ARROW GLOBAL

25 August 2020

Arrow Global plc interim results for the six months ended 30 June 2020

Resilient H1 operational performance with improving collections trends during Q2; decisive suite of management actions taken to respond to COVID-19

Management have taken decisive action to secure the balance sheet and enhance liquidity

- Cash positive in H1 2020 with available cash headroom increasing to £166.7 million (FY 2019: £153.0 million) – driven by continued strong free cash flow (FCF) generation of £82.5 million (H1 2019: £115.3 million) and reduced capital intensity from Arrow co-investing with the Fund. Arrow share of portfolio purchases of £42.9 million (H1 2019: £165.6 million)
- Additional ABS facility of £91.1 million (completed post balance sheet) is incremental to 30 June 2020 cash headroom of £166.7 million – facilitates co-invest with the Fund Management Business into the growing market opportunity
- RCF covenant restructure completed in August. New covenant package aligns comfortably to our revised ERC and supports our growth strategy into an attractive market opportunity
- No bond maturities until 2024 - expect to return leverage to within risk appetite significantly before then

Resilient H1 2020 collection performance despite COVID-19 impact

- H1 2020 cash collections of £175.8 million (H1 2019: £202.1 million) reflecting Group's strong business continuity protocols and COVID-19 planning undertaken in February 2020 alongside a focus on cash in H1 2020
- Improving trend in collections performance following the impact of COVID-19 lockdowns
- Secured collections improving as court systems and real estate markets reopened
- Remain cautious about the risk of increasing unemployment following cessation of government support schemes

Fully considered approach to the ERC reforecast in light of significant economic uncertainty

- Drives non-cash impairment of £133.6 million, creating loss after tax of £110.4 million (H1 2019: £24.3 million profit)
- Updated ERC fully considers risks of future economic uncertainty – downside trends to employment and asset prices if government support reduces – and ESG commitments in these difficult times for our customers
- If the macroeconomic outcome is in line with our 'base case' scenario, this would represent £43 million NPV upside versus current forecasts. This would be a £29 million NPV reduction if 100% in line with downside scenarios
- ERC write down booked to a prudent blend of 'base case' and 'downside' scenarios

Proactive reduction of costs in response to lower short-term collections

- H1 2020 costs down 5.4% versus H1 2019
- Lower forecast collections demands a cost response. Cost actions will deliver previously forecast AMS margins of 25% and Group cost:income ratio of better than 60%. £10 million of overhead cost reduction actions in train

Continue to drive the pivot to be an integrated manager

- Institutional commitments drove Group Funds Under Management (FUM) to €2.6 billion, including Norfin and Sagitta
- Group FUM expected to be greater than €3 billion by 2021
- €1.1 billion of ACO 'dry powder' available to invest into emerging attractive post-COVID-19 opportunities
- Observed IRRs significantly better than trend – highest underwriting IRRs achieved since the 2009-2011 period immediately following the global financial crisis

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

"I am proud of Arrow's response to the challenges posed by the pandemic. We have protected our people, strengthened our funding and balance sheet, maintained robust operational performance and supported our customers.

As we exit the crisis, European banks will be under significant pressure to provision for non-performing loans. With €1.1 billion of discretionary undeployed fund management capital, we are extremely well placed to be a leading investor in this huge market with increasingly attractive returns. We remain resolutely focused on executing our strategy to build a compelling integrated asset manager, offering differentiated access to high yielding assets whilst continuing to treat customers fairly."

Group financial highlights	30 June 2020	30 June 2019	Change
Total impairment (loss)/gain and FV (losses)/gains (£m)	(133.6)	36.8	(170.4)
(Loss)/profit after tax (£m)	(110.4)	24.3	(134.7)
Basic EPS (£)	(0.62)	0.13	(0.75)
Leverage (x)	3.8	3.6	0.2
	30 June 2020	**31 December 2019**	**Change**
84-month ERC (£m)	1,578.4	1,817.9	(239.5)
120-month ERC (£m)	1,762.1	2,035.4	(273.3)

Presentation and Q&A details

Presentation: A presentation by Arrow's management is available on the Company's website from 0700 and can be found here

Q&A details: A Q&A with Arrow's management team will take place at 0800 – please register 10 minutes prior to the call

Dial-in details: +44 (0)20 8089 2860
Meeting ID: 1289505

Notes:
A glossary of terms can be found at the end of the document. More details explaining the business can be found in the Annual Report & Accounts 2019, which is available on the Company's website at www.arrowglobalir.net

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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.

Important note:

Both IFRS and cash metrics, alongside alternative performance measures are important in understanding the key drivers of the business and are part of target measures used in the calculation of senior management's variable remuneration. Full reconciliations between these positions have been presented in the ‘additional information’ section of this report. The commentary on the following pages refers to a combination of these measures to aid understanding of the business performance for the period.

ARROW GLOBAL

Strategic overview

For the six months to 30 June 2020

Overview

Strong operational and financial response to unprecedented COVID-19 impact

Trading conditions in the first half of 2020 were dominated by the global COVID-19 pandemic. The business started the year strongly before the impact from the global crisis. After outperforming ERC in January and February 2020, cash collections began to be impacted by the end of March 2020 and reduced to their lowest point in April as the macroeconomic environment deteriorated and the business's ability to operate was significantly restricted due to European lockdowns. Since April, we have seen an improving cash collections trend, with improvements seen throughout Q2 2020. This continued into July 2020, where the business strongly outperformed the reforecast ERC, albeit below the original FY 2019 ERC. Third-party AMS income also remained robust, with performance flat on H1 2019, demonstrating the resilience of the business's capital light cashflows and the early signs of the benefits to AMS from the fund launch. While the improvement seen in the collections environment is positive, it is the Group's view that the macroeconomic environment will continue to have an adverse impact on the operating environment. The Group's reforecast of its ERC, resulting in a non-cash write down to assets on the balance sheet and an operating loss of £108.9 million (H1 2019: £59.0 million operating profit), reflects our assumptions of a gradual recovery in collections over the course of H2 2020 and FY 2021. On this basis, the business anticipates that it will return to profitability in H2 2020, with further improving profitability targeted through a combination of fund deployment, gradually recovering cash collections and cost action by management.

Arrow's operational response to the crisis was strong. Our foremost priority has been to safeguard the health and wellbeing of our colleagues and ensure the continuity of service for customers and clients. Arrow has succeeded on both counts, enabling 100% of its workforce to work from home effectively, maintaining service to clients while also offering customers appropriate levels of forbearance where necessary through an enhancement of our already comprehensive Vulnerable Customer Policy. The Group's policy of offering forbearance to those in financial distress or ill health was expanded by implementing a specific COVID-19 customer support programme enabling us to help customers directly affected by the virus.

The Group's financial response has been proactive. Balance sheet cash has improved by £77.0 million at 30 June 2020 to £165.8 million (31 December 2019: £88.8 million) with decisive action on cost and working capital as well as acceleration of collections to make up for COVID-19 induced collection weakness and reduced portfolio purchases of £42.9 million (H1 2019: £165.6 million). Furthermore, we have raised additional funds after the period end through the execution of a €100 million ABS facility, which is incremental to 30 June 2020 cash headroom of £166.7 million. Finally, we have completed a long-term support agreement with our RCF banks, recognising that short term leverage is likely to increase above covenant levels as the impact of lower collections builds over 12 months (see note 14 for more detail). Taken together, these actions ensure that we can look forward with confidence backed by a strong and highly liquid balance sheet with lender support through to the medium-term.

Deployment of capital into attractive market opportunities was limited in the first half as the Group looked to preserve liquidity and assess the market pricing and availability of assets as financial institutions examine the impact of loan losses on their balance sheets. We generated a net IRR of 18% (FY 2019: 17%), seeing the first emerging signs of an improving pricing environment.

Continuing the pivot towards an integrated asset management model
Alongside managing our response to COVID-19, we have continued to build our Fund Management Business in the first half of 2020. We launched our first flagship fund – Arrow Credit Opportunities (ACO) – in December 2019, with €838.0 million of committed capital. During the first half of 2020, we have continued to raise funds and to date we have €1.2 billion of committed capital within Arrow Credit Opportunities, which, when combined with funds in our subsidiaries at Norfin and Sagitta, brings total Funds Under Management to €2.6 billion.

Refined approach taken to revalue balance sheet assets against an uncertain economic outlook
The pandemic is expected to lead to economic stress across all our markets. European governments have provided substantial economic support throughout Q2 2020, including the furlough scheme in the UK and lay-off scheme in Portugal. As this government support across Europe falls away in the second half of 2020, we anticipate a deep and prolonged economic impact. The exact scale and nature of that economic impact is hard to predict given the unprecedented nature of the pandemic. We have run a number of macroeconomic scenarios through our ERC model (as explained further in note 4) and booked a reforecast ERC asset which represents a prudent blend of 'baseline' and 'downside' macroeconomic scenarios. This has led to a balance sheet write down and associated non-cash charge of £133.6 million to the statement of profit or loss.

Clear H2 priorities

A robust balance sheet, coupled with our growing Fund Management Business, provides the ideal platform for Arrow to take advantage of the opportunities which will emerge from the pandemic. Arrow's priorities for the second half of 2020 are clear:

1. **Maximise FUM in Arrow Credit Opportunities to deploy into attractive investment opportunities**
   We remain committed to continuing to build FUM and will provide a further update on progress at the Q3 results. After this point, the team will be principally focused on deploying the capital. This investment timetable is earlier than originally planned and is driven by the acceleration in market activity and attractive investment opportunities we anticipate from Q4 onwards. We anticipate fully deploying the capital raised into the fund by 2022, which will allow us to commence further fundraising in late 2021/early 2022.
2. **Focus on investing capital prudently**
   While we are beginning to see the early signs of bank NPL processes increasing, we believe the majority of investments made will be via off market and bilateral trades in the secondary market with a prudent emphasis on reliability and quality of the underlying assets. Typical examples may be assets that we have already been servicing or where the underlying asset is backed predominantly by cash. We are therefore expecting to accelerate capital deployment from H1 2020 levels.
3. **Monitor the economic impact and maximise back book collections relative to the reforecast ERC**
   The revised ERC is based on the uncertain macroeconomic future; we are focused on maximising collections in light of the prevailing economic conditions, whilst continuing to maintain high service levels to our customers. With government support still in place and courts clearing their backlogs from COVID-19 induced closure, July collections have strongly outperformed the revised 84-month ERC.

4. **Seek opportunities for third-party AMS income**
   As financial institutions face an increasing volume of defaulting assets, they will require organisations with our skill set to service them. This is likely to lead to a significant increase in opportunities for our AMS business and we have already received a number of approaches to discuss utilising Arrow's leading collections platforms to manage growing NPL volumes. With an increase in new contract wins, we anticipate improvements in AMS income in 2021.
5. **Reduce the cost base to reflect post-COVID-19 volumes**
   With income expected to be lower than original expectations for the next 18-24 months, management is focused on an appropriate cost response. This will include both cost to collect, where we continue to target 25% margins in the AMS business and overheads. We remain committed to our previous objective of achieving a 60% cost: income ratio for the Group and have already identified £10 million of cost saving actions to be implemented.

Summary and Outlook

After starting the year strongly, COVID-19 brought about a period of unparalleled disruption for our business. Arrow was able to adapt quickly, continuing to service clients and generate strong levels of free cashflow – evidencing the resilience of the business model. Management actions to preserve cash resulted in robust levels of liquidity which grew consistently throughout Q2 2020. This was further bolstered by the work undertaken to secure additional sources of funding via the ABS transaction. When combined with the €1.1 billion of predominantly undeployed capital commitments in Arrow Credit Opportunities, the Group's Fund Management Business and Investment Business are extremely well placed to take advantage of the investment opportunities that will emerge from the economic dislocation of COVID-19.

The view we have taken on the reforecast of the ERC reflects the Group's view that there will be a prolonged macro-economic impact from COVID-19, resulting in a more gradual recovery in collections. However, there was evidence of a consistently positive collections trend throughout Q2 2020, resulting in outperformance against the revised ERC in July 2020. While we remain cautious of the impact that the withdrawal of government support schemes will have on employment and economic recovery, it is encouraging that the business is currently outperforming against our forecasts.

We are looking forward to 2021 with optimism. Our analysis of the impact of the pandemic on the balance sheets of European financial institutions shows that the increased volume of NPLs sold into the capital markets in the coming years will eclipse the circa €800 billion divested over the last six years in response to the bad loans created by the global financial crisis (GFC). When viewed alongside the pre-COVID-19 €1.5 trillion NPL and non-core credit market, we are looking at a potential once-in-a-lifetime multi-decade market opportunity.

Commensurate with the Fund Management Business team's switch of focus from building FUM to deploying capital, we plan on combining our Q3 results on 12 November with a specific seminar on the economics of our €1.2 billion Arrow Credit Opportunities fund and €2.6 billion Fund Management Business.

The business anticipates that it will return to profitability in H2 2020, with further improving profitability targeted through a combination of fund deployment, gradually recovering cash collections and cost action by management.

Finance and operating review
For the six months to 30 June 2020

Overview

Trading conditions in the first half of 2020 were challenging due to the impact of the COVID-19 pandemic across Europe. Despite this and due to the benefits of a number of management actions, Arrow remains well funded with sufficient financial capacity to deliver on its strategy of co-investing alongside its Fund Management Business to capture emerging investment opportunities resulting from the economic dislocation caused by the pandemic.

Strong cashflow generation

The Group has continued to generate strong levels of cashflow, with £82.5 million of free cashflow generated in the first half (H1 2019: £115.3 million). With the lower levels of portfolio purchases, this resulted in the business continuing to be cash positive. The combination of continued robust cash collections and the growing proportion of capital light income from the Group's Fund Management and AMS businesses underpins the Group's confidence in its ability to maintain strong liquidity and to deleverage.

Income statement

During the period, the post-tax result decreased to a loss of £110.4 million (H1 2019: £24.3 million profit), principally driven by the non-cash impairment charge relating to the write-down in the value of the carrying value of assets on the balance sheet due to the impact from COVID-19.

Summary income statement	Notes	Unaudited period ended 30 June 2020 £000	Unaudited period ended 30 June 2019 £000
Investment Business income pre impairment (losses)/gains	11	**91,182**	**95,007**
Impairment (losses)/gains	11	**(133,594)**	**36,845**
Investment Business income		**(42,412)**	**131,852**
Income from asset management and servicing		45,458	45,639
Other income		341	202
Total income		**3,387**	**177,693**
Operating expenses:			
Total operating expenses		**(112,319)**	**(118,670)**
Operating (loss)/profit		**(108,932)**	**59,023**
Net finance costs		(27,010)	(26,510)
(Loss)/profit before tax		**(135,942)**	**32,513**
Taxation credit/(charge) on ordinary activities	8	25,509	(8,169)
(Loss)/profit after tax		**(110,433)**	**24,344**

Total income of £3.4 million in H1 2020 (H1 2019: £177.7 million) reduced mainly due to the non-cash impairment of £133.6 million and lower cash collections at £175.8 million (H1 2020: £202.1 million) – both driven by the impact of COVID-19 on operations.

Operating expenses reduced to £112.3 million (H1 2020: £118.7 million) due to a combination of lower collection activity costs and overheads. Collections activity costs reduced to £50.4 million (H1 2019: £54.0 million) as a natural result of lower collections activity, especially where collections were outsourced. Other operating expenses reduced by £2.7 million to £61.9 million (H1 2019: £64.7 million).

Net finance costs of £27.0 million were 1.9% higher (H1 2019: £26.5 million) and in line with expectations for the period.

The tax credit of £25.5 million represents an effective tax rate of 18.8% (H1 2019: 25.1%) on (loss)/profit before tax. Whilst we have an income statement loss across the Group, due to the ERC reforecast exercise resulting in a large non-cash impairment and fair value loss during the period to 30 June 2020, we have taken a balanced approach in calculating an effective tax rate across the Group when calculating the extent to which the losses can be used in the future. The current effective rate, which creates a taxation credit of £25.5 million (H1 2019: taxation charge of £8.2 million) is not reflective of future effective tax rates, when we expect to return to profitability, due to higher tax rates in the Group from overseas locations.

Dividend and returns

In line with the Group's near-term focus in Q1 2020 to preserve cash and liquidity, on the 6 April 2020, the Group announced its intention to withdraw its recommended final dividend for 2019, preserving approximately £15.0 million of cash within the business. As leverage increases as a result of reduced collections, the board has agreed to focus capital allocation on deleveraging and capturing the opportunity arising from post-crisis investments . The Group anticipates returning to regular dividend payments when leverage returns to within our risk appetite.

Basic EPS is £(0.62) compared to £0.13 in H1 2019, due to the ERC reforecast in the period.

Segmental Review

From the second half of 2020, the Group intends to restructure its segmented performance reporting to recognise the growing importance of the Fund Management Business. For H1 2020, fund management is consolidated in the Asset Managing and Servicing segment, but commentary is provided below in line with the proposed new segmentation.

30 June 2020	Investment Business £000	Asset management and servicing Business £000	Group Functions £000	Intra segment elimination £000	Total period ended 30 June 2020 £000
Total income	(42,412)	67,579	341	(22,121)	3,387
Collection activity costs	(41,366)	(31,137)	(2)	22,121	(50,384)
Gross margin	(83,778)	36,442	339	-	(46,997)
Gross margin %	-	*54%*			-
Other operating expenses excluding depreciation, amortisation and forex	(13,594)	(22,439)	(17,019)	-	(53,052)
EBITDA	**(97,372)**	**14,003**	**(16,680)**	**-**	**(100,049)**
EBITDA margin %	-	*21%*			
Depreciation, amortisation and forex	-	-	(8,883)	-	(8,883)
Operating (loss)/profit	**(97,372)**	**14,003**	**(25,563)**	**-**	**(108,932)**
Net finance costs	-	-	(27,010)	-	(27,010)
(Loss)/profit before tax	**(97,372)**	**14,003**	**(52,573)**	**-**	**(135,942)**

Investment Business (IB)

Recent collections performance is encouraging – Arrow remains cautious

Core cash collections in the first half from our purchased portfolio base were £175.8 million (H1 2019: £202.1 million), reflecting continued robust operational performance despite the COVID-19 pandemic.

IB collections started the year strongly, outperforming ERC in January and February 2020. The COVID-19 pandemic began to impact IB cash collections in March 2020, resulting in collections underperforming ERC. Collections in April 2020 represented the nadir of COVID-19's impact and collections have improved since then, outperforming revised ERC in July. A principal driver of this improvement was in secured asset collections. Secured assets have been particularly impacted during the COVID-19 crisis due to frozen real estate markets and court systems. On our unsecured book, the cessation of litigation activities in order to provide appropriate forbearance to impacted customers also had a negative impact on collections. Correspondingly, the impact seen at a country level was principally driven by these two factors. Secured collections in Portugal and Italy saw significant disruption from the impact of lockdowns; the easing of these restrictions has resulted in the recommencement of real estate and legal activity but the significant backlog of work continues to have a delaying effect on collections. While there were signs that this backlog was easing towards the end of June, new foreclosures and auctions continue to be delayed, impacting collections strategies in the short-term. While the predominantly unsecured collections from our UK business remained relatively resilient, the suspension of litigation collections strategies, combined with other forbearance measures offered to customers, drove much of the underperformance experienced. Numbers of customers impacted by COVID-19 in the UK flattened throughout Q2, with a 17% increase in payment rates and a 39% increase in settlement volumes at the end of Q2 2020 relative to the start of the quarter.

Unsecured collections in the Netherlands were the consistently strongest unsecured performer throughout H1 2020, driven by the large proportion of that business's collections arising from automated payments with minimal application of litigation strategies.

While improving collections trends during Q2 2020 are encouraging, the Group is alert to the risks associated with further lockdowns and the withdrawal of government support schemes, which could lead to a significant spike in unemployment and a reduction in asset prices, impacting unsecured and secured collections respectively. Whilst the socioeconomic environment remains uncertain, the Group believes it has captured the risks relating to these events in its forward view of collections performance and associated reforecast of the ERC.

Reduced investment volumes due to prudent approach to valuations and banks focusing on initial provisioning over asset sales

In the first six months of 2020, Arrow invested £42.9 million into new portfolio purchases (H1 2019: £165.6 million), a reduction of £122.7 million. Previous guidance was for circa £150 million of purchases in 2020 due to the impact of the new co-investment model with the Fund Management Business, where Arrow expects to invest up to 25% of all purchases, with the balance being funded by third-party capital from Arrow Credit Opportunities. First half investment was at a significantly lower rate than originally planned, principally due to banks' focus turning to the record provisioning for expected loan losses due to the pandemic over the sale of assets and the Group's desire to be more prudent regarding the valuation of underlying assets, with the expectation that valuations will become more attractive in the coming period. As financial institutions work through the record provisions they have made for bad loans, transaction volumes across the market should increase significantly as these assets are revalued and divested.

The Group is currently seeing higher volumes of investment opportunities offering significantly higher returns than at the start of the year but continues to seek to optimise medium-term returns in its investment decision making.

Income – balance sheet revaluation drives non-cash impairment

The ERC reforecast exercise has resulted in the downwards valuation of assets on the balance sheet, resulting in a large non-cash impairment and fair value loss of £133.6 million (H1 2019 impairment and fair value gains of £36.8 million). Total income from portfolio investments, therefore, decreased to a loss of £42.4 million (H1 2019: income of £131.9 million).

Costs – reduced spend on collection costs in line with volumes

A reduction in collections resulted in a direct reduction to collection activity costs. Notably, there was a reduction in litigation expenditure as the Group ceased all new litigation activity in response to the pandemic, as well as a reduction in the additional costs associated with the proportion of collections activity that is outsourced to third-parties.

Asset Management and Servicing business

Income remains robust

Gross AMS income from our current servicing activities and Fund Management Business remained consistent at £67.6 million (H1 2019: £68.3 million). AMS income includes a small contribution from fund management fees and servicing fees charged to the fund. As income relating to the Fund Management Business becomes more material as the fund is invested, it is the Group's intention to formally present this as a separate segment.

AMS income from third-parties was flat at £45.5 million (H1 2019: £45.6 million), evidencing the resilience of the business's management fees from long-term contracts, despite challenging collections, coupled with new business wins and the modest contribution from fund management fees referred to above.

Given the anticipated increase in non-performing assets due to the COVID-19 economic impact, we expect to see an increased demand for our servicing capabilities. We have already received a number of approaches to discuss utilising Arrow's leading collections platforms to manage growing NPL volumes; with a related increase in new contract wins, we anticipate improvements in AMS income in 2021.

In H1 2020, the AMS EBITDA margin decreased to 21% (H1 2019: 23%), principally driven by a decrease in revenue from collections-based fees in the period, and some higher margin due diligence fees in H1 2019, which did not recur in the current period.

Fund Management Business

Fundraising success underlines the attractiveness of Arrow's strategy to sophisticated investors

Since 31 December 2019, the Group has raised an additional €356 million in capital commitments into Arrow Credit Opportunities, taking total capital commitments to €1.2 billion and Group FUM to €2.6 billion. We remain committed to continuing to build FUM and will provide a further update on final progress at the Q3 results, after which the team will be focused on deploying the capital into the growing market opportunity the Group anticipates from Q4 onwards.

Well positioned to co-invest with the Fund Management Business into a growing market opportunity
Given the record provisions banks are making for future expected loan losses, it is likely that Arrow's market, already extremely large, will grow rapidly in the coming years. Historically, this growth coincides with returns on new portfolio investments rising significantly. In addition, the Group expects a growing secondary market as global and European debt funds that purchased over €800 billion of NPL assets from financial institutions over the last six years sell on tails of uncollected portfolios as their funds come towards the end of their lives. Considering that the vast majority of the €1.2 billion Arrow Credit Opportunities fund is yet to be deployed, the amount of 'dry powder' at the Group's disposal positions it as one of the leading investors in this growing market and returns opportunity. That the Group has succeeded in raising over €356 million of new capital commitments into Arrow Credit Opportunities since the onset of COVID-19 highlights that sophisticated investors recognise the long-term investment opportunities that will emerge in both the primary and secondary non-performing loans markets.

Balance sheet

Refined approach taken to the ERC reforecast leads to non-cash impairment
The macroeconomic impact of COVID-19 has led to the Group reassessing its view on future cash collections versus previous underwriting estimates. This has resulted in the reforecast of portfolio assets on the Group's balance sheet. The reforecast takes into account the significant level of social and economic uncertainty which has emerged due to the pandemic, as well as the scaling back of more proactive collections strategies, such as litigation, in order to provide customers with appropriate levels of forbearance in line with our ESG policy.

A probability weighted methodology has been employed in the assessment of multiple potential future outcomes. The Group considers that the result of this approach captures the macroeconomic risks that are on the horizon. Should the Group's view prove overcautious and collections perform in line with its 'base case', then this would represent 4.2% NPV upside (equivalent to £43 million) versus current forecasts. Should macroeconomic performance deteriorate more significantly than our probability weighted macroeconomic view and collections perform in line with our most pessimistic assumptions, then this would represent 2.8% NPV deterioration (equivalent to £29 million) against current forecasts. Note 4 of the notes to the condensed consolidated interim financial statements provides a detailed overview of the Group's methodology.

Strong cash and liquidity - additional €100 million ABS financing and agreement with RCF banks provides long-term balance sheet funding

Arrow's liquidity headroom – the combination of the undrawn committed revolving credit facility and available cash on the balance sheet – was £166.7 million at H1 2020 (FY 2019: £153.0 million). This consistent increase is predominantly a result of resilient cash generation with £82.5 million of FCF in H1 2020 (H1 2019: £115.3 million), lower levels of portfolio purchases (H1 2020: £42.9 million, H1 2019: £165.6 million) and prudent working capital management. An additional €100 million ABS facility is incremental to 30 June 2020 cash headroom of £166.7 million.

Weaker collections to date, coupled with anticipated lower collections in the future, has the potential to increase Group leverage above previously agreed banking covenants. Arrow has secured long-term support from its lending banks through the agreement of further arrangements with the non-recourse facility and amended financial covenants under the revolving credit facility, including an increase in the maximum permitted leverage and minimum liquidity.

The board has assessed liquidity and leverage for the coming five years and considers that, with the actions already completed in 2020, the business can execute its strategy without breaching covenants. The business is well placed ahead of the next refinancing requirement in 2024, by when we expect leverage to have returned to within our risk appetite.

In H1 2020, the Group's weighted average cost of debt was 3.6% (FY 2019: 3.7%) and the average debt facility maturity was 4.4 years (FY 2019: 4.8 years). Including the additional ABS and covenant restructure executed since June 2020, the Group's weighted average cost of debt will have increased from 3.6% to 3.7% in August 2020.

Principal risks and uncertainties

In our 2019 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 for the six months to 30 June 2020.

Macro and political

The Group's response to COVID-19 has been swift and effective during the first half of 2020 with specific focus on colleague welfare, operational resilience to support customers and clients; and liquidity and capital management. We have successfully managed these priorities during this period and have also maintained close dialogue with our regulators. This remains an evolving process amidst the ongoing pandemic and uncertain short, medium and long-term economic and social impacts. Given the uncertain economic outlook, the reforecast ERC is proportionate but requires on-going monitoring to balance cost and income during the on-going collections challenges posed by the global pandemic.

Liquidity & Funding

Whilst there have been unprecedented governmental interventions to reduce the economic impacts of COVID-19, we remain in a very uncertain period where we have to plan for the consequences of COVID-19 and assume that there will be significant ongoing social and economic impacts. Arrow's geographic and asset class diversification and in-country expertise helps to reduce the impact of these as well as offering potential opportunities that arise from resulting distressed asset positions. The financial resilience of the organisation has been demonstrated through strong governance and execution, with a clear focus on liquidity protection including successful completion of a second asset backed securitisation transaction, revolving credit facility renegotiation and cash preservation.

Fund Management Execution

Our Fund Management Business reduces the longer-term reliance on bond markets and the successful launch of Arrow Credit Opportunities with over €1.2 billion of capital commitments, together with an increasingly capital-light earnings trajectory, will support our ongoing ability to both invest and de-lever to target levels. Whilst origination activity has been reduced in the first half due to the COVID-19 environment, the refinement of our fund management organisational design and process improvements have continued, with governance, leadership and clarity of responsibility formalised along with progress in management oversight protocols.

Regulatory Scrutiny

The regulatory environments within which Arrow operates are aligned with our customer focus and purpose of *Building Better Financial Futures*. It is fully expected that all regulators will be increasingly focused on the needs of vulnerable customers as a result of the economic shock presented by the global pandemic and it is expected that there will be further regulatory interventions, particularly in consumer markets. Arrow has been in active discussions with regulators throughout this period to update on a broad range of operational resilience and customer outcome topics. In addition, the importance of Environmental, Social and Governance as a core discipline for the financial services sector provides context and support for the efforts which Arrow already undertakes to support the colleagues, customers and clients alongside the broader communities in which we are present.

ARROW GLOBAL

Principal risks and uncertainties *(continued)*

Operational Resilience

The continuous improvement mindset around operational resilience is no less prevalent due to COVID-19, with our emergency response and crisis management protocols providing a strong base from which to manage the crisis and also highlighting areas for improvement as the Group continues to grow, mature and adapt the future operating model both during COVID-19 and into the future. It is acknowledged that some long-term benefits should be sought from a balanced approach to maintaining an office estate alongside greater use of technology and communication tools to provide greater flexibility for our colleagues and reduction in environmental impact, whilst maintaining the high service levels we provide to our customers, clients and other stakeholders. Whilst the recent focus has been on the impact of COVID-19, we also continue to monitor Brexit developments to help inform the plans we have put in place.

Scalability

Our risk management processes are continuing to embed across 1st and 2nd Lines of defence to drive ownership and accountability to where it is most effective, and this directly supports an action-oriented approach to mitigating risk and improving controls. This continues to be supported by targeted investment in people, processes, cost control and systems to support strategy with clarity of purpose and our core infrastructure projects remained in focus during the six months to 30 June 2020.

Related party transactions

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

Going concern

In assessing whether the going concern basis is appropriate to adopt for the Group as at 30 June 2020, the directors have undertaken a thorough review of the latest forecast cash flow models and scenarios for a period in excess of 12 months from the date of approval of these accounts, with the primary focus of detailed forecasting running to the end of 2022.

Additionally, in response to the crisis and its anticipated impacts on ERC, the Group has protected its liquidity and covenant position by raising additional funding and has renegotiated its financial covenants with its RCF lenders, as set out further in note 14.

A base case forecast, and several downside scenarios, have been prepared reflecting the Group's current financial position and expected future performance. Key items considered within each forecast were the future outlook for HPI and unemployment, including the length and severity of any potential macroeconomic shock, and the impact these may have on the Group's cash flows. These cash flows were considered against the Group's future liquidity position, taking into account that there are no bond maturities until 2024. Adherence to the Group's liquidity, leverage and ERC loan to value covenants was also considered in all scenarios.

Going concern *(continued)*

The results of this scenario analysis show that even in a severe but plausible downside scenario, after taking reasonable management actions (such as cost reductions, slowing purchases and collection acceleration) as required, the Group is able to maintain sufficient liquidity and cash reserves to operate within banking covenants, and to continue as a going concern. This scenario was aligned to the severe downside forecasts outlined in note 11.

Finally, a reverse stress test has also been prepared, incorporating a plausible set of management actions, to identify the magnitude of a downside stress that needs to occur to cause the group to breach its financial covenants. It has been concluded that this represents an overly severe and implausible scenario. Based on all of the above indicators, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

ARROW GLOBAL

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 Chair
Lee Rochford	Group chief executive officer
Matt Hotson	Group chief financial officer
Andrew Fisher	Non-executive director and senior independent director
Lan Tu	Non-executive director
Maria Luís Albuquerque	Non-executive director
Paola Bergamaschi Broyd (appointed 17 June 2020)	Non-executive director

The interim results were approved on 25 August 2020 by the board of directors and are signed on its behalf by:

Matt Hotson
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 2020 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.

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 2020 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.

Independent Review Report to Arrow Global Group PLC

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.

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.

Alexander Simpson

for and on behalf of KPMG LLP

Chartered Accountants
One St Peter's Square
Manchester
M2 3AE
25 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 June 2020

	Note	Unaudited period ended 30 June 2020 £000	Unaudited period ended 30 June 2019 £000
Continuing operations			
Income from portfolio investments at amortised cost	11	91,015	95,007
Fair value (losses)/gains on portfolio investments at FVTPL	11	(12,841)	21,124
Impairment (losses)/gains on portfolio investments	11	(120,753)	15,721
Income from portfolio investments - real estate inventories	11	167	-
Total (loss)/income from portfolio investments		**(42,412)**	**131,852**
Income from asset management and servicing		45,458	45,639
Other income		341	202
Total income		**3,387**	**177,693**
Operating expenses:			
Collection activity costs	9	(50,384)	(54,017)
Other operating expenses	9	(61,935)	(64,653)
Total operating expenses		**(112,319)**	**(118,670)**
Operating (loss)/profit		**(108,932)**	**59,023**
Net finance costs		(27,010)	(26,510)
(Loss)/profit before tax		**(135,942)**	**32,513**
Taxation credit/(charge) on ordinary activities	8	25,509	(8,169)
(Loss)/profit after tax		**(110,433)**	**24,344**
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		9,534	(633)
Movement on the hedging reserve		167	(57)
Total comprehensive (loss)/income for the period		**(100,732)**	**23,654**
(Loss)/profit attributable to:			
Owners of the Company		(109,771)	22,104
Non-controlling interest		(662)	2,240
		(110,433)	**24,344**
Basic EPS (£)	6	**(0.62)**	**0.13**
Diluted EPS (£)	6	**(0.60)**	**0.12**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

Assets	Note	Unaudited 30 June 2020 £000	Audited 31 December 2019 £000	Unaudited 30 June 2019 £000
Cash and cash equivalents		165,759	88,765	77,748
Trade and other receivables		58,820	75,094	105,251
Portfolio investments – amortised cost	11	809,792	932,199	954,583
Portfolio investments – FVTPL	11	152,050	169,799	164,441
Portfolio investments – real estate inventories	11	65,486	61,626	47,925
Property, plant and equipment		25,104	24,521	29,150
Other intangible assets		39,056	38,159	41,904
Deferred tax asset		38,382	10,759	8,092
Goodwill	10	281,091	267,700	276,948
Total assets		**1,635,540**	**1,668,622**	**1,706,042**
Liabilities				
Bank overdrafts	14	4,198	1,386	2,284
Revolving credit facility	14	280,788	230,963	214,338
Derivative liability		316	509	810
Trade and other payables	12	187,004	223,001	253,589
Current tax liability		7,606	7,645	10,901
Other borrowings	14	4,365	3,672	3,575
Asset-backed loans	14	91,950	84,077	72,651
Senior secured notes	14	937,831	897,875	925,016
Deferred tax liability		19,828	17,637	16,115
Total liabilities		**1,533,886**	**1,466,765**	**1,499,279**
Equity				
Share capital		1,773	1,769	1,763
Share premium		347,436	347,436	347,436
Retained earnings		20,787	129,240	124,116
Hedging reserve		(256)	(423)	(641)
Other reserves		(271,657)	(280,630)	(274,180)
Total equity attributable to shareholders		**98,083**	**197,392**	**198,494**
Non-controlling interest		3,571	4,465	8,269
Total equity		**101,654**	**201,857**	**206,763**
Total equity and liabilities		**1,635,540**	**1,668,622**	**1,706,042**

The interim results were approved on 25 August 2020 by the board of directors and are signed on its behalf by:

Matt Hotson Group chief financial officer

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2020

	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 2019	1,763	347,436	116,589	(584)	(5,800)	9,214	(276,961)	191,657	601	192,258
Impact of adopting IFRS 16	-	-	(947)	-	-	-	-	(947)	-	(947)
Balance post IFRS adjustments at 1 January 2019	1,763	347,436	115,642	(584)	(5,800)	9,214	(276,961)	190,710	601	191,311
Profit for the period	-	-	22,104	-	-	-	-	22,104	2,240	24,344
Exchange differences	-	-	-	-	-	(633)	-	(633)	-	(633)
Net fair value losses on cash flow hedges	-	-	-	(74)	-	-	-	(74)	-	(74)
Tax on hedged items	-	-	-	17	-	-	-	17	-	17
Total comprehensive income for the period	-	-	22,104	(57)	-	(633)	-	21,414	2,240	23,654
Non-controlling interest on acquisition	-	-	-	-	-	-	-	-	5,428	5,428
Share-based payments net of tax	-	-	1,528	-	-	-	-	1,528	-	1,528
Dividend paid	-	-	(15,158)	-	-	-	-	(15,158)	-	(15,158)
Balance at 30 June 2019 (unaudited)	1,763	347,436	124,116	(641)	(5,800)	8,581	(276,961)	198,494	8,269	206,763
Profit/(loss) for the period	-	-	13,119	-	-	-	-	13,119	(176)	12,943
Exchange differences	-	-	-	-	-	(6,444)	-	(6,444)	-	(6,444)
Recycled to profit after tax	-	-	-	7	-	-	-	7	-	7
Net fair value gains on cash flow hedges	-	-	-	261	-	-	-	261	-	261
Tax on hedged items	-	-	-	(50)	-	-	-	(50)	-	(50)
Total comprehensive income/(loss) for the period	-	-	13,119	218	-	(6,444)	-	6,893	(176)	6,717
Shares issued	6	-	-	-	-	-	-	6	-	6
Repurchase of own shares	-	-	-	-	(6)	-	-	(6)	-	(6)
Share-based payments net of tax	-	-	(91)	-	-	-	-	(91)	-	(91)
Dividend paid	-	-	(7,904)	-	-	-	-	(7,904)	-	(7,904)
Non-controlling interest on acquisition	-	-	-	-	-	-	-	-	(3,628)	(3,628)
Balance at 31 December 2019	1,769	347,436	129,240	(423)	(5,806)	2,137	(276,961)	197,392	4,465	201,857
Loss for the period	-	-	(109,771)	-	-	-	-	(109,771)	(662)	(110,433)
Exchange differences	-	-	-	-	-	9,534	-	9,534	-	9,534
Net fair value gains on cash flow hedges	-	-	-	194	-	-	-	194	-	194
Tax on hedged items	-	-	-	(27)	-	-	-	(27)	-	(27)
Total comprehensive loss for the period	-	-	(109,771)	167	-	9,534	-	(100,070)	(662)	(100,732)
Shares issued	4	-	-	-	-	-	-	4	-	4
Repurchase of own shares	-	-	-	-	(561)	-	-	(561)	-	(561)
Share-based payments net of tax	-	-	1,175	-	-	-	-	1,175	-	1,175
Non-controlling interest on acquisition	-	-	232	-	-	-	-	232	(232)	-
Change in non-controlling interest	-	-	(89)	-	-	-	-	(89)	-	(89)
Balance at 30 June 2020 (unaudited)	**1,773**	**347,436**	**20,787**	**(256)**	**(6,367)**	**11,671**	**(276,961)**	**98,083**	**3,571**	**101,654**

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2020

	Note	Unaudited period ended 30 June 2020 £000	Unaudited period ended 30 June 2019 £000
Net cash generated by/(used) in operating activities	15	**66,386**	**(21,939)**
Investing activities			
Purchase of property, plant and equipment		(4,579)	(35)
Purchase of intangible assets		(4,546)	(3,146)
Proceeds from disposal of intangible assets and property plant and equipment		-	4
Acquisition of subsidiary, net of cash acquired		(89)	(2,850)
Acquisition of subsidiary, deferred consideration		(3,266)	(7,689)
Net cash used in investing activities		**(12,480)**	**(13,716)**
Financing activities			
Movement in banking facilities		37,047	(35,229)
Repayment of ABS		(13,480)	-
Proceeds from ABS issuance		21,060	74,312
Proceeds from senior notes (net of fees)		-	(173)
Repayment of interest on senior notes		(22,069)	(17,938)
Bank and other similar fees paid		(3,648)	(4,226)
Bank interest received		21	14
Increase in non-controlling interest		-	5,428
Repurchase of own shares		(561)	-
Issue of share capital		4	-
Finance lease payments		(2,421)	-
Payment of deferred interest		(259)	-
Net cash flow generated by financing activities		**15,694**	**22,188**
Net increase/(decrease) in cash and cash equivalents		**69,600**	**(13,467)**
Cash and cash equivalents at beginning of period		88,765	92,001
Effect of exchange rates on cash and cash equivalents		7,394	(786)
Cash and cash equivalents at end of period		**165,759**	**77,748**

ARROW GLOBAL

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 2020 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 and real estate from, and on behalf of, financial institutions such as banks, institutional investors and credit card companies.

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 2019.

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 2019.

The comparative figures for the financial year ended 31 December 2019 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 2019 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 certain portfolio investments and the amortised cost accounting for other financial assets and liabilities.

These interim financial statements were approved by the board of directors on 25 August 2020.

Going concern

In assessing whether the going concern basis is appropriate to adopt for the Group as at 30 June 2020, the directors have undertaken a thorough review of the latest forecast cash flow models and scenarios for a period in excess of 12 months from the date of approval of these accounts, with the primary focus of detailed forecasting running to the end of 2022.

Additionally, in response to the crisis and its anticipated impacts on ERC, the Group has protected its liquidity and covenant position by raising additional funding and has renegotiated its financial covenants with its RCF lenders, as set out further in note 14.

2. Basis of preparation *(continued)*

A base case forecast and several downside scenarios have been prepared reflecting the Group's current financial position and expected future performance. Key items considered within each forecast were the future outlook for HPI and unemployment, including the length and severity of any potential macroeconomic shock, and the impact these may have on the Group's cash flows. These cash flows were considered against the Group's future liquidity position, taking into account that there are no bond maturities until 2024. Adherence to the Group's liquidity, leverage and ERC loan to value covenants was also considered in all scenarios.

The results of this scenario analysis show that even in a severe but plausible downside scenario, after taking reasonable management actions (such as cost reductions, slowing purchases and collection acceleration) as required, the Group is able to maintain sufficient liquidity and cash reserves to operate within banking covenants, and to continue as a going concern. This scenario was aligned to the severe downside forecasts outlined in note 11.

Finally, A reverse stress test has also been prepared, incorporating a plausible set of management actions, to identify the magnitude of a downside stress that needs to occur to cause the group to breach its financial covenants. It has been concluded that this represents an overly severe and implausible scenario. Based on all of the above indicators, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

3. Adoption of new standards

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020, which are deemed not to have a material impact on the results of the Group.

4. Accounting policies, critical accounting judgements and estimates

In preparing these condensed consolidated interim financial statements, management have made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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 2019, other than a refinement of approach to the valuation of the portfolio assets in response to the COVID-19 situation, which is set out in detail below.

Approach to valuation of portfolio investments

Given the speed and severity of the economic changes that the COVID-19 pandemic has brought about, the Group has further refined the method by which ERCs and therefore portfolio valuations are calculated for the current accounting period.

4. Accounting policies, critical accounting judgements and estimates (*continued*)

As at the 31 December 2019, a bottom-up approach has been taken whereby each individual portfolio's cash flow has been modelled based on a number of factors, including collections history and an array of data concerning the status of the individual loans within these portfolios, for example account-specific collections history, account statuses, property statuses and valuations (for secured accounts), servicer history, and supporting data from third parties such as credit files or geo-demographics. This data has then been used in conjunction with the predicted effectiveness of any additional collection initiatives to forecast future collections for each portfolio. This has been used as the basis for the 30 June 2020 reforecast.

Management believe the nature of the current crisis is deemed to have caused a temporary dislocation in how future collections will trend based off collections data to date. Accordingly, the Group has instead sought to determine how the anticipated more volatile macroeconomic environment will impact the previous bottom-up portfolio-level ERC forecasts prepared as at 31 December 2019, via a series of management overlays.

To achieve this, each of the Group's portfolios were first divided into a specified number of risk segments, with each segment containing loans of a similar nature (for example, UK unsecured loans). In addition, individually material and/or complex portfolios were also considered separately as their own 'segment'.

For each segment, for the most relevant macroeconomic indicators, a range of possible future outcomes was derived in the form of multiple scenarios, each representing either a 'base-case' assessment of future cash flows, or a more pessimistic assessment. Each scenario was determined in conjunction with the Group's internal experts in the relevant segment, considering both past experience and knowledge about the current condition of the local environment.

Once the scenarios for each segment had been determined, a probability was assigned to each segment-level scenario, giving consideration to updated external macroeconomic forecasts, collections performance throughout Q2-2020 and local in-house knowledge. The probabilities assigned were then used to calculate a probability-weighted ERC change for each segment, save for a small number of individual portfolios in which management judgement was applied.

The weighted segment-level adjustments were then applied to each portfolio within each respective segment to allow the production of portfolio-level ERC curves. The portfolio-level ERC curves were then discounted at the appropriate rate (EIR for amortised cost portfolios, a rate reflective of assumptions that market participants would use when pricing the asset for FVTPL portfolios), to obtain the revised NPV and hence carrying value of the amortised cost and FVTPL portfolio investments. For REO portfolio investments, the revised ERC curve was used to determine the net realisable value in assessing each portfolio for potential impairment.

4. Accounting policies, critical accounting judgements and estimates (*continued*)

In response to this refinement of the approach to incorporating multiple future macroeconomic scenarios the cash flow forecasts of the Group's portfolio investments, additional numerical disclosures and sensitivities have been set out in note 11, to assist the users of these statements in understanding the financial impact of the most recent reforecast.

In addition to the scenario modelling set out above, another key judgement that has been applied by management is the probability weighting of each of these scenarios. The precise weightings used have been set out in note 11, and were based on management's judgement on how each of its scenarios aligns to the macroeconomic forecasts provided by third party experts, as well as the view of local internal experts in the relevant geography and asset class. Such scenarios also take into account operational considerations that may impact collections in each individual geography, such as the functioning of local court systems or property markets for example.

Impairment testing
A full impairment test was performed over the Group's goodwill and related intangibles as at 30 June 2020. The revised ERC forecasts for the Group's portfolio investments were also a key area of judgement in the overall Group cash flow forecasts used in this analysis. Further information about the Group's goodwill impairment analysis and numerical sensitivities to this can be found in note 10.

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

5. Segmental reporting

Period ended 30 June 2020

	Investment Business £000	Asset management and servicing Business £000	Group Functions £000	Intra segment elimination £000	Total period ended 30 June 2020 £000
Total income	(42,412)	67,579	341	(22,121)	3,387
Collection activity costs	(41,366)	(31,137)	(2)	22,121	(50,384)
Gross margin	(83,778)	36,442	339	-	(46,997)
Gross margin %	-	*54%*			-
Other operating expenses excluding depreciation, amortisation and forex	(13,594)	(22,439)	(17,019)	-	(53,052)
EBITDA	**(97,372)**	**14,003**	**(16,680)**	**-**	**(100,049)**
EBITDA margin %	-	*21%*			
Depreciation, amortisation and forex	-	-	(8,883)	-	(8,883)
Operating (loss)/profit	**(97,372)**	**14,003**	**(25,563)**	**-**	**(108,932)**
Net finance costs	-	-	(27,010)	-	(27,010)
(Loss)/profit before tax	**(97,372)**	**14,003**	**(52,573)**	**-**	**(135,942)**

Period ended 30 June 2019

	Investment Business £000	Asset management and servicing Business £000	Group Functions £000	Intra segment elimination £000	Adjusting items	Total period ended 30 June 2019 £000
Total income	131,852	68,338	202	(22,699)	-	177,693
Collection activity costs	(45,030)	(31,686)	-	22,699	-	(54,017)
Gross margin	86,822	36,652	202	-	-	123,676
Gross margin %	*66%*	*54%*				70%
Other operating expenses excluding depreciation, amortisation and forex	(12,694)	(21,263)	(17,481)	-	(3,076)	(54,514)
EBITDA	**74,128**	**15,389**	**(17,279)**	**-**	**(3,076)**	**69,162**
EBITDA margin %	*56%*	*23%*	-	-	-	-
Depreciation, amortisation and forex	-	-	(10,139)	-	-	(10,139)
Operating profit	**74,128**	**15,389**	**(27,418)**	**-**	**(3,076)**	**59,023**
Net finance costs	-	-	(26,510)	-	-	(26,510)
Profit before tax	**74,128**	**15,389**	**(53,928)**	**-**	**(3,076)**	**32,513**

Other operating expense inclusive of depreciation, amortisation and forex totals £61,935,000 (H1 2019: £64,653,000).

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

6. Earnings per share

	Period ended 30 June 2020 £000	Period ended 30 June 2019 £000
Basic and diluted earnings per share		
(Loss)/profit for the period attributable to equity shareholders	(109,771)	22,104
Weighted average ordinary shares	**176,475**	**175,545**
Potential exercise of share options	7,494	5,684
Weighted average ordinary shares (diluted)	**183,969**	**181,229**
Basic earnings per share (£)	**(0.62)**	**0.13**
Diluted earnings per share (£)	**(0.60)**	**0.12**

7. Dividend

In line with the Group's near-term focus in Q1 2020, being the preservation of cash and liquidity, on the 6 April 2020, the Group announced its intention to withdraw its recommended final dividend for 2019, preserving approximately £15.0 million of cash within the business (H1 2019: an accrued dividend of £15.2 million was included in the results).

The board is not proposing to pay an interim dividend for H1 2020 and will consider returning to regular dividend payments once the anticipated short-term increase in leverage reduces to within our risk appetite (H1 2019: declared interim dividend of 4.4p per share).

8. Taxation charge on ordinary activities

The taxation credit for the period was £25,509,000 (H1 2019: £8,169,000 charge). The Group's effective consolidated tax rate for the six months ended 30 June 2020 was 18.8% (30 June 2019: 25.1%).

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

9. Collection activity costs and other operating expenses

	Period ended 30 June 2020	Period ended 30 June 2019
Collection activity costs:	**£000**	**£000**
External collection costs	14,319	16,753
Staff costs	21,364	20,608
Direct temporary labour	2,315	2,759
Direct operating costs	6,024	7,107
Legal disbursements	5,475	6,267
Other collection activity costs	887	523
Total collection activity costs	**50,384**	**54,017**

	Period ended 30 June 2020	Period ended 30 June 2019
Other operating expenses:	**£000**	**£000**
Staff costs	28,449	29,161
Other staff related costs	3,808	4,917
Premises	2,023	2,050
IT	7,279	6,733
Depreciation and amortisation	8,151	9,753
Net foreign exchange losses	732	386
Other operating expenses	11,493	11,653
Total other operating expenses	**61,935**	**64,653**

10. Goodwill

Cost	**£000**
At 30 June 2019	**279,257**
Modification to Drydens' opening balance sheet fair value post-acquisition	693
Exchange rate differences	(9,941)
At 31 December 2019	**270,009**
Exchange rate differences	13,391
At 30 June 2020	**283,400**
Impairment:	
At 30 June 2020, 31 December 2019 and 30 June 2019	**2,309**
Net book value:	
At 30 June 2020	**281,091**
At 31 December 2019	**267,700**
At 30 June 2019	**276,948**

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

10. Goodwill (*continued*)

Goodwill CGU allocation

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

	30 June 2020 £000	31 December 2019 £000
UK and Ireland	78,900	79,476
Portugal	74,679	69,156
Benelux	43,719	40,824
Italy	83,793	78,244
	281,091	**267,700**

Although a full annual impairment review was carried out on the goodwill balance at 31 December 2019, in light of the ongoing impact of COVID-19 across Europe, there was deemed to exist an indicator of potential impairment across all geographies. As such, a further full impairment review was carried out at 30 June 2020.

This is in line with the Group's policy of testing goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGUs is determined as the higher of fair value, less cost to sell and value in use. The key assumptions for the value in use calculations were as follows:

	30 June 2020				**31 December 2019**			
	UK and Ireland	**Portugal**	**Benelux**	**Italy**	**UK and Ireland**	**Portugal**	**Benelux**	**Italy**
Discount rate %	9.0%	9.5%	8.6%	9.8%	8.6%	9.0%	8.2%	9.0%
Growth rate used to extrapolate forecasts	2.0%	2.2%	2.0%	1.7%	2.0%	2.2%	2.0%	1.7%

Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Post-tax rates are used alongside post-tax cash flows, as the post-tax discount rate is more readily derived from observable market information. Any potential differences between post-tax discount rates and cash flows and the pre-tax method under IAS 36 – Impairment of assets have been considered, and no material differences between approaches have been identified.

The starting point for determining the discount rates for each CGU was to use the Group's weighted average cost of capital (WACC) and adjust this for specific factors for each of the CGUs to derive a market participant's rate. The factors took into account the risks inherent in each of the CGUs; such as currency, regulatory, and economic risks and the different operations in the CGUs were also considered.

10. Goodwill (*continued*)

In determining the appropriate WACC to use in the current impairment test, in line with advice from experts, management took into account both the current and target leverage structure of the Group, as well as pre-COVID-19 and post-COVID-19 market conditions. An average of these approaches provided a balanced view of the appropriate discount rate to use for the value in use calculation in the midst of the uncertainty created by COVID-19.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows into perpetuity. The forecasts assume growth rates in collection activity which in turn drive forecast collections and cost figures. These assumptions are in keeping with the directors' expectations of future growth. Appropriate tax rates are applied to the cash flow forecasts for each CGU. The analysis has been prepared using post-tax cash flows and discount rates, as post-tax discount rates can be more readily derived from observable market data. The Group is satisfied that this is materially equal to performing the analysis on pre-tax cash flows and discount rates.

The result of the goodwill impairment review was that no impairment was deemed to exist as at 30 June 2020. The Group has conducted a sensitivity analysis on the impairment test of the CGU's carrying value. The CGUs would become impaired based on a net post-tax cash flow reduction set out below, or based on an increase in the discount rate noted below:

	A cash flow reduction of	A discount rate increase of
UK and Ireland	45%	7%
Portugal	35%	4%
Benelux	9%	1%
Italy	61%	11%

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

11. Portfolio investments

The movements in portfolios investments were as follows:

Period ended 30 June 2020

	Amortised cost £000	FVTPL £000	Real estate inventories £000	Total £000
As at the period brought forward	932,199	169,799	61,626	1,163,624
Portfolios purchased during the period	28,521	14,361	-	42,882
Collections in the period	(146,393)	(27,508)	(1,875)	(175,776)
Income from portfolio investments at amortised cost	91,015	-	-	91,015
Income from portfolio investments – real estate inventories	-	-	167	167
Fair value loss on portfolios at FVTPL	-	(12,841)	-	(12,841)
Net impairment loss/inventory write-down	(120,744)	-	(9)	(120,753)
Exchange and other movements	25,194	8,239	5,577	39,010
As at the period end	**809,792**	**152,050**	**65,486**	**1,027,328**

Year ended 31 December 2019

	Amortised cost £000	FVTPL £000	Real estate inventories £000	Total £000
As at the period brought forward	869,056	217,974	-	1,087,030
Portfolios purchased during the period	248,470	30,052	25,165	303,687
Transfer between categories	11,483	(55,262)	43,779	-
Collections in the period	(390,734)	(48,034)	(3,543)	(442,311)
Income from portfolio investments at amortised cost	199,094	-	-	199,094
Income from portfolio investments – real estate inventories	-	-	561	561
Fair value gain on portfolios at FVTPL	-	32,397	-	32,397
Net impairment gain/inventory write-down	12,720	-	(6)	12,714
Exchange and other movements	(4,729)	(7,328)	(4,330)	(16,387)
Portfolio restructure	(13,161)	-	-	(13,161)
As at the period end	**932,199**	**169,799**	**61,626**	**1,163,624**

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

11. Portfolio investments *(continued)*

Transfer between categories represents positions where the Group has originally held one type of instrument relating to a portfolio, and subsequently increased or changed its interest in the portfolio, leading to the requirement to consolidate the underlying structure onto the Group's balance sheet. This leads to a change in the classification of the portfolio investment held. The 'portfolio restructure' represents the restructure of a leveraged structured deal to move to a delevered position, and hence change the nature of the holding whist extinguishing related liabilities.

Period ended 30 June 2019

	Amortised cost £000	FVTPL £000	Real Estate Inventories £000	Total £000
As at the period brought forward	869,056	217,974	-	1,087,030
Portfolios purchased during the period	129,527	11,139	24,918	165,584
Transfer between categories	22,897	(44,021)	21,124	-
Collections in the period	(161,800)	(40,339)	-	(202,139)
Income from portfolio investments at amortised cost	95,007	-	-	95,007
Fair value gain on portfolios at FVTPL	-	21,124	-	21,124
Net impairment gain/inventory write-down	15,721	-	-	15,721
Exchange and other movements	(2,664)	(1,436)	1,883	(2,217)
Portfolio restructure	(13,161)	-	-	(13,161)
As at the period end	**954,583**	**164,441**	**47,925**	**1,166,949**

Scenario modelling information

To assist with the understanding of how the Group has modelled the future cash flows which ultimately drive the valuation of the portfolio investment assets, the below table shows the probability which has been assigned to each macroeconomic scenario when preparing the cash flow forecasts.

Country	Segment	Scenario Base	 Downside	 Severe
Ireland	Secured	40%	40%	20%
UK	Secured	25%	50%	25%
UK	Unsecured	40%	60%	n/a*
Portugal	Secured	25%	50%	25%
Portugal	Unsecured	25%	75%	n/a*
Italy	Secured	25%	75%	0%
Italy	Unsecured	35%	65%	n/a*
The Netherlands	Secured	25%	50%	25%
The Netherlands	Unsecured	35%	65%	n/a*

* Only a base and downside scenario were considered for unsecured assets across all geographies

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

11. Portfolio investments *(continued)*

In conjunction with the scenario probability, the information set out below can be used to determine the Group's expected range of macroeconomic environments, along with the probability weighted average environment for each key segment and indicator. Note that where a HPI forecast is shown, these are calculated relative to the relevant pre-COVID 31 December 2019 position in the index (where pre-COVID is equal to 100%), therefore the trough in the table below might be before or after the 30 June 2020. Unemployment forecasts represent absolute levels of unemployment as a percentage of population.

Country	Segment	Scenario	Key Factor	Peak/ trough	Date	2020	2021	2022	2023
Ireland	*Secured*	*Pre-COVID*	*HPI*	*98.3%*	*Feb 2020*	*100.3%*	*104.0%*	*110.0%*	*115.9%*
Ireland	Secured	Base	HPI	94.0%	May 2020	97.7%	99.8%	107.8%	115.9%
Ireland	Secured	Downside	HPI	91.1%	Jun 2020	95.2%	96.9%	104.4%	112.0%
Ireland	Secured	Severe	HPI	84.2%	Jun 2020	88.2%	86.7%	94.8%	103.1%
Ireland	Unsecured	Base	Unemployment	8.0%	Jun 2020	7.0%	4.8%	4.8%	4.8%
Ireland	Unsecured	Downside	Unemployment	14.9%	Jun 2020	7.7%	4.9%	4.8%	4.8%
UK	*Secured*	*Pre-COVID*	*HPI*	*100%*	*Dec 2019*	*102.2%*	*104.8%*	*108.1%*	*111.7%*
UK	Secured	Base	HPI	91.8%	Aug 2020	94.1%	103.0%	102.7%	111.7%
UK	Secured	Downside	HPI	89.8%	Aug 2020	93.1%	97.0%	96.4%	103.7%
UK	Secured	Severe	HPI	88.4%	Aug 2020	90.5%	92.8%	90.8%	97.4%
UK	Unsecured	Base	Unemployment	7.1%	Dec 2020	7.1%	4.5%	3.9%	4.0%
UK	Unsecured	Downside	Unemployment	10.4%	Jun 2021	7.0%	5.1%	4.5%	4.7%
Portugal	*Secured*	*Pre-COVID*	*HPI*	*100%*	*Dec 2019*	*103.0%*	*105.3%*	*107.7%*	*110.2%*
Portugal	Secured	Base	HPI	100%	Dec 2019	103.0%	102.1%	106.0%	110.2%
Portugal	Secured	Downside	HPI	99.7%	May 2022	103.0%	100.0%	101.3%	105.4%
Portugal	Secured	Severe	HPI	94.4%	Dec 2022	103.0%	96.5%	94.4%	97.3%
Portugal	Unsecured	Base	Unemployment	11.5%	Jun 2020	10.4%	9.0%	7.7%	n/a
Portugal	Unsecured	Downside	Unemployment	14.0%	Sep 2020	13.0%	9.6%	8.1%	n/a
Italy	*Secured*	*Pre-COVID*	*HPI*	*100%*	*Dec 2019*	*100.5%*	*101.6%*	*102.6%*	*104.7%*
Italy	Secured	Base	HPI	97.2%	May 2022	98.4%	97.3%	97.2%	101.0%
Italy	Secured	Downside	HPI	89.7%	Nov 2022	95.5%	91.4%	89.7%	94.8%
Italy	Secured	Severe	HPI	80.7%	Nov 2022	93.8%	85.5%	80.7%	86.8%
Italy	Unsecured	Base	Unemployment	12.5%	Dec 2020	12.5%	10.3%	9.7%	9.3%
Italy	Unsecured	Downside	Unemployment	13.7%	Dec 2020	13.7%	10.7%	9.8%	9.3%
Netherlands	*Secured*	*Pre-COVID*	*HPI*	*100%*	*Dec 2019*	*103.3%*	*106.3%*	*109.3%*	*112.4%*
Netherlands	Secured	Base	HPI	90.6%	Jun 2020	95.2%	104.8%	110.0%	112.4%
Netherlands	Secured	Downside	HPI	86.5%	Aug 2020	91.5%	100.3%	103.9%	108.7%
Netherlands	Secured	Severe	HPI	84.2%	Jun 2020	89.0%	96.0%	98.1%	103.2%
Netherlands	Unsecured	Base	Unemployment	4.1%	Dec 2020	4.1%	4.1%	4.1%	4.1%
Netherlands	Unsecured	Downside	Unemployment	5.4%	Mar 2021	5.3%	5.4%	5.4%	5.4%

Key sensitivities

The estimated future cash flows generated by portfolio investments is a key estimate 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 2020 by £9,618,000 (31 December 2019: £11,020,000, 30 June 2019: £11,208,000).

A key input into the estimate of future cash flows is the probability assigned to each of the 'base', 'downside' and 'severe' cases. If 100% probability was assigned to the most optimistic/pessimistic scenario, the impact is shown in the below table, split by geography and asset class. Note that this sensitivity applies only to 'amortised cost' and 'FVTPL' portfolio investments, as this is not a critical estimate for real estate portfolio assets, as these are only assessed for impairment each period, and such an assessment does not necessarily take into account of multiple future economic scenarios.

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

11. Portfolio investments *(continued)*

Geography	Carrying balance 30 June 2020 £000	Upside variance £000	Downside variance £000
UK	370,606,195	9,957,625	(7,246,034)
Ireland	20,492,705	1,212,423	(2,348,437)
Portugal	260,813,355	25,356,066	(16,232,983)
Netherlands	144,884,703	1,599,406	(912,065)
Italy	230,531,343	4,833,236	(1,772,904)
Total	**1,027,328,301**	**42,958,756**	**(28,512,423)**

Asset Class	Carrying balance 30 June 2020 £000	Upside variance £000	Downside variance £000
Secured	341,533,771	15,035,417	(19,352,435)
Unsecured	620,308,530	27,923,339	(9,159,988)
Real Estate Inventories	65,486,000	n/a	n/a
Total	**1,027,328,301**	**42,958,756**	**(28,512,423)**

12. Trade and other payables

	30 June 2020 £000	31 December 2019 £000	30 June 2019 £000
Current:			
Trade payables	14,524	15,635	14,052
Deferred consideration on acquisition of subsidiaries	14,147	11,332	5,198
Deferred consideration on portfolio investments	52,731	62,944	40,092
Taxation and social security	2,447	356	219
Dividends payable	-	-	15,158
Accruals	27,492	35,006	32,369
Other liabilities	23,931	19,495	64,603
Lease Liability	4,272	5,312	5,022
	139,544	150,080	176,713
Non-current:			
Trade payables	4,360	15,278	3,631
Deferred consideration on acquisition of subsidiaries	10,309	19,040	52,263
Accruals	546	-	-
Other liabilities	16,486	20,411	-
Lease liabilities	15,759	18,192	20,982
	47,460	72,921	76,876
Total trade and other payables	**187,004**	**223,001**	**253,589**

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

12. Trade and other payables *(continued)*

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 contingent element of the non-current deferred consideration has also been calculated at fair value.

13. Related party transactions

Key management, defined as permanent members of the board plus all non-executive directors. Compensation in relation to the financial period was as follows:

Remuneration	30 June 2020 £000	31 December 2019 £000	30 June 2019 £000
Salaries and performance related bonus	594	1,628	624
Pension-related benefits	43	110	61
Share based payments	-	(306)	-
	637	**1,432**	**685**

The number of key management during the period was 7 members (2019: 6 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 2020 £000	31 December 2019 £000	30 June 2019 £000
Senior secured notes (net of transaction fees of £11,677,000, 31 December 2019: £12,780,000, 30 June 2019: £13,869,000)	937,831	897,875	925,016
Revolving credit facility (net of transaction fees of £3,255,000, 31 December 2019: £3,720,000, 30 June 2019: £4,130,000)	280,788	230,963	214,338
Asset backed loan (net of transaction fees of £1,350,000, 31 December 2019: 1,658,000, 30 June 2019: £1,661,000)	91,950	84,077	72,651
Bank overdrafts	4,198	1,386	2,284
Other borrowings – non-recourse facility	4,365	3,672	3,575
	1,319,132	**1,217,973**	**1,217,864**
Total borrowings			
Amount due for settlement within 12 months	299,409	257,500	232,586
Amount due for settlement after 12 months	1,019,723	960,473	985,278

Asset Backed Securitisation

On 30 April 2019, the Group entered into a £100 million non-recourse committed asset backed securitisation facility with an advance rate of 55% of 84-month ERC. On the same date, the Group sold £137 million of ERC into AGL Fleetwood Limited, a wholly owned Arrow Global Group subsidiary, and borrowed an initial amount of £75 million non-recourse funding at LIBOR plus 3.1%, under the facility.

14. Borrowings and facilities *(continued)*

On 31 July 2019, the Group sold a further £44 million of ERC into AGL Fleetwood Limited and subsequently borrowed an additional £25 million non-recourse funding on the same terms under the facility.

On 31 March 2020, the Group sold a further £30 million of ERC into AGL Fleetwood Limited and on 2 April 2020 borrowed an additional £21 million non-recourse funding on the same terms under the facility. As at 2 April 2020, the amount drawn under the facility was £100 million. The facility has a five-year term comprised of an initial two-year revolving period followed by a three-year amortising period with an option to extend the revolving period by one year subject to lender consent.

During July 2020, the Group entered into further arrangements in connection with the non-recourse facility to mitigate potential collections impacts of COVID-19. An additional £33 million of 84-month ERC was sold into the structure with no additional borrowings made. In consideration of the additional ERC pledged, the lender agreed to amend certain performance criteria.

Furthermore, during July 2020, a second non-recourse amortising loan of €104,700,000 was fully drawn during the month. The second loan was secured against €356 million of Portuguese 84-month ERC at a margin of 4.25%.

As at 30 June 2020, £95,733,000 of the portfolio investments, set out in note 11, are pledged as collateral for the asset backed securitisation.

Revolving credit facility
On 26 February 2019, the £285 million revolving credit facility was extended to 2024, with no change to the 2.5% margin.

On 12 August 2020, the Group executed an amendment agreement with its Lenders under the revolving credit facility to amend the financial covenants under the facility to reflect the potential impact on the business of COVID-19. The amendments to the financial covenants are for the period from September 2020 up to and including June 2022 and provide suitable headroom based upon the Group's downside projections, including an amendment to the maximum permitted leverage and minimum liquidity, and a move to a more dynamic margin calculation.

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

15. Notes to the cash flow statement

	Period ended 30 June 2020	Period ended 30 June 2019
Cash flows from operating activities	**£000**	**£000**
(Loss)/profit before tax	(135,942)	32,513
Adjusted for:		
Collections in the period	175,776	202,139
Income from portfolio investments	(91,182)	(95,007)
Fair value losses/(gains) on portfolios	12,841	(21,124)
Net impairment losses/(gains)	120,753	(15,721)
Depreciation and amortisation	8,151	9,753
Interest payable	27,010	26,510
Foreign exchange losses	732	386
Profit on disposal of property, plant and equipment	(627)	-
Equity settled share-based payment expenses	1,175	1,528
Operating cash flows before movement in working capital	**118,687**	**140,977**
Decrease/(increase) in other receivables	20,020	(10,515)
(Decrease)/increase in trade and other payables	(28,010)	16,711
Cash generated by operations	**110,697**	**147,173**
Income taxes and overseas taxation payable	(1,429)	(3,528)
Net cash flow from operating activities before purchases of loan portfolios	**109,268**	**143,645**
Purchases of portfolio investments	(42,882)	(165,584)
Net cash generated by/(used in) operating activities	**66,386**	**(21,939)**

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

16. Share based payments

The following awards were made in 2020.

Share incentive plan scheme (SIP)
In 2020, 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 2020, nil-cost share options and conditional awards were granted to eligible employees based on a maximum of 200% of base salary. The LTIP awards vest at the end of three years, subject to the achievement of performance conditions.

The 2020 awards do not include the right to receive a dividend equivalent.

2020 LTIP performance criteria
The Company's Remuneration Committee has determined that, given the external environment, the underlying targets for the awards should not be set at this time. The Company will, however, seek to publish the proposed targets for the awards on the Company's website no later than the end of November 2020. The intention remains that LTIP awards will be subject to underlying ROE, underlying FCF and relative TSR (equally weighted).

The grant of nil cost options has been made under the LTIP at a price of £0.9046 per share. Under the terms of the LTIP award, the Remuneration Committee has full discretion to ensure that the final outturn of the LTIP reflects all relevant factors, including consideration of any potential for windfall gains.

Restricted share award and deferred bonus share awards
A restricted share award was made in June 2020, which vests on 25 June 2022. Deferred share bonus awards were made in April 2020 to current directors and non-executive directors, which vest on 8 April 2023. All are subject to continuity of employment.

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

16. Share based payments (*continued*)

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	5,723,288	3 years	25 June 2023
Equity settled award – restricted	Equity	359,934	2 years	25 June 2022
Equity settled award – SIP	Equity	55,255	3 years rolling	May – June 2023
Equity settled award – Deferred	Equity	148,149	3 years	8 April 2023

The weighted average fair value of options granted during the period was £0.75. The majority of options granted to date are nil cost options.

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

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

Grant date	**25 June 2020**	**25 June 2020**	**May 2020**	**8 April 2020**
Expected life of options (years)	3	2	3	3
Share prices at date of grant	£0.90	£0.90	£0.82	£1.01
Expected share price volatility (%)	65.6%	74.6%	n/a	60.42%
Risk free interest rate (%)	-0.1%	-0.1%	n/a	0.1%

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

	30 June 2020 £000
Equity settled share-based payment expense spread across vesting period	1,175
Total equity settled share-based payment expense recognised in the statement of comprehensive income	**1,175**

The basis of measures used to measure executive remuneration can be seen in the Annual Report & Accounts 2019 on the Company website at www.arrowglobalir.net.

17. 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 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 a fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

Level 2	**30 June 2020 £000**	**31 December 2019 £000**	**30 June 2019 £000**
Liabilities:			
Foreign currency contracts	-	-	(49)
Interest rate swaps	(316)	(509)	(761)
	(316)	**(509)**	**(810)**
Level 3			
Assets:			
Portfolio investments	152,050	169,799	164,441
Liabilities:			
Contingent consideration	(9,294)	(12,549)	(29,685)
	142,756	**157,250**	**134,756**

There have been no transfers in or out of any hierarchy level in the period. A reconciliation of the opening to closing balances for the period of the portfolio investments can be seen in note 11. However, in 2019 it was determined that contingent liabilities qualified as level 3 financial liabilities held at amortised cost. As such, they are now included within the disclosure.

17. Financial instruments *(continued)*

The fair value of amortised cost portfolio investments has been calculated by observing the compression in market yields over time and applying the difference between current average market IRRs for the Group's most recent vintage and applying this as a premium or discount to prior years' vintages. This approach takes into account changes in market pricing factors over time, while retaining the consideration of the individual characteristics of each portfolio. As this calculation is based on unobservable inputs, these fair values would be categorised as level 3 values.

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

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 2020.

The fair value of contingent consideration has been estimating the expected future payments arising from the consideration, and discounting this at Arrow's weighted average cost of debt, as this is deemed to represent the rate at which the market prices the credit risk of the Group for such payables.

The total 84-month ERC value for the Group's portfolio investments held at FVTPL is £208,878,000, with an average discount rate of 13.0%. An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at FVTPL of £1,520,000/(£1,520,000). An increase/decrease in the discount rate of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at FVTPL of (£3,050,000)/£3,166,000.

The total ERC value for the Group's portfolio investments held at amortised cost is £1,296,102,000, with an average discount rate of 21.3%. An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at amortised costs of £8,098,000/(£8,098,000). An increase/decrease in the discount rate of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at amortised of (£13,582,000)/£14,082,000. A full reconciliation between the opening and closing portfolio investments held at FVTPL has been provided in note 11. For a fuller description of how the future cash flows are estimated, please refer to note 4.

17. 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 statement of financial position. All of the Group's financial instruments not measured at fair value fall into hierarchy level 3.

Level 3	**30 June 2020 £000**	**31 December 2019 £000**	**30 June 2019 £000**
Assets:			
Portfolio investments – amortised cost	809,792	932,199	954,583
	809,792	**932,199**	**954,583**

30 June 2020	**Mandatorily at FVTPL £000**	**FVOCI £000**	**Amortised cost £000**	**Total carrying amount £000**	**Total fair value £000**
Portfolio investments	152,050	-	809,792	961,842	1,017,107
Cash and cash equivalents	-	-	165,759	165,759	165,759
Other receivables classified as financial assets	-	-	53,478	53,478	53,478
Total financial assets	**152,050**	**-**	**1,029,029**	**1,181,079**	**1,236,344**

30 June 2020	**Mandatorily at FVTPL £000**	**FVOCI £000**	**Amortised cost £000**	**Total carrying amount £000**	**Total fair value £000**
Senior secured notes	-	-	937,831	937,831	856,251
Revolving credit facility	-	-	280,788	280,788	280,788
Asset-backed loans	-	-	91,950	91,950	91,950
Bank overdrafts	-	-	4,198	4,198	4,198
Other borrowings	-	-	4,365	4,365	4,365
Derivative liability	316	-	-	316	316
Trade and other payables classified as financial liabilities	9,294	-	127,194	136,488	136,488
Total financial liabilities	**9,610**	**-**	**1,446,326**	**1,455,936**	**1,374,356**

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

17. Financial instruments (*continued*)

31 December 2019	Mandatorily at FVTPL	FVOCI	Amortised cost	Total carrying amount	Total fair value
	£000	£000	£000	£000	£000
Portfolio investments	169,799	-	932,199	1,101,998	1,101,275
Cash and cash equivalents	-	-	88,765	88,765	88,765
Other receivables classified as financial assets	-	-	69,198	69,198	69,198
Total financial assets	**169,799**	**-**	**1,090,162**	**1,259,961**	**1,259,238**

31 December 2019	Mandatorily at FVTPL	FVOCI	Amortised cost	Total carrying amount	Total fair value
	£000	£000	£000	£000	£000
Senior secured notes	-	-	897,875	897,875	904,853
Revolving credit facility	-	-	230,963	230,963	230,963
Asset-backed loans	-	-	84,077	84,077	84,077
Bank overdrafts	-	-	1,386	1,386	1,386
Other borrowings	-	-	3,672	3,672	3,672
Derivative liability	509	-	-	509	509
Trade and other payables classified as financial liabilities	12,549	-	151,586	164,135	164,135
Total financial liabilities	13,058	-	1,369,559	1,382,617	1,389,595

17. Financial instruments (*continued*)

30 June 2019	Mandatorily at FVTPL	FVOCI	Amortised cost	Total carrying amount	Total fair value
	£000	£000	£000	£000	£000
Portfolio investments	164,441	-	954,583	1,119,024	1,132,377
Cash and cash equivalents	-	-	77,748	77,748	77,748
Other receivables classified as financial assets	-	-	99,379	99,379	99,379
Total financial assets	**164,441**	**-**	**1,131,710**	**1,296,151**	**1,309,504**

30 June 2019	Mandatorily at FVTPL	FVOCI	Amortised cost	Total carrying amount	Total fair value
	£000	£000	£000	£000	£000
Senior secured notes	-	-	925,016	925,016	909,483
Revolving credit facility	-	-	214,338	214,338	214,338
Asset-backed loans	-	-	72,651	72,651	74,312
Bank overdrafts	-	-	2,284	2,284	2,284
Other borrowings	-	-	3,575	3,575	3,575
Derivative liability	810	-	-	810	810
Trade and other payables classified as financial liabilities	29,685	-	150,154	179,839	179,839
Total financial liabilities	**30,495**	**-**	**1,368,018**	**1,398,513**	**1,384,641**

18. Post balance sheet events

During July 2020, the Group entered into further arrangements in connection with the non-recourse facility to reflect the impact of COVID-19. An additional £33 million of 84-month ERC was sold into the structure with no additional borrowings made. In consideration of the additional ERC pledged, the lender agreed to amend certain performance criteria. Furthermore, during July 2020, a second non-recourse amortising loan of €104,700,000 was fully drawn during the month. The second loan was secured against €356 million of Portuguese 84-month ERC at a margin of 4.25%.

On 12 August 2020, the Group executed an amendment agreement with its Lenders under the revolving credit facility to amend the financial covenants under the facility to reflect the impact on the business of COVID-19.

ARROW GLOBAL

Additional information (unaudited)

The adjusted EBITDA reconciliations for the periods ended 30 June 2020 and 30 June 2019 respectively are shown below:

Reconciliation of net cash flow to adjusted EBITDA	30 June 2020 £000	30 June 2019 £000
Net cash flow used in operating activities	66,386	(21,939)
Purchases of portfolio investments	42,882	165,584
Income taxes paid	1,429	3,528
Working capital adjustments	7,990	(6,196)
Amortisation of acquisition and bank facility fees	29	73
Adjusting items	-	3,076
Adjusted EBITDA	**118,716**	**144,126**
Reconciliation of core collections to adjusted EBITDA		
(Loss)/income from portfolio investments including fair value and impairment losses and gains	(42,412)	131,852
Portfolio amortisation	218,188	70,287
Core collections (includes proceeds from disposal of portfolio investments)	**175,776**	**202,139**
Income from asset management and servicing and other income	45,799	45,841
Operating expenses	(112,319)	(118,670)
Depreciation and amortisation	8,151	9,753
Foreign exchange losses	732	386
Amortisation of acquisition and bank facility fees	29	73
Share-based payments	1,175	1,528
Profit on disposal of property, plant and equipment	(627)	-
Adjusting items	-	3,076
Adjusted EBITDA	**118,716**	**144,126**
Reconciliation of operating profit to adjusted EBITDA		
(Loss)/profit after tax	(110,433)	24,344
Net finance costs	27,010	26,510
Taxation (credit)/charge on ordinary activities	(25,509)	8,169
Operating (loss)/profit	**(108,932)**	**59,023**
Portfolio amortisation	218,188	70,287
Depreciation and amortisation	8,151	9,753
Foreign exchange losses	732	386
Amortisation of acquisition and bank facility fees	29	73
Share-based payments	1,175	1,528
Profit on disposal of property, plant and equipment	(627)	-
Adjusting items	-	3,076
Adjusted EBITDA	**118,716**	**144,126**

ARROW
GLOBAL

Additional information (unaudited) *(continued)*

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 2019 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	
Total portfolio investments	**£000**	**£000**	**£000**	
Brought forward	1,163,624	1,817,940	2,035,421	ERC brought forward
Portfolios acquired during the period [1]	42,882	61,781	69,106	ERC acquired during the period
Collections in the period [2]	(175,776)	(175,776)	(175,776)	Collections in the period
Income from portfolio investments at amortised cost [3]	91,015			
Income from portfolio investments – real estate inventories [3]	167			
Fair value gain on portfolio investments at FVTPL [4]	(12,841)			
Net impairment gain [5]	(120,753)			
Exchange and other movements	39,010			
		(125,503)	(166,684)	ERC roll forward and reforecast [6]
		1,578,442	**1,762,067**	ERC carried forward
Effect of discounting [7]		(551,114)		
Total	**1,027,328**	**1,027,328**		

[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 are 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 1 in the reconciliation of profit after tax to the cash result on page 47 for more detail on total income.*

[4] *Fair value gain on portfolio investments at FVTPL represents net increases to carrying values, discounted to calculate 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 and 120-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 (unaudited) *(continued)*

The table below reconciles the reported profit after tax for the period to the cash result.

Reconciliation of profit after tax to the free cash flow result

Income	Reported profit £000	Other items £000	Free cash flow £000	
Income from portfolio investments	91,182	84,594	175,776	Collections in the period
Fair value gains portfolio investments at FVTPL	(12,841)	12,841	-	
Impairment gains on portfolio investments at amortised cost and real estate inventories	(120,753)	120,753	-	
Income from asset management and servicing	45,458	-	45,458	Income from asset management and servicing
Other income	341	-	341	
Total income [1]	**3,387**	**218,188**	**221,575**	
Total operating expenses	(112,319)	9,460[2]	(102,859)	Cash operating expenses
Operating (loss)/profit	**(108,932)**	**227,648**	**118,716**	Adjusted EBITDA [4]
Net finance costs	(27,010)	1,313[3]	(25,697)	
(Loss)/profit before tax	**(135,942)**	**228,961**	**93,019**	
Taxation credit/(charge) on ordinary activities	25,509	(26,938)	(1,429)	
(Loss)/profit after tax	**(110,433)**	**202,023**	**91,590**	
			(9,125)	Capital expenditure
			82,465	**Free cash flow** [6]
			(77,738)	Replacement rate [5]
			4,727	**Cash result** [4]

[1] *Total income is largely derived from Income from portfolio investments (as explained in [3] in the movement in purchased loan portfolios under IFRS reconciled to cash ERC table on page 46) 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 portfolio investments arising from collections, which are not allocated to income. Amortisation plus income from portfolio investments equates to core collections.*

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

[3] *Non-cash amortisation of fees and interest.*

[4] *Adjusted EBITDA is a key driver to the cash result. This measure allows us to monitor the operating performance of the Group. See page 45 for detailed reconciliations of adjusted EBITDA.*

[5] *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 2020.*

[6] *Free cash flow is the adjusted EBITDA after the effect of capital expenditure and working capital movements.*

Glossary of Key Performance Indicators (KPIs)

A description of the Group's KPIs relating to clients, financial position and performance is set out in the 'additional information' section.

The Group's KPIs are used throughout this document to help explain the performance of the business. This glossary sets out why each of these KPIs are important to the Group.

84-month ERC

The 84-month ERC means the Group's estimated remaining collections on portfolio investments (of all classifications) over the next 84-months, representing the expected future core collections on portfolio investments during this period. The expected future collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time. The 84-month ERC is particularly important for the Group as it shows the forecast cash inflows over the same period that is used to calculate the future cash flows of the Group's portfolio investments.

120-month ERC

The 120-month ERC means the Group's estimated remaining collections on portfolio investments (of all classifications) over the next 120-months, representing the expected future core collections on portfolio investments during this period. The expected future collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time. The 120-month ERC is an important metric for the Group as in some cases the collection profile of a particular portfolio can extend beyond 84-months, and as such, the 120-month ERC gives a more holistic view of potential remaining collections from the Group's portfolio investments.

Leverage ratio

The Group's leverage ratio is calculated by dividing the secured net debt outstanding at the end of the period by the LTM (12 months' rolling average) Adjusted EBITDA. The leverage ratio presented in the condensed consolidated interim financial statements is calculated on the same basis as the financial covenant stipulated within the Group's revolving credit facility provided by a syndicate of banks. As at 30 June 2020, the actual leverage was 3.8x against the bank covenant of 4.4x and a management target of between 3.0 to 3.5x.

Funds under management (FUM)

The funds under management figure for the Group represents the current gross discretionary capital that the Group is responsible for managing in some capacity, including any of its own capital which it has committed to invest alongside third-parties. FUM is an important metric used to understand the scale of the Group's Fund Management business and how this compares to others in the market.

Net IRR

The net Internal Rate of Return (Net IRR) is calculated by taking the cumulative expected returns from a portfolio investment (or group of portfolio investments) and discounting these at a rate that makes the net present value of such returns equal to the price paid for the investment(s). This is an important metric for the business as it is a measure of the returns which are being generated by investing the Group's own capital into new purchases in the period.

Glossary of alternative performance measures

APM	Definition	Why is the measure used?
Adjusted EBITDA	The Adjusted EBITDA figure represents the Group’s earnings before interest, tax, depreciation and amortisation, adjusted for any non-cash income or expense items.	Adjusted EBITDA is an approximate measure of the underlying cash EBITDA of the Group. In addition, the leverage ratio of the Group is calculated as the ratio of secured net debt to Adjusted EBITDA. This makes the Adjusted EBITDA figure a key component of this metric, which also features in the Group’s banking covenant measures.
Cash result	The 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.	The cash result provides a measure of how much cash the Group generates across the reporting period which it can utilise on a discretionary basis, whilst maintaining the size of its current investment portfolio.
Core collections/collections	Core collections or collections represent cash collections on the Group’s existing portfolio investments including ordinary course portfolio sales and put-backs.	Core collections is a key metric as it represents the Group’s most significant cash inflow. It is also a key component of adjusted EBITDA which is used to calculate the Group’s leverage position.
Leverage	Leverage is calculated as secured net debt over LTM adjusted EBITDA.	The leverage metric provides an indication of the level of indebtedness of the Group, relative to its underlying cash earnings. This is also an important metric used in the Group’s banking covenants.

Glossary of terms

‘ABS’ means asset-backed security.

‘ACO’ is Arrow Credit Opportunities, our first closed end fund encompassing all fund vehicles.

'AMS' Income from Asset Management and Servicing (AMS) contracts. The Group recognises income when it satisfies a performance obligation related to a service it has undertaken to provide to a customer.

‘APM’ means alternative performance measure.

‘CGU’ means cash-generating unit.

‘Collection activity costs’ represent 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.

‘Cost-to-collect ratio’ is collection activity costs over total income.

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

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

‘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 gross ERC at the date of purchase. On acquisition, there is a short period that is required to determine the EIR, due to the complexity of the portfolios acquired.

‘EPS’ means earnings per share.

‘ERC roll forward’ 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.

‘ESG’ mean environmental, social and governance.

‘FCA’ means the Financial Conduct Authority.

‘Free cash flow’ or 'FCF' means adjusted EBITDA after the effect of capital expenditure, financing and tax impacts and before the replacement rate.

‘Funds under management (FUM)’ means the value of all fund management assets managed by Arrow Global plc., including Arrow Credit Opportunities, Norfin Investimentos, Saggita and any of Arrow’s own capital which it has committed to invest alongside third-parties committed capital. FUM is an important metric used to understand the scale of the Group’s Fund Management business and how this compares to others in the market.

‘FVTPL’ – 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 2019.

‘GFC’ means global financial crisis.

‘Gross AMS income’ includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-group income for these services.

	30 June 2020 £000	30 June 2019 £000
Third party AMS income	45,458	45,639
Intra-Group AMS income	22,121	22,699
Gross AMS income	**67,579**	**68,338**

‘Gross income’ includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-group income for Asset Management and Servicing, total income for the Investment Business and other income.

	30 June 2020 £000	30 June 2019 £000
Third party AMS income	45,458	45,639
Intra-Group AMS income	22,121	22,699
Gross AMS income	**67,579**	**68,338**
Investment Business (loss)/profit	(42,412)	113,852
Other income	341	202
Gross income	**25,508**	**200,392**

‘H1’ means half year being the first six months of the year.

‘IB’ means the Investment Business.

‘IFRS’ means EU adopted international financial reporting standards.

‘Income from AMS’ includes commission income, debt collection, due diligence, real estate management and advisory fees.

‘Loan to value’ or ‘LTV ratio’ represents the ratio of 84-month ERC to net debt.

‘LTIP’ means the Arrow long-term incentive plan.

‘LTM’ means last 12 months and is calculated by the addition of the consolidated financial data for the year ended 31 December 2019 and the consolidated interim financial data of for H1 2020, and the subtraction of the consolidated interim financial data for H1 2019.

‘NCI’ means non-controlling interest.

‘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 portfolio investments, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after taking out of the Group’s assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt for the period ended 30 June 2020 is as follows:

	30 June 2020 £000	31 December 2019 £000
Cash and cash equivalents	(165,759)	(88,765)
Senior secured notes (pre-transaction fees net off)	943,983	902,656
Revolving credit facility (pre-transaction fees net off)	284,043	234,683
Asset-backed loans (pre-transaction fees net off)	93,184	85,604
Secured net debt	**1,155,451**	**1,134,178**
Deferred consideration – portfolio investments	52,908	62,944
Deferred consideration – business acquisitions	24,278	30,372
Senior secured notes interest	5,526	7,999
Asset-backed loan interest	116	131
Bank overdrafts	4,198	1,255
Other borrowings	4,365	3,672
Net debt	**1,246,842**	**1,240,551**

‘Net IRR’ means the internal rate of return net of cost to collect.

‘NPL’ means non-performing loan.

‘NPV’ means net present value.

‘OCI’ means other comprehensive income.

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

‘Portfolio amortisation’ represents total collections plus income from portfolio investments.

‘Portfolio investments’ are on the Group’s statement of financial position 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.

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

‘ROE’ means the return on equity 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 H1 2019 to H1 2020 as shown in the quarterly and half yearly statements.

‘Secured net debt’ see table in ‘net debt’ definition.

‘SIP’ means the Arrow all-employee share incentive plan.

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

‘TSR’ means total shareholder return.