30 August 2018

Arrow Global Group PLC

Interim results for the six months to 30 June 2018

Arrow Global Group PLC (the "Company", and together with its subsidiaries the "Group"), a leading European investor and asset manager in non-performing and non-core assets, announces its results for the period ended 30 June 2018.

Key highlights

- **Strong Group operating and financial performance**
  - Continued strong growth and returns - core collections up 15.2% and adjusted EBITDA up 16.8%
  - Underlying profit after tax up by 10.0% to £28.4 million
  - Profit after tax up by £4.8 million to £8.5 million
  - Underlying LTM ROE of 33.5% and an interim dividend up by 25%
  - Strong investment underwriting performance at 103% of original forecast
  - Successful build out of a pan-European platform providing a good runway for organic growth
  - 29% growth in assets under management to £49.3 billion
  - 'One Arrow' investment programme on track to complete by year end

- **Investment Business (IB)**
  - Record portfolio acquisitions of £145.1 million, up from £125.1 million in H1 2017 – on track to deliver £230 million to £240 million of portfolio purchases
  - Returns net of lifetime collection activity costs remain in line with mid-teens 10-year IRR target; 16% IRR achieved on H1 2018 purchases (FY 2017: 15%)
  - Non-UK portfolio investments now represent more than 50% of ERC

- **Asset Management and Servicing Business (AMS)**
  - AMS Business constitutes 32.2% of gross segmental income at a 19% EBITDA margin
  - Announced acquisition of Norfin adds an additional €1.5 billion of assets under management; highly accretive to AMS margins

- **Strong balance sheet discipline**
  - Fully refinanced balance sheet - WACD of 3.9% and no bond maturities until 2024; strong liquidity with £178.0 million cash headroom to fund organic growth
  - Commitment to prudent balance sheet management maintained
  - Remain within guided leverage range of 3.5 to 4.0 times secured net debt to adjusted EBITDA – committed to reducing the leverage ratio by year end and further into 2019

Underlying financial highlights	**30 June 2018**	**30 June 2017**	**Change %**
Underlying profit after tax (£m)	28.4	25.8	10.0
Underlying LTM return on equity (ROE) (%)	33.5	32.8	+0.7ppts
Underlying basic earnings per share (EPS) (p)	16.3	14.8	10.0

Financial highlights	30 June 2018	30 June 2017	Change %
Assets under management (£bn)	49.3	38.3	28.7
Core collections (£m)	178.0	154.5	15.2
Total income (£m)	166.9	149.8	11.4
Third-party AMS Servicing income (£m)	41.4	34.2	20.9
Profit after tax (£m)	8.5	3.7	128.2
Basic EPS (p)	4.9	2.1	126.9
Interim dividend per share (p)	4.0	3.2	25.0
84-month ERC (£m)	1,624.8	1,478.5	9.9
120-month ERC (£m)	1,947.9	1,708.8	14.0

Commenting on today's results, Lee Rochford, Group chief executive officer of Arrow Global, said:

"Momentum at Arrow remains strong. Our broad sourcing capabilities and operating platform have enabled the Investment Business to continue to achieve consistent returns, with unlevered net IRRs in the mid-teens across a range of asset types. When combined with our capital-light asset management and servicing income, financial performance continues to be highly value accretive.

Since our IPO in 2013, we have grown significantly, establishing a pan-European footprint with market-leading positions across six key geographies. We believe we now have the optimal platform to position us well to generate strong earnings, cash flow and de-leveraging as we realise the full benefit of this footprint and the investments we have made to enhance efficiency.

Trading continues to be strong and we remain on track to finish the year in line with market expectations."

A presentation for analysts will be held at 0930 and a call for investors will be held at 1330. Webcast and dial-in details:

Webcast Details:

Webcast link: https://www.investis-live.com/arrow-global/5b5f26ee5821140a0010b045/aghy

Participants (UK) can dial this number: 020 3059 8125
Participants (all other locations): +44 20 3059 8125
Participant password: Arrow Global

Investor conference call details:

Investors wishing to register for the call should visit:
http://emea.directeventreg.com/registration/7072988

Conference number: 7072988

Upon registration you will be provided with a dial in number, passcode and unique registration ID via email. Lines will then open 10 minutes before the start of the call to allow you to use the conference access information.

Notes:
A glossary of terms can be found on pages 40 to 43.

More details explaining the business can be found in the Annual Report & Accounts 2017 which is available on the Company's website at www.arrowglobalir.net

For further information:

Arrow Global	
Duncan Browne, Head of Investor Relations	**+44 (0)7925 643 385**
Instinctif Partners	
Giles Stewart	**+44 (0)20 7457 2020**

Forward looking statements

This document contains statements that constitute forward-looking statements relating to the business, financial performance and results of the Group and the industry in which the Group operates. These statements may be identified by words such as "expectation", "belief", "estimate", "plan", "target", or "forecast" and similar expressions or the negative thereof; or by forward-looking nature of discussions of strategy, plans or intentions; or by their context. All statements regarding the future are subject to inherent risks and uncertainties and various factors could cause actual future results, performance or events to differ materially from those described or implied in these statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate and neither the Company nor any other person accepts any responsibility for the accuracy of the opinions expressed in this document or the underlying assumptions. The forward-looking statements in this document speak only as at the date of this presentation and the Company assumes no obligation to update or provide any additional information in relation to such forward-looking statements.

About Arrow Global

Established in 2005, Arrow Global specialises in the purchase, collection and servicing of non-performing and non-core assets. We identify, acquire and manage secured and unsecured loan and real estate portfolios from financial institutions, such as banks and credit card companies.

We play an active role in helping financial institutions reduce their balance sheets and recapitalise in order to increase mainstream lending. By purchasing and managing non-performing loans and other non-core assets, we provide valuable capital and expertise to a growing European market.

We are a regulated business in all of our European markets, managing over £49.3 billion assets under management across six geographies with over 1,800 employees.

Interim management report
for the six months to 30 June 2018

Important note:

Both IFRS and cash metrics are important in understanding the key drivers of the business. The reconciliations and commentary on the following pages have been prepared to aid this understanding and support the commentary on the financial performance for the period.

Segmental reporting

Arrow Global is an investor and servicer of assets in the alternative investment space, providing valuable products and services for financial institutions and investment funds. As such, these various activities are highly complementary and synergistic, contributing to each other's growth and success. We are providing for the first time multi segmental financial information, which should help investors better understand the underlying financial drivers of our Group performance. The financial information is split across three segments: the Investment Business, the AMS Business, and our Group functions.

The Group functions segment includes the costs from the Group oversight and other functions not directly attributable to the operating business segments. This includes, for example, Group executives, finance, risk, internal audit and governance. Both operating business segments have demonstrated strong performance, a good contribution to earnings and are cash generative.

	Investment Business £000	Asset Management and Servicing Business £000	Group functions £000	Intra segment elimination £000	Adjusting items [1]	Total period ended 30 June 2018 £000
Total income	125,532	59,693	-	(18,341)	-	166,884
Collection activity costs	(47,834)	(29,759)	-	18,341	(688)	(59,940)
Gross margin	77,698	29,934	-	-	(688)	106,944
Gross margin %	*62%*	*50%*				
Other operating expenses excluding depreciation, amortisation and forex	(7,960)	(18,720)	(16,242)	-	(5,224)	(48,146)
EBITDA	**69,738**	**11,214**	**(16,242)**	**-**	**(5,912)**	**58,798**
EBITDA margin %	*56%*	*19%*				
Profit before tax	**69,738**	**11,214**	**(45,635)**	**-**	**(24,570)**	**10,747**

[1] 'Adjusting items' are those items that by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered by the Board to be representative of the ongoing performance of the Group and are therefore excluded from underlying profit after tax.

See note 5 for further information.

AMS Business

Continued growth

Since IPO, the Group's AMS income has grown from £1.4 million to over £70 million for the FY 2017. Our capital-light income generated through the servicing of third-party assets has increased by £7.2 million from £34.2 million in HY 2017 to £41.4 million. This has been driven by the continued strength of the franchise, a full-period effect of the Zenith acquisition completed in April 2017 and the acquisitions of Mars Capital in November 2017 and Parr Credit in March 2018.

The Group provides asset management and servicing to other Group companies as well as external parties and its gross segmental income was £59.7 million, including income from the Group's Investment Business on an arm's length equivalent basis. See note 5 for further information.

Income from AMS has continued to grow as a proportion of total income, increasing to 32.2% of gross segmental income, before intra segment elimination. We expect this to continue to be the Group's fastest growing activity.

The EBITDA margins in our AMS Business are 19%, consistent with our previous high-teens guidance, and we remain confident that this will increase to over 20% as we deliver on our strategy to develop our servicing offering in high margin niches and build out our fund management offering. The Group began this process with the raising of a £300 million fund with a single institutional fund client in February 2018.

The Group has now received the required regulatory approval from the Bank of Italy associated with the Europa Investimenti acquisition, which is expected to close by the end of Q3. The acquisition of Norfin is subject to Bank of Portugal approval, which is anticipated by the end of 2018.

Investment Business

Portfolio income driven by increased core collections

Total income from portfolio investments has increased by 8.6% to £125.5 million (HY 2017: £115.6 million), following continued strong collections performance.

Cash generation is a key metric for the business, a significant element of this being core collections generated by portfolio investments. Collections performance has been strong across the Group, with core collections increasing by 15.2% to £178.0 million (HY 2017: £154.5 million). This reflected the increase in our portfolio asset base and good performance of the back book, especially in Portugal. Collections were ahead of our estimated remaining collections (ERC) forecast and reflect our continually improving expertise across geographies and asset classes.

As at 30 June 2018, we had cumulatively collected 103% of our original underwriting forecast (FY 2017: 103%) excluding foreign exchange impacts, reflecting the success of our consistent underwriting capability and the conservatism naturally inherent in our approach to forecasting. While there are areas of the market that are more competitive, our focus on smaller deal sizes – often in off-market transactions – means that we remain able to originate portfolios in line with our mid-teens unlevered IRR target. Our continued collections outperformance accounts for around half of the portfolio revaluation of £23.3 million recorded in the period, described as an impairment gain in the income

statement in accordance with IFRS 9. The balance of this gain is due to the normal process of including cash flows that have moved from beyond the 84-month ERC recognition period to within it over time.

Portfolio investments

Our portfolio investment asset base increased by £75.0 million to £1,026.5 million (FY 2017: £951.5 million). This was driven by a record period of portfolio purchases of £145.1 million, an increase from 2017's £125.1 million. We remain on track to deliver on our annual portfolio purchase guidance of approximately £230 million to £240 million.

The strength and breadth of the origination platform has continued to lead to a record number of portfolio purchases, highly diversified by geography and asset class, with 66% of portfolio purchases continuing to be transacted off-market.

The Group acquired debt portfolios significantly in excess of the required replacement rate (the amount of annual investment required to keep the ERC constant), building a strong collection profile for the future, whilst continuing to remain within our guided leverage range. This is reflected in the increased value of the 84-month ERC from £1,516.9 million at 31 December 2017 to £1,624.8 million, an increase of 7.1%.

The face value of debt portfolios acquired in the period was £1,152.0 million, with an average purchase price of 12.6p per £1 (H1 2017: 12.9p per £1). The 120-month expected gross money multiple for this vintage is 1.8 times (FY 2017: 1.8 times) from the date of purchase.

In recent years, Arrow has diversified its focus from consumer unsecured assets in the UK to incorporate other asset classes, including paying accounts and secured loans across multiple markets in Europe. This means that the Group's asset mix is considerably more diversified with better risk adjusted returns.

The lower overall risk profile, the Group's diversification, the lower lifetime cost to collect for these assets and lower cost of debt have allowed the return on purchased portfolios to remain consistent.

The impact of the new accounting standard IFRS 9 *Financial Instruments* has been included in these accounts. The opening reserves have included a reduction of £14.0 million after tax, reflecting the expected lifetime credit losses from the application of a range of macroeconomic forecast scenarios. The corresponding reduction in the carrying value of portfolio investments is a non-cash charge.

Strong Group results

Good cash generation

The increase in collections drove an increase in adjusted EBITDA of 16.8% to £118.9 million (HY 2017: £101.8 million). The reconciliation for the period of profit after tax to the cash result, including a reconciliation to adjusted EBITDA, is provided on page 38. Adjusted EBITDA is a key driver of the cash result and allows us to monitor the operating performance and cash flow generation of the Group.

Good income growth

The growth in total income to £166.9 million (HY 2017: £149.8 million) has been driven by both our Investment Business and AMS Business.

Effective cost control

Collection activity costs increased by £4.8 million to £59.9 million (HY 2017: £55.1 million). The rate of cost increase is below that of income and collections, meaning that our direct cost to income ratio improved by 1 percentage point to 35.9% (HY 2017: 36.8%), despite the greater growth of the AMS Business, which has a higher cost to collect.

Other operating expenses increased by £13.8 million to £54.7 million (H1 2017: £40.9 million). This includes £5.2 million of adjusting items related to the 'One Arrow' investment programme of £2.9 million and business acquisition and other costs of £2.3 million that, due to their size and nature, are outside of the normal operating activities of the Group, and £5.7 million due to new businesses acquired in 2017 and the current period. In addition, over the last twelve months we have invested in expanding Group functions, including several important executive level appointments. The 'One Arrow' investment programme is expected to complete by the end of 2018. We anticipate that the run rate of other operating expenses will moderate and improvements in operational gearing will be seen from late 2019 onwards, resulting in a reduced cost: income ratio.

Profit after tax increased

Profit after tax has risen by over 100% to £8.5 million (HY 2017: £3.7 million) driven by strong income growth and business expansion, as discussed in the previous sections.

Tax

The tax charge of £2.2 million represents an effective tax rate of 20.8% (H1 2017: 24.2%) on profit before tax. The effective tax rate on underlying profit is 19.5% (H1 2017: 20.0%).

Strong returns and dividends

The underlying LTM ROE is 33.5%, up from 32.8% at H1 2017, and well above our target of mid-20s underlying ROE.

Basic EPS is 4.9p compared to 2.1p in H1 2017, with the increase largely due to the growth in income. Underlying basic EPS has increased 10.0% to 16.3p (HY 2017: 14.8p).

The Group will pay a 4.0p interim dividend, an increase of 25% from the H1 2017 interim dividend of 3.2p. This is in line with the Group's policy to pay 50% of the previous year's final dividend.

Underlying performance

Profit after tax includes non-underlying items totalling £24.6 million, which the Group considers adjusting items, arising from costs associated with restructuring the Group's long-term financing of £18.7 million and 'One Arrow' costs and business acquisition and other costs of £5.9 million. With no bond maturities due until 2024 and the One Arrow programme on track to complete by the end of the year, we expect a significant reduction in adjusting items in future periods.

These items are adjustments to reported profit to derive an underlying profit after tax of £28.4 million including a tax impact of £4.6 million.

Alternative performance measures

The Group believes that the use of alternative performance measures (APMs) for profitability, earnings per share and cash metrics (see pages 36 to 38), provide valuable information to the readers of the financial statements. They can provide a more comparable basis for assessing the Group's performance between financial periods, by adjusting for items that by their size, nature or incidence are not necessarily representative of the underlying performance of the business. APMs also reflect key operating targets and are used to monitor performance by the Board. APMs are not defined within IFRS and therefore may not be directly comparable with similarly titled measures reported by other companies. APMs in this document are not a substitute for, but complement, statutory IFRS measures and readers should also consider these.

	30 June 2018			30 June 2017		
	PBT £000	**Tax £000**	**PAT £000**	**PBT £000**	**Tax £000**	**PAT £000**
Reported profit	10,747	(2,234)	8,513	4,921	(1,190)	3,731
Bond refinancing costs	18,658	(3,545)	15,113	27,352	(5,265)	22,087
One Arrow costs	3,577	(876)	2,701	-	-	-
Acquisition and other costs	2,335	(221)	2,114	-	-	-
	35,317	(6,876)	28,441	32,273	(6,455)	25,818
Non-controlling interest			(32)			-
Underlying profit after tax			28,409			25,818

	30 June 2018		30 June 2017	
	Reported	**Underlying**	**Reported**	**Underlying**
LTM ROE (%)	**25.3**	**33.5**	8.5	32.8
Weighted average ordinary shares ('000)	174,811	174,811	174,550	174,550
Basic EPS (p)	**4.9**	**16.3**	2.1	14.8

Strengthened balance sheet

Funding and net debt

Following the Group's most recent refinancing on 7 March 2018, the Group has £178.0 million headroom and no facilities maturing until 2023 – a very strong position. As part of this refinancing, the Group issued €285 million floating rate senior secured notes due 2026 at EURIBOR + 3.75%. Additionally, the Group issued a tap of £100 million of the existing 5.125% fixed rate notes due 2024. As part of the transaction the Group redeemed its €230 million floating rate secured notes, which were issued at 4.75% over EURIBOR.

On 4 January 2018, the commitments under the revolving credit facility were increased from £215 million to £255 million. The maturity of the facility was extended to 2 January 2023 and the margin reduced to 2.5%.

The Group's secured net debt position at the period end was £1,002.9 million (FY 2017: £899.2 million).

Secured net debt to adjusted EBITDA is 4.0 times (FY 2017: 3.9 times), which is within our target range of 3.5 times to 4.0 times. The Group is committed to reducing the leverage ratio by year end and further into 2019.

The Group's weighted average cost of debt has been maintained at 3.9% and the average debt facility maturity is now 6.3 years. This means that since its IPO, the Group has more than halved its cost of debt while focusing on long duration debt for added balance sheet stability.

Summary and outlook

The Group has performed strongly in the financial period. The new segmental disclosure of our two operating business segments - the Investment Business and the AMS Business - show both divisions contributing strongly to earnings growth.

The high-quality, recurring earnings stream from asset management and servicing, underpinned by our institutional fund client base, is capital light and highly accretive to ROE.

We continue to see asset management and servicing as the fastest growing part of the business mix, driven by increased demand from our client base and the opportunity to raise third party funds to invest directly into attractive assets, thereby managing the investment and servicing of third party funds as one offering. This strategy is driven by the demand we see from third party investors from the wider investment community to use our origination, investment and collections expertise to gain exposure to high yielding assets in the alternative investment space.

While there are very highly competitive parts of the distressed debt market where returns are lower, it is a very large market and the Group avoids these parts of the market by continuing to focus on the high value, smaller transaction niches – an average £8 million deal size in H1 2018 – where higher returns are available. We also purchase the majority of our assets in off-market situations by acquiring assets on our own servicing platforms – we believe this pan-European approach is unique to Arrow and a powerful attribute of our model. Returns from these transactions are considerably in excess of our cost of capital and are, therefore, value accretive to shareholders. If the market backdrop was to alter to the extent that we were not able to achieve our target returns, the Group would slow its current investment rate.

The Group's balance sheet continues to be prudently structured with predictable cash generation from resilient, high return assets and we have £178.0 million of cash headroom going into the second half.

As the Group has refinanced its entire balance sheet, with no bond maturities due until 2024, financing costs will reduce. The successful refinancing work has also meant that our cost of debt has more than halved since our IPO. At 4.0 times secured net debt to adjusted EBITDA, the Group remains within our guided leverage range, and we remain committed to reducing this ratio by year end and further into 2019.

Arrow is now well positioned across its target markets and asset classes, meaning that the high rate of corporate acquisitions seen over recent years will reduce. This will support our deleveraging profile since our view is that we now have sufficient geographic reach and asset niche capability to fully capitalise on organic growth via the platform we have built.

Trading continues to be strong and we remain on track to finish the year in line with market expectations.

Principal risks and uncertainties

In our annual report we provided a summary of the principal key risk areas that could impact on the Group. We provide the following update against a number of these key risk areas.

Successful raising of funding at the start of the year facilitates the Group's ability to meet investment requirements at lower cost. Coupling this with increases in capital-light asset management income has served to enhance the Group's overall funding position. Risks associated with ongoing diversification of assets, including greater volumes of secured debt, is well-balanced via geographic diversification and the associated asset management income opportunities.

Overall, the volume and quality of debt purchase opportunities remains strong. Whilst there is increasing pricing pressure in certain parts of the market, the portfolio diversification and our ability to transact off-market enable these risks to be managed effectively. The opportunity pipeline is benefitting from our entry into Italy and Ireland and collections performance remains strong across the Group.

Brexit uncertainties for the UK remain whilst the UK Government negotiates with the EU. Although we do not anticipate material adverse consequences, we do continue to review the position for opportunities and headwinds. We are also closely monitoring the political landscape in Italy following the outcome of recent elections and maintaining a close watch in all markets to be alert to areas of regulatory or legislative change.

As expected, the degree of regulatory engagement and oversight is increasing across the markets in which we operate, with many following the UK's lead in terms of fair customer treatment, which we support. We continue to engage directly with regulators in relation to activities we undertake on portfolios owned by the Group and in the provision of services for clients. Significant progress was made in tightening data controls across the Group in readiness for the EU General Data Protection Regulation and a Group head of information security and data protection officer was appointed in Q1.

To support our strategic plan, the Group reviews appropriate levels of investment in people and infrastructure on an ongoing basis, with full oversight from both the executive management team and the Board. The Group has a range of technology-related opportunities which it is considering as part of One Arrow, including consolidation of IT infrastructure.

Related party transactions

Related party transactions are disclosed in note 13 to the condensed consolidated financial statements.

Going concern

As stated in note 2 to the condensed consolidated financial statements, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Directors’ responsibilities statement in respect of the interim results

We confirm that to the best of our knowledge:

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

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

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

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

Name	**Function**
Jonathan Bloomer	Non-executive Chairman
Lee Rochford	Group chief executive officer
Paul Cooper	Group chief financial officer
Iain Cornish	Non-executive director and senior independent director
Lan Tu	Non-executive director
Maria Luís Albuquerque	Non-executive director
Andrew Fisher	Non-executive director

The interim results were approved on 30 August 2018 by the board of directors and are signed on its behalf by:

Paul Cooper
Group chief financial officer

Independent Review Report to Arrow Global Group PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related explanatory notes 1 to 19.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules (“the DTR”) of the UK’s Financial Conduct Authority (“the UK FCA”).

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Independent Review Report to Arrow Global Group PLC

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Richard Gabbertas

for and on behalf of KPMG LLP

Chartered Accountants
One St Peter's Square
Manchester
M2 3AE
30 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 June 2018

	Note	Unaudited period ended 30 June 2018 £000	Unaudited period ended 30 June 2017 £000
Continuing operations			
Income from portfolio investments		96,143	85,111
Fair value gain on portfolio investments at FVTPL		6,108	2,159
Impairment gains on portfolio investments at amortised cost		23,281	28,316
Total income from portfolio investments		**125,532**	**115,586**
Income from asset management and servicing		41,352	34,204
Total income		**166,884**	**149,790**
Operating expenses:			
Collection activity costs		(59,940)	(55,105)
Other operating expenses		(54,745)	(40,924)
Total operating expenses	9	**(114,685)**	**(96,029)**
Operating profit		**52,199**	**53,761**
Net finance costs		(22,794)	(22,560)
Refinancing costs		(18,658)	(27,352)
Share of profit in associates		-	1,072
Profit before tax		**10,747**	**4,921**
Taxation charge	8	(2,234)	(1,190)
Profit after tax		**8,513**	**3,731**
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange translation difference arising on revaluation of foreign operations		(451)	3,168
Movement on the hedging reserve		(375)	516
Total comprehensive income for the period		**7,687**	**7,415**
Profit attributable to:			
Owners of the Company		8,481	3,731
Non-controlling interest		32	-
		8,513	**3,731**
Basic EPS (p)	6	**4.9**	**2.1**
Diluted EPS (p)	6	**4.7**	**2.1**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018	Notes	Unaudited 30 June 2018 £000	Audited 31 December 2017 £000	Unaudited 30 June 2017 £000
Assets				
Non-current assets				
Goodwill	10	173,589	152,779	140,969
Other intangible assets		42,865	43,493	42,774
Property, plant and equipment		9,248	10,168	6,328
Investment in associates		-	-	9,060
Deferred tax asset		7,338	7,780	4,171
Total non-current assets		**233,040**	**214,220**	**203,302**
Current assets				
Cash and cash equivalents		34,741	35,943	38,375
Trade and other receivables		68,177	56,885	47,230
Derivative asset		9	-	3,456
Portfolio investments	11	1,026,512	951,467	901,731
Total current assets		**1,129,439**	**1,044,295**	**990,792**
Total assets		**1,362,479**	**1,258,515**	**1,194,094**
Equity				
Share capital		1,763	1,753	1,753
Share premium		347,436	347,436	347,436
Retained earnings		100,393	118,710	86,410
Hedging reserve		(718)	(343)	(116)
Other reserves		(275,360)	(272,408)	(271,671)
Total equity attributable to shareholders		**173,514**	**195,148**	**163,812**
Non-controlling interest		162	173	187
Total equity		**173,676**	**195,321**	**163,999**
Liabilities				
Non-current liabilities				
Senior secured notes	14	910,140	763,740	756,858
Trade and other payables	12	22,384	16,569	6,139
Deferred tax liability		16,365	21,940	16,311
Total non-current liabilities		**948,889**	**802,249**	**779,308**
Current liabilities				
Trade and other payables	12	101,906	81,790	82,801
Current tax liability		3,466	4,528	2,735
Derivative liability		2,282	2,865	144
Revolving credit facility	14	108,239	153,036	144,154
Bank overdrafts	14	1,329	1,332	1,318
Other borrowings	14	17,163	10,724	15,609
Senior secured notes	14	5,529	6,670	4,026
Total current liabilities		**239,914**	**260,945**	**250,787**
Total liabilities		**1,188,803**	**1,063,194**	**1,030,095**
Total equity and liabilities		**1,362,479**	**1,258,515**	**1,194,094**

The interim results were approved on 30 August 2018 by the board of directors and are signed on its behalf by:

Paul Cooper Group chief financial officer

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2018

	Ordinary shares £000	Share premium £000	Retained earnings £000	Hedging reserve £000	Own share reserve* £000	Translation reserve* £000	Merger reserve* £000	Total £000	Non-controlling interest £000	Total £000
Balance at 1 January 2017	**1,744**	**347,436**	**92,327**	**(632)**	**(1,936)**	**5,413**	**(276,961)**	**167,391**	**-**	**167,391**
Profit for the period	-	-	3,731	-	-	-	-	3,731	-	3,731
Exchange differences	-	-	-	-	-	3,168	-	3,168	-	3,168
Net fair value gains cash flow hedges	-	-	-	618	-	-	-	618	-	618
Tax on hedged items	-	-	-	(102)	-	-	-	(102)	-	(102)
Total comprehensive income for the period	**-**	**-**	**3,731**	**516**	**-**	**3,168**	**-**	**7,415**	**-**	**7,415**
Non-controlling interest at acquisition	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	187	187
Shares issued in the period	9	-	-	-	-	-	-	9	-	9
Repurchase of own shares	-	-	-	-	(1,355)	-	-	(1,355)	-	(1,355)
Share-based payments	-	-	1,550	-	-	-	-	1,550	-	1,550
Dividend paid	-	-	(11,198)	-	-	-	-	(11,198)	-	(11,198)
Balance at 30 June 2017 (unaudited)	**1,753**	**347,436**	**86,410**	**(116)**	**(3,291)**	**8,581**	**(276,961)**	**163,812**	**187**	**163,999**
Profit for the period	-	-	36,140	-	-	-	-	36,140	44	36,184
Exchange differences	-	-	-	-	-	1,133	-	1,133	-	1,133
Recycled to profit after tax	-	-	-	-	-	(1,870)	-	(1,870)	-	(1,870)
Remeasurement of the defined benefit liability	-	-	(25)	-	-	-	-	(25)	-	(25)
Net fair value gains cash flow hedges	-	-	-	(270)	-	-	-	(270)	-	(270)
Tax on hedged items	-	-	-	43	-	-	-	43	-	43
Total comprehensive income for the period	**-**	**-**	**36,115**	**(227)**	**-**	**(737)**	**-**	**35,151**	**44**	**35,195**
Share-based payments	-	-	1,784	-	-	-	-	1,784	-	1,784
Dividend paid	-	-	(5,599)	-	-	-	-	(5,599)	-	(5,599)
Dividend paid by NCI	-	-	-	-	-	-	-	-	(58)	(58)
Balance at 31 December 2017	**1,753**	**347,436**	**118,710**	**(343)**	**(3,291)**	**7,844**	**(276,961)**	**195,148**	**173**	**195,321**
Impact of adopting IFRS 9	-	-	(14,000)	-	-	-	-	(14,000)	-	(14,000)
Impact of adopting IFRS 15	-	-	(231)	-	-	-	-	(231)	-	(231)
Balance post IFRS adjustments at 1 January 2018	**1,753**	**347,436**	**104,479**	**(343)**	**(3,291)**	**7,844**	**(276,961)**	**180,917**	**173**	**181,090**
Profit for the period	-	-	8,481	-	-	-	-	8,481	32	8,513
Exchange differences	-	-	-	-	-	(451)	-	(451)	-	(451)
Net fair value gains cash flow hedges	-	-	-	(473)	-	-	-	(473)	-	(473)
Tax on hedged items	-	-	-	98	-	-	-	98	-	98
Total comprehensive income for the period	**-**	**-**	**8,481**	**(375)**	**-**	**(451)**	**-**	**7,655**	**32**	**7,687**
Shares issued in the period	10	-	-	-	-	-	-	10	-	10
Repurchase of own shares	-	-	-	-	(2,501)	-	-	(2,501)	-	(2,501)
Share-based payments	-	-	1,589	-	-	-	-	1,589	-	1,589
Dividend paid	-	-	(14,156)	-	-	-	-	(14,156)	-	(14,156)
Dividend paid by NCI	-	-	-	-	-	-	-	-	(43)	(43)
Balance at 30 June 2018 (unaudited)	**1,763**	**347,436**	**100,393**	**(718)**	**(5,792)**	**7,393**	**(276,961)**	**173,514**	**162**	**173,676**

* Other reserves total £275,360,000 deficit (31 December 2017: £272,408,000 deficit, 30 June 2017: £271,671,000 deficit)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended 30 June 2018

	Note	Unaudited period ended 30 June 2018 £000	Unaudited period ended 30 June 2017 £000
Net cash used in operating activities	16	**(39,331)**	**(43,767)**
Investing activities			
Purchase of property, plant and equipment		(472)	(361)
Purchase of intangible assets		(4,881)	(4,981)
Dividends received from associates		-	2,737
Proceeds from disposal of intangible assets		-	8
Acquisition of subsidiary, net of cash acquired	15	(12,995)	(4,102)
Acquisition of subsidiary, deferred consideration		(10,712)	(8,888)
Net cash used in investing activities		**(29,060)**	**(15,587)**
Financing activities			
Net proceeds from additional loans		(37,858)	63,344
Proceeds from senior notes (net of fees)		345,847	340,580
Redemption of senior notes		(203,467)	(290,867)
Early redemption of senior notes costs		(13,623)	(17,631)
Repayment of interest on senior notes		(18,142)	(17,886)
Other interest paid		(2,682)	(1,428)
Bank interest received		6	3
Repurchase of own shares		(2,501)	(1,355)
Issued share capital		10	9
Settlement of deferred consideration interest		(257)	(608)
Net cash flow generated by financing activities		**67,333**	**74,161**
Net increase in cash and cash equivalents		**(1,058)**	**14,807**
Cash and cash equivalents at beginning of period		35,943	23,203
Effect of exchange rates on cash and cash equivalents		(144)	365
Cash and cash equivalents at end of period		**34,741**	**38,375**

Notes to the condensed consolidated interim financial statements

1. General Information

The Company is incorporated in England and Wales. These condensed consolidated interim financial statements (interim financial statements) of the Company as at and for the six months ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as 'the Group'). The Group's principal activity is to identify, acquire and manage secured and unsecured defaulted and non-core loan portfolios from financial institutions, such as banks and credit card companies, as well as retail chains, student loans, motor credit, telecommunications firms and utility companies. 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.

2. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. They do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

The annual financial statements of the Group are prepared in accordance with IFRS as adopted for use in the EU, and therefore comply with Article 4 of the EU IFRS Regulation. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the interim financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated annual report for the year ended 31 December 2017, other than that this is the first set of the Group's financial statements where IFRS 9 and IFRS 15 have been applied. Changes to significant accounting policies are described in note 3.

The comparative figures for the financial year ended 31 December 2017 are not the complete version of the Company's statutory accounts for that financial year. The consolidated financial statements of the Group as at and for the year ended 31 December 2017 are available upon request from the Company's registered office at Belvedere, 12 Booth Street, Manchester, M2 4AW or online at www.arrowglobalir.net. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor:

(i) was unqualified;
(ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and
(iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim 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.

These interim financial statements were approved by the board of directors on 30 August 2018.

Going concern

The directors have undertaken a thorough review of forecast cash flow models and scenarios for a period in excess of 12 months from the date of approval of these accounts. Following this review, and in the light of current cash headroom of £178.0 million, no bond maturities until 2024 and information available about future risks and uncertainties, they have concluded that it is appropriate to prepare the Group interim financial statements on a going concern basis.

Notes to the condensed consolidated interim financial statements (*continued*)

3. Adoption of new standards

On the 1 January 2018 the Group adopted IFRS 9 and IFRS 15. This resulted in some changes to key accounting policies that are described in detail below.

3.1 IFRS 9 '*Financial instruments*'

The only material impact from the introduction of IFRS 9 is seen in and associated with portfolio investments as discussed in the following paragraphs.

Classification of portfolio investments

Under IFRS 9, the Group is required to classify all portfolio investments into one of three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through the profit or loss (FVTPL). Note 11 contains an analysis of which category the Group's portfolios are included.

A portfolio investment is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A portfolio investment is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

None of the Group's portfolios are currently classified as fair value through OCI.

All portfolio investments not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at FVTPL.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and therefore there has not been a significant change to this element of the accounting policy.

Revenue recognition and effective interest rate method (EIR) Income from portfolio investments

Income from portfolio investments represents the yield from acquired portfolio investments. Portfolio investments are financial assets that are accounted for under IFRS 9 and recognised at fair value at the purchase date that equals the price paid. Unless measured at FVTPL they are subsequently measured at amortised cost using the EIR method.

The EIR method is a method of calculating the amortised cost of a portfolio investment 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).

Following implementation of IFRS 9 the EIR is a credit-adjusted rate taking into account expected credit losses (ECL), see below.

Notes to the condensed consolidated interim financial statements (*continued*)

3. Adoption of new standards (*continued*)

3.1 IFRS 9 ‘*Financial instruments*’ (*continued*)

Where the Group acquires portfolio investments via forward flow agreements, being contracted multiple future purchases, there is no difference in accounting treatment from that described above.

Portfolio investments measured at fair value

Following the introduction of IFRS 9 a greater value and proportion of the Group’s portfolio investments are measured at fair value as they will not meet the SPPI test. These investments are initially recorded at their fair value, being their acquisition price, and are subsequently measured at fair value using discounted cash flow models. Each investment’s life varies as appropriate for each individual investment, to include all anticipated economic benefits to be derived by the Group from ownership of the investment.

Recognition of loan notes as portfolios

When the Group purchases loan notes in entities that in turn have legal ownership of underlying loan portfolios, the Group has assessed the substance of the loan notes under the criteria set out in IFRS 9 to determine whether to account for the underlying portfolio loan assets or to recognise an investment in the loan note asset in the entity that has issued the loan notes.

The decision is based on whether the circumstances meet the requirements of IFRS 9, paragraph 3.2.5, which deems that the Group would recognise its proportionate share of the assets on balance sheet as portfolio loan assets, where the following criteria are met:

- the loan note issuing entity has no obligation to pay amounts to the Group unless it collects equivalent amounts from the original asset;
- the loan note issuing entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the Group for the obligation to pay the cash flows; and
- the loan note issuing entity has an obligation to remit any cash flows it collects on behalf of the Group without material delay.

Essentially, where the risks and rewards of the loan portfolio assets sit with the Group rather than the issuer of the loan notes, it is appropriate for the entity issuing the loan notes to derecognise the underlying asset, and the Group to recognise its proportionate share.

Impairment of portfolio investments

Impairment on portfolio investments is assessed under the IFRS 9 forward-looking expected credit loss model. The estimation of ECL’s includes an assessment of forward-looking economic assumptions which are determined on a probability-weighted basis based on reasonable and supportable forecasts. The Group leverages off its existing cash flow models to inform these ECLs.

The key concepts for IFRS 9 in relation to impairment provisioning include the following categories:

- No significant increase in credit risk since origination (‘Performing’)
- A significant increase in credit risk has occurred since origination (‘Underperforming’)
- Credit impaired such as losses are incurred (‘Credit impaired’); or
- The asset is considered purchased or originated credit impaired on initial recognition (‘POCI’)

3. Adoption of new standards (*continued*)

3.1 IFRS 9 '*Financial instruments*' (*continued*)

Due to the characteristics of the Group's portfolio investments they are classified as POCI as the assets are considered purchased or originated credit impaired. ECL is not recognised on initial recognition. Instead, lifetime ECL is incorporated into the calculation of the effective interest rate. Any changes in lifetime ECL after initial recognition are recognised in profit or loss. ECL calculation for POCI assets is always based on an ECL over the expected life of the asset.

In determining ECLs the assessment of forward-looking economic assumptions, which are sourced from an independent specialist forecasting company, the Group considers a number of macroeconomic scenarios, including assumptions on unemployment, GDP and CPI, and where appropriate HPI. These scenarios are probability weighted according to their likely occurrence. The scenarios include a central scenario, based on the current economic environment, and upside and downside scenarios. The estimation and application of this forward-looking information requires significant judgment and is subject to appropriate internal governance and scrutiny.

Upward impairments (write-ups) are increases to carrying values, discounted at the credit-adjusted EIR rate, of the acquired debt portfolios as a result of reassessments to their estimated future cash flows and are recognised in the line item impairment gains on portfolio investments at amortised cost. Any subsequent reversals to write-up are also recorded in this impairment gains on portfolio investments line item.

Others

The Group has applied the low credit risk exemption to cash and cash equivalents and the simplified approach to trade and other receivables. Neither of these approaches has resulted in a significant impact for the carrying value of these items.

Disclosure changes due to IFRS 9

The line item 'portfolio investments' in the statement of financial position was impacted by the introduction of IFRS 9, disclosed as 'purchased loan portfolios' and 'loan notes' in previous accounting periods. The post tax impact of £14,000,000, reducing the portfolio value as a result of the IFRS 9 impairment, is discussed as part of note 11. The income statement sees the addition of the line items 'fair value gain on portfolio investments at FVTPL' and 'impairment gains on portfolio investments at amortised cost' included as part of total income, which was known as 'total revenue' in previous accounting periods.

3.2 IFRS 15 '*Revenue from contracts with customers*'

The Group's asset management income is within the scope of IFRS 15. The Group recognises asset management income on portfolios managed for third parties. The key contract obligations include debt collection servicing and master servicing. The nature of the compensation for debt collection services and subsequent income recognised is contingency collection fees, which are received either as a fixed fee, a percentage of collections or a percentage of the outstanding portfolio asset value. The nature of the compensation for master servicing is an agreed upon fee for the provision of various services that are available on demand.

The Group has considered the revenue recognition policies in the context of the requirements of IFRS 15. As a result of the assessment, it has been concluded there is not a material change resulting from the implementation of IFRS 15.

Notes to the condensed consolidated interim financial statements (*continued*)

3. Adoption of new standards (*continued*)

3.2 IFRS 15 '*Revenue from contracts with customers* (*continued*)

The following is a summary of some of the more significant considerations that are important in understanding the impact of the implementation of IFRS 15 on the Group:

i. Asset management and servicing income – portfolio servicing for Group and third parties

Under IFRS 15, income will be recognised over time with the relevant measure of progress against performance obligations being the collections calculation at the end of each period. Based on the Group's assessment, current revenue recognition policies are consistent with this approach.

ii. Asset management and servicing income – master servicing

Under IFRS 15, income is recognised over time with the relevant measure of progress against performance obligations being time, due to these services being on demand for when customers require them. Based on the Group's assessment, current revenue recognition policies are consistent with this approach.

iii. Transition

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group has not applied the requirements of IFRS 15 to the comparative period presented.

3.3 Standards not yet effective

A number of other new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these condensed consolidated financial statements.

Of the standards issued but not yet effective, IFRS 16 Leases is likely to have the most significance for the Group. The standard is effective for annual periods beginning on or after 1 January 2019 and it introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment.

So far, the most significant impact identified is that the Group will recognise new assets and liabilities for the operating leases of office buildings occupied by the Group.

4. Accounting policies, critical accounting judgements and estimates

In applying the Group's accounting policies, the directors are required to make judgements, 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.

In preparing the interim financial statements, the accounting policies, areas of judgement, estimation and assumption were the same as those applied in the consolidated financial statements of the Group as at and for the year ended 31 December 2017, other than for those mentioned in note 3 above. In particular, significant judgement is required in the use of estimates and assumptions in the valuation of the portfolio assets.

Notes to the condensed consolidated interim financial statements (*continued*)

5. Segmental reporting

From 2018, the Group started to report under three separable reportable segments. The prior period is still considered to be one segment as prior to the current financial period, the information by segment was not available.

Segmental information has been provided in line with what is received on a regular basis by the chief operating decision maker, which is the board of directors collectively, as defined in IFRS 8. The principal business categories are as follows:

The Investment Business	All portfolio investments that the Group owns, and the income and costs associated with them
Asset Management and Servicing Business	Income and costs associated with managing debt portfolios on behalf of the Group and external servicers
Group functions	Costs not directly associated with either investment or asset management and servicing but to overall oversight and control of the Group's activities

The intra segment elimination column below removes charges made from the Asset Management and Servicing segment to the Investment segment on behalf of the Group for servicing and collection of the Group's portfolio investments. The intra segment charge is calculated on equivalent commercial terms to charging third-parties.

	Investment Business £000	**Asset management and servicing Business £000**	**Group Functions £000**	**Intra segment elimination £000**	**Adjusting items**	**Total period ended 30 June 2018 £000**
Total income	125,532	59,693	-	(18,341)	-	166,884
Collection activity costs	(47,834)	(29,759)	-	18,341	(688)	(59,940)
Gross margin	77,698	29,934	-	-	(688)	106,944
Gross margin %	*62%*	*50%*				
Other operating expenses excluding depreciation, amortisation and forex	(7,960)	(18,720)	(16,242)	-	(5,224)	(48,146)
EBITDA	**69,738**	**11,214**	**(16,242)**	**-**	**(5,912)**	**58,798**
EBITDA margin %	*56%*	*19%*				
Depreciation, amortisation and forex	-	-	(6,599)	-	-	(6,599)
Operating profit	**69,738**	**11,214**	**(22,841)**	**-**	**(5,912)**	**52,199**
Net finance costs	-	-	(22,794)	-	-	(22,794)
Refinancing costs	-	-	-	-	(18,658)	(18,658)
Profit before tax	**69,738**	**11,214**	**(45,635)**	**-**	**(24,570)**	**10,747**

Other operating expense inclusive of depreciation, amortisation and forex totals £54,745,000. See page 36 for further detail of adjusting items as part of the reconciliation of reported to underlying results.

Notes to the condensed consolidated interim financial statements (*continued*)

6. Earnings per share

	Period ended 30 June 2018 £000	Period ended 30 June 2017 £000
Basic/diluted earnings per share		
Profit for the period attributable to equity shareholders	8,481	3,731
Weighted average ordinary shares	174,811	174,550
Potential exercise of share options	4,015	4,157
Weighted average ordinary shares (diluted)	**178,826**	**178,707**
Basic earnings per share (p)	**4.9**	**2.1**
Diluted earnings per share (p)	**4.7**	**2.1**

7. Dividend

A dividend of £14,156,000 has been accrued in these interim results, being the 2017 final dividend of 8.1p per share approved by the shareholders at the 2018 annual general meeting, paid on 6 July 2018.

The 2018 interim dividend will be 4.0p per share (HY 2017: 3.2p), being 50% of the 2017 final dividend, in accordance with our policy. The dividend is payable on 12 October 2018 to shareholders who are on the register as at 7 September 2018. The ex-dividend date is 6 September 2018. Shareholders will again have the opportunity to elect to reinvest their cash dividend and purchase existing shares in the Company through a dividend reinvestment plan, with an election date of 21 September 2018. The interim dividend has not been recognised as a liability in these financial statements.

8. Tax

The Group's effective consolidated tax rate for the six months ended 30 June 2018 was 20.8% (30 June 2017: 24.2%). The current period effective tax rate is reflective of the applicable corporate tax rate for the full financial year.

Notes to the condensed consolidated interim financial statements (*continued*)

9. Other operating expenses

	Period ended 30 June 2018 £000	Period ended 30 June 2017 £000
Staff costs	22,878	20,256
Other staff related costs	3,385	3,489
Premises	3,644	2,742
IT	5,452	4,408
Depreciation and amortisation	6,625	5,433
Net foreign exchange gains	(26)	(656)
Other operating expenses	7,563	5,252
	49,521	40,924
Adjusting items	5,224	-
	54,745	40,924

10. Goodwill

Cost	**£000**
At 30 June 2017	**143,278**
Goodwill on acquisition of subsidiary	10,813
Exchange rate differences	997
At 31 December 2017	**155,088**
Goodwill on acquisition of subsidiaries	21,044
Exchange rate differences	(234)
At 30 June 2018	**175,898**
Impairment:	
At 30 June 2017, 31 December 2017 and 30 June 2018	**2,309**
Net book value:	
At 30 June 2018	**173,589**
At 31 December 2017	**152,779**
At 30 June 2017	**140,969**

The goodwill on acquisition of subsidiaries in the current period includes £20,311,000 from the acquisition of Parr Credit s.r.l (Parr Credit) and a £733,000 movement relating to the Mars Capital acquisition that completed in November 2017. This movement was due to updates to the intangible asset and trade receivables. For more details on the Parr Credit acquisition see note 15.

Notes to the condensed consolidated interim financial statements (*continued*)

11. Portfolio investments

The Group recognises income from purchased portfolio investments in accordance with IFRS 9 from 1 January 2018.

The movements in portfolios investments were as follows:

	Period ended 30 June 2018 £000	Year ended 31 December 2017 £000	Period ended 30 June 2017 £000
As at the period brought forward	951,467	804,107	804,107
Impact of adopting IFRS 9 at 1 January 2018	(17,000)	-	-
Brought forward after impact of IFRS 9 opening adjustment	934,467	804,107	804,107
Portfolio investments acquired during the period*	146,306	225,734	125,229
Collections in the period	(178,010)	(342,210)	(154,475)
Total income from portfolio investments	125,532	247,917	115,586
Foreign exchange (loss) / gain	(1,783)	16,393	11,758
Purchase price adjustment relating to prior year	-	(474)	(474)
As at the period end	**1,026,512**	**951,467**	**901,731**

* Inclusive of acquisition costs

The estimated future cash flows generated by portfolio investments are the key estimates/judgments in these financial statements. Flexing the expected future gross cash flows by -1/+1% would impact the closing carrying value of the portfolio investments as at 30 June 2018 by £9,407,000 (31 December 2017: £8,845,000, 30 June 2017: £8,139,000).

Classification of portfolio investments

The following table provides a reconciliation between line items in the statement of financial position and the categories of portfolio investments under IFRS 9.

	Amortised cost £000	FVTPL £000	30 June 2018 £000
As at the period end	853,149	173,363	**1,026,512**

11. Portfolio investments (*continued*)

Classification of portfolio investments on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and new measurement categories under IFRS 9 as at the 1 January 2018.

	IAS 39 classification	IFRS 9 classification	IAS 39 Carrying Amount £000	IFRS 9 Carrying Amount £000
Purchased loan portfolios (a)	Loans and receivables	Amortised cost	843,845	826,936
Purchased loan portfolios (b)	Loans and receivables	FVTPL	56,924	56,924
Loan notes (a)	Loans and receivables	Amortised cost	9,120	9,029
Loan notes	FVTPL	FVTPL	30,889	30,889
Loan notes (b)	Loans and receivables	FVTPL	10,689	10,689
As at the period end			951,467	934,467

The impact of adopting IFRS 9 as at 1 January 2018 can be seen in purchased loan portfolios (a) in the table above. The transfers from amortised cost to FVTPL are due to specific aspects of the individual loan agreements that mean they do not meet the SPPI requirements of IFRS 9, see note 3. The fair value calculations are based on discounted cash flow models that are similar to those used for amortised cost portfolios, but with certain differences, namely they do not include ECLs incorporating economic scenarios as detailed below.

The Group's accounting policies on the classification and measurement of financial instruments under IFRS 9 are set out in note 3. The application of these policies resulted in the reclassifications and/or changes to the carrying amount, as set out above and explained below.

a. Credit loss allowances have been recognised with respect to the purchased loan portfolios. These are as a result of the application of the probability weighted, macroeconomic scenarios being incorporated in the lifetime ECL.
b. Certain purchased loan portfolios held by the Group have contractual cash flows that are not solely payments of principal and interest. These assets are measured at FVTPL under IFRS 9.

The following table analyses the impact net of tax, of transition to IFRS 9 on retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 at 1 January 2018 £000
Closing balance under IAS 39 as at 31 December 2017	118,710
Recognition of expected credit losses, net of tax, under IFRS 9	(14,000)
Opening balance under IFRS 9 as at 1 January 2018	**104,710**

Notes to the condensed consolidated interim financial statements (*continued*)

12. Trade and other payables

	30 June 2018 £000	31 December 2017 £000	30 June 2017 £000
Current			
Trade payables	15,044	19,634	15,262
Deferred consideration on acquisition of subsidiary	1,660	6,618	6,421
Deferred consideration on portfolio investments	33,378	10,830	15,000
Taxation and social security	239	152	1,055
Dividends payable	14,156	-	11,198
Other liabilities and accruals	37,429	44,556	33,865
	101,906	**81,790**	**82,801**
Non-current			
Trade payables	1,899	1,197	-
Other liabilities and accruals	1,836	2,312	-
Deferred and contingent consideration on acquisition of subsidiary	14,848	8,581	5,101
Deferred consideration on portfolio investments	3,801	4,479	-
Deferred employee benefits	-	-	1,038
	22,384	**16,569**	**6,139**

The directors consider that the carrying amounts of the current trade and other payables approximate to their fair value on the basis that the balances are short term in nature. The non-current deferred consideration has also been calculated at fair value.

Notes to the condensed consolidated interim financial statements (*continued*)

13. Related party transactions

Key management are defined as permanent members of the executive committee. Compensation paid in relation to the financial period was as follows:

Remuneration	30 June 2018 £000	31 December 2017 £000	30 June 2017 £000
Salaries and performance related bonus	1,152	4,555	1,473
Pension-related benefits	103	222	120
	1,255	**4,777**	**1,593**

Executive committee members in the period 7 members (2017: 11 members).

During the period there were no related party transactions, with the exception of those eliminated on consolidation, other than discussed above.

14. Borrowings and facilities

Secured borrowing at amortised cost	30 June 2018 £000	31 December 2017 £000	30 June 2017 £000
Senior secured notes (net of transaction fees of £15,804,000, 31 December 2017: £15,607,000, 30 June 2017: £16,620,000)	910,140	763,740	756,858
Revolving credit facility (net of transaction fees of £3,453,000, 31 December 2017: £2,721,000, 30 June 2017: £3,001,000)	108,239	153,036	144,154
Senior secured notes interest	5,529	6,670	4,026
Bank overdrafts	1,329	1,332	1,318
Finance lease	1,753	1,816	-
Other borrowings	15,410	8,908	15,609
	1,042,400	**935,502**	**921,965**
Total borrowings			
Amount due for settlement within 12 months	132,260	165,360	165,107
Amount due for settlement after 12 months	910,140	770,142	756,858
	1,042,400	**935,502**	**921,965**

On 7 March 2018, Arrow Global Finance Plc issued €285 million floating rate senior secured notes due 2026 at a coupon of 3.75% over three-month EURIBOR and also issued a £100 million tap of its existing £220 million 5.125% fixed rate notes due 2024. As part of the transaction Arrow Global Finance Plc also redeemed its €230 million 4.75% over three-month EURIBOR floating rate senior secured notes.

The proceeds were used to fund the purchase price for the acquisition of Parr Credit, partially repay drawings under the revolving credit facility and to fund transaction costs and the redemption of the 2023 notes.

In 2018, bond refinancing costs comprised £18,658,000 incurred on the early redemption of the €230 million notes due 2023, of which £13,623,000 was a cash cost related to the call premium. The remaining £5,035,000 was due to a non-cash write-off of related transactions fees, relating to the 2023 notes.

Notes to the condensed consolidated interim financial statements (*continued*)

14. Borrowings and facilities *(continued)*

On 4 January 2018 the commitments under the revolving credit facility were increased from £215 million to £255 million. The maturity of the facility was extended to 2 January 2023 and the margin reduced to 2.5%.

15. Acquisitions of subsidiary undertakings

On 1 March 2018, the Group acquired 100% of the share capital of Parr Credit. Parr Credit manages unsecured performing and non-performing loans and customer relationships for Tier-1 telecommunications, financial institutions and media companies. The acquisition builds on the 2017 acquisition of Zenith and gives the Group Italian primary and special servicing capabilities that support the Group's growth ambitions. The total undiscounted consideration for the acquisition is €24,924,000 (£21,917,000) including deferred and contingent consideration.

Contingent consideration is split into three tranches and is based on the three future anniversaries of the transaction. It is included at its fair value, at the amount contractually agreed. The contingent consideration is based on the business meeting certain income targets each year.

Effect of the acquisition

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	Total £000
Intangible assets	264
Property, plant and equipment	84
Investments in associates	49
Cash and cash equivalents	21
Trade and other receivables	2,526
Current tax receivables	197
Trade and other payables	(1,566)
Accruals	(298)
Provisions	(868)
Bank overdraft	(5)
Total identifiable net assets	**404**
Goodwill on acquisition	20,311
	20,715
Consideration:	
Cash	13,011
Deferred consideration	3,925
Contingent consideration	3,779
	20,715
Cash impact of acquisition in the period:	
Cash consideration	13,011
Cash and cash equivalents acquired	(16)
	12,995

Notes to the condensed consolidated interim financial statements (*continued*)

15. Acquisitions of subsidiary undertakings *(continued)*

Goodwill of €23,097,000 (£20,311,000) was created as a result of this acquisition. The primary reason for the acquisition was to create scale and servicing capabilities across multiple asset classes in the Italian market following the purchase of Zenith in 2017.

In the period from acquisition to 30 June 2018, Parr Credit contributed income of £4,447,000 and no profit after tax contribution to the consolidated results for the period. If the acquisition had occurred on 1 January 2018, Group total income would have been an estimated £169,299,000 and profit after tax would have been an estimated £8,513,000.

16. Notes to the cash flow statement

	Period ended 30 June 2018	Period ended 30 June 2017
Cash flows from operating activities	**£000**	**£000**
Profit before tax	10,747	4,921
Adjusted for:		
Collections in the period	178,010	154,475
Income from portfolio investments	(96,143)	(85,111)
Fair value gain on portfolios	(6,108)	(2,159)
Net impairment gain	(23,281)	(28,316)
Share of profit from associates	-	(1,072)
Depreciation and amortisation	6,625	5,433
Interest payable	41,452	49,912
Foreign exchange gains	(26)	(656)
Equity settled share-based payment expenses	1,589	1,550
Operating cash flows before movement in working capital	**112,865**	**98,977**
Increase in other receivables	(8,893)	(6,916)
Increase / (decrease) in trade and other payables	8,210	(7,268)
Cash generated by operations	**112,182**	**84,793**
Income taxes and overseas taxation paid	(5,207)	(3,805)
Net cash flow from operating activities before purchases of loan portfolios	**106,975**	**80,988**
Purchases of portfolio investments	(146,306)	(124,755)
Net cash used in operating activities	**(39,331)**	**(43,767)**

Notes to the condensed consolidated interim financial statements (*continued*)

17. Share based payments

The following awards were made in 2018.

Share incentive plan scheme (SIP)

In 2018, the Company offered to all UK employees the opportunity to participate in the 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 for the vesting period to receive the shares.

Long-term incentive plan (LTIP)

In 2018, nil-cost share options and conditional awards 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") to eligible UK employees.

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.

The 2018 awards do not include the right to receive a dividend equivalent and for the ROE element of the award to vest at the maximum level, the growth metric has increased from 26% to 30%. Otherwise, the vesting criteria are in line with the 2015, 2016 and 2017 awards in note 29 in the Annual Report & Accounts 2017.

Restricted share award and deferred bonus share awards

A restricted share award was made in May 2018, which vests on 10 May 2020. Deferred share bonus awards were made in March 2018 to a current and former director, which vest on 26 March 2021. All are subject to continuity of employment.

Grant information for the period

The terms and conditions of the grants during the period are as follows:

	Method of settlement accounting	Number of instruments	Vesting period	Contractual life of options
Grant date/employees entitled				
Equity settled award – LTIP	Equity	1,814,874	3 years	27 June 2021
Equity settled award – restricted	Equity	189,702	2 years	10 May 2020
Equity settled award – SIP	Equity	42,972	3 years rolling	May – June 2021
Equity settled award – Deferred	Equity	70,891	3 years	26 March 2021

The weighted average fair value of options granted during the period was £2.23. The majority of options granted to date are nil cost options.

17. Share based payments (*continued*)

Grant information for the period (*continued*)

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

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

Grant date	27 June 2018	10 May 2018	May 2018	26 March 2018
Expected life of options (years)	3	2	3	3
Share prices at date of grant	£2.54	£3.20	£2.87	£3.46
Expected share price volatility (%)	38.2%	36.4%	n/a	35.3%
Risk free interest rate (%)	0.7%	0.8%	n/a	1.0%

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

	30 June 2018 £000
Equity settled share-based payment expense spread across vesting period	1,589
Total equity settled share-based payment expense recognised in the statement of comprehensive income	**1,589**

The basis of measures used to measure executive remuneration can be seen in the Annual Report & Accounts 2017 on the Company website at www.arrowglobalir.net.

18. 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.

Notes to the condensed consolidated interim financial statements (*continued*)

18. Financial instruments (*continued*)

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	**30 June 2018 £000**	**31 December 2017 £000**	**30 June 2017 £000**
Derivative assets:			
Foreign currency contracts	10	-	3,456
Derivative liabilities:			
Foreign currency contracts	(1,553)	(2,543)	-
Interest rate swaps	(731)	(322)	(144)
	(2,274)	**(2,865)**	**3,312**
Level 3			
Assets:			
Portfolio investments	173,363	30,889	24,170
	173,363	**30,889**	**24,170**

As a result of implementing IFRS 9 at 1 January 2018 £76,734,000 of portfolio investments were reclassified to be measured at fair value. There have been no other transfers in or out of Level 2 or 3 in the period.

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 30 June 2018.

The fair value of portfolio investments has been calculated using a discounted cash flow model. The three main influencing factors in calculating this are:

(i) estimated future cash flows, derived from management forecasts

(ii) the application of an appropriate exit multiple

(iii) discounting using a rate appropriate to the investment and the anticipated rate of return

18. Financial instruments (*continued*)

Financial instruments not measured at fair value – fair value hierarchy not measured at fair value
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 not measured at fair value fall into hierarchy level 3.

Level 3	**30 June 2018 £000**	**31 December 2017 £000**	**30 June 2017 £000**
Assets:			
Portfolio investments	853,149	920,578	877,561
	853,149	**920,578**	**877,561**

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

A reconciliation of the opening to closing balances for the period of the portfolio investments can be seen in note 11.

19. Post balance sheet events

On the 26 July 2018, the Group announced its proposed acquisition of Norfin Investimentos S.A., for a purchase price of £15.1 million and potential additional consideration, to be capped at £29.4 million, subject to business performance. The transaction is subject to approval from the Bank of Portugal, which is anticipated by the end of 2018.

Additional Information (Unaudited)

'Underlying profit' is considered to be a key measure in understanding the Group's ongoing financial performance.

Adjusting items are those items that management deem by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered to be representative of the ongoing performance of the Group and these items are excluded from underlying profit.

For the period ended 30 June 2018

	Period ended 30 June 2018 £000	Period ended 30 June 2017 £000
Continuing operations		
Income	**166,884**	**149,790**
Operating expenses		
Collection activity costs	(59,252)	(55,105)
Other operating expenses	(49,521)	(40,924)
Total operating expenses	**(108,773)**	**(96,029)**
Operating profit	**58,111**	**53,761**
Net finance costs	(22,794)	(22,560)
Share of profit in associates	-	1,072
Underlying profit before tax	**35,317**	**32,273**
Taxation charge on underlying activities	(6,876)	(6,455)
Underlying profit after tax	**28,441**	**25,818**
Non-controlling interest	(32)	-
Underlying profit attributable to owners of the company	**28,409**	**25,818**
Underlying Basic EPS (p)	**16.3**	**14.8**
Underlying tax rate	**19.5%**	**20.0%**

Reconciliation of reported to underlying costs

	2018			2017		
	Reported £000	Adjustments £000	Underlying £000	Reported £000	Adjustments £000	Underlying £000
Collection activity costs	(59,940)	688	(59,252)	(55,105)	-	(55,105)
Other operating expenses	(54,745)	5,224	(49,521)	(40,924)	-	(40,924)
Total operating expenses	(114,685)	5,912	(108,773)	(96,029)	-	(96,029)
Net finance costs	(41,452)	18,658	(22,794)	(49,912)	27,352	(22,560)

Adjusting items in the period relate to 'One Arrow' costs of £3.6 million and business acquisition and other costs of £2.3 million.

Financing costs adjusting items in both periods relate to costs associated with restructuring the Group's long-term financing.

Additional Information

Portfolio investments

We provide a reconciliation between IFRS and cash measures. The table below looks at the movement in our purchased portfolio investments compared to the movements in the ERC, the gross cash value of the portfolio before it is discounted to present value for inclusion in the IFRS results.

Further detail of how we assess performance through IFRS and cash measures can be seen in the strategic report of the Annual Report & Accounts 2017 on the Company website at www.arrowglobalir.net.

Movement in purchased portfolios under IFRS reconciled to cash ERC

	IFRS	ERC 84-month	ERC 120-month	
	£000	£000	£000	
Brought forward	934,467	1,516,909	1,780,245	ERC brought forward
Portfolios acquired during the period [1]	146,306	218,217	257,160	ERC acquired during the period
Collections in the period [2]	(178,010)	(178,010)	(178,010)	Collections in the period
Income from portfolio investments at amortised cost [3]	96,143			
Fair value gain on portfolio investments at FVTPL [4]	6,108			
Net impairment gain [5]	23,281			
Exchange and other movements	(1,783)			
		67,711	88,479	ERC roll forward and reforecast [6]
		1,624,827	**1,947,874**	ERC carried forward
Effect of discounting [7]		(598,315)		
Total	**1,026,512**	**1,026,512**		

[1] Portfolios acquired in the period are added to the statement of financial position carrying value of portfolio investments at their initial purchase price. The undiscounted forecast of estimated remaining collections is included in the ERC

[2] Collections made in the period are deducted from both the IFRS carrying value of portfolio investments and ERC

[3] Income on portfolio investments at amortised cost is calculated with reference to the effective interest rate (EIR) of the portfolio. This income is recognised after taking account of new portfolios, collections, updated ERC forecast, disposals and any FX impacts. See 8 in the reconciliation of profit after tax to the cash result on page 38 for more detail on total income

[4] Fair value gain on portfolio investments at FVTPL represents net increases to carrying values, discounted at the market EIR rate, of portfolio investments held at FVTPL as a result of reassessments to their estimated future cash flows

[5] Net impairment gain represents net increases to carrying values, discounted at the credit-adjusted EIR rate, of portfolio investments held at amortised cost as a result of reassessments to their estimated future cash flows

[6] The ERC roll forward and reforecast reflects management's updated estimation of future collections. It takes account of updated information on specific portfolios, the latest exchange rate and rolls forward the 84-month forecast collection period

[7] Under IFRS, the carrying value of portfolio investments includes 84-months of discounted cash flows, however we expect to see cash flows beyond this period and report a 120-month ERC also, as is customary for the industry

Additional Information

The table below reconciles the reported profit for the period to the cash result. For completeness we also separate out other adjusting items.

Reconciliation of profit after tax to the cash result

Income	Reported profit £000	Adjusting items [11] £000	Underlying profit £000	Other items £000	Cash Result £000	
Income from portfolio investments	96,143	-	96,143	81,867	178,010	Collections in the period [2]
Fair value gains portfolio investments at FVTPL	6,108	-	6,108	(6,108)	-	
Impairment gains on portfolio investments at amortised cost	23,281	-	23,281	(23,281)	-	
Income from asset management and servicing	41,352	-	41,352	-	41,352	Income from asset managemen and servicing
Total income [8]	**166,884**	**-**	**166,884**	**52,478**	**219,362**	
Total operating expenses	(114,685)	5,912	(108,773)	8,325[9]	(100,448)	Cash operating expenses
Operating profit	**52,199**	**5,912**	**58,111**	**60,803**	**118,914**[12]	
Net financing costs	(41,452)	18,658	(22,794)	1,976[10]	(20,818)	
Profit before tax	**10,747**	**24,570**	**35,317**	**62,779**	**98,096**	
Taxation charge on ordinary activities	(2,234)	(4,642)	(6,876)	1,669	(5,207)	
Profit after tax	**8,513**	**19,928**	**28,441**	**64,448**	**92,889**	
					(2,853)	Capital expenditure [13]
					(74,077)	Replacement rate [14]
					15,959	**Cash result**

[8] Total income is largely derived from Income from portfolio investments as explained in [3] plus income from asset management and servicing being commission on collections for third parties and fee income received. The other items add back loan portfolio amortisation to get to core collections. Amortisation reflects a reduction in the statement of financial position carrying value of the purchase loan portfolios arising from collections which are not allocated to income. Amortisation plus income from purchase loan portfolios equates to core collections

[9] Includes non-cash items including depreciation and amortisation, share-based payment charges and FX

[10] Non-cash amortisation of fees and interest

[11] The cash result is viewed on an underlying basis which excludes certain items. See APM table on page 8. These items have been excluded to provide a more comparable basis for assessing the Group's performance between financial periods

[12] This is the adjusted EBITDA for the business, which is a key driver to the cash result. This measure allows us to monitor the operating performance of the Group. See page 39 for detailed reconciliations of adjusted EBITDA

[13] Excludes £2.5 million of 'One Arrow' investment programme capital expenditure

[14] Replacement rate is the rate of portfolio investments purchases, at our target portfolio returns, required over the next 12 months to maintain the 84-month ERC as at 30 June 2018

Additional Information

Adjusted EBITDA

Reconciliation of net cash flow to adjusted EBITDA	30 June 2018 £000	30 June 2017 £000
Net cash flow used in operating activities	(39,331)	(43,767)
Purchases of loan portfolios	146,306	125,229
Purchase price adjustment relating to prior year	-	(474)
Income taxes paid	5,207	3,805
Working capital adjustments	683	14,184
Share of profits in associates	-	2,735
Amortisation of acquisition and bank facility fees	137	137
Adjusting items	5,912	-
Adjusted EBITDA	**118,914**	**101,849**
Reconciliation of core collections to adjusted EBITDA		
Income from loan portfolios including revaluations	125,532	115,586
Portfolio amortisation	52,478	38,889
Core collections (includes proceeds from disposal of portfolio investments)	**178,010**	**154,475**
Other income	41,352	34,204
Operating expenses	(114,685)	(96,029)
Depreciation and amortisation	6,625	5,433
Foreign exchange gains	(26)	(656)
Amortisation of acquisition and bank facility fees	137	137
Share based payments	1,589	1,550
Share of profit in associates	-	2,735
Adjusting operating expenses	5,912	-
Adjusted EBITDA	**118,914**	**101,849**
Reconciliation of operating profit to adjusted EBITDA		
Profit after tax	8,513	3,731
Underlying net finance costs	22,794	22,560
Taxation charge on ordinary activities	2,234	1,190
Share of profit on associate	-	(1,072)
Adjusting finance costs	18,658	27,352
Operating profit	**52,199**	**53,761**
Portfolio amortisation	52,478	38,889
Depreciation and amortisation	6,625	5,433
Foreign exchange gains	(26)	(656)
Amortisation of acquisition and bank facility fees	137	137
Share-based payments	1,589	1,550
Share of profit in associates	-	2,735
Adjusting operating expenses	5,912	-
Adjusted EBITDA	**118,914**	**101,849**

Glossary

‘Adjusted EBITDA’ means profit before interest, tax, depreciation, amortisation, foreign exchange gains or losses and non-recurring items.

‘Adjusting items’ are those items that by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered by the Board to be representative of the ongoing performance of the Group and are therefore excluded from underlying profit after tax.

‘Average net assets’ is calculated as the average quarterly net assets from HY 2017 to HY 2018 as shown in the quarterly and half yearly statements.

‘Cash interest cover’ represents interest on senior secured notes, utilisation and non-utilisation revolving credit facility fees to adjusted EBITDA.

‘Cash result’ represents current cash generation on a sustainable basis and is calculated as adjusted EBITDA less cash interest, income taxes and overseas taxation paid, purchase of property, plant and equipment, purchase of intangible assets and average replacement rate.

‘Collection activity costs’ represents the direct costs of collections related to the Group’s portfolio investments, such as internal staff costs, commissions paid to third party outsourced providers, credit bureau data costs and legal costs associated with collections.

‘Core collections’ or ‘core cash collections’ mean cash collections on the Group’s existing portfolios including ordinary course portfolio sales and put backs.

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

‘Diluted EPS’ means the earnings per share whereby the number of shares is adjusted for the effects of potential dilutive ordinary shares, options and LTIP’s.

‘DSBP’ means the Arrow Global deferred share bonus plan.

‘EBITDA’ means earnings before interest, taxation, depreciation and amortisation.

‘EIR’ means effective interest rate (which is based on the loan portfolio’s gross internal rate of return) calculated using the loan portfolio purchase price and forecast 84-month gross ERC at the date of purchase. On acquisition, there is a short period that is required to determine the EIR, due to the complexity of the portfolios acquired.

‘EPS’ means earning per share

‘84-Month ERC’ and **‘120-Month ERC’** (together **‘Gross ERC’**), mean the Group’s estimated remaining collections on portfolio investments over an 84-month or 120-month period, respectively, representing the expected future core collections on portfolio investments 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’** or **‘portfolio investments’** are on the Group’s balance sheet and represent all debt portfolios that the Group owns at the relevant point in time. A portfolio comprises a group of customer accounts purchased in a single transaction.

Glossary *(continued)*

'Diluted EPS' means the earnings per share whereby the number of shares is adjusted for the effects of potential dilutive ordinary shares, options and LTIP's.

'FCA' means Financial Conduct Authority.

'FVTPL' means Financial instruments designated at fair value with all gains or losses being recognised in the profit or loss.

'FY' means full year being the 12 months to 31 December 2017.

'**Gross money 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, excluding REO purchases and purchase price adjustments relating to asset management fees.

'Hedging reserve' comprises the net cumulative fair value adjustments on the derivative contracts used in the Group's hedging activities which are deemed to be effective.

'HY' means half year being the first six months of the year.

'IFRS' means EU endorsed international financial reporting standards.

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

'IPO' means initial public offering.

'IRR' means internal rate of return.

'Loan to Value ratio' or 'LTV ratio' represents the ratio of 84-month ERC to net debt.

'LTIP' means the Arrow Global long-term incentive plan.

'LTM' means last twelve months and is calculated by the addition of the consolidated financial data for the year ended 31 December 2017 and the consolidated interim financial data for HY 2018, and the subtraction of the consolidated interim financial data for HY 2017.

'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.

Glossary *(continued)*

'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 removing 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 period ended 30 June 2018 is as follows:

	30 June 2018 £000	31 December 2017 £000
Cash and cash equivalents	(34,741)	(35,943)
Senior secured notes (pre-transaction fees net off)	925,944	779,347
Revolving credit facility (pre-transaction fees net off)	111,692	155,757
Secured net debt	**1,002,895**	**899,161**
Deferred consideration	50,066	30,509
Senior secured notes interest	5,529	6,670
Bank overdrafts	1,329	1,332
Other borrowings	17,163	10,724
Net debt	**1,076,982**	**948,396**

'Off market' means those loan portfolios that were not acquired through a process involving a competitive bid or an auction like process.

'Own share reserve' comprises the cost of the Company's ordinary shares held by the Group. At 30 June 2018 the Group held 1,305,394 ordinary shares of 1p each (FY 2017: 257,337), held in an employee benefit trust. This represents 0.74% of the Company share capital at 30 June 2018 (FY 2017: 0.15%).

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

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

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

'ROE' means the return on equity as calculated by taking profit after tax divided by the average equity attributable to shareholders. Average equity attributable is calculated as the average quarterly equity from HY 2017 to HY 2018 as shown in the quarterly and half yearly statements. In the comparative period this is calculated as the average annual equity attributable.

'Secured loan to value' or **'secured LTV ratio'** represents the ratio of 84-month ERC to Secured net debt.

'Secured net debt' means the sum of the outstanding principal amount of the senior secured notes, amounts outstanding under the revolving credit facility, less cash and cash equivalents. Secured net debt is presented because it indicates the level of secured debt after removing the Group's assets that can be used to pay down outstanding secured borrowings, and because it is a component of the incurrence tests in the senior secured notes. The breakdown of secured net debt for the period ended 30 June 2018 is shown in net debt above.

'SIP' means the Arrow Global all-employee share incentive plan.

Glossary *(continued)*

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

'Underlying basic EPS' represents earnings per share based on underlying profit after tax, excluding any dilution of shares.

'Underlying profit after tax' means profit for the period after tax adjusted for the post-tax effect of certain adjusting items. The Group presents underlying profit after tax because it excludes the effect of items (and the related tax on such items) which are not considered representative of the Group's ongoing performance, on the Group's profit or loss for a period and forms the basis of its dividend policy.

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

'WACD' means weighted average cost of debt.