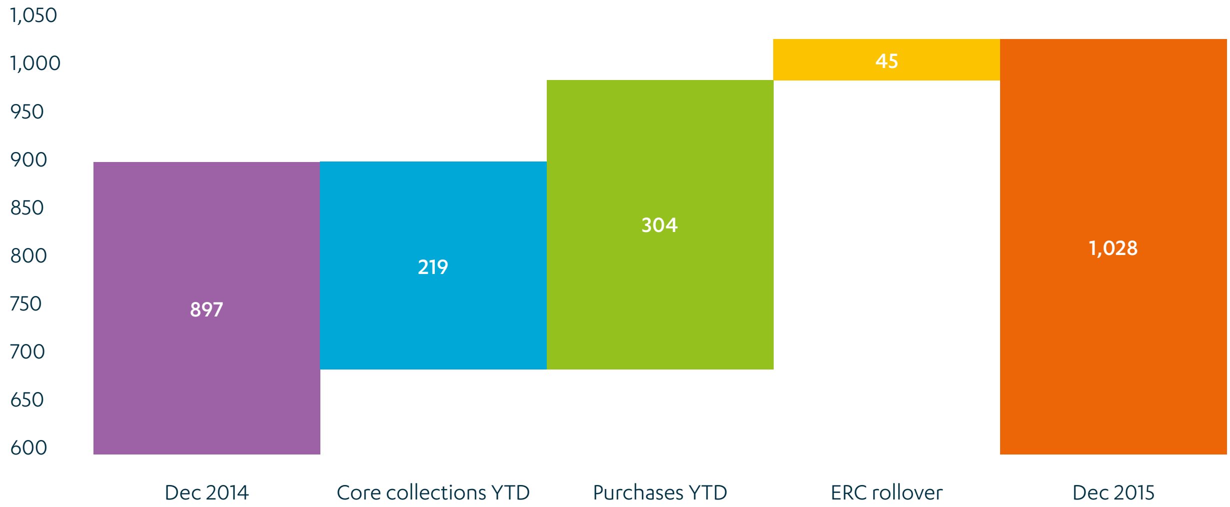
As at 31 December 2015, the total face value of acquired purchased portfolios was £14.2 billion (2014: £12.7 billion) across 8.6 million customer accounts.

ERC overview

Our 84-month ERC – the expected collections from our back book – after taking into account movement in foreign exchange rates and portfolio put backs – has increased by 14.6% from £897.3 million as at 31 December 2014 to £1,028.6 million, (120-month ERC 12.8% increase to £1,224.5 million) (31 December 2014: £1,085.4 million).

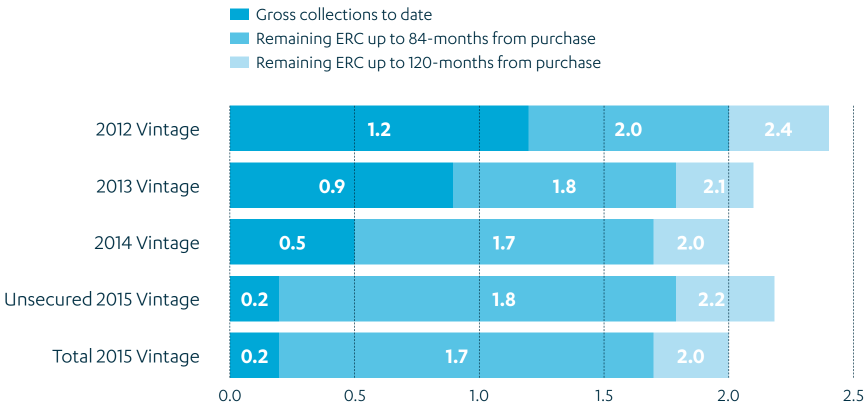
The ERC is underpinned by paying accounts that have a current face value of £1.5 billion, which represents 1.4 times 84-month ERC cover (1.2 times 120-month ERC cover). As at 31 December 2015, we estimate the amount we would need to invest over the next 12 months to maintain our current 120-month ERC level is circa £78 million.

84-month ERC bridge from December 2014 to December 2015 (£m's)



Financial review

Money multiples: gross collections to date and ERC from 1 January 2016



The gross cash-on-cash money multiple over all portfolios is expected to be 1.9 times on an 84-month basis from the date of purchase. Recent vintages reflect a higher proportion of paying accounts and secured assets and, therefore a lower gross cash-on-cash money multiple.

Revenue

Total revenue for the period was £165.5 million, an increase of 49.5% from total revenue in 2014 of £110.7 million. This was largely due to an increase in income from purchased loan portfolios of £41.9 million, reflecting the increased size of the portfolio assets. There was also a £12.8 million increase in income from asset management, due to a full year of results from our UK collections specialist, Capquest, and the acquisition of our Portuguese collections specialist, Whitestar, in April 2015.

Income from asset management in 2015 was 8.9% of total revenue, and we expect this to increase to approximately 15% in 2016.

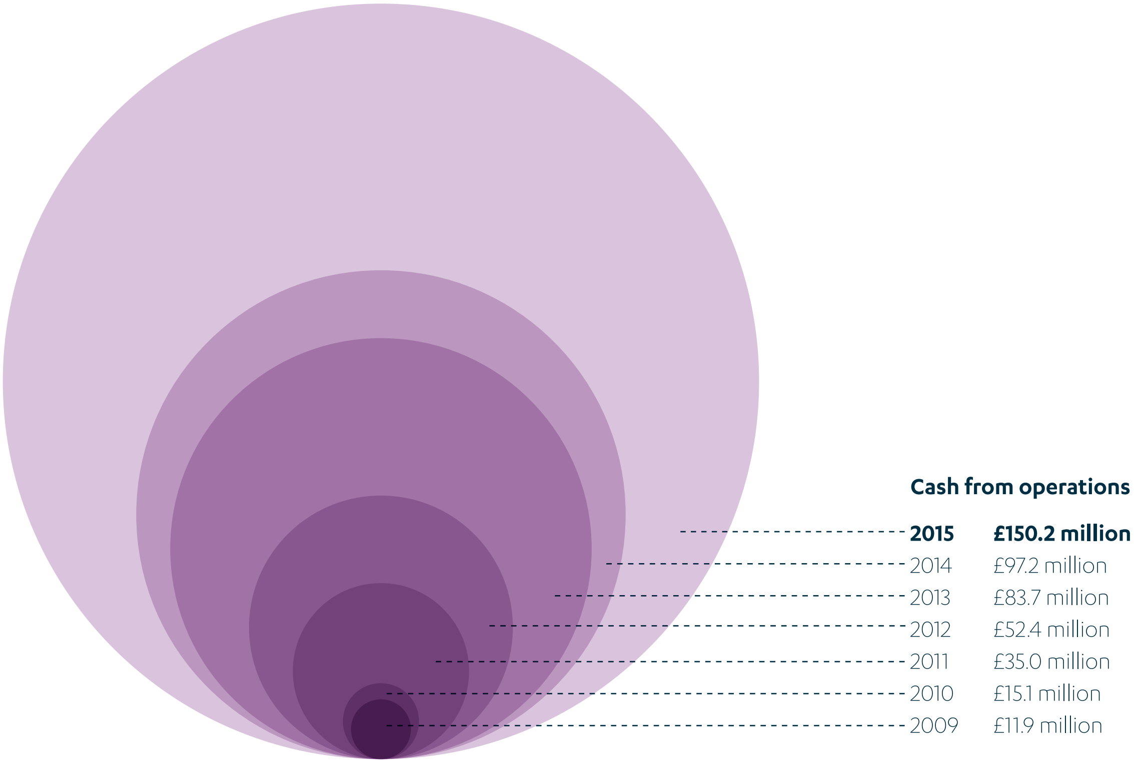
Cash flow - core collections

Core collections increased to £218.5 million (2014: £148.5 million), reflecting the increase in our portfolio asset base. During the period, collections in Portugal returned to their run rate pre court closures, albeit more slowly than expected. In addition, Portuguese collections were affected by exchange rate movements. During the period, there was a higher than anticipated portfolio putback claim, which we are progressing with the creditor and have reflected in the ERC.

As at 31 December 2015, we have cumulatively collected 102% of our original underwriting forecast on a constant exchange rate basis, reflecting the success of our data driven approach to origination and underwriting. During the year, cash collections came from over 7.5 million individual payments, with an average UK monthly payment of circa £27, reflecting our focus on working with customers to create long-term sustainable payment plans.

Cash flow – collection costs

We continue to use our data capabilities and the benefits of our outsourced model to maintain cost collection efficiency. During the year, there was an increase in the collection cost ratio to 23.9% (2014: 23.0%), reflecting additional collection related costs associated with Portugal and asset management and additional staff costs incurred for the set up and training on the Erudio migration.



Cash generated by operations
Cash generated by operations increased from £97.2 million in 2014 to £150.2 million in 2015. The key driver for operating cash flow is adjusted EBITDA. During the year, adjusted EBITDA increased by £52.0 million (51.5%) to £153.1 million (2014: £101.0 million). This was mainly driven by an increase in core collections net of collection costs. The adjusted EBITDA ratio was 70.0% (2014: 68.0%), this ratio has improved reflecting the successful integration of Capquest and Whitestar acquisitions.

Profit attributable to shareholders
Profit attributable to equity shareholders increased 73.8% from £18.3 million to £31.7 million for the year ended 31 December 2015. This was largely driven by increased operational profit of £28.3 million, offset by an increase in finance costs of £14.2 million. The latter was largely due to the introduction of the €110 million bond following the acquisition of Capquest in November 2014. We saw positive results of £1.2 million from the first full year of our 15% interest in French market leader, MCS.

During the year, non-recurring items of £4.3 million were incurred, with an associated tax impact of £0.7 million. The main non-recurring items were £1.5 million arising on the Portuguese strategic corporate acquisitions, £1.4 million due to IPO related staff costs and £1.5 million due to servicer migration and Capquest integration. See note 10 on page 91 for further information.

After taking account of the non-recurring items discussed above, underlying net income increased 19.6% from £29.6 million to £35.4 million for the year ended 31 December 2015.

Funding, net debt and net assets
In 2015, we successfully increased our RCF to £165 million, provided by five banks, to support business growth and balance sheet liquidity. This has subsequently increased to £180 million in February 2016. The RCF was drawn by £75 million as at 31 December 2015. As at 31 December 2015, we had cash and RCF resources of £100.2 million available and cash interest cover of 4.9 times (2014: 5.4 times). Successful issuance of the €110 million bond in September 2015, providing additional RCF headroom. We continue to assess the additional funding options as required and subject to market conditions.

Net debt at 31 December 2015 was £588.6 million, being 3.8 times adjusted EBITDA and a net debt/84 month ERC loan to value ratio of 57.2% and a secured loan to value ratio of 51.8%, which is significantly below our financial covenants of 75%. The drivers of the increase in net debt of £148.3 million from 31 December 2014 were the acquisitions of Whitestar and Gesphone and significant portfolio purchases in the last two months of 2015. See note 24 on page 102 for further information on the maturity profile of our debt.

Net assets increased to £145.4 million during the year, mostly reflecting the retained profit of the year offset by the declared dividends of £8.9 million.

Shareholder returns
Underlying basic and diluted EPS for the year was 20.3p (31 December 2014: 17.0p), representing an increase of 19.7%.

The underlying ROE was 26.5% (2014: 26.1%).

A final dividend of 5.4p is proposed, bringing the total dividends for the year to 7.1p. See note 12.

Outlook

Looking forward to 2016 and beyond, improving economic and market conditions and developing regulation seem likely to be the main drivers of change in the industry across Europe

Economic and market conditions

Overview

Market forecasters continue to assert that the growth seen in the European NPL market in recent years shows little sign of abating, and this is supported by independent research from PwC, which suggests that European NPL loan sales may well be up from €46 billion in 2012 to €160 billion in 2015.

Bank restructuring across Europe is also driving consolidation among our clients, as well as in portfolio sales and here, banks are often looking to sell assets which require them to tie up capital that could be deployed more effectively elsewhere.

A recent OC&C strategy consultants report published in November 2015 observed that one of the notable trends of the year was the opportunity presented by public sector debt and we believe this is a trend that will continue across Europe as a whole.

The OC&C report also notes a momentum towards forms of Business Process Outsourcing (BPO), which we think will mean many more clients choosing to pursue hybrid models, selling NPL portfolios in some instances and employing servicing solutions in others.

Economic conditions are forecast to continue to improve, albeit at reduced rates to that initially anticipated. As such, we expect to see an increase in consumer and business lending but will continue to monitor the risk from changes in economic and market conditions, especially with respect to any impact on forecast collections. A feature of previous cycles has been that an increase in lending has led to a corresponding rise in NPLs, and we see no reason for this to change.

In the UK, our recent Debt Britain research predicted that by 2020 the level of consumer default will have increased by 17%, mirroring a similar rise in lending over the same period, tied to the economic cycle.

Our approach

At Arrow Global, we are known for seeking to create strong and enduring relationships with our creditors and fund partners.

With a European origination capability, we will continue to look for opportunities in new asset classes and geographies, while at the same time, working hard to build a market leading position in those we already operate.

We will also be looking to enhance our service offering through our well invested in-house servicing platforms in the shape of Capquest and Whitestar.

We have already generated a number of long-term origination and servicing contracts with our fund partners and continue to benefit from joint origination opportunities, continually assessing our funding position to ensure that we maintain a strong balance sheet, which in turn, will provide us with the necessary capital for future investments.

Regulation and compliance

Overview

In the UK, we submitted our FCA authorisation applications in September 2015 as planned and anticipate receiving full authorisation later in 2016 (these timescales align with other firms' experience). This will mark the completion of our migration from regulation by the OFT to that of the FCA, a journey that began in 2013.

We believe that the risk, governance and compliance frameworks that are called for under the FCA regulation will require on going investment, and as a consequence, will continue to drive consolidation within the UK industry.

In Europe, the lobbying efforts of the Credit Services Association (CSA) and others have resulted in a generally favourable outcome on the new EU data protection regulation, which will be finalised mid-2016 and implemented in 2018.

Our approach

We are constantly evaluating and evolving risk and compliance activities across the entire Group, regardless of geography, and wherever possible, share best practice.

In the UK, we are continuing to operate under our FCA interim permissions and will work with the regulator as we progress through the authorisation process.

Via our external affairs team, representation on industry bodies, and participation in European initiatives, we are able to monitor developments in debt purchasing and data sharing. Where appropriate, we will join others in consulting on changes to legislation to understand its impact on our clients and customers.

Pricing

Overview

We maintain a positive outlook on NPL loan portfolio supply dynamics in both the UK and mainland Europe. Supply has grown significantly in recent years and all the indicators suggest that this trend will continue, especially in financial services.

The need to employ capital more profitably, and in many cases, build additional capital reserves is not going away. Banks have entered a new era, where the need to manage balance sheets more actively is now the norm.

We have already started to see portfolios coming to market earlier in the cycle and we expect this to carry on being the case, as originating creditors prepare for changes to accountancy standards, notably IFRS 9, and how NPLs are recognised.

Although portfolio pricing remains competitive, especially in the UK NPL auction market, we believe that larger, well capitalised debt purchasers, which continue to invest in their businesses to drive efficiencies and enhance collection strategies, will continue to prosper in what are consolidating markets.

Our approach

We remain focused on a disciplined approach to investment, and in particular, to diversification, by both asset class and geography.

Our Capquest acquisition in 2014, and those of Whitestar and Gesphone in 2015, provide us with a high quality service offering, while also helping us open up new debt purchase markets.

We continue to drive synergy benefits from these acquisitions. Following the completion of our initial Capquest integration work, we updated our forecast for synergy savings in 2016, adding an additional £2 million to the £6.5 million anticipated at the time of acquisition. We are reinvesting this into our UK market proposition.

Our servicing businesses, which require low capital investment, also prove to underpin our earnings growth. We have visibility of servicing contracts lasting five to 10 years, providing us with a solid platform to invest from.

Our ability to generate a high proportion of off-market trades – 57.4% of invested capital was off market in 2015 – means that we can continue to be selective in the investments we make, investing for profit and not absolute volume.

The significant investments that we made in the Dutch market in 2015, gave us a final balance of investments by purchase price of 34% in the UK and 66% in mainland Europe respectively. This capacity for operating across multiple geographies enables us to seek investments that allow us to deploy capital in the most profitable manner.

The money multiples we target for our investments will continue to reflect the balance of assets within the portfolio and vintage, for example, secured versus unsecured, paying versus non-paying.

2016 outlook

As we enter 2016, we will continue to evolve our business model to make sure we offer our clients and customers the service that best suits their needs. As we continue to grow our service capabilities and actively seek out new strategic partnerships and opportunities, we anticipate servicing revenues of around 15% of Group revenue in 2016.

We are a well diversified business, with a strong origination pipeline – starting 2016 with awarded purchases of £71 million.

We are confident in maintaining portfolio investments at approximately twice our average annual replacement rate of £78 million. This, combined with the continued delivery of the Capquest and Whitestar business cases, will support earnings growth in 2016 and we remain confident of our ability to deliver a medium-term ROE percentage in the mid-twenties and a progressive dividend policy.

Approved by the board of directors 3 March 2016, signed and authorised for issue on its behalf by:

T. Drury

Tom Drury
Chief executive officer
3 March 2016

Statement of viability

The directors are required to make an assessment of the Group's ability to continue to trade as a going concern for the three-year period of assessment used to assess the business

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 2015, the Group had an available £165 million revolving credit facility (increased to £180 million in February 2016), drawn by £75 million. The Group also had £10 million cash balance as at 31 December 2015. 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 2015 was 7.3% and the LTV ratio 57.2%. Both covenants were comfortably met throughout the year to 31 December 2015. 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. Furthermore based on the three-year forecast and funding plan the Group will continue to be in compliance.

The Company had a profit for the year to 31 December 2015 of £21,725,000 (2014: £4,360,000). With net current assets of £65,257,000, 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.

In addition, the directors have considered the Group's viability in detail over a three-year period to December 2018. This assessment is in accordance with provision C.2.2 of the UK Corporate Governance Code. It has been made taking into account the current position of the Group, the corporate planning and budget process, and the Group's principal risks as detailed in the strategic report on pages 16 and 17.

The Group prepares annually a five-year plan as part of its corporate planning process, which is aligned to the strategic goals approved by the board. The plan is predicated on a detailed year one budget, and extrapolated forecasts in outer years. As a matter of good practice a variety of stress tests are performed on the plan. The tests selected consider the principal risks faced by the Group. The principal risk modelled within the stress tests is a reduction in collections.

Following the assessment of the above, the board concluded that the viability statement should cover a period of three years. This is based on three years of the strategic plan, which gives greater certainty over the forecasting assumptions used.

The directors have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their detailed assessment.

Directors' and committee reports

Board of directors

Jonathan Bloomer

Non-executive Chairman
Appointment: 5 October 2013
Committee membership: Remuneration committee, nomination committee (Chair)
Skills and experience: Jonathan has a wealth of experience in the financial services industry and has significant board experience both as an executive and non-executive. His previous positions include chief executive of Prudential Plc, Chairman of the employee benefit business of Jardine Lloyd Thompson 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.
External appointments: Jonathan is currently Chairman of Shepherd Direct Ltd and a member of the code committee of the Takeover Panel.

Tom Drury

Chief executive officer
Appointment: 5 October 2013
Committee membership: None
Skills and experience: Tom has over 20 years executive leadership experience. He joined Arrow Global from Shanks Group Plc in 2011, where he served as group chief executive from 2007. He led the Arrow Global executive team through the IPO in 2013. Tom's 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.
External appointments: None

Rob Memmott

Chief financial officer
Appointment: 14 August 2013
Committee membership: Disclosure committee
Skills and experience: Rob has been chief financial officer at Arrow Global since 2011 playing a leading role in the IPO in 2013. He has over 17 years experience in senior financial leadership roles. Rob's 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.
External appointments: None

Iain Cornish

Non-executive director
Appointment: 15 October 2013. He became senior independent director on 4 June 2015.
Committee membership: Senior independent director, audit and risk committee (Chair), disclosure committee (Chair) and nomination committee
Skills and experience: Iain has a wealth of experience in the financial services industry with over 20 years' senior leadership roles until 2011 at Yorkshire Building Society, including eight years as chief executive officer. He was previously non-executive director of Vanquis Bank, non-executive director of the Prudential Regulatory Authority, Chairman of the Practitioner Panel of the FSA and of the Building Societies Association and executive committee member of the Council of Mortgage Lenders.
External appointments: Iain is currently non-executive Chairman of Shawbrook Group Plc, senior independent director and risk committee chairman at St James' Place Wealth Management Plc.

Robin Phipps

Non-executive director
Appointment: 5 October 2013
Committee membership: Remuneration committee (Chair), audit and risk committee
Skills and experience: Robin has a wealth of experience in the financial services industry. He was 25 years at Legal & General Plc until 2007, 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. Robin was previously a non-executive director of Resolution Limited, Friends Life Group Plc and Partnership Assurance Group Plc.
External appointments: Robin is currently Chairman of BUPA Insurance UK, a non-executive director of IFG Group Plc and Chairman of Saunderson House.

Lan Tu

Non-executive director
Appointment: 9 March 2015
Committee membership: Audit and risk committee, nomination committee
Skills and experience: Lan has had over 10 years of experience in senior leadership roles within American Express until 2015. Lan ran its Emerging Payment and Services business in Europe, Middle East and Africa; was the general manager for its UK and Nordics Merchant Services business; and previously led its international strategic planning group. Previous experience also includes 12 years at McKinsey & Company, working primarily in the financial services sector.
External appointments: Executive Chairman of Maudsley Learning at Work, Maudsley B2B CIC.

Maria Luís Albuquerque

Non-executive director
Appointment: 7 March 2016
Committee membership: Audit and risk committee
Skills and experience: Maria Luís was Portuguese Minister of State and Finance from July 2013 until November 2015 when there was a change of government in Portugal, and Deputy Minister for Treasury from June 2011 to July 2013. She had previously held a number of senior finance/treasury positions in the Portuguese public sector, including head of issuing and markets at the Portuguese Treasury and Debt Management Agency, and director of the department of financial management at REFER, the state owned rail infrastructure company. She is an economist who also lectured in Universidade Lusíada of Lisbon from 1991 to 2006.
External appointments: Maria Luís is a Member of the Portuguese Parliament, having been re-elected in the general elections of 4 October 2015.

Stewart Hamilton

General counsel and company secretary
Appointment: 24 September 2013
Skills and experience: Stewart has 14 years experience as a solicitor in corporate and commercial law. He joined Arrow Global from Addleshaw Goddard in 2011. He qualified as a solicitor with Linklaters in 2002 before working for Baker & McKenzie in London.
External appointments: None

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 2015. The corporate governance report set out on page 43 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 starting on pages 4, 6, 8 and 10 respectively, which are incorporated into this report by reference.

Consideration of going concern can be seen on page 32. 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 three-year period of assessment, 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 2014 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 Group's position and 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 5.4p per ordinary share for the financial year ended 31 December 2015 (2014: 3.4p) to be paid (assuming shareholder approval is obtained) on 7 July 2016 to ordinary shareholders on the register on 10 June 2016. This together with the interim dividend of 1.7p per share (2014: 1.7p) paid on 8 October 2015 brings the total dividend declared and proposed for the year to 7.1p per share (2014: 5.1p).

Share capital

As at 31 December 2015, 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 2015 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 2016 annual general meeting. During the year to 31 December 2015, no shares were allotted or repurchased. Resolutions to renew these authorities will be proposed at the 2016 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 2015, the Trust held 392,484 ordinary shares (2014: 154,562 shares) representing 0.2% (2014: 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.

In light of the share placing completed on 13 October 2015, Tom Drury, Rob Memmott and Zachary Lewy, have agreed with the Company that, following completion of the placing, they and their connected persons and affiliates will not dispose of further shares in the Company for a period of at least 180 days (subject to customary exceptions) from 12 October 2015.

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 2016, 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 Ltd	14,758,343	8.46
SEB Investment Management AB	13,485,050	7.73
Legal & General Investment Management Ltd	11,661,004	6.68
Jupiter Asset Management Ltd	11,562,843	6.63
BlackRock Inc	7,028,654	4.03
Tom Drury	6,862,283	3.93
UBS AG	6,837,149	3.92
Zachary Lewy	5,867,300	3.36
Odin Fortvaltning AS	5,722,029	3.28
BMO Global Asset Management	5,582,653	3.20

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 36 and 37. Lan Tu was appointed as non-executive director with effect from 9 March 2015. Sir George Mathewson retired from the board as a non-executive director of the Company with effect from the conclusion of the Company's annual general meeting held on 3 June 2015. Zachary Lewy stepped down from the board as executive director on 30 April 2015. Post year end, with effect from 7 March 2016, Maria Luís Albuquerque was appointed as a non-executive director.

The directors are aware of the retirement by rotation provisions in the Code that apply to FTSE 350 companies and have adopted these provisions. Maria Luís Albuquerque offers herself for election by shareholders for the first time at the 2016 annual general meeting. All other directors will offer themselves for re-election at the 2016 annual general meeting.

Directors' interests

The directors' interests in the share capital of the Company at 31 December 2015 are set out on page 56.

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 2016 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 2015 annual report and notice of annual general meeting 2016 will be distributed electronically again 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 2015) and the Group's carbon reporting falls under three scopes:

Scope	Type	Reportable items
1	Direct emissions from 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 878.5 tonnes of annual CO_2 emissions in 2015 as documented below:

Scope	CO_2 emissions (tonnes) per annum 2015	CO_2 emissions (tonnes) per annum 2014
1	3.2	1.3
2	533.3	56.8
Total scope 1 and 2	**536.5**	**58.1**
3	342.0	48.4
Total	**878.5**	**106.5**
Tonne of CO_2 per employee (using average number of employees for the year)	**1.2**	**0.68**

CO_2 omissions have increased during the year due to the acquisitions of Capquest at the end of 2014 and Gesphone and Whitestar in Q2 of 2015. Whilst we consider our carbon emissions to still be relatively low, with the Group expanding globally, 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 Thursday, 26 May 2016 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
3 March 2016

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the Group and Company 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 IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 each of the Group and parent company 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; and
- 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 its 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 to prevent and detect 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 UK 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; and
- 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

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the board:

Rob Memmott
Chief financial officer
3 March 2016

Tom Drury
Chief executive officer
3 March 2016

Corporate governance report

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 2014 ('the Code'), have been applied by the Company in 2015. The Code is available on the FRC website at **www.frc.org.uk**

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 six members, including me, as Chairman, two executive directors (Tom Drury and Rob Memmott) and three independent non-executive directors (Iain Cornish, Robin Phipps and Lan Tu). The board regarded me, as Chairman, as independent upon my appointment, and considers that I continue to meet the independence criteria.

As mentioned in my statement on pages 6 to 7, Lan Tu joined the board on 9 March 2015 as an independent non-executive director. Sir George Mathewson and Zachary Lewy stepped down from the board on 3 June 2015 and 30 April 2015 respectively. Maria Luís Albuquerque joins the board on 7 March 2016, as an independent non-executive director, bringing the board to a total of seven members. She will join also the audit and risk committee.

Iain Cornish was appointed the Company's senior independent director, following Sir George Mathewson's retirement from the board. The board is satisfied that Iain Cornish 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 (and will have five with effect from 7 March 2016), including me as Chairman, and therefore complies with the recommendations of the Code.

Biographical details of all the directors are set on pages 36 and 37. 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 2016 annual general meeting. Maria Luís Albuquerque will offer herself for election by the shareholders for the first time at the 2016 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 46.

Jonathan Bloomer
Non-executive Chairman
3 March 2016

Corporate governance report

Leadership

The board

The board is responsible 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 and development
- overseeing the Company's risk management and internal control systems
- reviewing corporate governance arrangements
- succession planning
- approving shareholder return policy
- ensuring appropriate resources are in place to enable the Company to meet its objectives
- ensuring appropriate oversight of portfolio investments
- approval of external reporting

Specific key considerations of the board in 2015 also included:

- the acquisition of Whitestar and Gesphone in Portugal
- bond refinancing
- FCA authorisation application
- the Erudio IT platform in-house migration
- the appointment of non-executive directors, Lan Tu and Maria Luís Albuquerque
- European expansion considerations

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 was retained in relation to the appointment of Lan Tu. This firm has no other connection with the Company. The procedure used in relation to the appointment of Maria Luís Albuquerque as a non-executive director is set out on page 47.

Diversity

The board supports the proposals outlined in Lord Davies' report 'Women on Boards: February 2011' and the 'Five Next Step Recommendations' contained in 'Women on Boards Davies Review – Five Year Summary: October 2015', and is committed to applying these in accordance with the Group's Equality and Diversity policy. With effect from Maria Luís Albuquerque's appointment on 7 March 2016, the Company has a 29% female representation on the board (two female directors out of seven 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 the requirements of the role. Details of the Chairman's and other directors' commitments can be seen in the director biographies on pages 36 and 37.

Board activity

The board discharges its responsibilities through an annual programme of board and committee meetings which are held at the various operational sites of the company. Following the acquisition of our Portuguese operations in April 2015, the board visited the Whitestar offices in November 2015.

Board and committee meetings and attendance

The board held eleven scheduled meetings in 2015. Details of board and committee attendances by all directors who held office during the year are set out below:

Director	Main board	Audit and risk committee	Remuneration committee	Nomination committee	Disclosure committee (adhoc)
Jonathan Bloomer	11/11	–	3/3	3/3	–
Tom Drury	11/11	–	–	–	–
Rob Memmott	11/11	–	–	–	8/8
Iain Cornish*	10/11	4/4	1/1	3/3	8/8
Robin Phipps*	10/11	3/3	3/3	–	–
Lan Tu (appointed 9 March 2015)	9/9	3/3	–	2/2	–
Sir George Mathewson (resigned 3 June 2015)*	4/5	1/2	1/2	–	–
Zachary Lewy (resigned 30 April 2015)	4/4	–	–	–	–

*The board members were unable to attend respective board and committee meetings due to prior commitments.

Continued professional development undertaken during the year
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 receive a comprehensive induction pack which includes background information on the Company, material on matters relating to the board and its committees, and governance related information (including the duties and responsibilities of directors). New directors meet with key advisors and members of the executive team. Visits to operational sites are arranged as well as meetings with the external and internal auditors. On going training was provided during the year for existing directors. Major shareholders are welcome to meet newly appointed non-executive directors should they express a desire to do so. This induction process was applied following the appointment of Lan Tu in March 2015.

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, including the main themes from the 2014 evaluation, 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 nomination committee and to the board. A number of areas for further improvement were identified and will be acted upon. None were considered material, and, overall, board members were satisfied with the performance of the board during the year. An internal evaluation of both the audit and risk and remuneration committees took place adopting the same procedure. Meetings of the non-executive directors led by the Chairman, without the executive directors being present, took place. Iain Cornish, as senior independent director, led the meeting of the non-executive directors (without the Chairman being present) to appraise the Chairman's performance. No actions were considered necessary as a result of these evaluations. The board has confirmed that its performance, as well as the contribution of each of the executive and non-executive directors continues to be effective, that they continue to demonstrate commitment to their respective roles and that the board members' respective skills complement one another and enhance the overall operation of the board. The board therefore recommends that shareholders approve the resolutions to be proposed at the 2016 annual general meeting in relation to the election and re-election of the directors.

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, 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014)'. In this context, the board is responsible for, and monitors, the Group's systems of internal controls (which include financial, operational and compliance controls) and risk management systems. The risk management framework 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 the systems of internal control are effective in managing risks in line with its articulated risk appetite. The Group has a formal three lines of defence model, with the third line provided by Deloitte LLP. During the year, the board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These are documented on pages 16 to 17 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 board, with delegated authority to the executive committee for certain transactions. This process ensures 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 a portfolio acquisition policy
- 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

Comprehensive reporting to the audit and risk committee and the board on the above activities takes place throughout the year. The audit and risk committee carried out a review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls. In carrying out this review, the committee received a report from the chief financial officer on the Group's internal financial controls, which concluded that the control environment was effective and protected the Group against material financial risk.

This is also reflected in the assessment of financial risk reported through the risk management framework, and in the reduced volume of control findings identified by the external auditor, KPMG, which importantly did not include any significant (red graded) issues for 2015. The Group's risk function provided a further report to the audit and risk committee concluding that the risk management and control environment was considered to be effective, with improvements noted in risk reporting

Corporate governance report

against key risks in 2015, with no material breaches, losses or regulatory censure. The introduction of a risk management framework has provided increased assurance and evidence that risks are understood and being appropriately managed. The committee concluded that the Group's risk management and internal control systems were effective, and there were no material failings or weaknesses identified following such review, though management continue to further embed the framework as expected in a maturing organisation. On the committee's recommendation, the board concluded that, overall, the Group's risk management and internal control systems were effective.

Non-audit services provided by the auditor

The provision of non-audit services by the external auditor is monitored throughout the year, and there were none carried out in 2015. Audit related assurance services were performed by the auditors, namely mandatory auditor opinions in relation to the issuance of the €110 million bond. The level of non-audit fees and audit related assurance services, provided by the external auditor, for the year can be seen in note 9 on page 90.

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, and as stated in the audit and risk report on page 66, Deloitte replaced BDO and were appointed with effect from October 2015.

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 approximately 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 available to both to its employees and generally, with a summary on the Company's website, that 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.

Remuneration

In line with the Code and the Directors' Remuneration Disclosure Regulations 2013, details on remuneration including the annual report on remuneration and the directors' remuneration policy, which was approved at the 2015 annual general meeting, can be seen on pages 48 to 65.

Relations with shareholders

Dialogue with shareholders, bondholders and revolving credit facility providers

In 2015, the Company held a capital markets day for institutional investors and analysts at our Farnborough office, which included presentations on results, information on the Group's activities and a tour of the offices. The capital markets presentation can be accessed on the Group's website at **www.arrowglobalir.net**

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. See page 119, for information on the 2016 annual general meeting. 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 66 to 70.

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 manage the process for evaluating the performance of the board.

The work of the committee in 2015 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 appointment of Iain Cornish as SID following the retirement of Sir George Mathewson from the board
- Recommending to the board the appointment of Robin Phipps to the audit and risk committee and Iain Cornish to the remuneration committee following the retirement of Sir George Mathewson from the board
- The recruitment of Lan Tu and Maria Luís Albuquerque as a non-executive directors
- Making recommendations to the board on the re-appointment of non-executives directors
- Approaches to the 2015 board and committee performance evaluation review and reviewing summaries compiled from responses received from board members
- Approving a Board Diversity policy

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 of two other independent non-executive directors, Iain Cornish and Lan Tu, who joined 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 in relation to the appointment of Lan Tu. In relation to the appointment of Maria Luís Albuquerque as a non-executive director, neither an external search consultancy nor open advertising has been used in the appointment process. Following the board evaluation exercise in 2014, the committee had noted views of board members that there needed to be more European experience on the board, especially with knowledge of the areas of financial risk in which the Group operated, following the expansion of the Group. Maria Luís Albuquerque was Minister of State and Finance in Portugal until the general elections in October 2015. Following these elections, she remained a member of the Portuguese Parliament. Given her availability and high profile, the committee concluded that the appointment of Maria Luís Albuquerque, as a non-executive director, would bring a wealth of international and financial sector experience, and would complement the existing experience of the board. Accordingly it was felt inappropriate to rely on traditional methods of recruitment, given the availability, high profile, and particular expertise offered by such a candidate. There was, however, a rigorous appointment process undertaken including interviews and standard background check procedures.

Recognising the benefits that diversity can bring, the board seeks to recruit directors from different backgrounds with a range of experience, perspectives, personalities, skills and knowledge which is in line with the current Arrow Global Group Plc Equality and Diversity Policy for the wider workforce. The board agrees with the conclusions of the Lord Davies report "Women on Boards: February 2011" and the Five Next Step Recommendations contained in "Women on Boards Davies Review – Five Year Summary: October 2015".

The Company will shortly have two female directors, Lan Tu, who was appointed in March 2015, and Maria Luís Albuquerque, who will be appointed as a non-executive director with effect from 7 March 2016. Together they represent 29% female board membership.

Both the nomination committee and the board have a fundamental obligation to ensure that appointments are of the best candidates, selected on merit against objective criteria. Subject to this, the availability of suitable candidates and compliance with the requirements of the Equality Act 2010, the board is committed to strengthening female representation at board and senior management level. It has not, however, set prescriptive targets as it does not believe these are in the best interests of either the Company or its shareholders.

Remuneration committee

Details on the remuneration committee can be seen on pages 48 to 65.

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
3 March 2016

Directors' remuneration report

Remuneration disclosure

The report complies with the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the 2014 edition of the UK Corporate Governance Code ('the Code') and the Financial Conduct Authority's Listing Rules.

This report is split into two sections: the Annual Report on remuneration which follows this statement and then the directors' remuneration policy which was approved at the 2015 annual general meeting. The directors' remuneration report (excluding the directors' remuneration policy) will be subject to an advisory vote at the 2016 annual general meeting.

Annual statement

On behalf of the board, I am pleased to present our directors' remuneration report for the year ended 31 December 2015.

Remuneration policy and link to strategy

Last year we made a number of minor changes to our remuneration policy to ensure that it is consistent with the intended operation of the share plans adopted at IPO. I would like to take this opportunity to thank shareholders for supporting our updated remuneration policy, which was approved by 100% of shareholder votes at last year's annual general meeting. Since then, we have not made any changes to our remuneration policy and we continue to take a disciplined approach to execution to ensure that our remuneration framework rewards the right behaviours and supports the strategic goals of the Group. The following is an overview of how our remuneration policy supports the strategic objectives of the business:

- The performance metrics for the annual bonus aim to balance profit growth with other key financial and non-financial targets and specific personal objectives linked to our strategic goals of protecting and enhancing our market leading position, diversifying the business (into new geographies, asset classes and revenue streams), delivering strong risk adjusted investment returns and developing our customer proposition. We ensure that the strategic goals are specific, measurable and fairly assessed
- A proportion of any annual bonus payment is deferred into shares to ensure that executive directors consider the longer term impact of decisions that are made and the sustainability of the business. For 2015 and 2016, 33% of any bonus earned is deferred into shares for a three-year period
- The LTIP is designed to encourage behaviours which facilitate the delivery of sustainable growth of the business, whilst delivering value to stakeholders and promoting the long-term success of the Group. For 2015 and 2016, 50% of the LTIP award is based on EPS which aligns clearly to the Company's strategy to deliver earnings growth; 25% is based on return on equity (ROE) which is a key driver of shareholder value and reflects the importance of purchasing debt of a suitable quality with an appropriate return; and 25% is based on TSR relative to the FTSE 350 which is clearly aligned to shareholders and maintains a link to share price performance
- The variable remuneration targets are set at a level which rewards high performance whilst not encouraging inappropriate business risk

Last year, we also increased our shareholding requirement to 200% of salary for the chief executive officer and 150% for the other executive directors further aligning the long-term interests of executives and shareholders. The actual shareholdings of our executive directors are significantly higher 5028% of salary for of our chief executive officer, Tom Drury, and 2167% of salary for our chief financial officer, Rob Memmott based on the number of shares held and closing share price at 31 December 2015.

Performance and variable pay outcomes for the year ended 31 December 2015

As described in the Strategic Report, the Company continues to perform strongly delivering profitable earnings growth and strong progress against our strategy of diversifying by geography, asset class and revenue stream, while driving strong returns on investment. Underlying profit for the year attributable to equity shareholders is up 19.4% to £35.4 million, underlying earnings per share (EPS) has increased to 20.3p representing growth of 19.4% and underlying return on equity (ROE) of 26.5% has been delivered. In addition, the executive directors and their teams have worked hard to achieve the successful integration of the Capquest and Whitestar acquisitions, overlaying continued growth from attractive organic investments.

Taking into account the performance achieved during the year, the executive directors have earned annual bonuses of £312,137 for the chief executive officer and £229,373 for the chief financial officer. Mr Lewy earned a bonus of £86,949 during the period of the year that he was an executive director, until he stepped down from the Arrow Global Group board. Further rationale for these payments can be found on pages 51 to 54. Before approving the level of performance in 2015, the remuneration committee sought the views of the Group chief risk officer and the audit and risk committee chairman on the effectiveness of the executive's management of conduct and risk during the year.

No awards under the LTIP were due to vest in respect of the year ended 31 December 2015.

Base salary increases

In our remuneration report last year, we explained that the committee was proposing to increase the base salaries of our chief executive officer, Tom Drury and our chief financial officer, Rob Memmott phased over two increases. We provided detailed rationale behind this decision, which is summarised on page 51.

Our major shareholders were supportive when we consulted with them and we subsequently received a 99.67% vote in favour of our Annual Report on remuneration at the 2015 annual general meeting. The first of these salary increases took effect from 1 March 2015 when Tom Drury's and Rob Memmott's salaries were increased to £360,000 and £285,000 respectively.

The second stage of the increase was not guaranteed and was subject to strong corporate and individual performance. Following assessment at the end of the financial year of corporate financial and strategic performance against plan, and the on going performance of the chief executive officer and chief financial officer and their contribution to the business, the committee confirmed that the second increase should be awarded and this took effect from 1 March 2016, taking Tom Drury's salary to £395,000 and Rob Memmott's salary to £310,000.

Executive director change during the year

As announced on 14 April 2015, Zachary Lewy stepped down from the Arrow Global Group Plc board with effect from 30 April 2015 to allow him to focus his time on continuing to lead the expanded Arrow Global debt purchasing team as well as his board positions on our European subsidiaries and interests including Whitestar, Gesphone and MCS.

Details of his remuneration up until 30 April 2015, for the period he was an executive director on the Arrow Global Group Plc board, are set out in this report. His 2014 LTIP award will continue, subject to the same performance conditions as apply to all other 2014 LTIP awards. Other than as regards payments to him under his new employment contract, there were no payments to past directors during 2015.

Committee evaluation

As part of the overall board evaluation review, the committee reviewed the findings in relation to its overall effectiveness. A number of areas for further improvement were identified and will be acted upon. None were considered material, and overall committee members were satisfied with the performance of the committee during the year.

Changes to the committee composition

Iain Cornish joined the committee following Sir George Mathewson's retirement from the board on 3 June 2015. Jonathan Bloomer is the other non-executive director on this committee.

Overall, given the Group's performance, I am comfortable that the absolute amounts awarded to our executive directors are appropriate. The following pages describe in further detail how we have implemented our remuneration policy in respect of 2015, together with our plans for 2016.

Robin Phipps
Chairman of the
remuneration committee
3 March 2016

Directors' remuneration report

Annual report on remuneration

The following is an overview of how the remuneration policy supports the business strategy:

- 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

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 £000		Pension-related benefits[3] £000		Total compensation £000	
Director	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Tom Drury	355	327	2	4	312	255	–	–	53	45	722	631
Rob Memmott	281	258	1	–	229	202	–	–	42	36	553	496
Zachary Lewy[4]	97	275	2	4	87	215	–	–	15	38	201	532
Total	**733**	**860**	**5**	**8**	**628**	**672**	**–**	**–**	**110**	**119**	**1,476**	**1,659**

[1]Private medical and dental cover.

[2]Performance related 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 pages 51 to 54.

[3]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. The pension amounts are not included in the annual bonus or LTIP allocation.

[4]The remuneration for Mr Lewy disclosed in the table above is for the period 1 January 2015 to 30 April 2015, which is the period he served as an executive director.

Additional disclosures to the single figure table (audited information)

Base salary

As referred to in the 2014 directors' remuneration report, following consultation with, and support from, our major shareholders, the committee 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 committee considered that the increases were 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 of the Group (including the international nature of the business and the 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 relative 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 increases taking effect from 1 March 2015 were part of a two stage approach to base salary; the implementation of that approach with effect from 1 March 2016 is set out on page 58.

Determination of the 2015 annual bonuses (audited information)

For 2015, executive directors were eligible for an annual performance related bonus of up to 125% of salary, subject to meeting stretching performance targets. To encourage behaviours that facilitate continued profitable growth and future development of the business, the 2015 annual bonus was based on the following:

- 50% of the bonus was based on underlying profit for the year attributable to equity shareholders ('financial element out-turn'), and
- 50% was based on a balanced range of financial, strategic, personal and other key Group objectives ('strategic business/personal objectives out-turn')

Directors' remuneration report

Summary of 2015 annual bonus out-turns (audited information)

The bonus payouts for 2015 are detailed in the table below. Further detail on the how the elements of the bonuses have been earned are shown below.

	Financial element out-turn	Strategic business/personal objectives out-turn		Total bonus out-turn		
Director	**% of maximum opportunity**	**Overall rating**	**% of maximum opportunity**	**% of salary**	**% of maximum opportunity**	**£**
Tom Drury	55.7%	Exceeds expectation	85%	87.9%	70.3%	312,137
Rob Memmott	55.7%	Exceeds expectation	75%	81.7%	65.3%	229,373
Zachary Lewy	55.7%	Exceeds expectation	85%	87.9%	70.3%	86,949

Notes:
- Mr Lewy's bonus represents the bonus for the period 1 January – 30 April 2015, when he stepped down from the board
- Annual bonus payments to executive directors also have the following restrictions:
  - 33% of the bonus is deferred into shares in the Company for a period of three years
  - Malus and clawback provisions are operated which give the 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

Financial element out-turn:

The financial element of the 2015 annual bonus was based on achieving underlying profit for the year attributable to equity shareholders, in accordance with the schedule below:

	Threshold	Target	Stretch
Target*	£33.44m	£35.2m	£36.96m
% of financial element that vests	20%	50%	100%
Actual performance			£35.4m
% of financial element vesting			55.7%
% of maximum bonus opportunity vesting			27.8%

*Straight line vesting between these points.

Strategic business/personal objectives out-turn:

This element of the bonus was measured on achievement of clear personal objectives and targets which supported the strategic objectives of the business. The committee made a judgment based on the committee's view of the relative importance and impact of each of the objectives and factors over the course of the year. Before approving the level of performance in 2015, the remuneration committee sought the views of the Group chief risk officer and the audit and risk committee chairman on the effectiveness of the executive's management of risk during the year.

The objectives and targets were:

CEO and CFO

Strategic	
Objectives/targets	**Achievement**
• Invest in line with the Group purchasing plan at 2x Gross Money Multiple within the Group's risk appetite	• Investments made in line with the Group purchasing plan at the target Gross Money Multiple and within risk appetite
• Deliver successful Capquest integration: deliver expected synergy savings, IT strategy and organisational integration	• Synergy savings exceeded. New customer IT platform (Latitude) delivered and optimised. Organisational integration on going
• Refresh and update European strategy: create an aligned origination and operational strategy	• Significant corporate and portfolio acquisitions made in Portugal and the Netherlands. Relationships with CarVal and Cerberus cemented

CEO objectives

Objectives/targets	Achievement
• Develop and embed the customer value proposition	• Strong collections and quality performance across book and measures taken to improve the customer journey including the Latitude platform
•Embed the servicer framework	• Panel rationalisation executed at speed and significantly smaller core collections/specialist collections servicer panel now in place
• Develop the brand and reputation strategy	• Developed thought leadership proposition through Debt Britain report. Continued debt charity collaboration and integral membership of the CSA
• Implement strategic succession planning	• Strategic succession review completed with the board and identified risks mitigated
• Develop and institutionalise the client value proposition	• Origination team built out. Continued diversification of asset types for full client appeal

CFO objectives

Objectives/targets	Achievement
• Develop medium term financial risk adjusted reporting and treasury policy incorporating value at risk (VAR)	• Both of these developed and in the process of embedding
• Develop enterprise-wide financial model and improve budget forecast and monthly review processes	• Financial model developed. Budget forecast and review processes partially developed

Directors' remuneration report

Founder and CIO

Objectives/targets	Achievements
• Achieve base purchasing plan	• Investments made in line with the base group purchasing plan at the target gross money multiple and within risk appetite
• Achieve stretch purchasing plan (volume and/or yield)	• Base purchasing plan plus 9.1%
• Deliver asset/geography/origination channel market positions as agreed in 2015 business plan (including Whitestar and strategic partnerships with CarVal and Cerberus)	• Successful acquisitions of Whitestar and Gesphone businesses in Portugal and recent significant portfolio purchases in the Netherlands. Strategic partnerships with CarVal and Cerberus cemented
• Develop team to standard where transaction leaders are successfully managing deals and transactions practice group process is effective across the business	• Origination team built out with talented members and transactions practice group process effective
• Develop Portuguese operations performance and handover to Portuguese CEO	• Portugal operations run effectively
• Develop MCS in accordance with MCS agreed budget plan	• Effective monitoring of MCS investment via board seat
• Supervise director of external affairs and development to ensure Arrow public affairs and lobbying activities deliver our regulatory and trade association objectives	• Successful induction of new director of external affairs and development into business who is bringing leadership to a key area

Non-executive directors' remuneration (audited information)

Details of the non-executive directors' remuneration for the year ended 31 December 2015 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	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Jonathan Bloomer	160	160	–	–	–	–	–	–	–	–	160	160
Sir George Mathewson[1]	22	53	–	–	–	–	–	–	–	–	22	53
Iain Cornish	57	53	–	–	–	–	–	–	–	–	57	53
Robin Phipps	53	53	–	–	–	–	–	–	–	–	53	53
Lan Tu[2]	37	–	–	–	–	–	–	–	–	–	37	–
Total	**329**	**319**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**329**	**319**

[1]Sir George Mathewson retired from the board on 3 June 2015.

[2]Lan Tu was appointed to the board on 9 March 2015.

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 each additional responsibility of remuneration committee chair, audit committee chair and senior independent director. The non-executive Chairman's fee is £160,000 per annum.

Long-term Incentive Plan (audited information)

The Arrow Global Group Plc Long Term Incentive Plan (LTIP) provides for the grant of nil cost options, at the discretion of the committee, with the level of vesting to be subject to stretching performance conditions. As noted in last year's report, LTIP awards will remain at 2015 levels (150% of salary) until 2017 at the earliest and will only be increased at that point if the committee considers there to be a strong commercial rationale. Part of the LTIP awards can take the form of a tax advantaged qualifying option over shares to the limit prescribed by the applicable tax legislation (currently £30,000).

No LTIP awards vested during the year.

2015 LTIP awards (audited information)

The table below outlines LTIP awards made to executive directors during 2015:

Date of grant	Participant	Basis of award	Number of shares	Face value of award £*	Performance period
15 June 2015	Tom Drury	150% of salary	205,206**	540,000	1 Jan 2015 to 31 Dec 2017
15 June 2015	Rob Memmott	150% of salary	162,454**	427,000	1 Jan 2015 to 31 Dec 2017

*Based on the average closing middle market quotation price during the five business days ending on the business day before the Award date being £2.6315.

**Each executive director was also granted a tax advantaged option over 11,400 shares at a per share exercise price of £2.6315 per share. Each such option is subject to the same performance conditions as apply to the LTIP award. If the tax advantaged option is exercised at a gain the number of shares that may be acquired under the LTIP is reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award is not increased by the grant of the tax advantaged option.

The performance conditions attaching to the 2015 LTIP awards are as follows:

Measure and alignment with strategy and shareholder value creation	Weighting (% of award)		Vesting level (% of maximum)	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 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. Further detail on the performance measures is set out below.

- EPS: The committee retains flexibility to include or exclude one-off items on a case-by-case basis depending on the circumstances when finalising base year and final-year EPS (base year for the underlying and diluted EPS for the 2015 grants is 16.9p as reported in the annual report and accounts
- TSR: 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
- ROE: ROE will be measured by reference to the three-year average of ROE as reported in the annual report and accounts. Underlying Return on Equity as set in the annual report and accounts is calculated by dividing underlying profit for the year attributable to equity shareholders by 50% of the opening plus closing total equity attributable to shareholders

The committee will have the overall 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, having regard to, amongst other things, objective measurement of other financial metrics, customer satisfaction and assessment of regulatory compliance. The committee's review will also include an assessment of risk management throughout the performance period.

Malus and clawback provisions are operated in relation to the 2015 LTIP awards which give the 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.

Directors’ remuneration report

Directors’ shareholdings (audited information)

As set out in the remuneration policy, the 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 CEO). 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).

The actual shareholdings of our executive directors are significantly higher – 5028% of salary for of our chief executive officer, Tom Drury, and 2167% of salary for our chief financial officer, Rob Memmott based on the number of shares held and closing share price at 31 December 2015.

(a) Executive directors

Director	Type	Owned outright	Unvested subject to performance conditions	Unvested **not** subject to performance conditions	Total
Tom Drury	Shares	6,862,283	–	–	6,862,283
	LTIP[1]	–	404,481	–	404,481
	DSBP	–	–	16,954	16,954
	SIP	–	–	218	218
Rob Memmott	Shares	2,342,020	–	–	2,342,020
	LTIP[1]	–	319,458	–	319,458
	DSBP	–	–	13,170	13,170
	SIP	–	–	218	218
Zachary Lewy[2]	Shares	5,867,300	–	–	5,867,300
	LTIP[1]	–	169,082	–	169,082
	DSBP	–	–	14,059	14,059
	SIP	–	–	2,610	2,610
	Restricted share award	–	–	266,008	266,008

[1]The number of shares included in relation to LTIP grants includes both the 2014 and, where relevant, 2015 LTIP awards. As regards the 2014 LTIP awards, the committee determined during the year that the base year EPS would be 14.4p (reflecting the 174,439,026 shares in issue at the time of the IPO), in order that performance is measured on a like for like basis.

[2]Mr Lewy ceased to be an executive director on 30 April 2015. In accordance with the regulations the table above discloses his interests for the year ended 31 December 2015, taking into account the whole year (including that part of the year when he was no longer a director of the Company). The restricted share award was granted in respect of Mr Lewy’s new employment contract which commenced on 1 May 2015. The award was made over 266,008 shares (with a face value of £700,000) and is subject to continued employment until 1 May 2017.

(b) Non-executive directors

Non-executive 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[1]	Shares	2,544,633	–	–	2,544,633
Iain Cornish	Shares	nil	–	–	nil
Robin Phipps	Shares	24,391	–	–	24,391
Lan Tu	Shares	23,309	–	–	23,309

[1]Retired from the board on 3 June 2015.

There were no changes in the above interests between 31 December 2015 and 3 March 2016.

Payments to past directors (audited information)

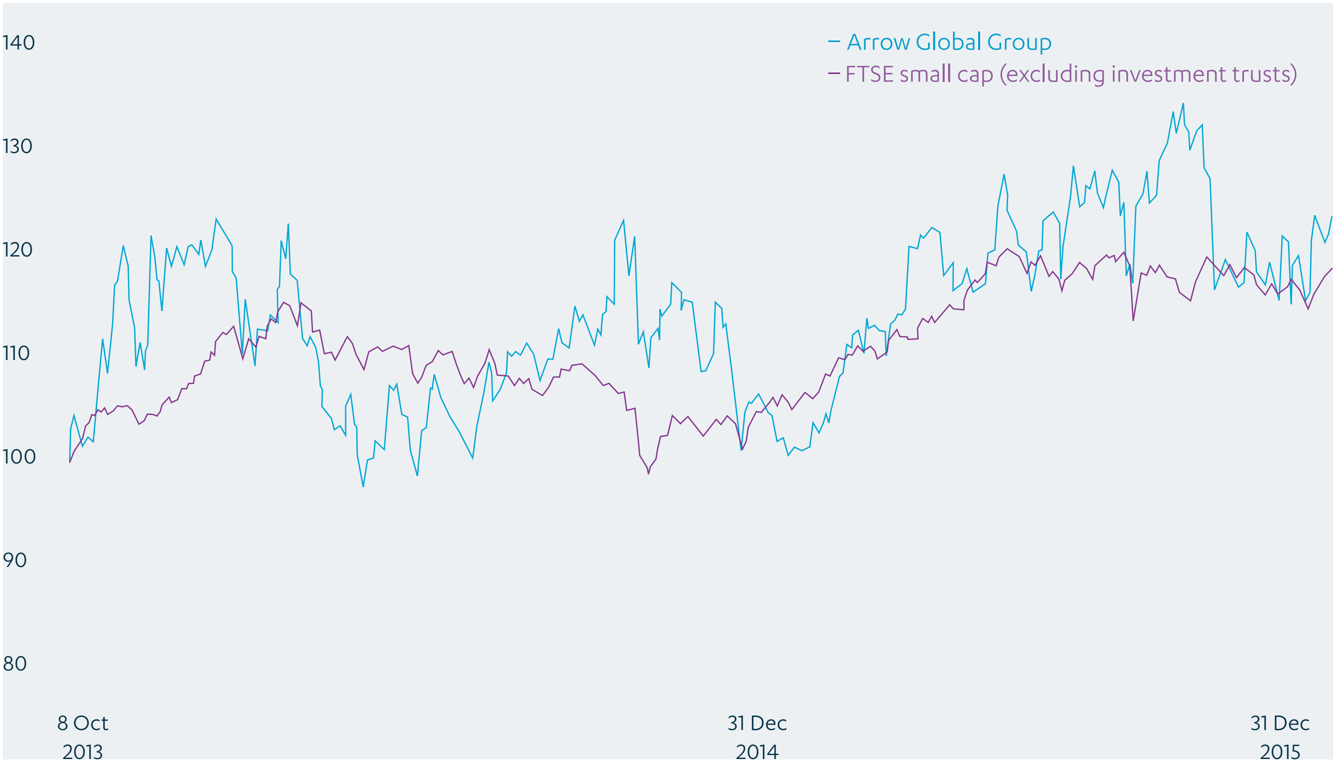
As announced on 14 April 2015, Mr Lewy stepped down from the Company's board from 30 April 2015 to allow him to focus his time on continuing to lead the expanded debt purchasing team as well as his board positions in the Group's European subsidiaries. Mr Lewy's 2014 LTIP award will continue, subject to the same performance conditions as apply to all other 2014 LTIP awards; as noted above, Mr Lewy was not granted an LTIP award in 2015. Other than as regards payments to Mr Lewy under his new employment contract, there were no payments to past directors during 2015 (2014: £nil).

Payments for loss of office (audited information)

There were no payments for loss of office made during 2015 (2014: £nil).

TSR performance

The graph below shows TSR performance of the Company from IPO to 31 December 2015 compared with the FTSE SmallCap index. Throughout the year ended 31 December 2015 the Company has been a constituent member of the FTSE SmallCap index, and therefore the committee has selected this index for comparison purposes in this report.



Directors' remuneration report

Chief executive officer disclosures

(a) Previous CEO remuneration

The table below sets out the total pay of the CEO since the IPO on 11 October 2013. The Company was only established shortly before the IPO and therefore, information prior to this does not exist. Tom Drury has held the position of CEO since the IPO.

	CEO single figure £000	CEO bonus (as a % of maximum) £000	CEO LTIP vesting (as a % of maximum)
2015	725	70.3%	–
2014	631	62.5%	–
2013	154	80.0%	–

(b) Percentage change in CEO remuneration

The table below shows how the percentage change in the CEO's salary, taxable benefits and annual bonus payout between 2014 and 2015 compared with the percentage change in the average of each of those components for the workforce as a whole.

	% change in salary and fees	% change in taxable benefits	% change in performance related bonus
Chief executive officer	9%	(53%)	23%
Workforce	2%	1753%	10%

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
2015	18,381	8,889
2014	11,117	8,882
Difference	7,264	7

*For total employee remuneration, please see note 10.b) in the notes to the financial statements.

Statement of implementation of remuneration policy in 2016

No changes are proposed to the policy which was approved by shareholders at the 2015 annual general meeting, and that policy will, therefore, apply for the year ending 31 December 2016 as follows:

(a) Base salaries

As referred to in the 2014 directors' remuneration report, the executive director base salary increases awarded with effect from 1 March 2015 were the first part of an intended two stage increase. The second stage of the increase was not guaranteed and was subject to strong corporate and individual performance. Taking into account relevant performance, as outlined in the remuneration committee chairman's statement on page 49, the following base salary increases have been awarded with effect from 1 March 2016.

Director	Base salary as at 1 March 2016 £000	Base salary from 1 March 2015 £000	% increase
Tom Drury	395	360	9.7%
Rob Memmott	310	285	8.8%

(b) Annual bonus

The maximum opportunity will remain at 125% of base salary. As for 2015, the 2016 annual bonus will be based on:

- 50% of the bonus will be based on underlying profit for the year attributable to equity shareholders
- 50% of the bonus will be assessed against a balanced range of financial, strategic 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 2016 will be deferred into shares under the DSBP in line with the approved remuneration policy. The approved policy states that the bonus deferred will be calculated on the pre-tax (gross) value of the bonus or the post-tax (net) value.

The deferred element will be subject to continued employment with the Company and will lapse unless the individual is considered a good leaver by the committee. Malus and clawback provision will continue to apply (clawback will apply for a period of three years after vesting), with the committee resolving that clawback will also be applied in the event of significant regulatory risk failure.

(c) LTIP

The maximum LTIP opportunity for 2016 will remain at 150%. As noted above, the LTIP awards will remain at this level until at least 2017.

The 2016 LTIP awards will be subject to the same performance conditions, being EPS growth, ROE and relative TSR performance, with the same weightings and vesting schedules, as apply to the 2015 LTIP awards as referred to on page 55. Each performance condition will be measured over a three-year performance period from 2016 to 2018.

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

During the year the committee consisted of two independent non-executive directors, namely Robin Phipps as Chair and Sir George Mathewson (until 3 June 2015), who was replaced by Iain Cornish (appointed with effect from 4 June 2015). In addition, the Company Chairman, Jonathan Bloomer, who was considered independent on appointment, is a member of the committee. The Company complies with the recommendations of the Code for companies outside the FTSE 350, concerning the number of independent non-executive directors that the committee should have.

The terms of reference of the committee are on the Company website at **www.arrowglobalir.net**

Advisors

During the year the committee was assisted in its work by Deloitte LLP, who were appointed as advisors in July 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 total fees paid to Deloitte for providing remuneration advice were £43,930 for the year ended 31 December 2015. Deloitte also provided internal audit services and advice in relation to taxation during the year.

The committee will assess from time to time whether the appointment of Deloitte remains appropriate or should be put out to tender.

The CEO has also attended committee meetings to provide advice and respond to specific questions, but is not in attendance when his own remuneration is discussed. The company secretary acts as secretary to the committee.

Statement of shareholder voting

% of votes	For	Against	Withheld votes
Approval of the remuneration policy	100%	0%	0
Approval of the annual remuneration report	99.67%	0.33%	6,000,431

Directors' remuneration report

Directors' remuneration policy

The Company's directors' remuneration policy was approved by shareholders at the 2015 annual general meeting and took effect from the date of the meeting namely 3 June 2015. The policy as approved at the 2015 annual general meeting is set out below, except that we have not repeated the charts illustrating the application of the policy in 2015, as these are historic, and we have updated provisions which are date specific. The full policy as approved at the 2015 annual general meeting is available on **www.arrowglobalir.net**

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity
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
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
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 • Only basic salary is pensionable
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 committee following the financial year end • Up to 50% of the bonus earned is deferred, on a gross or net basis, into shares for up to three years via the DSBP, subject to continued employment during the vesting period • The 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 62 and 63)	• 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

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity
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 62 and 63)	• Maximum award of 200% of annual base salary. For 2015 and 2016, awards will be made at 150% of annual base salary for Tom Drury and Rob Memmott. Furthermore, any LTIP awards to Tom Drury and Rob Memmott 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
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
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

Directors' remuneration report

Notes to the policy table

(a) 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.

(b) 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.

(c) 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 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.

(d) 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.

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 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 committee chairman is available to answer questions at the annual general meeting.

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 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.

Directors' remuneration 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 counseling, 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 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 committee will have discretion to retain existing contractual arrangements for employees who are internally promoted to board level. In addition, in exceptional circumstances, the 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 on the following page.

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
3 March 2016

Audit and risk committee report

Dear Shareholder

I am pleased to provide a report of the audit and risk committee's activities in 2015.

The committee's agenda in respect of the financial year ended 31 December 2015 has again been full. In addition to its primary roles, of monitoring the integrity of the Group's financial reporting and reviewing the Group's risk management and internal control systems, the committee has overseen steps taken by management to further enhance the systems of risk management and internal control.

The principal issues on which the committee focused in 2015 are set out in the report. It is an extensive list, and given the Group's expansion both in the UK and in Europe, following the acquisition of Whitestar and Gesphone in Portugal, and the growing complexity of the UK regulatory risk regime, the committee has agreed that it will increase the number of regular meetings which it holds in 2016 from four to six. These will be supplemented by additional meetings on specific issues as required.

Following a review of its requirements in the light of the increased scale and complexity of the Group, and in particular the significant expansion of our Portuguese operations the committee decided to change its internal audit outsource partner. Deloitte was appointed from October 2015, and the committee considers that its geographic reach and greater depth of resource will further strengthen the Group's assurance controls, and provide the committee with additional comfort that risk is appropriately identified and monitored following this expansion.

In accordance with best practice, the committee has continued to keep the provision of non-audit services under review. No fees were paid to our external auditors, KPMG, for non-audit services in the year, with payment for audit related assurance services' fees of £182,500, being mandatory work performed in relation to the issuance of the €110 million bond. We expect the ratio of the Group's non-audit fees to audit fees will continue to be low in future reporting periods.

In relation to the financial statements, the committee continues to focus on those matters it considers to be important by virtue of their size, complexity, subjectivity or impact, and these are set out in this report.

On behalf of the board, the committee has also carried out a review of the effectiveness of the Group's risk management and internal control systems and found them to be effective.

As part of the overall board evaluation review, the committee reviewed the findings in relation to its overall effectiveness. A number of areas for further improvement were identified and will be acted upon. None were considered material, and overall committee members were satisfied with the performance of the committee during the year. Both Lan Tu and Robin Phipps joined the committee during the year, and I am grateful to them and to our colleagues throughout the Group who supported the work of the committee last year.

Iain Cornish
Chairman of the audit and risk committee
3 March 2016

The committee's responsibilities are set out in its terms of reference. They include responsibility for external, 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 committee focuses particularly 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 Group's overall risk appetite and strategy, and for overseeing and advising the board on the current risk exposures of the Group and the overall risk management approach and systems of internal control. As part of this, the committee reviews the Group's risk assessment processes and methodology and its capability for identifying and managing risk. In addition it considers material proposed transactions and reviews reports on significant incidents and position against risk appetite.

The 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. The board has agreed there will be two additional risk meetings in 2016.

During 2015, the committee also met separately with representatives of the external auditor and the head of the internal audit function without any management present.

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 2015, the committee comprised of the following members:

Iain Cornish as Chair; Robin Phipps, who replaced Sir George Mathewson when he resigned from the board on 3 June 2015; and Lan Tu, who was appointed to the board on 9 March 2015. All are independent non-executive directors and therefore satisfy 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 36 and 37.

Audit and risk committee report

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

Reporting	• Integrity of the financial reporting process, including the half year and annual results, related commentary and announcements, and associated reports prepared by KPMG • Continuing appropriateness of and changes to accounting policies and the use of estimates and judgments as noted in the Group's report and accounts • Going concern review and approval of longer term viability statement for recommendation to the board • Fair, balanced and understandable concept in respect of the 2015 report and accounts
External audit	• KPMG's external audit plan • Independence of KPMG including policy in respect of the provision of non-audit services by the external auditor, KPMG, who were appointed 2 July 2014 • Effectiveness of the external audit process and reporting to the board on how the external auditor has discharged its responsibilities • Changes to the regulatory framework in respect of external audit tendering and recommending reappointment of the external auditors to the board • Consideration of management letters from external auditors • Impact of new accounting standards
Risk management and internal controls	• Effectiveness of risk management and internal control systems across the Group • Updates on corporate risk assessment management activities including risk registers and the robustness of assessment and mitigation of principal risks facing the Group • Approval of Group and UK policies, risk appetite statements and new hedging regime for managing the Group's liquidity position and foreign exchange risks • Consideration of specific risk exposures and associated mitigations including portfolio performance and acquisitions, legal claims and litigations, tax status and customer outcomes • Outcomes of assurance reports on third parties service providers (e.g. debt collection agencies) and compliance monitoring activities
Portuguese acquisitions	• Oversight of the Whitestar and Gesphone acquisition and integration activity • Review of the existing Whitestar and Gesphone risk management framework • Consideration of the risks that exist in Portugal and the Group's response to them • Review of Portuguese portfolio purchase process • Approval of the implementation of the Group's risk management framework into Portugal, including consideration of the role of internal audit
Internal audit	• Review of the Group internal audit charter which sets out the objectives, accountability and independence, authority, responsibilities, scope of work and standards and performance for internal audit • Adequacy of the internal audit programme over the Group's processes and controls, including coverage, prioritisation and allocation of resource • Updates on the activities of internal audit, including receipt of audit reports, to gain and provide assurance that the control environment continued to operate effectively • Status reports on the implementation and follow-up of internal audit recommendations • Effectiveness of the internal audit function and recommendations for the appointment of Deloitte in October 2015
Other	• The effectiveness of the committee • The committee's terms of reference and work programme

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.

Whitestar and Gesphone acquisition:
During the year the Group acquired the entire share capital of Gesphone and 33% of the share capital of Whitestar, with an agreement in place to purchase the remaining 67% over the next two years. 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 external auditor, KPMG, was appointed in July 2014 following a comprehensive and thorough competitive tender. The committee carried out the following in relation to the external auditor:

- 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 taking into account the experience and expertise of the external auditor, fulfillment of the agreed audit plan, the robustness of their handling of key accounting and audit judgments, assessment of significant risks and the content of the external auditor's report
- Concluded and implemented the Group's policy on the provision of non-audit services by the external auditor
- 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 2016 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.

Following a review of its requirements in the light of the increased scale and complexity of the Group, and in particular the significant expansion of our Portuguese operations the committee decided to change its internal audit outsource partner. As a consequence, a request for proposal was carried out and Deloitte was appointed from October 2015. The committee considers that Deloitte's geographic reach and greater depth of resource will further strengthen the Group's assurance controls and provide the committee with additional comfort that risk is appropriately identified and monitored following this expansion.

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, have enabled them to conclude that the statements given on pages 45 and 46 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
3 March 2016

Independent auditor's report to the members of Arrow Global Group Plc

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 2015 set out on pages 75 to 118.

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 2015 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

We summarise below those risks of material misstatement that had the greatest effect on our audit and our key audit procedures to address those risks in order that the company's members as a body may better understand the process by which we arrived at our audit opinion. As described on pages 66 to 70 these are also areas that have been focused on by the Group's audit and risk committee.

Estimation of future cash collections from debt portfolios

Refer to critical accounting estimates and judgments in note 4 on the financial statements, the audit and risk committee report on page 69.

Income from purchased loan portfolios is recognised using the Effective Interest Rate ('EIR') method. The key variable in determining the EIR and any subsequent revenue adjustments is the Group's estimate of the future cash collections from the debt portfolios. Given the nature of the company's debt portfolios, estimation of future cash collections requires significant judgment. The Group uses cash flow forecasting models to calculate an initial estimate of future collections. The assumptions used in the models include the value, probability and timing of expected future cash flows for each type of asset class within a portfolio. Estimates of future cash flows can also depend on management's approach to managing the portfolios (e.g. changes in collection policies, litigation strategies, anticipated portfolio sales). Therefore, where management believe changes in the approach to managing portfolios may lead to changes in these estimates these are factored into the Group's future cash collection forecasts.

Due to the level of subjectivity inherent in the assumptions used in the cash flow forecast model and the manual adjustments applied, these are key judgment areas for our audit.

Our response:

Our audit procedures included:

- assessing the design and operating effectiveness of controls over key assumptions and customer data used in the cash flow forecasting models driving the estimated future cash flows;
- assessing the design and operating effectiveness of controls that cover the outputs of the models and manual adjustments to ensure that these have been scrutinised by appropriate management personnel;
- critically assessing the cash flow forecast and any manual adjustments made by the Group with reference to our understanding of the Group, and the current and past performance of the Group's portfolios, including recent cash collections

Fair value of the net assets in acquisition accounting
Refer to the critical accounting estimates and judgments in note 4 of the financial statements, the audit and risk committee report on page 69.

During the year ended 31 December 2015, the Group acquired Silver Parallel S.A and Gesphone S.A and their subsidiaries (Whitestar Asset Solutions S.A and Gesphone STC) with the assets and liabilities purchased being accounted for at fair values at the date of acquisition.

The Group prepared the acquisition balance sheets based on their estimate of the fair value of assets and liabilities acquired. In particular they prepared discounted cash flow models to arrive at their estimates of fair value for loan asset portfolios and customer relationships. This required them to exercise judgment in relation to determining the expected cash flows from the assets and the discount rates used.

Our response:
Our audit procedures included:

- assessing the completeness of assets and liabilities acquired with reference to the sale and purchase agreement and our knowledge of the industry
- challenging the assumptions, including the value, probability and timing of cash flows, used in calculating the fair value of the acquired loan asset portfolios as outlined in the 'Estimation of future cash collections on debt portfolios' section of this report
- assessing the discount rates used in calculating the fair value of the acquired loan asset portfolios with reference to the risks associated with similar loan portfolios previously acquired
- challenging the assumptions, including value, probability and timing of cash flows, made in calculating the fair value assigned to the customer relationship intangible with reference to the business plan, existing customer contracts and our knowledge of the industry
- assessing whether the discount rate used in calculating the fair value of the customer intangible reflected market conditions based on our knowledge of the industry

In our prior year report, we had assessed that the mathematical integrity and input of data to the EIR and net present value models represented a risk of material misstatement that had the greatest effect on our audit. We continue to perform procedures over this area, however due to the enhancements in the controls over these areas, we have not assessed this as a risk having the greatest effect on our audit this year and, therefore, it has not been separately identified in our report this year.

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 £1.8 million, determined with reference to a benchmark of Group profit before tax of which it represents 4.6%.

In 2014, the materiality for the Group financial statements as a whole was set at £1.7 million, determined with reference to a benchmark of Group adjusted profit before tax, of which it represented 5%. The statutory profit before tax balance was adjusted to add back one off, non-recurring items.

We report to the audit and risk committee any corrected or uncorrected identified misstatements exceeding £90,000 (2014: £85,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

How we scoped our audit:
Audits for Group reporting purposes were performed on all three reporting components, which were:

- Group holding company;
- UK operating and non-operating subsidiaries;
- The Portuguese operating and non-operating subsidiaries

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 audit of the Portuguese entities component was performed by a component audit team and the audit of the Group holding company, UK operating and non-operating subsidiaries and consolidation was performed by the Group audit team.

The Group audit team instructed the component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materiality of £1.0 million, having regard to the risk profile of the component.

The Group audit team managed and co-ordinated the component auditors in the following ways:

At the planning stage, the Group audit team visited the component audit team, participated in site visits, and held telephone calls and face-to-face discussions with the component audit team to discuss audit risks and strategy.

During the audit, the Group audit team held weekly telephone calls with the component audit team. At the calls and meetings, the findings and observations reported to the Group audit team were discussed in more detail and any further work required by the Group audit team was then performed by the component auditor.

In addition, the Group audit team participated in the component audit close out meeting to ensure that they were involved in all of the material issues affecting the Group.

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 on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of viability on page 32, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of continuing in operation over the three years to 2018; or
- the disclosures in note 3 of the financial statements concerning the use of the going concern basis of accounting

6 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 and risk committee report does not appropriately address matters communicated by us to the audit and risk 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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 32 and 81, in relation to going concern and longer-term viability; and
- the part of the corporate governance statement on page 43 relating to the company's compliance with the eleven provisions of the UK Corporate Governance Code 2014 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 42, 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
One St Peter's Square
Manchester
M2 3AE

3 March 2016

Notes to the financial statements

Consolidated statement of comprehensive income
For the year ended 31 December 2015

	Note	Year ended 31 December 2015 underlying £000	Non-recurring items 2015 £000	Year ended 31 December 2015 including non-recurring £000	Year ended 31 December 2014 underlying £000	Non-recurring items 2014 £000	Year ended 31 December 2014 including non-recurring £000
Continuing operations							
Revenue							
Income from purchased loan portfolios	16	150,238	–	150,238	107,984	–	107,984
Profit on portfolio sales		503	–	503	825	–	825
Total revenue from portfolios		150,741	–	150,741	108,809	–	108,809
Income from asset management		14,713	–	14,713	1,933	–	1,933
Total revenue		**165,454**	**–**	**165,454**	**110,742**	**–**	**110,742**
Operating expenses							
Collection activity costs		(52,303)	–	(52,303)	(34,150)	–	(34,150)
Professional fees and services		(2,397)	–	(2,397)	(1,737)	–	(1,737)
Recurring other operating expenses		(31,808)	–	(31,808)	(16,484)	–	(16,484)
Non-recurring other operating expenses							
Costs arising from business acquisition		–	*(1,491)*	*(1,491)*	–	*(6,026)*	*(6,026)*
Company integration		–	*(1,452)*	*(1,452)*	–	–	–
IPO related costs		–	*(1,366)*	*(1,366)*	–	*(1,760)*	*(1,760)*
Settlement provisions		–	–	–	–	*(4,205)*	*(4,205)*
Total other operating expenses	10	**(31,808)**	**(4,309)**	**(36,117)**	**(16,484)**	**(11,991)**	**(28,475)**
Total operating expenses		**(86,508)**	**(4,309)**	**(90,817)**	**(52,371)**	**(11,991)**	**(64,362)**
Operating profit	6	**78,946**	**(4,309)**	**74,637**	**58,371**	**(11,991)**	**46,380**
Finance Income	7	152	–	152	344	–	344
Recurring finance costs		(36,760)	–	(36,760)	(21,753)	–	(21,753)
Non-recurring finance costs							
Bond related costs		–	–	–	–	*(705)*	*(705)*
Settlement provisions		–	–	–	–	*(143)*	*(143)*
Total finance costs	8	**(36,760)**	**–**	**(36,760)**	**(21,753)**	**(848)**	**(22,601)**
Share of profit in associates net of tax		1,243	–	1,243	–	–	–
Profit before tax		**43,518**	**(4,309)**	**39,272**	**36,962**	**(12,839)**	**24,123**
Taxation charge on ordinary activities	11	(8,180)	657	(7,523)	(7,355)	1,503	(5,852)
Profit for the year attributable to equity shareholders		**35,401**	**(3,652)**	**31,749**	**29,607**	**(11,336)**	**18,271**
Other comprehensive income: Items that may be reclassified in to profit or loss:							
Foreign exchange translation difference arising on revaluation of foreign operations		34	–	34	(250)	–	(250)
Hedging movement		(615)	–	(615)	(687)	–	(687)
Total comprehensive income for the year attributable to equity shareholders		**34,820**	**(3,652)**	**31,168**	**28,670**	**(11,336)**	**17,334**
Basic and diluted EPS (£)	29	**0.20**	**–**	**0.18**	**0.17**	**–**	**0.10**

Consolidated and parent Company balance sheet

As at 31 December 2015

Assets	Note	Group 31 December 2015 £000	Group 31 December 2014 £000	Company 31 December 2015 £000	Company 31 December 2014 £000
Non-current assets					
Goodwill	13	79,490	47,623	–	–
Other intangible assets	14	20,643	11,043	–	–
Property, plant and equipment	15	3,649	2,881	–	–
Investment in subsidiary undertakings	23	–	–	307,500	307,500
Investment in associates	23	12,158	11,419	–	–
Loan notes	16	862	1,378	–	–
Deferred tax asset	19	639	300	–	–
Total non-current assets		**117,441**	**74,644**	**307,500**	**307,500**
Current assets					
Cash and cash equivalents		10,183	14,542	16	15
Other receivables	17	34,781	16,569	71,825	53,528
Purchased loan portfolios	16	609,793	477,513	–	–
Total current assets		**654,757**	**508,624**	**71,841**	**53,543**
Total assets		**772,198**	**583,268**	**379,341**	**361,043**
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		76,916	51,479	25,513	10,100
Hedging reserve		(1,302)	(687)	–	–
Other reserves		(279,438)	(278,098)	(1,936)	(562)
Total equity attributable to shareholders		**145,356**	**121,874**	**372,757**	**358,718**
Liabilities					
Non-current liabilities					
Senior secured notes	28	447,545	378,564	–	–
Trade and other payables	18	7,648	–	–	–
Deferred tax liability	19	4,396	2,852	–	–
Total non-current liabilities		**459,589**	**381,416**	**–**	**–**
Current liabilities					
Trade and other payables	18	83,906	33,058	6,172	2,257
Derivative liability	25	1,281	1,872	–	–
Current tax liability		3,755	2,355	412	68
Revolving credit facility	28	71,479	35,404	–	–
Senior secured notes	28	6,832	7,289	–	–
Total current liabilities		**167,253**	**79,978**	**6,584**	**2,325**
Total liabilities		**626,842**	**461,394**	**6,584**	**2,325**
Total equity and liabilities		**772,198**	**583,268**	**379,341**	**361,043**

Approved by the board of directors on 3 March 2016, signed and authorised for issue on its behalf by:

Rob Memmott
Chief financial officer
Company Number: 08649661

Tom Drury
Chief executive officer

Consolidated and parent Company statement of changes in equity

For the year ended 31 December 2015

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 2014	**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**
Profit for the year	–	–	31,749	–	–	–	–	31,749
Exchange differences	–	–	–	–	–	34	–	34
Net fair value losses – cash flow hedges	–	–	–	(729)	–	–	–	(729)
Tax on hedged items	–	–	–	114	–	–	–	114
Total comprehensive income for the year	–	–	31,749	(615)	–	34	–	31,168
Repurchase of own shares					(1,374)			(1,374)
Share-based payments	–	–	2,577	–	–	–	–	2,577
Dividend paid	–	–	(8,889)	–	–	–	–	(8,889)
Balance at 31 December 2015	**1,744**	**347,436**	**76,916**	**(1,302)**	**(1,936)**	**(541)**	**(276,961)**	**145,356**

*Other reserves total £279,438,000 deficit (2014: £278,098,000 deficit).

Company	Ordinary shares £000	Share premium £000	Retained earnings £000	Own share reserve £000	Total £000
Balance at 1 January 2014	**1,744**	**347,436**	**6,373**	**(562)**	**354,991**
Profit for the year	–	–	4,360	–	4,360
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**
Profit for the year	–	–	21,725	–	21,725
Total comprehensive income for the year	–	–	21,725	–	21,725
Repurchase of own shares		–	–	(1,374)	(1,374)
Share-based payments	–	–	2,577	–	2,577
Dividend paid	–	–	(8,889)	–	(8,889)
Balance at 31 December 2015	**1,744**	**347,436**	**25,513**	**(1,936)**	**372,757**

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 2015, the Company held 392,484 ordinary shares of 1p each, held in an employee benefit trust. This represents 0.2% of the Company share capital at 31 December 2015.

Consolidated and parent Company statement of cash flows

For the year ended 31 December 2015

	Note	Group Year ended 31 December 2015 £000	Group Year ended 31 December 2014 £000	Company Year ended 31 December 2015 £000	Company Year ended 31 December 2014 £000
Net cash used in operating activities	31	**(56,294)**	**(52,431)**	**10,264**	**(2,899)**
Investing activities					
Purchase of property, plant and equipment		(920)	(279)	–	–
Purchase of intangible assets		(8,618)	(851)	–	–
Dividends received from associates		658	–	–	–
Acquisition of associate		–	(11,419)	–	–
Acquisition of subsidiary, net of cash acquired		(15,581)	(97,121)	–	–
Net cash used in investing activities		**(24,461)**	**(109,670)**	**–**	**–**
Financing activities					
Net proceeds from additional loans		35,835	27,097	–	–
Proceeds from senior notes (net of fees)		81,560	168,333	–	–
Repayment of interest on senior notes		(27,365)	(17,325)	–	–
Repurchase of own shares		(1,374)	–	(1,374)	–
Repayment of other interest		–	(718)	–	–
Repayment of bank loan		–	(42,579)	–	–
Receipt of loan notes		579	–	–	–
Bank fees paid		(4,304)	(2,790)	–	–
Payment of dividends		(8,889)	(2,961)	(8,889)	(2,961)
Net cash flow generated by/(used in) financing activities		**76,042**	**129,057**	**(10,263)**	**(2,961)**
Net (decrease)/increase in cash and cash equivalents		**(4,713)**	**(33,044)**	**1**	**(62)**
Cash and cash equivalents at beginning of year		14,542	47,520	15	77
Effect of exchange rates on cash and cash equivalents		354	66	–	–
Cash and cash equivalents at end of year		**10,183**	**14,542**	**16**	**15**

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 119. The financial statements are presented in pounds sterling and rounded to the nearest thousand.

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 2015 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

There were no new standards, amendments to standards and interpretations mandatory for the first time for the year beginning 1 January 2015.

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

- IAS 19 (amended) Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs – 2010-2012 Cycle
- Annual Improvements to IFRSs – 2011-2013 Cycle

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, as this new standard will focus further on classification, measurement and impairment considerations, such as expected credit losses. Whilst management are still assessing the impact of IFRS 9 on future periods, they believe that the impact of on the Group's results will not be significant, as the Group buys portfolio assets, which are at a deep discount. Also, the Group's adoption of an effective interest rate is thought to be in line with current IFRS 9 guidance. The Group will be required to produce additional disclosure requirements, over and above those from IFRS 7, in particular, more specific disclosures around compliance with applicable regulation and the management of risk.

3 Significant accounting policies

Basis of preparation

The financial statements have also been prepared in accordance with IFRS adopted by the European Union and also, 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 2015 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 in 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).

Notes to the financial statements

3 Significant accounting policies (continued)

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.

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.

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.

Notes to the financial statements

3 Significant accounting policies (continued)

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 recognised at fair value at the purchase date that equals the price paid. They are subsequently 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 expected 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.

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 income from purchased loan portfolios line within revenue, with any subsequent reversals to write ups also recorded in this line. If these reversals exceed any previously recognised cumulative write-ups then an impairment is recognised as a separate line in the statement of comprehensive income.

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 as this cash is not held in statutory trust.

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

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.

Revenue on assets under management

The Group receives asset management revenue on portfolios managed for third parties in the UK and Portugal. 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. The nature of the revenue is contingency collection fees, which are received either as a fixed fee, or as a percentage of collections or the outstanding portfolio asset value.

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 the employees provide services to the Group.

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.

Notes to the financial statements

3 Significant accounting policies (continued)

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 payment transactions

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 becomes unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model were required, taking into account 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. 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.

Notes to the financial statements

3 Significant accounting policies (continued)

Litigation costs

As part of the Group's litigation strategy to recover customer balances, the Group incurs recoverable upfront legal costs, which are deferred as other receivables and amortised over the period that cash is collected.

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.

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the consideration required to settle that obligation at the date of the consolidated statement of financial position and are discounted to present value where the effect is material.

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 probable 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 remeasured 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

Notes to the financial statements

3 Significant accounting policies (continued)

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are stated subsequently at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the EIR. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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 78.

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) Approach to substance of loan notes as portfolios

During the year, the Group purchased a number of loan portfolios in the form of securitisation loan notes. Management have assessed the substance of the loan notes under the criteria set out in IAS 39. Management have concluded that the portfolios purchased in the form of loan notes are presented as loan portfolios in the Group's balance sheet and the Group's revenue accounting policy for loan portfolios is also applied. This treatment has been concluded on the basis that the assets relating to the loan notes are segregated as separate silos within the securitisation vehicle, in such a way that the assets and loan notes are bankruptcy remote. This results in the securitisation vehicle having no rights to the risks and rewards of the underlying assets. The assets and liabilities within the silos meet the derecognition criteria under IAS 39.

Notes to the financial statements

4 Critical accounting judgments and estimates (continued)

b) Control of a subsidiary

On 22 April 2015, the Group acquired 33% of the share capital of Silver Parallel S.A ('Silver Parallel') (the holding company of Whitestar Asset Management S.A. ('Whitestar')). The Group will increase its holding to 100% in two stages over two years. Voting control and economic interest passed to the Group on payment of the initial consideration on 22 April 2015. Silver Parallel is an acquisition vehicle, therefore management consider it is appropriate to assess control of Whitestar rather than for Silver Parallel for the purposes of IFRS 10. IFRS 10 defines control as having power over the relevant activities of the entity, exposure to variability of the returns and a linkage between this power and the returns. Management have considered the criteria required by IFRS10 and conclude these criteria were met from the initial purchase date, when voting control and economic interest passed to the Group, resulting in the consolidation of Silver Parallel and Whitestar from 22 April 2015. In addition, management have concluded that no non controlling interest should be recognised on the basis of the binding agreement which is in place to purchase the remaining holding in Silver Parallel.

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.

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.

b) Carrying value and EIR of purchased loan portfolios

For UK 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. For European portfolios, 12-month cash flow forecasts are based on information from servicers, which management validate against recent performance.

A separate model, using an ERC forecasting methodology, then takes the 12-month estimate and uses this to form an 84-month forecast of ERCs at a portfolio level, by extrapolating the data over a decaying rate. 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, and the impact of placing accounts into litigation. 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 ERC forecasting model, are regularly benchmarked at a portfolio level against actuals, which forms the impairment review.

The key assumption is the Group's determination of the future cash flows. Flexing the expected future gross cash flows by -1/+1% would impact the closing carrying value of the purchased loan portfolios as at 31 December 2015 by £10,286,000 (2014: £8,973,000).

Notes to the financial statements

5 Segmental reporting

The Group represents a single reportable segment. The Group head office in the UK, with subsidiaries also based in wider Europe.

Collections information is available for the UK and the wider European 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 has been 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 2015 £000	Year ended 31 December 2014 £000
Total revenue	**165,454**	**110,742**
Collection activity costs	(52,303)	(34,150)
Professional fees and services	(2,397)	(1,737)
Recurring other operating expenses	(31,808)	(16,484)
Non-recurring items	(4,309)	(11,991)
Operating profit	**74,637**	**46,380**
Finance interest income	152	344
Finance interest costs	(36,760)	(22,601)
Share of profit in associates	1,243	–
Profit before tax	**39,272**	**24,123**
Taxation	(7,523)	(5,852)
Profit for the year attributable to equity shareholders	**31,749**	**18,271**

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Purchased loan portfolios	609,793	477,513
Balance sheet		
Total segment assets	771,559	582,968
Total segment liabilities	(622,446)	(458,542)
Segment net assets	**149,113**	**124,426**
Unallocated assets which is represented by deferred tax balances	(639)	300
Unallocated liabilities which is represented by deferred tax balances	(4,396)	(2,852)
Consolidated net assets	**145,356**	**121,874**

See the glossary for the breakdown of adjusted EBITDA.

Geographical information	UK entities 2015 £000	Foreign entities 2015 £000	Intra group trading 2015 £000	Total 2015 £000
Total revenue	154,553	12,964	(2,063)	**165,454**
Non-current assets	77,962	39,479	–	**117,441**

In 2014, there was one geography of entity ownership, and therefore there is geographic split in the prior year.

6 Profit for the year

Profit for the year has been arrived at after (charging)/crediting:	Note	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Net foreign exchange (losses)/gains		592	(975)
Operating leases – properties		(744)	(413)
Depreciation and amortisation	14, 15	(4,176)	(1,090)
Profit on disposal of plant, property and equipment		–	143
Staff costs	10.b	(19,217)	(11,117)

7 Finance income

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Finance income		
Bank interest	7	55
Loan note interest	145	289
	152	**344**

8 Finance costs

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Finance costs		
Interest and similar charges on bank loans	8,991	3,168
Interest on senior secured notes	27,032	18,134
Other interest	737	856
Total interest costs	**36,760**	**22,158**
Fair value gains on interest rate swaps	–	443
Total finance costs including non-recurring items	**36,760**	**22,601**
Non-recurring finance costs	–	(848)
Total finance costs	**36,760**	**21,753**

Non-recurring items 2014 related to interest incurred on a historic HMRC VAT settlement and the interest payable on issuance of the €225 million floating rate notes between the date of issuance and the purchase of the Capquest Group. See note 28 for further information.

Notes to the financial statements

9 Auditor's remuneration

The analysis of auditor remuneration is as follows:	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Fees payable for audit services – Company	62	35
Fees payable for audit services – subsidiaries	288	280
Total fees payable for audit services	**350**	**315**
Fees payable for audit-related assurance services – Company	25	45
Total fees payable for audit-related assurance services	**25**	**45**
Fees payable for other assurance services	158	267
Total fees payable for non-audit services	**158**	**267**
Total fees payable	**533**	**627**

10 Staff costs and other operating expenses

a) Other operating expenses

	Note	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Staff costs	10.b	19,217	11,117
Other staff related costs*		4,428	1,745
Premises		2,326	889
IT		2,594	1,095
Depreciation and amortisation		4,176	1,090
Net foreign exchange losses/(gains)		(592)	975
Acquisition of subsidiary		1,491	6,026
Other operating expenses		2,477	5,538
Total operating expenses including non-recurring items		**36,117**	**28,475**
Non-recurring items:			
Costs arising from the acquisition of business operations		(1,491)	(6,026)
IPO related costs		(1,366)	(1,760)
Company integration		(1,452)	(4,205)
Total non-recurring items		**(4,309)**	**(11,991)**
Total operating expenses excluding non-recurring items		**31,808**	**16,484**

*£3.7 million of the other staff related costs relates to temporary labour, recruitment and training.

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 being incurred in 2015.

In the year to 31 December 2015, £1.5 million of costs were incurred relating to the completion of two strategic Portuguese entity acquisitions, Gesphone and Whitestar. The majority of these costs related to fees incurred for legal advice and due diligence on both acquisitions. £1.4 million of staff costs were incurred as a result of the share option charges in relation to the share options issued as part of the IPO in 2013. As these optioned vested in October 2015, these have been recognised as non-recurring items since the IPO. £1.5 million of costs have been incurred due to Capquest integration, that relate to the termination of debt servicing contracts, as the Group moves from an outsourced model to a partially insourced model, and redundancy costs that relate to removal of duplicate roles as the Group combines operating and finance functions.

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.

b) Staff costs

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Wages, bonuses and salaries	13,830	7,552
Pension costs	367	291
Social security costs	1,607	946
Share based payments	2,577	2,328
Staff restructuring	836	–
	19,217	**11,117**

The total directors' personnel remuneration (including non-executive directors) during the year was £1,806,000 (2014: £2,016,000), including £nil of non-recurring costs (2014: £nil) and included £136,000 in relation to pension costs (2014: £119,000). 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 2015	Year ended 31 December 2014
Collections	347	45
Data and analytics	60	41
Finance, pricing and legal	83	19
IT and change	75	23
Management	24	17
Risk	24	7
Support services	136	5
	749	**157**

Notes to the financial statements

11 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 2015 is lower than the standard rate of corporation tax in the UK at 20.25% (2014: 21.49%). The differences are as follows:

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Profit before tax	**39,272**	**24,123**
Tax charge at standard UK corporation tax rate	7,952	5,185
Adjustment in respect of prior years	(862)	(651)
Expenses not deductible for tax purposes	473	1,309
Share in profit in associates reported net of tax	(252)	–
Differences in corporate tax rates	23	6
Differences on hedging arrangements	18	–
Differing overseas tax rates	171	3
Tax charge	**7,523**	**5,852**
Effective tax rate relating to continuing operations	**19.2%**	**24.3%**
Standard UK corporation rate for the year	**20.25%**	**21.49%**
Effective tax rate higher/lower than standard UK corporation rate for the year	**Lower**	**Higher**

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Tax charge for the year consists of:		
Current tax charge:		
UK and foreign corporation tax based on profit for the year	8,691	7,085
Adjustment in respect of prior years	(642)	(543)
Total current tax charge	**8,049**	**6,542**
Deferred tax charge/(credit):		
Origination and reversal of temporary differences	(329)	(631)
Adjustment in respect of prior years	(220)	(108)
Differences in tax rates	23	49
Total tax charge	**7,523**	**5,852**

Deferred tax

The Group has not recognised a deferred tax asset in respect of £28,168,000 (2014: £25,728,000) of tax losses carried forward, due to uncertainties over the future utilisation of the losses including the future profitability of the relevant subsidiaries. These losses may be available for offset against future profits and have no expiry date.

The Finance (No. 2) Act 2015, which was substantively enacted in October 2015, included provisions to reduce the rate of UK corporation tax from 20% to 19% from 1 April 2017 and 18% from 1 April 2020. 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 generally been calculated using a rate of 18% in these accounts.

Non-recurring tax

We have identified non-recurring items in the year amounting to £4,309,000 (2014: £12,839,000), with a £657,000 (2014: £1,503,000) associated tax impact.

Notes to the financial statements

12 Dividend

A dividend of £8,889,000 has been included in these financial statements, being the declared dividends in the period of the 2014 final dividend of 3.4p per share and the 2015 interim dividend of 1.7p per share. A final dividend has been proposed of 5.4 pence (£9,420,000) taking the total declared and proposed dividends for the year to 7.1 pence (£12,385,000), being 35% 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 2015 interim dividend was 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.

The ex-dividend date for the final dividend is 9 June 2016, with a record date of 10 June 2016 and a payment date of 7 July 2016. Shareholders will have the opportunity to elect to reinvest their cash dividend and purchase existing shares in the Company through a dividend reinvestment plan.

13 Goodwill

Cost	**£000**
At 1 January 2014	4,277
Goodwill on acquisition of subsidiary	45,655
At 31 December 2014	49,932
Goodwill on acquisition of subsidiary	30,920
Exchange rate differences	947
At 31 December 2015	**81,799**
Amortisation and impairment	
At 31 December 2014 and 31 December 2015	**2,309**
Net book value	
At 31 December 2015	**79,490**
At 31 December 2014	47,623

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 three 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 three CGUs identified are the Capquest Group, comprising of all group companies within the acquired group, Portugal, comprising of all the Group companies acquired in the Whitestar and Gesphone acquisitions, and Arrow Global Receivables Management Limited ('AGRML'). Both the Capquest Group and Portugal CGUs, represent the cash flows generated principally from collections on acquired purchased loan portfolios and management of third party debt, and the AGRML CGU represents the cash flows generated principally from collections on purchased loan portfolios.

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows.

	Year ended 31 December 2015 £000	**Year ended 31 December 2014 £000**
Capquest Group	45,608	45,655
Portugal	31,914	–
AGRML	1,968	1,968
	79,490	47,623

The movement in the Capquest Group goodwill of £47,000 from 2014 to 2015 was due to a provision for a VAT claim no longer being required, offset by an adjustment to remove a duplicated balance.

An impairment review was carried out at 31 December 2015 that resulted in no impairment to goodwill. The goodwill was assessed to be appropriately stated. 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, and allowable forecast synergies.

Notes to the financial statements

13 Goodwill (continued)

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 starting point for determining the discount rates for each CGU was to use the Group's weighted average cost of capital ('WACC'), and adjust this for specific factors for each of the CGUs to derive a market participant's rate. The factors took into account the risks inherent in each of the CGUs, such as currency, regulatory, and economic risks. The different operations in the CGUs were also considered and a risk factor applied to the Portuguese CGU. As a result of applying the various risk factors noted above to the Group's WACC, a market participant rate of 6.07% was determined for the AGRML and Capquest CGUs, and a rate of 7.62% was determined for the Portuguese CGU.

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. The forecasts assume growth rates in collection activity which in turn drive the forecast collections and cost figures. As at 31 December 2015, the five-year forecast includes assumed growth based on portfolio purchases per annum across the Group increasing to a run rate of £240 million in 2019. These assumptions are in keeping with the directors' prudent expectations of future growth.

The Group has conducted a sensitivity analysis on the impairment test of the CGUs carrying value. The CGUs would become impaired based on an unlevered post tax cash flow noted below, or based on an increase in the discount rate noted below.

Impairment in each CGU goodwill, would happen with –	**– a cashflow reduction of –**	**– a discount rate increase of –**
Capquest Group	23%	4%
Portugal	69%	17%
AGRML	18%	5%

14 Intangible assets

	Customer intangibles £000	**Contractual rights £000**	**IT platform £000**	**Software licences £000**	**Total £000**
Cost					
At 1 January 2014	–	–	–	2,793	2,793
Assets acquired on acquisition of a subsidiary	–	–	9,395	553	9,948
Additions	–	–	273	202	475
Disposals	–	–	(56)	(188)	(244)
At 31 December 2014	–	–	9,612	3,360	12,972
Assets acquired on acquisition of a subsidiary	3,721	–	–	340	4,061
Exchange differences	–	–	9	37	46
Additions	–	2,579	5,367	672	8,618
At 31 December 2015	**3,721**	**2,579**	**14,988**	**4,409**	**25,697**
Accumulated depreciation					
At 1 January 2014	–	–	–	1,317	1,317
Amortisation charge for the year	–	–	–	806	806
Disposals	–	–	–	(194)	(194)
At 31 December 2014	–	–	–	1,929	1,929
Exchange differences	–	–	9	31	40
Amortisation charge for the year	371	258	1,781	675	3,085
At 31 December 2015	**371**	**258**	**1,790**	**2,635**	**5,054**
Carrying amount					
At 31 December 2015	**3,350**	**2,321**	**13,198**	**1,774**	**20,643**
At 31 December 2014	–	–	9,612	1,431	11,043

Notes to the financial statements

15 Property, plant and equipment

Cost	Leasehold improvements £000	Computer equipment £000	Furniture £000	Vehicles £000	Total property, plant and equipment £000
At 1 January 2014	346	342	287	–	975
Assets acquired on acquisition of a subsidiary	1,373	1,047	324	–	2,744
Additions	153	73	53	–	279
Disposals	(47)	(160)	(59)	–	(266)
At 31 December 2014	1,825	1,302	605	–	3,732
Assets acquired on acquisition of a subsidiary	376	247	260	42	925
Exchange differences	19	38	9	3	69
Additions	549	162	209	–	920
Disposals	–	(6)	(1)	(1)	(8)
At 31 December 2015	**2,769**	**1,743**	**1,082**	**44**	**5,638**
Accumulated depreciation					
At 1 January 2014	292	296	128	–	716
Disposal	(25)	(100)	(24)	–	(149)
Charge for the year	162	53	69	–	284
At 31 December 2014	429	249	173	–	851
Exchange differences	8	32	3	8	51
Disposal	–	(4)	–	–	(4)
Charge for the year	242	686	152	11	1,091
At 31 December 2015	**679**	**963**	**328**	**19**	**1,989**
Carrying amount					
At 31 December 2015	**2,090**	**780**	**754**	**25**	**3,649**
At 31 December 2014	1,396	1,053	432	–	2,881

16 Financial assets

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Non current:		
Purchased loan portfolios	464,996	377,900
Loan notes	862	1,378
	465,858	**379,278**
Current:		
Purchased loan portfolios	121,278	99,613
Purchased loan portfolios due to be resold*	23,519	–
Total	**610,655**	**478,891**

*This relates to a portfolio of assets, which has been acquired at the year end, and will shortly be resold to an investment partner. These are separately disclosed from other purchased loan portfolios, as commitment has been received from an investment partner to complete their acquisition from us. Subsequent to the year end, completion has taken place to sell these assets to the investment partner.

Purchased loan portfolios

The Group recognises income from purchased loan portfolios in accordance with IAS 39. At 31 December 2015, the carrying amount of the purchased loan portfolio asset was £609,793,000 (2014: £477,513,000).

Notes to the financial statements

16 Financial assets (continued)

The movements in purchased loan portfolio assets were as follows:

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
As at the year brought forward	477,513	273,932
Portfolios acquired during the year*	177,716	143,220
Purchased loan portfolios to be resold	23,519	–
Portfolios acquired through acquisition of a subsidiary	3,970	104,038
Collections in the year	(218,515)	(148,547)
Income from purchased loan portfolios	150,238	107,984
Exchange gain/(loss) on purchased loan portfolios	(5,151)	(3,939)
Disposal of purchased loan portfolios	503	825
As at the year end	**609,793**	**477,513**

*Inclusive of capitalised portfolio expenditure of £1,406,000 (2013: £4,882,000).

17 Other receivables and prepayments

	Note	Group Year ended 31 December 2015 £000	Group Year ended 31 December 2014 £000	Company Year ended 31 December 2015 £000	Company Year ended 31 December 2014 £000
Prepayments		5,344	4,071	80	30
Due from subsidiary undertakings	22	–	–	71,742	53,495
Other receivables		29,370	12,493	3	3
Deposits		67	5	–	–
		34,781	**16,569**	**71,825**	**53,528**

The Group incurs recoverable upfront litigation costs, which are deferred as other receivables and amortised over the period that cash is collected. During the year the amortisation profile was reassessed from four to seven years, in line with cash collection profile, increasing the year end capitalised costs by £3.4 million.

18 Trade and other payables

Current	Note	Group Year ended 31 December 2015 £000	Group Year ended 31 December 2014 £000	Company Year ended 31 December 2015 £000	Company Year ended 31 December 2014 £000
Trade payables		9,408	6,873	9	890
Deferred consideration		42,501	11,928	–	–
Deferred consideration on portfolio to be resold*		23,519	–	–	–
Taxation and social security		121	324	–	–
Due to subsidiary undertakings	22	–	–	6,163	1,367
Other liabilities and accruals		8,357	13,933	–	–
		83,906	**33,058**	**6,172**	**2,257**

*This relates to the deferred consideration on a portfolio of assets, which has been acquired at the year end, and will shortly be resold to an investment partner. These are separately disclosed from other purchased loan portfolios, as commitment has been received from an investment partner to complete their acquisition from us. Subsequent to the year end, completion has taken place to sell these assets to the investment partner.

Notes to the financial statements

18 Trade and other payables (continued)

Non-current	Note	Group Year ended 31 December 2015 £000	Group Year ended 31 December 2014 £000	Company Year ended 31 December 2015 £000	Company Year ended 31 December 2014 £000
Deferred consideration		7,648	–	–	–
		7,648	**–**	**–**	**–**

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 and a UK Employment Appeal Tribunal decided that, from 1 July 2015, commission payments should be included in the calculation. 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 capped at two years.

Deferred consideration is split between deferred consideration in relation to acquisitions of subsidiaries of £21,926,000 (2014: £nil) and deferred consideration in relation to loan portfolios of £51,742,000 (2014:£11,928,000).

19 Deferred tax

	2015 Assets	2015 Liabilities	2015 Total	2014 Assets	2014 Liabilities	2014 Total
Fixed assets	–	(7)	(7)	–	(18)	(18)
IFRS transitional adjustments and other temporary differences	30	(2,643)	(2,613)	129	(2,572)	(2,443)
Share schemes	324	–	324	–	(262)	(262)
Hedging reserve	285	–	285	171	–	171
Fair value adjustment on acquisition of subsidiaries	–	(1,746)	(1,746)	–	–	–
	639	**(4,396)**	**(3,757)**	**300**	**(2,852)**	**(2,552)**

The following table reconciles from the 2014 to the 2015 net deferred tax position:

	Year ended 31 December 2014	Transferred in on acquisition	Movements to goodwill	Recognised in statement of comprehensive income	Recognised in statement of changes in equity	Year ended 31 December 2015
Fixed assets	18	–	–	(11)	–	7
IFRS transitional adjustments and other temporary differences	2,582	–	–	80	–	2,662
Share schemes	262	–	–	(586)	–	(324)
Hedging reserve	(171)	–	–	–	(114)	(285)
Other temporary differences	(139)	(11)	–	101	–	(49)
Fair value adjustment on acquisition of subsidiaries	–	–	1,856	(110)	–	1,746
	2,552	**(11)**	**1,856**	**(526)**	**(114)**	**3,757**

Notes to the financial statements

20 Share capital

Issued and fully paid – 31 December 2015 and 2014	£000
174,439,026 ordinary shares of 1p each	1,744
	1,744
Offset by own shares	(4)
	1,740

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 2015 £000	Group Year ended 31 December 2014 £000
Less than 1 year	866	1,063
1-5 years	3,444	2,098
5+ years	1,976	–
	6,286	**3,161**

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.

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 2015:		
Trade	–	–
	–	**–**
As at 31 December 2014:		
Trade	3	3
	3	**3**

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 statement of comprehensive income charges for other balances are disclosed in note 6.

Notes to the financial statements

22 Related party transactions (continued)

Summary of transactions

Key management, defined as permanent members of the executive committee, received the following compensation during the year.

Remuneration	Group Year ended 31 December 2015 £000	Group Year ended 31 December 2014 £000
Salaries and performance related bonus	2,487	1,998
Pension-related benefits	160	134
	2,647	**2,132**

Non-executive director, Iain Cornish, was appointed Chairman of Shawbrook Group Plc during the year. Shawbrook is part of the consortium of our revolving credit facility lenders.

During the year there were no other related party transactions other than discussed above.

During 2014 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.

Company

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

	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 2015					
Due from subsidiary undertakings	–	–	1,021	70,721	71,742
Due to subsidiary undertakings	(1,367)	(4,796)	–	–	(6,163)
	(1,367)	**(4,796)**	**1,021**	**70,721**	**65,579**

	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**

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 2015 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 (AGGHL)	Guernsey	100	Trading	AGOL
Arrow Global Investments 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
Erudio Customer Management Limited (formerly 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
AGHL Portugal Investments Holdings, S.A. (AGHLPIH)	Portugal	100	Trading	AGIHL
Sandalgreen Assets, S.A.	Portugal	100	Trading	AGHLPIH
Whitestar Asset Solutions S.A.	Portugal	33	Trading	AGHLPIH
Gesphone – Servicos de Tratamento e Acquisicao de Dividas, S.A. (GSTAD)	Portugal	100	Trading	AGIHL
Gesphone STC	Portugal	100	Trading	GSTAD

All subsidiaries are included in the Group consolidation. On 22 December 2015 the subsidiary Silver Parallel S.A. was merged into Whitestar Asset Solutions S.A.

Subsidiaries	Arrow Global One Limited £000	Total £000
At 31 December 2014 and 31 December 2015	**307,500**	**307,500**

The investments in subsidiaries are all stated at cost less accumulated impairment.

Notes to the financial statements

23 Investments in subsidiary and associates (continued)

Details of the Company's associates at 31 December 2015 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

The Group acquired an indirect 15% economic interest in Promontoria MCS Holding SAS ('MCS') through a participation agreement on 15 December 2014. The terms of the participation agreement meant that the Group demonstrated significant influence over the MCS group.

MCS 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.

Summarised below is a reconciliation of the movements in the carrying value of the Group's interest in MCS during the year:

	£000
Interest in the net assets of the associate as at 1 January 2015	11,419
Adjustment of foreign exchange differences	154
Share of profit in associate during the year	1,243
Dividends received from associates	(658)
Interest in the net assets of the associate as at 1 January 2016	**12,158**

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 and tax committee. The treasury and tax 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 2015 (2014: £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 2015, the Group's senior secured notes and revolving credit facility had an average period to maturity of 5.0 years (2014: 5.3 years). Total undrawn facilities as at 31 December 2015 were £90,000,000 (2014: £61,001,000).

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 2015**	**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	91,554	–	–	–	91,554
Interest bearing					
£220 million secured senior note (7.875%)	17,325	17,325	51,975	209,798	296,423
€335 million secured senior note (5.25% plus EURIBOR)	12,680	12,680	38,040	257,398	320,798
Revolving credit facility	4,575	4,575	4,575	–	13,725
Total	**126,134**	**34,580**	**94,590**	**467,196**	**722,500**

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**

Company **As at 31 December 2015**	**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	**6,172**	**–**	**–**	**–**	**6,172**

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**

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:

	2015		2014	
	Outflow £000	Inflow £000	Outflow £000	Inflow £000
Not later than one month	32,400	32,680	62,780	62,315
Later than one month and not later than six months	35,508	34,900	78,897	78,185
Later than six months and not later than one year	925	7	193	133
Later than one year and not later than two years	1,936	15	387	281
Later than two years and not later than five years	–	–	361	340
	70,769	**67,602**	**142,618**	**141,254**

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 receivables and borrowing facilities as at 31 December 2015 is presented below:

As at 31 December 2015	Purchased loan portfolio £000s	% of total £000s	Borrowing facilities £000s	% of total £000s
Less than one year	144,797	23.7%	–	–
Later than one year	464,996	76.3%	447,545	100.0%
	609,793	**100.0%**	**447,545**	**100.0%**

As at 31 December 2014	Purchased loan portfolio £000s	% of total £000s	Borrowing facilities £000s	% of total £000s
Less than one year	99,613	20.9%	–	–
Later than one year	377,900	79.1%	378,564	100.0%
	477,513	**100.0%**	**378,564**	**100.0%**

This demonstrates the headroom on the Group's committed funding facility repayments in comparison to the current purchased loan portfolio's estimated collections over an 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 does not charge interest on the purchased loan portfolios or on any other asset, and therefore is not exposed to interest rate risk on its assets. The Group does have an exposure to interest rate risk arising on changes in interest rates on its borrowings, principally on the senior secured notes, 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 2015 £000	Year ended 31 December 2014 £000
Increase in fair value of derivatives taken to equity	2,428	2,939
Reduction in profit before taxation	(304)	(195)
	2,124	**2,744**

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 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 2015 £000	Year ended 31 December 2014 £000
Currency		
Euro (EUR)	2,074	2,229
US Dollar (USD)	6	(1)
Polish Zloty (PLN)	(5)	(9)
	2,075	**2,219**

Net profit	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Currency		
Euro (EUR)	352	613
US Dollar (USD)	(37)	2
Polish Zloty (PLN)	–	–
	315	**615**

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 2015 £000	Year ended 31 December 2014 £000
Currency		
Euro (EUR)	(2,534)	(2,725)
US Dollar (USD)	(8)	1
Polish Zloty (PLN)	6	–
	(2,536)	**(2,724)**

Net profit	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Currency		
Euro (EUR)	(430)	(750)
US Dollar (USD)	45	(2)
Polish Zloty (PLN)	–	–
	(385)	**(752)**

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).

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 that in turn inform the ERC's on which the portfolio balance sheet value is calculated. The on going risk is managed through a portfolio valuation process including modelling current expectations of recoverability based on historical information on debt types, considering forecasts from debt servicers and also factoring in recoveries from collateral held on the secured portfolios. A pricing gateway process is in place which includes at least two members of the executive board as well as other key members from all areas of the business. The Group also monitors its exposure to geographic concentration of assets.

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. As part of the regular monitoring process, the future cash flows in the ERCs are updated, with 'write ups' or 'write downs posted as a result changes to the estimated cash flows discounted at the EIR rate. An impairment is only recognised if the 'write downs' exceed any previously recognised cumulative write-ups.

As part of credit risk, 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. Counterparty risk with debt sellers is managed through warranties.

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.

Notes to the financial statements

24 Risks arising from financial instruments (continued)

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

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Cash and cash equivalents	10,183	14,542
	10,183	**14,542**

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.

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 31 December 2015 was:

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Ordinary share capital and premium	349,180	349,180
Total reserves	(203,824)	(227,306)
	145,356	**121,874**

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 initially measured at fair value and are subsequently held at amortised cost. Derivative financial instruments are initially recognised, and subsequently measured, at fair value.

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.

Level 2	31 December 2015 £000	31 December 2014 £000
Assets		
Foreign currency contracts	(71)	1,301
Interest rate swaps	1,352	571
Total liabilities	**1,281**	**1,872**

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 2015.

The company did not hold any financial instruments at fair value (2014: none).

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 2015 £000	31 December 2014 £000
Assets		
Purchased loan portfolios	609,793	477,513
Loan notes	862	1,378
Total assets	**610,655**	**478,891**

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 considers that the valuing of the purchased loan portfolios at amortised cost is comparable to the fair value. The models that are used to determine the balance sheet valuation of the Group's purchased loan portfolios, are the same as those used in pricing portfolio purchases. Management believes the purchase price is the best indicator of fair value at a point in time, and therefore considers the model driven value on the balance sheet to be 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.

The company did not hold any other financial instruments not measured at fair value for which a fair value needs to be calculated (2014: none).

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 £729,000 has been charges to equity for the Group in the period in respect of cash flow hedges (2014: £859,000). All hedges are effectively hedged. 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 £246,832,000 (2014: £176,070,000). In 2015, 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 £nil (2014: £443,000 credit) 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 2015	Maturity date	Fair value 2015 £000	Weighted average interest rate 2014	Maturity date	Fair value 2014 £000
Euro	0.14%	Nov 2017	(1,352)	0.22%	Nov 2017	(571)

The Company did not hold any interest rate swaps at 31 December 2015 (31 December 2014: £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 2015 is £67,400,000 (2014: £143,145,000). These comprise:

- foreign currency contracts to sell sterling for a total notional of £67,400,000 (2014: £141,580,000). These contracts have maturity dates to April 2016. 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 fair value will be recycled to the statement of comprehensive income in April 2016; and
- foreign currency contracts to sell euro for a total notional of £nil (2014: £1,565,000). 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 2015 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 £nil (2014: £64,000 gain).

During the year, £1,257,000 (2014: (£539,000)) was recycled from equity to the statement of comprehensive income as a result of maturity of the short dated foreign exchange swaps during the year.

The Company did not hold any foreign exchanges swaps at 31 December 2015 (31 December 2014: £nil).

26 Financial assets and financial liabilities

Financial assets	Year ended 31 December 2015 £000s	Year ended 31 December 2014 £000s
Purchased loan portfolios	609,793	477,513
Loan notes	862	1,378
Cash and cash equivalents	10,183	14,542
Other receivables	34,781	16,569
	655,619	**510,002**

Financial liabilities	Year ended 31 December 2015 £000s	Year ended 31 December 2014 £000s
Senior secured notes (excluding fees)	466,832	396,070
Revolving credit facility (excluding fees)	75,000	38,999
Derivative liabilities	1,281	1,872
Trade and other payables	91,554	33,058
Current tax liabilities	3,755	2,355
	638,422	**472,354**

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 2015 £000	Book value Year ended 31 December 2015 £000	Fair value Year ended 31 December 2014 £000	Book value Year ended 31 December 2014 £000
Purchased loan portfolios	609,793	609,793	477,513	477,513
Loan notes	862	862	1,378	1,378
Cash and cash equivalents	10,183	10,183	14,542	14,542
Other receivables	34,781	34,781	16,569	16,569
	655,619	**655,619**	**510,002**	**510,002**

Notes to the financial statements

26 Financial assets and financial liabilities (continued)

	Fair value Year ended 31 December 2015 £000	Book value Year ended 31 December 2015 £000	Fair value Year ended 31 December 2014 £000	Book value Year ended 31 December 2014 £000
Senior secured notes (excluding fees)	481,565	466,832	400,200	396,070
Revolving credit facility (excluding fees)	75,000	75,000	38,999	38,999
Derivative liabilities	1,281	1,281	1,872	1,872
Trade and other payables	91,554	91,554	33,058	33,058
Current tax liabilities	3,755	3,755	2,355	2,355
	653,155	**638,422**	**476,484**	**472,354**

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 senior secured notes has been calculated by reference to broker quotes, that are based on observable market inputs and therefore would be included as 'Level 2' in the fair value hierarchy table should the liability have been held at fair value.

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

For the company, there is no difference between the carrying value and fair value of financial assets and financial liabilities.

27 Share based payments – group and company

Share incentive plan scheme (SIP)

In April 2015 (and previously in April 2014), the Group offered to all UK 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.

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.

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. The remaining ISOP options of 1,632,288 shares, vested on 11 October 2015, with restrictions attached to these shares ceasing to have effect from this date.

Long-term incentive plan (LTIP)

On 15 June 2015, 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. On the same date, tax qualifying options were granted as part of the LTIP awards ('CSOP options').

Each CSOP Option is subject to the same performance targets as apply to the nil-cost option part of the awards. If a CSOP Option is exercised at a gain, the number of shares that may be delivered under the above associated nil-cost option under the LTIP will be reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award delivered to the participant is not increased by the grant of the CSOP Option.

Notes to the financial statements

27 Share based payments – group and company (continued)

For each eligible employee, 50% 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

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

For each eligible employee, 25% of the LTIP awards are subject ROE growth criteria, and vest as follows:

Performance condition	Percentage vesting
Less than 20% average ROE over the three performance years	0%
20% average ROE growth over the three performance years ('threshold performance')	25%
26% average ROE growth over the three performance years ('maximum performance')	100%
Between 20% and 26% average ROE growth over the three performance years	Between the threshold performance and maximum performance on a straight line basis

On 30 June 2015, further awards of nil cost share options were granted to eligible employees, which vest on 15 June 2018, subject to the achievement of the same performance conditions as for the 15 June 2015 awards.

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

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.

Notes to the financial statements

27 Share based payments – group and company (continued)

Restricted share award

A restricted share award was made on 15 June 2015. This award vests on 1 May 2017 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
Equity settled award – LTIP	Equity	1,483,532	3 years	15 June 2018
Equity settled award – LTIP	Equity	32,739	3 years	15 June 2018
Equity settled award – restricted	Equity	266,008	2 years	1 May 2017
Equity settled award – SIP	Equity	55,003	3 years (rolling)	May – June 2018

*The options which vested immediately on IPO 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.

	2015 WAEP	2015 Number of options	2014 WAEP	2014 Number of options
Outstanding at the beginning of the year	£nil	3,049,694	£nil	1,713,526
Granted during the year	£nil	1,853,958	£nil	1,657,205
Forfeited during the year	£nil	(518,554)	£nil	(272,285)
Exercised during the year	£nil	(120,774)	£nil	(48,752)
Expired during the year	–	–	–	–
Outstanding at 31 December	**£nil**	**4,264,324**	**£nil**	**3,049,694**
Exercisable at 31 December	**–**	**–**	**–**	**–**

The weighted average share price at the date of exercise of share options exercised during the year was £nil (2014: £ nil). The share options outstanding at 31 December 2015 have a weighted average contractual life of 1.2 years (2014: 2.2 years).

The weighted average fair value of options granted during the year was £2.58 (2014: £2.21). The majority of options granted to date are nil cost options (2014: 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.

	2015	2014
SIP		
Expected life of options (years)	3	3
Share prices at date of grant	£2.58	£2.29
LTIP and restricted awards		
Expected life of options (years)	2-3	3
Share prices at date of grant	£2.58	£2.36 - £2.46
Expected share price volatility (%)	22.90%	27.10%
Risk free interest rate (%)	0.87%	0.47%

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

	2015 £000	2014 £000
Equity settled share based payment expense recognised immediately	–	–
Equity settled share based payment expense spread across vesting period	2,577	2,328
Total equity settled share based payment expense recognised in the statement of comprehensive income	**2,577**	**2,328**

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

28 Borrowings and facilities

External borrowings comprise the £220 million fixed rate senior secured notes due 2020, the €335 million floating rate senior secured notes due 2021 and the £165 million revolving credit facility.

Secured borrowing at amortised cost	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Senior secured notes (net of transaction fees of £19,286,000, 2014: £17,506,000)	447,545	378,564
Revolving credit facility (net of transaction fees of £3,521,000, 2014: 3,595,000)	71,479	35,404
Senior secured notes interest	6,832	7,289
	525,856	**421,257**
Total borrowings:		
Amount due for settlement within 12 months	**78,311**	**42,693**
Amount due for settlement after 12 months	**447,545**	**378,564**

Senior secured notes

On 28 September 2015, the Group increased the outstanding amount of its 5.25% over three-month EURIBOR floating rate senior secured notes ('the euro senior notes') by €110 million, bringing the total amount outstanding to €335 million. The Group issued the original €225 million tranche of its floating rate senior secured notes at a margin of 5.25% over three-month EURIBOR on 4 November 2014. Interest is paid quarterly in arrears. Derivative contracts have been used to fix the floating rate margin of the euro senior notes for the period through to November 2017. 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.

Notes to the financial statements

28 Borrowings and facilities (continued)

On 29 January 2013, the Group issued £220 million senior secured notes at a fixed rate of 7.875% due 2020 (the 'sterling senior notes'). Interest is paid bi-annually. The sterling senior notes can be redeemed in full or in part on or after 1 March 2016 at the Group's option. Prior to 1 March 2016, the Group may redeem, at its option, some or all of the sterling senior notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable make-whole premium.

The euro senior notes and sterling senior notes are secured by substantially all of the assets of the Group.

Revolving credit facility

On 31 March 2015, 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 £100 million to £140 million. On 22 June 2015, the commitments under the facility were further increased to £165 million. The RCF was drawn by £75 million as at 31 December 2015. On the 9 February 2016, the revolving credit facility was increased from £165 million to £180 million.

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 super senior 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 2015 £000	Year ended 31 December 2014 £000
Basic/diluted EPS		
Underlying profit for the year attributable to equity shareholders	35,401	29,607
Profit for the year attributable to equity shareholders including non-recurring items	31,749	18,271
Weighted average ordinary shares	174,046	174,284
Potential exercise of share options	3,794	2,708
Weighted average ordinary shares (diluted)	177,840	176,992
Underlying basic earnings per share (£)	**0.20**	**0.17**
Basic earnings per share including non-recurring items (£)	**0.18**	**0.10**
Underlying diluted earnings per share (£)	**0.20**	**0.17**
Diluted earnings per share including non-recurring items (£)	**0.18**	**0.10**

30 Acquisition of subsidiary undertaking

Gesphone

On 1 April 2015, the Group acquired 100% of the ordinary share capital of Gesphone Serviços De Tratamento E Acquisção De Dívidas S.A. and subsidiary Gesphone STC ('Gesphone'), satisfied with cash of €6,300,000 and contingent consideration of €2,000,000 for a total consideration of €8,300,000. The contingent consideration has been calculated at fair value based on a discount rate of 5.3%, being the Group's current external cost of finance, leading to an overall consideration at fair value of €8,085,000 (£5,797,000). The contingent consideration was based on Gesphone employees remaining party to a service agreement, which has been considered highly probable; therefore a 100% probability has been applied. Gesphone has a similar principal activity as the Group being the acquisition and management of underperforming portfolio of unsecured loans and servicing of debt in relation to third party contracts in Portugal.

Goodwill of €4,475,000 (£3,209,000) was created as a result of this acquisition. The primary reasons for the acquisition, which makes up the goodwill, were to create scale and servicing capability across multiple asset classes, and to strengthen the Group's position as market leader in Portugal. A large element of Gesphone's prior trade was with Arrow Global, and therefore the majority of the income earned by Gesphone is now intragroup income.

In the period from acquisition to 31 December 2015, Gesphone contributed revenue of £1,512,000 and operating profit of £674,000 to the consolidated results for the period. If the acquisition had occurred on the first day of 1 January 2015, Group total revenue would have been an estimated £166,374,000 and operating profit would have been an estimated £74,990,000.

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:

	Total £000
Purchased loan portfolios	3,970
Property, plant and equipment	75
Other assets	7
Investments	14
Deferred tax asset	2
Trade and other receivables	115
Cash and cash equivalents	1,916
Trade and other payables	(1,150)
Bank loans	(1,560)
Deferred tax liability	(732)
	2,657
Goodwill on acquisition	3,209
	5,866
Consideration:	
Cash	4,517
Contingent consideration	1,349
	5,866

Whitestar

On 22 April 2015, the Group acquired 33% of the share capital of Silver Parallel S.A (the holding company of Whitestar Asset Management S.A. ('Whitestar')). Voting control and economic interest passed to the Group on payment of the initial consideration on 22 April 2015, and therefore the Group has recognised 100% of Whitestar in its results, as a wholly owned subsidiary. The Group will increase its holding to 100% in two stages over two years and the total consideration will be satisfied with cash and deferred consideration for €47,833,333. The deferred consideration has been calculated at fair value based on a discount rate of 5.3%, being the Group's current external cost of finance, leading to an overall consideration of €47,783,000 (£34,263,000). Whitestar has a similar principal activity as the Group being the servicing of debt in relation to third party contracts.

Goodwill of €38,709,000 (£27,756,000) was created as a result of this acquisition. The primary reasons for the acquisition, which makes up the goodwill, were to create scale and servicing capability across multiple asset classes, and to strengthen the Group's position as market leader in Portugal.

In the period from acquisition to 31 December 2015, Whitestar contributed revenue of £9,379,000 and operating profit of £912,000 to the consolidated results for the period. If the acquisition had occurred on the 1 January 2015, Group total revenue would have been an estimated £169,320,000 and operating profit would have been an estimated £74,814,000.

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 2015.

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:

	Total £000
Property, plant and equipment	778
Intangible assets	4,205
Other assets	1
Deferred tax asset	8
Trade and other receivables	1,907
Cash and cash equivalents	1,307
Trade and other payables	(601)
Deferred tax liability	(1,098)
	6,507
Goodwill on acquisition	27,756
	34,263
Consideration:	
Cash	14,287
Deferred consideration	19,976
	34,263

The fair value adjustment on the intangible assets arises from the fair value of existing customer relationships. An associated deferred tax liability is created being 29.5% of the fair value adjustment, the rate of Portuguese tax.

Acquisition expenses

The Group incurred acquisition expenses of £1,491,000 in relation to the acquisitions of Gesphone and Whitestar, which has been charged to the statement of comprehensive income and included within other operating expenses and has been disclosed as a non-recurring cost.

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 2016 half-year results of the Group.

Prior year acquisition

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 £45,608,000 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.

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:

	Total £000
Purchased loan portfolios	104,038
Goodwill	–
Intangible assets	9,570
Property, plant and equipment	2,612
Cash and cash equivalents	7,286
Other receivables	1,433
Trade and other payables	(10,540)
Loans and unsecured loan notes	(54,690)
Deferred tax liability	(743)
	58,966
Goodwill on acquisition	45,608
	104,574
Consideration:	
Cash	102,974
Deferred consideration	1,600
	104,574

The fair value adjustment of £3,800,000 on the portfolio asset acquired arises from a difference between carrying value and management's assessment of fair value.

Goodwill of £24,732,000 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.

In the one year measurement period, an adjustment to remove a duplicated balance and costs associated with a VAT claim amounted to £2,322,000.

The fair value adjustments created a deferred tax liability of £743,000. 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 and has been disclosed as a non-recurring cost.

Notes to the financial statements

31 Notes to the cash flow statement

Cash flows from operating activities	Group Year ended 31 December 2015 £000	Group Year ended 31 December 2014 £000	Company Year ended 31 December 2015 £000	Company Year ended 31 December 2014 £000
Profit before tax	39,272	24,123	22,164	4,596
Adjusted for:				
Collections in the year*	218,515	148,547	–	–
Income from purchased loan portfolios*	(150,238)	(107,984)	–	–
Profit on disposal of purchased loan portfolios	(503)	(825)	–	–
Loss on disposal of property, plant, equipment and intangibles	–	143	–	–
Amortisation of legal acquisition fees	4,395	1,501	–	–
Share in profit in associate	(1,243)	–	–	–
Depreciation and amortisation	4,176	1,090	–	–
Interest payable	32,090	20,313	–	–
Foreign exchange (gains)/losses	(946)	894	–	–
Loss on fair values on derivatives	123	457	–	–
Equity settled share-based payment expenses	2,577	2,328	2,577	2,328
Operating cash flows before movement in working capital	**148,218**	**90,587**	**24,741**	**6,924**
(Increase)/decrease in other receivables	(16,285)	5,006	(104)	(34)
Increase in amounts due from subsidiary undertakings	–	–	(13,451)	(4,001)
Increase/(decrease) in trade and other payables	18,226	1,646	(896)	371
Cash generated by operations	**150,159**	**97,239**	**10,290**	**3,260**
Income taxes and overseas taxation paid	(6,624)	(7,039)	(26)	(361)
Net cash flow from operating activities before purchases of loan portfolios and loan notes	**143,535**	**90,200**	**10,264**	**2,899**
Purchase of loans purchased for resale	(23,519)			
Purchase of purchased loan portfolios	(176,310)	(142,631)	–	–
Net cash (used in)/generated by operating activities	**(56,294)**	**(52,431)**	**10,264**	**2,899**

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

Post balance sheet events note

On the 9 February 2016, the revolving credit facility was increased from £165 million to £180 million. See note 28 for more details.

On 24 February 2016, the Group resold a portfolio of assets, held for £23.5 million, to an investment partner. No gain or loss arose on the transaction. The portfolio has been separately disclosed within the accounts. See note 16 for more details.

Shareholder information

Registered and head office
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Registrar
Capita Asset Services
The Registry
34 Beckenham Road
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Kent
BR3 4TU

Annual general meeting
The forthcoming annual general meeting of the Company will take place at Manchester Town Hall, Albert Square, Manchester, M60 2LA on Thursday, 26 May 2016 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 12p 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 0371 664 0445 (calls cost 12p per minute plus network extras; lines are open from 08.00 to 16.30, Monday to Friday. From outside the UK dial +44 (0) 371 664 0445).

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 2016

Announcement of 2015 full-year results	3 March 2016
Announcement of the 3 months to 31 March 2016 results	11 May 2016
Annual general meeting	26 May 2016
Ex-dividend date for 2015 final dividend	9 June 2016
Record date for 2015 final dividend	10 June 2016
Payment date of 2015 final dividend	7 July 2016
Announcement of 2016 half-yearly results	31 August 2016
Announcement of the 9 months to 30 September 2016 results	9 November 2016
Full-year end	31 December 2016

Glossary

'Adjusted EBITDA' means profit for the year attributable to equity shareholders before interest, tax, depreciation, amortisation, foreign exchange gains or losses and non-recurring items. The adjusted EBITDA reconciliations for the year to 31 December 2015 are shown below:

Reconciliation of net cash flow to EBITDA	31 December 2015 £000	31 December 2014 £000
Net cash flow used in operating activities	(56,294)	(52,431)
Purchases of loan portfolios	176,310	142,631
Purchases of loan portfolios to be resold	23,519	–
Income taxes paid	6,624	7,039
Working capital adjustments	(1,942)	(6,652)
Amortisation of acquisition and bank facility fee	303	278
Gain on disposal of property, plant, equipment and intangibles	–	(143)
Effect of exchange rates on cash and cash equivalents	354	66
Share on profit from associates	1,243	–
Non-recurring items	2,943	10,232
Adjusted EBITDA	**153,060**	**101,020**
Reconciliation of core collections to EBITDA	**£000**	**£000**
Income from loan portfolios	150,238	107,984
Portfolio amortisation	68,277	40,563
Core collections (includes proceeds from disposal of purchased loan portfolios)	**218,515**	**148,547**
Other income	14,713	1,933
Operating expenses	(90,817)	(64,362)
Depreciation and amortisation	4,176	1,090
Foreign exchange (gains)/losses	(592)	975
Amortisation of acquisition and bank facility fees	303	278
Share of profit on associate	1,243	–
Share based payments	1,210	568
Non-recurring items	4,309	11,991
Adjusted EBITDA	**153,060**	**101,020**
Reconciliation of operating profit to EBITDA	**£000**	**£000**
Profit for the period attributable to equity shareholders	31,749	18,271
Underlying finance income and costs	36,608	21,409
Taxation charge on ordinary activities	7,523	5,852
Share of profit on associate	(1,243)	–
Non-recurring items	–	848
Operating profit	**74,637**	**46,380**
Portfolio amortisation	68,277	40,563
Depreciation and amortisation	4,176	1,090
Foreign exchange (gains)/losses	(592)	975
Profit on disposal of purchased loan portfolios	(503)	(825)
Amortisation of acquisition and bank facility fees	303	278
Share based payments	1,210	568
Share of profit on associate	1,243	–
Non-recurring items	4,309	11,991
Adjusted EBITDA	**153,060**	**101,020**

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 collections on the Group's existing portfolios including ordinary course portfolios and putbacks.

'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.

'EPS' means earnings per share.

'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).

'ERC Rollover' relates to additional cash flows from rolling the asset life on all portfolios to seven years from the date of ERC, including the impact of any foreign exchange movement and the impact of reforecast in the period.

'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.

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

'Gross cash-on-cash multiple' means core collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, all divided by the purchase price for each portfolio.

Glossary

'IFRS' means international financial reporting standards.

'Income from asset management' includes commission income, debt collection, due diligence, real estate management and advisory fees.

'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.

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

'Net debt' means the sum of the outstanding principal amount of the senior secured notes, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of loan portfolios, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after taking out of the Group's assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt for the year ended 31 December 2015 is as follows:

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Cash and cash equivalents	(10,183)	(14,542)
Senior secured notes (pre transaction fees net off)	466,832	396,070
Senior secured notes interest	6,832	7,289
Revolving credit facility (pre transaction fees net off)	75,000	38,999
Deferred consideration	50,149	11,928
Net debt	**588,630**	**439,744**

'Net promoter score' means a measure of customer satisfaction on a scale of 0-9.

'Organic purchases of loan portfolios' means those purchased through the ordinary course of business, not through acquisition.

'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.

'Putback' means an account that is to be sold back or replaced with the original creditor.

'Purchased loan portfolios' see **'existing portfolios'.**

'Purchases of loan portfolios to be resold' relates to a portfolio of assets, which has been acquired at the year end, and will shortly be resold to an investment partner. These are separately disclosed from other purchased loan portfolios, as an investment partner is intending to complete their acquisition from us.

'PwC' means PricewaterhouseCoopers.

'RCF' means revolving credit facility.

Glossary

'Replacement rate' means the level of purchases needed during the subsequent year to maintain the current level of ERC.

'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.

'SME' means small and medium sized enterprises.

'Secured loan to value' or **'secured LTV ratio'** represents the ratio of 84-month ERC to secured debt (net debt as defined above excluding deferred consideration and interest on the senior secured notes and including the fair value of foreign currency contracts and interest rate swaps).

'TCF' means the treating customers fairly FCA initiative.

'TSR' means total shareholder return.

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

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

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