12 August 2021

Arrow Global Group plc interim results for the six months ended 30 June 2021

Strong second quarter performance; Execution of capital-light strategy on track, driving long-term growth

Highlights

- EBITDA before takeover costs of £61.3 million (H1 2020: loss of £100.0 million)
- Profit before tax and takeover costs of £22.9 million (H1 2020: loss of £135.9 million)
- Arrow shareholders voted in favour of the recommended all cash offer by TDR Capital at the court and general meetings on 21 May (93.8% of votes in favour); Completion, subject to regulatory approvals, expected by the end of Q3 2021; £22.4 million of takeover costs have been recognised leading to a statutory profit before tax of £0.5 million (H1 2020: loss of £135.9 million)
- Arrow Credit Opportunities 1 (ACO 1) fund deployment in line with expectations
- Asset Management & Servicing third-party contract wins continue

Fund and Investment Management (FIM) business – Attractive deployment opportunities

- Continued momentum in deployment of ACO 1 – 54% of fund deployed or committed (gross, before capital recycling and including both third-party and balance sheet co-investment); 64% deployed when co-investment is excluded
- Expect 70% deployment (excluding balance sheet co-investment) of ACO 1 in early 2022, enabling us to begin fundraising for our next fund, ACO 2
- Record deployment in Q2 2021; strong Q3 2021 investment pipeline
- H1 2021 third-party income of £10.8 million, up 92.9% (H1 2020: £5.6 million)
- Net deal IRR of 18% achieved in H1 2021 (FY 2020: 17%)
- Funds Under Management (FUM) of €4.8 billion at 30 June 2021 (31 December 2020: €4.3 billion)

Asset Management and Servicing (AMS) business – Resilient revenues and new contract wins

- Resilient third-party income growth, up 12.6% to £44.8 million (H1 2020: £39.8 million)
- 11 new contract wins during H1 2021 (FY 2020: 26), driving high-quality recurring revenues
- 71% of ACO 1 deployment serviced by AMS platforms (as at H1 2021, on a cumulative basis)

Balance Sheet (BS) business – Strong collections performance outperforming ERC

- H1 2021 collections of £179.6 million (H1 2020: £175.8 million), representing 119% of December 2020 forecast Estimated Remaining Collections (ERC)
- Portfolio purchases of £94.8 million (H1 2020: £42.9 million)
- No material changes to the outlook for macro-economic factors which informs the assumptions used in our ERC forecast

Capital and liquidity

- Robust balance sheet with liquidity headroom increasing to £190.0 million (FY 2020: £174.6 million) – driven by continued strong free cash flow generation of £90.7 million (H1 2020: £82.5 million), the successful €75 million bond tap in Q1 2021, partially offset by higher portfolio purchases
- Leverage of 4.7x (FY 2020: 5.1x), comfortably within covenant levels

- Continue to expect leverage to be circa 4.0x by the end of 2021 and within target 3.0x-3.5x range by 2023

Outlook and targets

- Strongly positioned to take advantage of the investment and asset servicing opportunities that are arising from European-wide economic dislocation
- Recovery in performance during 2021 aligned to improving operating conditions and capital-light strategy
- Outlook described at FY20 remains appropriate; 2025 strategic targets remain on track

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

"Arrow continues to build momentum, delivering a strong second quarter performance despite continued economic disruption in our European markets, and with most of our colleagues working from home. We remain focused on the execution of our capital-light strategy and are making excellent progress. The continued successful deployment of ACO 1 means we are on track to begin fundraising for our second fund as planned. I am also pleased that our AMS business continues to see strong demand for its services, with our reputation as a responsible servicer helping us continue to win new contracts. Arrow shareholders voted in favour of the recommended all cash offer by TDR Capital at the court and shareholder meetings on 21 May and we continue to work with TDR to progress regulatory filings to satisfy the remaining conditions to the acquisition, which is expected to complete by the end of the third quarter. As we look towards the future, Arrow's proven track record as a leading investor and servicer means we remain well positioned in the large and growing European market, as economic dislocation generates new opportunities at increasingly attractive returns."

Jonathan Bloomer, Group chairman, said:

"It has been a challenging 18-month period, and today's strong results reflect the resilience of our business and the strength of the integrated asset management platform we have built. I am immensely proud of the way Arrow has navigated the pandemic and on behalf of the board, I would like to thank all Arrow colleagues for their steadfast commitment to our customers and clients, and their continued engagement under difficult circumstances. I want to pay a particular tribute to Lee Rochford, our CEO, who has led the business through this period in an exemplary fashion thereby ensuring the strong performance. I would also like to thank our shareholders for their unwavering support since our IPO in 2013. The launch of our capital-light strategy towards the end of 2020 was a pivotal moment for the Group, only made possible by our transition into a scalable alternative asset manager and our successful track record. As Arrow embarks on its next chapter of growth, under the ownership of TDR Capital, I am confident that Arrow has bright prospects and will continue to build better financial futures for all of its stakeholders."

Group financial highlights	30 June 2021	30 June 2020	Change
Total income (£m)	166.3	3.4	162.9
Free cash flow (£m)	90.7	82.5	8.2
Profit/(loss) before tax and takeover costs (£m) *	22.9	(135.9)	158.8
Profit/(loss) before tax and after takeover costs (£m)	0.5	(135.9)	136.4
Annualised ROE (%) **	(1.7)	(121.4)	119.7
Annualised ROE before takeover costs (%) **	37.9	(121.4)	159.3
Basic EPS (£)	(0.01)	(0.62)	0.61
Third-party AMS and FIM income (£m)	55.6	45.5	10.1
Capital-light % of Group EBITDA before takeover costs (%)	22.5	(6.8)	29.3
FIM EBITDA margin (%)	30.7	(0.1)	30.8
AMS EBITDA margin (%)	9.7	11.4	(1.7)
Balance sheet collections (£m)	179.6	175.8	3.8
	30 June 2021	**31 December 2020**	**Change**
Leverage (x)	4.7	5.1	(0.4)
84-month ERC (£m)	1,572.2	1,555.8	16.4
120-month ERC (£m)	1,732.8	1,722.4	10.4
FUM (€bn)	4.8	4.3	0.5

* These results exclude advisor fees associated with the potential purchase of the business and one-off acceleration of share-based payments and retention arrangements for key personnel below executive directors. For the reconciliation between this and the condensed consolidated profit and loss, please see the reconciliation on page 47.

** ROE has been calculated by extrapolating the half yearly results. The full definition of 'annualised' can be seen within the ROE definition in the glossary on page 50.

Presentation for H1 2021 results

No conference call will be held for the H1 2021 results; however, a presentation detailing Arrow's first half performance is available on the Group's Investor Relations website.

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 2020, 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.

Strategic overview

For the six months to 30 June 2021

Overview

Strong financial results delivered in the first half

Arrow has delivered a strong set of results in the first six months of 2021. Total income of £166.3 million was significantly ahead of the prior period (H1 2020: £3.4 million) driven primarily by the H1 2020 non-cash impairment charge of £120.8 million in income relating to the write-down of the ERC balance sheet asset. Profit before tax and takeover costs of £22.9 million (H1 2020: loss of £135.9 million) reflected a strong second quarter with the standalone result nearly twice that achieved in the first quarter of 2021. Profit before tax after takeover costs was £0.5 million (H1 2020: loss of £135.9 million) with circa £17 million of the takeover costs being contingent on the successful completion of the deal.

Balance sheet cash collections of £179.6 million were 2.2% ahead of the prior period (H1 2020: £175.8 million), representing 119% of the 84-month ERC at 31 December 2020. Despite the outperformance, we believe that the assumptions underlying the ERC forecast remain appropriate given that we have yet to see the full impact of the pandemic on customer finances as the withdrawal of government support measures begin to take effect in our target markets. Our Fund & Investment Management business generated third-party management fee income of £10.8 million in the first half (H1 2020: £5.6 million) reflecting the strong level of capital deployment in the ACO 1 fund. The second quarter of 2021 saw the highest rate of fund deployment to date, and we are on track to begin fundraising for our second fund in early 2022. FUM were €4.8 billion at 30 June 2021 (31 December 2020: €4.3 billion), including the Investment Management subsidiaries of Norfin, Europa Investimenti and Sagitta. The increase in FUM was driven primarily by Norfin and Sagitta. The Asset Management & Servicing business continues to benefit from the servicing opportunities arising from the deployment of ACO 1. This, together with 37 new third-party contracts won in the last 18 months, increased gross income by 7.7% to £64.2 million (H1 2020: £59.6 million).

Free cash flow generation in the first half of 2021 was £90.7 million (H1 2020: £82.5 million). The strong free cash flow, together with the bond tap raising €75 million and partially offset by our portfolio investments, led to an increase in our liquidity headroom to £190.0 million (FY 2020: £174.6 million). Management actions delivered in 2020 to strengthen the balance sheet, following the onset of the COVID-19 pandemic, places the Group in a robust financial position with the flexibility to invest into the significant market opportunities that are arising from economic dislocation. Balance sheet leverage (secured net debt/adjusted EBITDA) reduced to 4.7x from 5.1x at the end of 2020 and is expected to continue reducing as the negative impact of H1 2020 COVID-19 lockdowns on collections fall out of the Group’s trailing 12-month calculation. We are targeting leverage of circa 4.0x by the end of the year and to return to within our risk appetite (3.0x to 3.5x) by 2023.

Strategic execution on track

Having undertaken the pivot from a balance sheet investor to a fully integrated asset manager, largely investing capital on behalf of third-party investors, we have a clear strategy in place, with granular targets that reflect our ambitions. Since the start of the year, we have been resolutely focused on strategic execution as well as capitalising on the significant market opportunity.

It has been a busy six months for our Fund & Investment Management business as we invest to drive scale and industrialisation to support ACO 1 deployment and future divestment, as well as future fund launches.

We have built an in-house fundraising capability with the creation of the Clients and Capital Formation function and recruited a managing director to lead the team. Several other key senior hires have been made during the period to lead our underwriting, real estate and distribution teams. In addition, functions are being built out to optimise capital allocation, portfolio management and operational effectiveness. Building brand recognition and awareness across our target markets to support future fundraising is also a significant priority, and we will achieve this through a combination of sponsorships, media campaigns and thought leadership.

Our Asset Management & Servicing business is highly complementary to Fund & Investment Management with 71% of fund investments to date being serviced by our market leading AMS platforms, with the fund paying market referenced fees for such servicing. In addition, third-party demand for our asset servicing capability remains high as the volume of European NPL assets grow, with 11 new contracts won in the first half of 2021, following on from the record 26 contract wins during 2020.

The strategy for our Balance Sheet business is to maximise collections on the back book at least in line with our 84-month ERC asset and to co-invest alongside the ACO 1 fund in an approximate 25:75 ratio. We expect the proportion of balance sheet investment to reduce for subsequent funds. This would result in reduced capital intensity on the balance sheet and enables the Group to continue reducing leverage to within our risk appetite.

We remain on track to achieve the strategic targets that we set out in November 2020.

Priorities for the remainder of the year

Arrow's strong financial position, successful investment track record, and growing capital-light businesses uniquely positions the Group to take advantage of the attractive opportunities that are emerging from the pandemic. Arrow's priorities for the second half of 2021 are clear:

1. **Deployment of remaining ACO 1 FUM**
   Arrow has a large on-the-ground presence in its markets with asset expertise on a very granular level. As such, around 70% of deals to date have been off-market bilateral trades that are smaller in size and offer our investors both the prospect of higher returns and enhanced diversification. This is where our business model performs optimally and offers its strongest competitive advantage versus some of the larger distressed credit funds, by limiting large single risk exposures. We expect this investment trend to continue for the remainder of the year as we continue the deployment of ACO 1 – with a continued preference for secured over unsecured assets, providing enhanced downside protection.
2. **Prepare the ground for ACO 2 fundraising in 2022**
   We are on track to deploy 70% of ACO 1 FUM (excluding co-investment) by the end of 2021, enabling the start of the ACO 2 fundraising in early 2022. As such we are turning our focus towards preparing for the fundraise of our second fund. Given the success of the ACO 1 deployment and the returns achieved to date, we aim to leverage existing institutional investor relationships and are confident in achieving a strong level of re-investment into the second fund. We will also continue to target a diversified and global investor base for future fundraises.
3. **Continued investment into FIM to enhance scalability**
   The foundations for growth in the FIM business are firmly in place and we are confident in achieving our goal of at least €10 billion of FUM by the end of 2025. Although much has been achieved in the first six months of the year with a number of key senior hires as well as the build out of a number of functions,

in order to meet our target, we need to build additional scale in the business with further investment planned in talent, systems, technology as well as building the brand.

4. **Seek further new business wins in AMS to drive high-quality recurring revenues**
   As the volume of defaulting assets in our European markets continues to increase, financial institutions will require our proven capabilities and leading collections platforms to service these assets. This has already led to a record number of deals won during 2020 and the first six months of 2021. The deal pipeline for the second half of the year is strong and we expect to continue our recent performance, which will contribute to the continued growth of the AMS business. We are confident in achieving our target of growing AMS revenues by 10% per annum over the next 5 years.
5. **Monitor the macro-economic environment and maximise back book collections**
   Although macro-economies across the globe are starting to recover from the pandemic as economic activity picks up following the easing of restrictions, we are mindful of the potential negative impact on unemployment and asset prices as government support measures are withdrawn. We are therefore focused on continuing to maximise collections against our 84-month ERC, whilst maintaining high service levels to our customers in line with our ESG policy.

Summary and Outlook

Arrow has made a successful start to the year despite the vast majority of our people continuing to work remotely, which is testament to their ongoing dedication and commitment to Arrow. We grew earnings significantly in the second quarter, increased our balance sheet collections (which outperformed the December 2020 ERC forecast), and continued to increase the proportion of the Group's capital-light income streams in the Asset Management & Servicing and Fund and Investment Management businesses. We continue to target the generation of 50% of our EBITDA from capital-light sources by 2025. The deployment of ACO 1 is progressing as expected, achieving a net deal IRR of 18% in the first six months of the year and we look forward to starting the fundraise for ACO 2. There continues to be heightened demand for our servicing capability from banks and other financial institutions who require a trusted partner to help manage their non-performing assets as the volume of defaulting assets in our European markets continues to increase.

Our business benefits when economies are disrupted by structural change or turmoil, as evidenced by our strong performance in the aftermath of the Global Financial Crisis. Even before the impact of COVID-19, our target market was large across Europe; it is estimated that there are circa €1.5 trillion of non-core and non-performing assets estimated across Europe, of which around €1 trillion reside on bank balance sheets. Market estimates suggest that bank NPL assets will increase by at least 50% to around €500 billion by the end of 2022. In addition, we expect a large secondary market of around €300 billion over the next four years, resulting from asset sales by banks during the last seven years. The market opportunity is therefore clearly significant.

Arrow has undertaken the pivot towards capital-light fund management, and we have the right foundations in place to grow at scale and achieve our ambitious strategic targets by 2025. As we look towards the future, Arrow's proven track record as a leading investor and servicer means we remain well positioned in the large and growing European market, as economic dislocation generates new opportunities at increasingly attractive returns.

Finance and operating review
For the six months to 30 June 2021

Overview

Trading conditions in the first half of 2021 were much improved on the equivalent period in the prior year as the business was better adapted and more accustomed to working remotely. This, together with the benefits from a number of management actions taken in 2020 to strengthen the balance sheet, means Arrow remains well funded with sufficient financial capacity to deliver on its capital-light strategy, and to capture the large number of investment opportunities in our target markets.

Strong cashflow generation

The Group has continued to improve cash generation, with £90.7 million of free cash flow generated in the first half (H1 2020: £82.5 million). The combination of improving cash collections, the growing proportion of capital-light income from the Group's FIM and AMS businesses, and the balance sheet business co-investing alongside ACO 1, underpins the Group's confidence in its ability to maintain strong liquidity and to continue deleveraging.

Statement of profit or loss

During the first six months of the year, the pre-tax result (before takeover costs) increased from a loss of £135.9 million in the prior period to a profit of £22.9 million at H1 2021. This was driven primarily by the H1 2020 non-cash impairment charge of £120.8 million in income relating to the write-down of the ERC balance sheet asset, which reflected the less favourable macro-economic outlook in the prior year due to the impact of the COVID-19 pandemic (H1 2021: non-cash impairment gain of £17.7 million).

Summary statement of profit or loss	**Notes**	**Unaudited period ended 30 June 2021 £000**	**Unaudited period ended 30 June 2020 £000**
Balance Sheet business income/(loss)		**110,677**	**(42,412)**
Income from asset management and servicing and fund and investment management		55,646	45,458
Other income		9	341
Total income		**166,332**	**3,387**
Operating expenses:			
Total operating expenses before takeover costs		**(113,229)**	**(112,319)**
Operating profit/(loss) before takeover costs		**53,103**	**(108,932)**
Net finance costs		(30,237)	(27,010)
Profit/(loss) before tax and takeover costs		**22,866**	**(135,942)**
Taxation (charge)/credit on ordinary activities before takeover costs	7	(2,296)	25,509
Profit/(loss) after tax and before takeover costs		**20,570**	**(110,433)**
Takeover costs		*(22,356)*	-
Tax credit due to takeover costs		*921*	-
Loss after tax		*(865)*	*(110,433)*

Total income of £166.3 million in H1 2021 (H1 2020: £3.4 million) was driven by the non-recurrence of the ERC write down, as well as improved balance sheet collections and growth in servicing fees and management fees from the AMS and FIM businesses respectively.

Total operating expenses before takeover costs increased to £113.2 million (H1 2020: £112.3 million). In light of the potential acquisition of the business by TDR Capital, professional advisor fees have been accrued and some share-based payments and retention arrangements for key personnel below executive directors have been accelerated, which would otherwise not have been incurred in the reporting period, bringing total operating expenses after takeover costs to £135.6 million. Circa £17 million of the takeover costs are contingent on the successful completion of the deal with the balance representing unavoidable costs relating to the takeover. Total operating expenses before takeover costs increased due to a combination of higher collection activity and fund management costs and overheads. Collection and fund management costs increased to £66.4 million (H1 2020: £64.3 million) - a reduction in collections activity costs was more than offset by an increase in litigation costs and fund management costs, with the latter being driven by the build out of the fund management platform, including a number of strategic hires in 2021, the creation of new teams and build out of functions, and other costs associated with the strategic pivot to fund management. Other operating expenses before takeover costs of £46.8 million reduced (H1 2020: £48.0 million), despite accruing for increased bonus payments in H1 2021.

Net finance costs of £30.2 million were 11.9% higher (H1 2020: £27.0 million) - in line with expectations and reflecting the successful bond tap completed during the first quarter of 2021.

The tax charge before takeover costs impacts of £2.3 million represents an effective tax rate of 10.0% (H1 2020: (18.8%)) on profit/(loss) before tax. The primary driver for the lower-than-expected tax charge is the restatement of the UK deferred tax asset to reflect the enactment of Finance Act 2021, which increases the UK corporation tax rate from 19% to 25% effective from 1 April 2023. The UK deferred tax asset, expected to unwind after this date, has been restated at 25% which gives rise to a one-off tax credit of £3.7 million. The tax charge after takeover cost impacts was £1.4 million (H1 2020: £25.5 million credit).

Dividend and returns

As previously reported, the board is currently focused on capital allocation to capture the significant investment opportunity, as well as on deleveraging the balance sheet. As such, the Group is not declaring a dividend for the first six months of 2021.

Basic EPS was (£0.01) in H1 2021 (H1 2020: £(0.62)), due to the ERC reforecast and resultant write down of the balance sheet asset in the prior period, and the impact of the costs incurred in relation to the potential takeover by TDR Capital in the current period.

Annualised return on equity (ROE) at the half year was (1.7)% after takeover costs and 37.9% before takeover costs (H1 2020: (121.4)%). The Group continues to target ROE of greater than 25% through-the-cycle between FY 2021 – FY 2025.

Segmental Review

30 June 2021	Balance Sheet business £000	AMS business £000	FIM business £000	Group functions £000	Intra-segment elimination £000	Adjusting items £000	Total period ended 30 June 2021 £000
Total income	105,139	64,238	24,739	9	(27,793)		166,332
Collection activity costs	(45,312)	(37,257)	(11,624)	-	27,793		(66,400)
Gross margin	59,827	26,981	13,115	9	-		99,932
Gross margin %	*56.9%*	*42.0%*	*53.0%*				*60.1%*
Other operating expenses excluding depreciation, amortisation and forex	(5,949)	(20,770)	(5,527)	(28,765)	-	22,356	(38,655)
EBITDA before takeover costs	**53,878**	**6,211**	**7,588**	**(28,756)**	**-**	**22,356**	**61,277**
EBITDA margin %	*51.2%*	*9.7%*	*30.7%*				*35.5%*
Depreciation, amortisation and forex	(1,379)	(3,607)	(1,538)	(1,650)	-	-	(8,174)
Operating profit/(loss) before takeover costs	**52,499**	**2,604**	**6,050**	**(30,406)**	**-**	**22,356**	**53,103**
Net finance costs	-	-	-	(30,237)	-	-	(30,237)
Profit/(loss) before tax and takeover costs	**52,499**	**2,604**	**6,050**	**(60,643)**	**-**	**22,356**	**22,866**
Takeover costs	-	-	-	-	-	*(22,356)*	*(22,356)*
Profit before tax	*52,499*	*2,604*	*6,050*	*(60,643)*	-	-	*510*

The comparative segmental table can be found in note 5 on page 26. For the reconciliation between this and the condensed consolidated profit and loss, please see the reconciliation on page 47.

Fund and Investment Management (FIM) business

Successful ACO 1 deployment; on track to start ACO 2 fundraising in line with plan

We continue to successfully deploy the capital in ACO 1, with the second quarter of 2021 being the highest rate of deployment to date, with €243 million invested across the fund vehicles (including deferred consideration). As of 30 June 2021, we have deployed 54% of ACO 1 (gross, before capital recycling and including both third-party and balance sheet co-investment) into attractive investment opportunities yielding a net deal IRR of 18%. Excluding co-investment, the fund is 64% deployed, which means we are on track to begin fundraising for ACO 2 in early 2022 (ACO 1 needs to be circa 70% deployed before fundraising for ACO 2 can commence). Portfolio management actions and strong collections have resulted in significant volumes of cash being generated from investments and being re-invested by the fund vehicles. Around 70% of investments to date have been off-market/bilateral deals, where our local in-country presence provides us with a significant competitive advantage.

FIM generated third-party management fee income of £10.8 million in the first half, up 92.9% (H1 2020: £5.6 million), which reflects the strong deployment momentum. Third-party fee income should continue to grow as the fund management net asset value increases. The EBITDA margin at H1 2021 was 30.7% and we are on track to achieve our target of 40% by 2025.

Building expertise and scale to achieve €10 billion of FUM by 2025

Having undertaken the pivot towards fund management we have the necessary foundations in place. However, to grow FUM significantly in line with our target, we need to invest further to create scale and drive operating leverage. We have made good progress in the first six months of the year by creating a Client Management & Capital Formation function and appointed a managing director (MD) to lead the team and our future fundraising efforts. We have also built out our Investment Strategy & Capital Allocation function, our Portfolio Management function as well as a Fund Operations function. In addition, we have appointed MDs to lead our Underwriting, Real Estate and Distribution & Securitisation teams. We continue to invest in our Fund Management IT system, focusing on agile and iterative development. Building brand awareness in the fund management arena is also high on our investment agenda.

Looking ahead until the end of 2021, we intend to create an Advisory Board comprised of individuals based in different parts of the world to help facilitate new investor relationships. Looking further ahead (beyond ACO 2), we are also exploring new product development with different risk and return profiles (such as private debt, real estate, direct lending, and litigation finance) as well as strategic partnering with investors to explore potential new geographies.

Asset Management & Servicing (AMS) business

Revenue resilience and continued contract wins

Gross AMS income from our servicing and collection activities grew 7.7% to £64.2 million (H1 2020: £59.6 million) notwithstanding the effects of a weaker Euro exchange rate versus GBP. Gross income includes a small contribution from servicing fees charged to the fund. AMS income from third-parties was up 12.6% to £44.8 million (H1 2020: £39.8 million), evidencing the resilience of the business's capital-light and recurring fees from long-term servicing contracts, despite the continuing impact from the COVID-19 pandemic, coupled with new business wins and a growing contribution from internal servicing fees referred to above. We continue to see a high demand from financial institutions for our asset servicing capabilities through our leading collections platforms, due to the increasing volume of non-performing assets as a result of the pandemic. During 2020 we won a record 26 new servicing contracts and have continued the strong momentum into 2021 with a further 11 new contracts won during the first six months of the year. The pipeline of further servicing opportunities for the remainder of the year is healthy. These new servicing contracts will continue to drive revenue growth in 2021 and beyond and supports our target of growing total revenues by 10% per annum over the next five years.

AMS continues to benefit from the ACO 1 fund deployment. We aspire to around 75% of fund investments being serviced on AMS platforms, with the fund paying market referenced fees for servicing. We achieved 71% at H1 2021 (on a cumulative basis) due to lower non-performing loan (NPL) investments during H1 2021 by ACO 1 in current market conditions.

In H1 2021, the AMS EBITDA margin decreased to 9.7% (H1 2020: 11.4%, restated). The restatement of the margin in the prior period reflected the updated segmental reporting methodology which aligned some of our fund management platforms previously reported under AMS into the FIM segment. The reduction in margin was driven by a decrease in revenue from collections-based and master servicing fees in the period. At a gross margin level, the reduction was also driven by an investment in direct costs associated with new third party contracts, where cost is typically incurred ahead of earning revenue. At EBITDA level the impact was compounded by increased recruitment and bonus costs year-on-year as well as higher IT costs driven by new contract wins. AMS is targeting a 25% EBITDA margin by 2025.

Balance Sheet business

Continuing trend of strong collections performance

The Balance Sheet business reflects the performance of the assets purchased with Arrow's own capital. Cash collections in the first half from our purchased portfolios were £179.6 million (H1 2020: £175.8 million), reflecting continued robust operational performance and the execution of a range of active portfolio management actions, despite the continuing impact of the COVID-19 pandemic.

Unsecured collections from our UK business have benefited from the recommencement of litigation collections strategies, with an acceleration of activity in Q4 2020 supporting strong performance throughout the first half. Elsewhere in Europe our unsecured collections have remained robust and generally the performance of this asset class underlines the strength of our underwriting processes.

Secured asset collections in Italy and Portugal during the first quarter of 2021 were impacted by the pandemic which halted real estate market transactions and court processes such as auctions, impacting the resolution of larger positions. Our reforecast of secured assets in these geographies reflects the potential for some further disruption in the second half of the year but an improving trend of resolutions/exits from H1 2022 onwards.

Increasing investment volumes reflect attractive market opportunities

In the first six months of 2021, Arrow invested £94.8 million into new portfolio purchases (H1 2020: £42.9 million), an increase of £51.9 million. Prior period purchases were impacted by the decision to preserve cash and liquidity due to the COVID-19 pandemic while the increase in the current year follows a significant level of off-market capital deployment in Q2 2021. This was driven by increases in real-estate backed investments in Portugal, UK and Ireland, credit-backed investments in Holland and the provision of asset-backed funding lines into a number of aggregation vehicles backed by the ACO 1 fund. Italian purchases remained broadly in line with H1 2020. The investment pipeline for second half of the year is robust and we remain well positioned to invest at substantial volume into the growing market opportunity.

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.

Balance sheet revaluation drives non-cash impairment gain

The ERC reforecast exercise has resulted in the upwards valuation of the portfolio investment assets on the balance sheet, largely within unsecured portfolios, resulting in a non-cash impairment gain of £17.7 million (H1 2020 non-cash impairment loss of £120.8 million). Total income from portfolio investments has therefore increased to £105.1 million (H1 2020: loss of £43.3 million).

Reduced spend on collection costs

Collection activity costs reduced by 10.5% to £45.3 million in H1 2021 (H1 2020: £50.6 million), despite higher overall collections. This was driven by a change in the mix of collections in the first half, with a reduction in collections on amortised cost and real estate portfolios, which is where the bulk of collection activity costs are incurred. This was partially offset by litigation activity costs which increased year-on-year following a decision taken in Q2 2020 to halt litigation across all geographies to conserve cash and to support customers, while in H1 2021, despite some disruption, particularly in Italy and Portugal during the first quarter, these activities recommenced. The recommencement of litigation and our broader engagement strategies are performing well. Incremental collections generally follow several months after litigation spend and we therefore expect further margin improvement during the second half of the year.

Balance sheet

Strong cash and liquidity with 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 £190.0 million at H1 2021 (FY 2020: £174.6 million). This consistent increase is predominantly a result of resilient cash generation with £90.7 million of free cash flow in H1 2021 (H1 2020: £82.5 million), the successful €75 million bond tap executed in Q1 2021, and prudent working capital management. This was partially offset by higher levels of portfolio purchases (H1 2021: £94.8 million, H1 2020: £42.9 million).

The strong collections of £179.6 million in H1 2021 (H1 2020: £175.8 million) has enabled the Group to reduce leverage from 5.1x at 31 December 2020 to 4.7x as at 30 June 2021. We continue to expect leverage to reduce to approximately 4.0x by the end of 2021 and to be within our risk appetite of 3.0x to 3.5x by 2023. As at 30 June 2021, the Group’s weighted average cost of debt was 3.8% (31 December 2020: 3.7%) and the average debt facility maturity was 3.4 years (31 December 2020: 3.7 years). Net debt reduced to £1,185 million at 30 June 2021 from £1,226 million at 31 December 2020.

The long-term support from Arrow’s lenders, with amendments to financial covenants under the revolving credit facility executed during 2020, the additional non-recourse facility raised in 2020, and the successful bond tap executed in Q1 2021, demonstrate the strong support for the Group. Furthermore, the board has assessed liquidity and leverage for the coming five years and considers that the business can execute its strategy in compliance with its covenants. There has been no specific considerations or adjustments needed in relation to the offer by TDR Capital to acquire the Group as management currently have no indication that this would result in a materially different strategic direction for the Group. 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.

Principal risks and uncertainties

In our 2020 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 2021.

Macro and political

The Group's swift and effective response to COVID-19 has continued during the first half of 2021, with continued focus on colleague welfare, operational resilience to support our customers and clients, and collection performance. As before, we have maintained close dialogue with our regulators in all markets we operate. Transition to a post-Brexit world has been seamless in line with our preparations in 2020. With the recent strategic positioning of our business, we have also continued to benefit from investment and servicing opportunities emerging with COVID-19. Successful vaccine roll-out efforts across our target geographies and easing of lock-down measures have been decreasing macro-economic and political pressures in recent months. We expect this trend to continue for the rest of the year while we closely monitor the developments. Despite the improving outlook, we believe that the macro-economic assumptions underlying the ERC forecast remain appropriate given that we have yet to see the full impact of the pandemic on customer finances as the withdrawal of government support measures begin to take effect in our target markets.

Liquidity & Funding

Liquidity and funding risk is mitigated through the covenant renegotiation in 2020, recent bond tap and strong collection performance. Leverage is in excess of risk appetite but on track to deliver 2021 target, circa 4.0x by the end of the year. Good collection performance is supporting the plan to reach targets. Through the regular budgeting and forecasting processes, the Group continues to assess the required level of liquid resources, funding plans and risk appetite. Strong governance and alignment with risk appetite is managed via the Asset and Liability committee, with regular reporting of key metrics.

The Group has increased flexibility regarding investment levels, as it is able to increase investments through third-party funds it manages. This enables the Group to curtail investment volumes funded by the Group and conserve liquid resources, without impacting the franchise of the businesses. Overall, the Group continues to be well positioned take advantage of investment opportunities as they arise, given the profile of its liabilities.

Regulatory Scrutiny

Regulatory conduct and Treating Customers Fairly continue to be at the heart of our business with clearly defined, documented and communicated policies and procedures in place to guide colleagues on the required standards for customer outcomes, with particular emphasis on vulnerable customers especially during the pandemic. During the first half of 2021, we have maintained increasingly proactive relationships with our key regulators in all locations where there is continued evidence of the approach of FCA being adopted by other jurisdictions including the Senior Managers and Certification Regime.

Cyber Risks

External cyber threats facing industry and supply chains are continuing to grow and evolve at a rapid rate, even more so during COVID-19. Arrow manages this growing threat by having a robust information security framework aligned to the international standard for information security – ISO 27001, which is commensurate with a group of our size and the highly regulated sector in which we operate. During the first half of 2021, the

Group continued to invest and enhance its information security framework and successfully mitigated emerging external threats.

Fund and investment management execution and business transformation

Despite delays due to COVID-19, organisational design and process improvements have been established with governance, leadership and clarity of responsibility formalised along with progress in management oversight. During the first half of 2021, the business segment continued to deliver process and operational improvements according to the targets. This trend is expected to continue for the rest of the year, further enhancing our fund and investment management business. During 2021, several critical hires have joined the business in line with strategic plans strengthening the team further. Ongoing focus on enhancing risk management practices into our Fund and embedding in daily operations also continued in 2021.

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. The business was successful in attracting and retaining some of the key talent to scale and continued to strengthen the middle leadership layer in terms of capability and capacity to manage dependencies on key individuals. Enhancing systems and processes also continues across the Group with clear ownership and accountability and mitigating actions in place to ensure timely delivery.

Outlook for the rest of the year

The Group has been successfully and effectively managing and mitigating its principal risks during the first half of 2021 despite a challenging external environment. This positive momentum is expected to remain for the second half of 2021, and particularly be reflected in leverage and scalability risks, while the business continues to deliver its strategic objectives and plans. This outlook is expected to be further supported with an improving macroeconomic environment as the pace of vaccine roll out and economic recovery increases in our target geographies.

Related party transactions

Related party transactions are disclosed in note 12 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 2021, 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.

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.

Going concern *(continued)*

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 10.

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. The directors note the proposed acquisition by Sherwood Acquisitions Limited (a newly formed company owned by investment funds managed by TDR Capital LLP) ("Bidco") to acquire the entire issued and to be issued share capital of the Parent Company and, in particular, the statements that Bidco has made in the Offer Documents regarding its intentions for the Group if that acquisition completes. In accordance with the Takeover Code, the directors only have access to this publicly available information.

The directors considered the impact of the proposed acquisition in the Group's going concern assessment. They note that should the acquisition complete, Bidco's stated intentions do not depart significantly from the Group's existing strategy or present causes for concern that completion of the acquisition by Bidco would have an adverse effect on the ability of the Group and Parent Company to continue as a going concern. Based on all of the above indicators, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

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 for use in the UK.

The condensed set of consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.

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	Non-executive director

The interim results were approved on 12 August 2021 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 2021 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 2021 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK 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 adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. 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 for use in the UK.

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.

Simon Ryder

for and on behalf of KPMG LLP

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

12 August 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 June 2021

	Note	Unaudited period ended 30 June 2021 £000	Unaudited period ended 30 June 2020 £000
Continuing operations	Note		
Income from portfolio investments at amortised cost	10	68,570	91,015
Fair value gains/(losses) on portfolio investments at FVTPL	10	23,419	(12,841)
Impairment gains/(losses) on portfolio investments	10	17,655	(120,753)
Income from portfolio investments - real estate inventories	10	1,033	167
Total income/(loss) from portfolio investments		**110,677**	**(42,412)**
Income from asset management and servicing and fund and investment management		55,646	45,458
Other income		9	341
Total income		**166,332**	**3,387**
Operating expenses:			
Collection activity and fund management costs	8	(66,400)	(64,279)
Other operating expenses	8	(69,185)	(48,040)
Total operating expenses		**(135,585)**	**(112,319)**
Operating profit/(loss)		**30,747**	**(108,932)**
Net finance costs		(30,237)	(27,010)
Profit/(loss) before tax		**510**	**(135,942)**
Taxation (charge)/credit on ordinary activities	7	(1,375)	25,509
Loss after tax		**(865)**	**(110,433)**
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		(6,466)	9,534
Movement on the hedging reserve		35	167
Total comprehensive loss for the period		**(7,296)**	**(100,732)**
Profit/(loss) attributable to:			
Owners of the Company		(938)	(109,771)
Non-controlling interest		73	(662)
		(865)	**(110,433)**
Basic EPS (£)	6	**(0.01)**	**(0.62)**
Diluted EPS (£)	6	**(0.01)**	**(0.62)**

Note – There has been a reclassification between the two operating expense rows 'collection activity and fund management costs' and 'other operating expenses' in the prior period. This change was made to better reflect the evolved nature of the Group's business model and presenting direct costs of the Group's business lines is deemed to provide more relevant information. As such, we have reclassified £13,895,000 from 'other operating expenses' to 'collection activity and fund management costs' in the prior period. The total impact is £nil. Further information can be found in note 8. This adjustment is in line with that made in the Annual Report and Accounts 2020.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	Unaudited 30 June 2021 £000	Audited 31 December 2020 £000	As re-presented Unaudited 30 June 2020 £000
Assets				
Cash and cash equivalents		117,978	182,892	180,091
Trade and other receivables		68,635	71,372	44,488
Portfolio investments – amortised cost	10	735,353	793,554	809,792
Portfolio investments – FVTPL	10	239,322	187,421	152,050
Portfolio investments – real estate inventories	10	53,351	61,240	65,486
Property, plant and equipment		17,444	17,612	25,104
Other intangible assets		38,890	38,709	39,056
Deferred tax asset		31,480	31,782	38,382
Goodwill	9	269,464	278,338	281,091
Total assets		**1,571,917**	**1,662,920**	**1,635,540**
Liabilities				
Bank overdrafts	13	3,094	3,648	4,198
Revolving credit facility	13	201,504	277,552	280,788
Derivative liability		40	83	316
Trade and other payables	11	172,227	166,965	187,004
Current tax liability		1,065	2,110	7,606
Other borrowings	13	2,487	3,247	4,365
Asset-backed loans	13	93,856	143,985	91,950
Senior secured notes	13	967,059	930,575	937,831
Deferred tax liability		17,593	18,056	19,828
Total liabilities		**1,458,925**	**1,546,221**	**1,533,886**
Equity				
Share capital		1,796	1,774	1,773
Share premium		347,436	347,436	347,436
Retained earnings		41,140	38,506	20,787
Hedging reserve		(32)	(67)	(256)
Other reserves		(280,922)	(274,451)	(271,657)
Total equity attributable to shareholders		**109,418**	**113,198**	**98,083**
Non-controlling interest		3,574	3,501	3,571
Total equity		**112,992**	**116,699**	**101,654**
Total equity and liabilities		**1,571,917**	**1,662,920**	**1,635,540**

The June 2020 balance sheet has been re-presented to show £14,332,000 of bank balances subject to certain restrictions within cash and cash equivalents in the period, that were previously shown within trade and other receivables. See the unaudited consolidated statement of cash flows on page 23 for more detail.

The interim results were approved on 12 August 2021 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 2021

	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 2020	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 losses 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
Profit/(loss) for the period	-	-	16,942	-	-	-	-	16,942	(126)	16,816
Exchange differences	-	-	-	-	-	(2,793)	-	(2,793)	-	(2,793)
Net fair value gains on cash flow hedges	-	-	-	233	-	-	-	233	-	233
Tax on hedged items	-	-	-	(44)	-	-	-	(44)	-	(44)
Total comprehensive income/(loss) for the period	-	-	16,942	189	-	(2,793)	-	14,338	(126)	14,212
Shares issued	1	-	-	-	-	-	-	1	-	1
Repurchase of own shares	-	-	-	-	(1)	-	-	(1)	-	(1)
Share-based payments net of tax	-	-	771	-	-	-	-	771	-	771
Change in Non-controlling interest	-	-	6	-	-	-	-	6	56	62
Balance at 31 December 2020	1,774	347,436	38,506	(67)	(6,368)	8,878	(276,961)	113,198	3,501	116,699
(Loss)/profit for the period	-	-	(938)	-	-	-	-	(938)	73	(865)
Exchange differences	-	-	-	-	-	(6,466)	-	(6,466)	-	(6,466)
Net fair value gains on cash flow hedges	-	-	-	43	-	-	-	43	-	43
Tax on hedged items	-	-	-	(8)	-	-	-	(8)	-	(8)
Total comprehensive (loss)/income for the period	-	-	(938)	35	-	(6,466)	-	(7,369)	73	(7,296)
Shares issued	22	-	-	-	-	-	-	22	-	22
Repurchase of own shares	-	-	-	-	(5)	-	-	(5)	-	(5)
Share-based payments net of tax	-	-	3,572	-	-	-	-	3,572	-	3,572
Balance at 30 June 2021 (unaudited)	**1,796**	**347,436**	**41,140**	**(32)**	**(6,373)**	**2,412**	**(276,961)**	**109,418**	**3,574**	**112,992**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2021

	Note	Unaudited period ended 30 June 2021 £000	As re-presented unaudited period ended 30 June 2020 £000
Net cash generated by operating activities	14	**41,700**	**54,107**
Investing activities			
Purchase of property, plant and equipment		(2,683)	(4,579)
Purchase of intangible assets		(6,627)	(4,546)
Acquisition of subsidiary, net of cash acquired		-	(89)
Deferred consideration paid in connection with subsidiary acquisitions		(8,311)	(3,266)
Net cash used in investing activities		**(17,621)**	**(12,480)**
Financing activities			
Movement in other banking facilities		(71,838)	37,047
Repayment of ABS		(48,835)	(13,480)
Proceeds from senior notes (net of fees)		64,363	-
Proceeds from ABS issuing		-	21,060
Repayment of interest on senior notes		(19,871)	(20,581)
Repayment of interest on asset-backed loans		(2,435)	(1,488)
Bank and other similar fees paid		(4,335)	(3,648)
Bank interest received		10	21
Repurchase of own shares		(5)	(561)
Issue of share capital		22	4
Lease payments		(2,962)	(2,421)
Payment of deferred interest		(488)	(259)
Net cash flow (used in)/generated by financing activities		**(86,374)**	**15,694**
Net (decrease)/increase in cash and cash equivalents		**(62,295)**	**57,321**
Cash and cash equivalents at beginning of period		182,892	115,376
Effect of exchange rates on cash and cash equivalents		(2,619)	7,394
Cash and cash equivalents at end of period		**117,978**	**180,091**

Included within cash and cash equivalents in £9,095,000 (2020: £14,332,000) of cash, which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated securitisation structure awaiting a payment date. The 2020 reconciliation above has been re-presented to remove these amounts from the net cash generated/used by operating activities, as in the prior reporting they were included within this line item, but are now included within cash and cash equivalents at the beginning and end of each period.

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 2021 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 non-performing and non-core loan portfolios and real estate from and on behalf of financial institutions, such as banks, institutional fund investors and specialist lenders.

2. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK. 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 2020.

The annual financial statements of the Group are prepared in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU. 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 2020.

The comparative figures for the financial year ended 31 December 2020 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 2020 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 12 August 2021.

Going concern

In assessing whether the going concern basis is appropriate to adopt for the Group as at 30 June 2021, 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.

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 10.

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. The directors note the proposed acquisition by Sherwood Acquisitions Limited (a newly formed company owned by investment funds managed by TDR Capital LLP) ("Bidco") to acquire the entire issued and to be issued share capital of the Parent Company and, in particular, the statements that Bidco has made in the Offer Documents regarding its intentions for the Group if that acquisition completes. In accordance with the Takeover Code, the Directors only have access to this publicly available information.

The directors considered the impact of the proposed acquisition in the Group's going concern assessment. They note that should the acquisition complete, Bidco's stated intentions do not depart significantly from the Group's existing strategy or present causes for concern that completion of the acquisition by Bidco would have an adverse effect on the ability of the Group and Parent Company to continue as a going concern. 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 2021, 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 2020.

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

5. Segmental reporting

Period ended 30 June 2021

	Balance Sheet business £000	AMS business £000	FIM business £000	Group functions £000	Intra-segment elimination £000	Adjusting items £000	Total period ended 30 June 2021 £000
Total income	105,139	64,238	24,739	9	(27,793)		166,332
Collection activity costs	(45,312)	(37,257)	(11,624)	-	27,793		(66,400)
Gross margin	59,827	26,981	13,115	9	-		99,932
Gross margin %	*56.9%*	*42.0%*	*53.0%*				*60.1%*
Other operating expenses excluding depreciation, amortisation and forex	(5,949)	(20,770)	(5,527)	(28,765)	-	22,356	(38,655)
EBITDA before takeover costs	**53,878**	**6,211**	**7,588**	**(28,756)**	**-**	**22,356**	**61,277**
EBITDA margin %	*51.2%*	*9.7%*	*30.7%*				*36.8%*
Depreciation, amortisation and forex	(1,379)	(3,607)	(1,538)	(1,650)	-	-	(8,174)
Operating profit/(loss) before takeover costs	**52,499**	**2,604**	**6,050**	**(30,406)**	**-**	**22,356**	**53,103**
Net finance costs	-	-	-	(30,237)	-	-	(30,237)
Profit/(loss) before tax and takeover costs	**52,499**	**2,604**	**6,050**	**(60,643)**	**-**	**22,356**	**22,866**
Takeover costs	-	-	-	-	-	*(22,356)*	*(22,356)*
Profit before tax	*52,499*	*2,604*	*6,050*	*(60,643)*	-	-	*510*

Period ended 30 June 2020

	Balance Sheet business[1] £000	AMS business restated[1] £000	FIM Business restated[1] £000	Group functions restated[1] £000	Intra-segment elimination restated[1] £000	As re-presented total period ended 30 June 2020 £000
Total income	(43,313)	59,645	16,539	341	(29,825)	3,387
Collection activity costs[2]	(50,626)	(33,353)	(10,120)	(5)	29,825	(64,279)
Gross margin	(93,939)	26,292	6,419	336	-	(60,892)
Gross margin %	*216.9%*	*44.1%*	*38.8%*			-
Other operating expenses excluding depreciation, amortisation and forex[2]	(5,455)	(19,494)	(6,440)	(7,768)	-	(39,157)
EBITDA	**(99,394)**	**6,798**	**(21)**	**(7,432)**	**-**	**(100,049)**
EBITDA margin %	*229.5%*	*11.4%*	*(0.1)%*			
Depreciation, amortisation and forex	(2,779)	(2,378)	(250)	(3,476)	-	(8,883)
Operating (loss)/profit	**(102,173)**	**4,420**	**(271)**	**(10,908)**	**-**	**(108,932)**
Net finance costs	-	-	-	(27,010)	-	(27,010)
(Loss)/profit before tax	**(102,173)**	**4,420**	**(271)**	**(37,918)**	**-**	**(135,942)**

[1] In line with the requirements of IFRS 8:29, due to the change of the segmental reporting structure aligned to the Group now being managed through an integrated asset manager model, the corresponding information for 2020 has also been restated. This is done on the same basis as in the Annual Report and Accounts 31 December 2020.

[2] The split of total operating expenses has changed from the Interim results 30 June 2020, with a reclass between 'collection activity and fund management costs' and 'other operating expenses', as part of the change in the segmental reporting structure aligned to the Group now being managed through an integrated asset management model. The total operating expenses impact is £nil. The main movements between the categorisation relate to allocation of internal staff costs and professional fees. This re-presented is on the same basis as done in the Annual Report and Accounts 31 December 2020.

Other operating expense inclusive of depreciation, amortisation and forex totals £48,104,000 (H1 2020: £48,040,000).

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

6. Earnings per share

	Period ended 30 June 2021 £000	Period ended 30 June 2020 £000
Basic and diluted earnings per share		
Loss for the period attributable to equity shareholders	(938)	(109,771)
Weighted average ordinary shares	**177,783**	**176,475**
Potential exercise of share options	11,341	7,494
Weighted average ordinary shares (diluted)	**189,124**	**183,969**
Basic earnings per share (£)	**(0.01)**	**(0.62)**
Diluted earnings per share (£)	**(0.01)**	**(0.62)**

7. Taxation charge on ordinary activities

The taxation charge for the period was £1,375,000 (H1 2020: £25,509,000 credit). The taxation before takeover cost impacts was £2,296,000 with an effective consolidated tax rate for the six months ended 30 June 2021 was 10.0% (30 June 2020: (18.8)%). The Group operates in multiple tax jurisdictions, which are subject to different corporate tax rates during the interim period. The Group has therefore calculated an estimated average annual effective tax rate for each jurisdiction, based on forecast profits and substantially enacted corporate tax rates relevant to those jurisdictions, to determine the Group's consolidated effective tax rate.

Deferred taxation is measured at the tax rates that are expected to apply in the periods in which the tax losses and temporary timing differences are expected to reverse. At Budget 2021, the government announced an increase to the rate of UK corporation tax for the year starting 1 April 2023, setting the rate at 25% which was passed in the Finance Act 2021 on 10 June 2021. A credit of £3,728,000 has been recorded to the profit and loss to reflect the restatement of the UK deferred tax asset.

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

8. Collection activity and fund management costs and other operating expenses

	Period ended 30 June 2021	As re-presented period ended 30 June 2020[1]
Collection activity and fund management costs:	**£000**	**£000**
External collection costs	12,320	15,426
Staff costs	30,467	29,395
Direct temporary labour	2,266	2,732
Direct operating costs	14,731	10,927
Legal disbursements	5,863	4,470
Other collection activity costs	753	1,329
Total collection activity costs	**66,400**	**64,279**

[1] The split of total operating expenses has changed from in the Interim results 30 June 2020, with a reclass between the 'collection activity and fund management costs' and 'other operating expenses', as part of the change in the segmental reporting structure aligned to the Group now being managed through an integrated asset management model. The total operating expenses impact is £nil. The main movements between the categorisation relate to allocation of internal staff costs and professional fees. This re-presentation is on the same basis as done in the Annual Report and Accounts 31 December 2020.

	Period ended 30 June 2021	As re-presented period ended 30 June 2020[1]
Other operating expenses:	**£000**	**£000**
Staff costs	21,071	20,418
Other staff related costs	2,378	3,469
Premises	1,661	1,858
IT	6,921	7,270
Depreciation and amortisation	8,581	8,151
Net foreign exchange (gains)/losses	(407)	732
Other operating expenses	6,624	6,142
Takeover costs	22,356	-
Total other operating expenses	**69,185**	**48,040**

[1] The split of total operating expenses has changed from in the Interim Results 2020, with a reclass between the 'collection activity and fund management costs' and 'other operating expenses', as part of the change in the segmental reporting structure aligned to the Group now being managed through an integrated asset management model. The total operating expenses impact is £nil. The main movements between the categorisation relate to allocation of internal staff costs and professional fees. The prior period has been re-presented accordingly on this basis.

Other operating expenses have increased materially in the period due to costs incurred related to the potential takeover of the Group by TDR Capital.

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

9. Goodwill

Cost	£000
At 30 June 2020	**283,400**
Exchange rate differences	(2,753)
At 31 December 2020	**280,647**
Exchange rate differences	(8,874)
At 30 June 2021	**271,773**
Impairment:	
At 30 June 2021, 31 December 2020 and 30 June 2020	**2,309**
Net book value:	
At 30 June 2021	**269,464**
At 31 December 2020	**278,338**
At 30 June 2020	**281,091**

10. Portfolio investments

The movements in portfolios investments were as follows:

Period ended 30 June 2021

	Amortised cost £000	FVTPL £000	Real estate inventories £000	Total £000
As at the period brought forward	793,554	187,421	61,240	1,042,215
Portfolios purchased during the period	18,997	75,778	-	94,775
Balance sheet cash collections in the period	(141,249)	(30,930)	(7,430)	(179,609)
Income from portfolio investments at amortised cost	68,570	-	-	68,570
Income from portfolio investments – real estate inventories	-	-	1,033	1,033
Fair value gain on portfolios at FVTPL	-	23,419	-	23,419
Net impairment gains/(losses)	17,752	-	(97)	17,655
Exchange and other movements	(22,271)	(16,366)	(1,395)	(40,032)
As at the period end	**735,353**	**239,322**	**53,351**	**1,028,026**

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

10. Portfolio investments *(continued)*

Year ended 31 December 2020

	Amortised cost	FVTPL	Real estate inventories	Total
	£000	£000	£000	£000
As at the period brought forward	932,199	169,799	61,626	1,163,624
Portfolios purchased during the year	47,169	62,681	-	109,850
Balance sheet cash collections in the year	(287,662)	(46,074)	(5,136)	(338,872)
Income from portfolio investments at amortised cost	164,597	-	-	164,597
Income from portfolio investments – real estate inventories	-	-	492	492
Fair value gain on portfolios at FVTPL	-	4,976	-	4,976
Net impairment losses	(100,022)	-	(414)	(100,436)
Exchange and other movements	37,273	(3,961)	4,672	37,984
As at the period end	**793,554**	**187,421**	**61,240**	**1,042,215**

Period ended 30 June 2020

	Amortised cost	FVTPL	Real Estate Inventories	Total
	£000	£000	£000	£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 losses on portfolios at FVTPL	-	(12,841)	-	(12,841)
Net impairment losses	(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**

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

10. Portfolio investments *(continued)*

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 that has been assigned to each macroeconomic scenario when preparing the cash flow forecasts.

Country	**Segment**	**Scenario**					
		Upside	**Mild upside**	**Base**	**Stagnation**	**Downside**	**Severe downside**
Ireland	Secured	10%	10%	50%	10%	10%	10%
UK	Secured	10%	10%	50%	10%	10%	10%
UK	Unsecured	10%	10%	50%	10%	10%	10%
Portugal	Secured	10%	10%	50%	10%	10%	10%
Portugal	Unsecured	10%	10%	50%	10%	10%	10%
Italy	Secured	10%	10%	50%	10%	10%	10%
Italy	Unsecured	10%	10%	50%	10%	10%	10%
The Netherlands	Secured	10%	10%	50%	10%	10%	10%
The Netherlands	Unsecured	10%	10%	50%	10%	10%	10%

The key macroeconomic indicator for each segment is the level of unemployment for unsecured and HPI for secured. These metrics are monitored at a national level with unemployment being the national unemployment rate, and HPI the relevant index of house prices used to observe the relative change in house prices in each country. The corresponding forecasts for unemployment and HPI are detailed on the following pages. Unemployment represents the expected year-end unemployment rate under the different scenarios relative to Base and HPI, the expected year-end growth rate under the different scenarios relative to Base.

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

10. Portfolio investments *(continued)*

Year-end unemployment rate relative to Base (change in %)

Country	Segment	Upside	Mild upside	Stagnation	Downside	Severe downside
UK	2021	(1.9)	(1.0)	1.0	1.4	1.9
UK	2022	(1.8)	(0.6)	1.7	2.0	2.3
UK	2023	(1.8)	(0.6)	1.9	2.1	2.5
UK	2024	(1.7)	(0.5)	1.8	2.0	2.4
UK	2025	(1.6)	(0.5)	1.7	1.9	2.2
Portugal	2021	(2.1)	(1.0)	1.5	1.8	2.3
Portugal	2022	(3.6)	(1.3)	3.5	4.0	4.8
Portugal	2023	(4.1)	(1.5)	4.0	4.0	5.4
Portugal	2024	(4.3)	(1.6)	4.0	4.6	5.5
Portugal	2025	(4.0)	(1.5)	3.7	4.2	5.1
The Netherlands	2021	(2.8)	(2.0)	1.0	1.5	2.2
The Netherlands	2022	(2.9)	(1.9)	1.3	1.9	2.8
The Netherlands	2023	(3.1)	(1.9)	1.4	2.0	3.0
The Netherlands	2024	(2.9)	(1.8)	1.4	1.9	2.9
The Netherlands	2025	(2.7)	(1.6)	1.3	1.8	2.7
Italy	2021	(1.8)	(1.0)	0.9	1.3	1.8
Italy	2022	(2.6)	(1.4)	1.4	1.9	2.6
Italy	2023	(3.0)	(1.6)	1.6	2.1	3.0
Italy	2024	(2.9)	(1.6)	1.5	2.0	2.9
Italy	2025	(2.7)	(1.5)	1.4	1.9	2.7
Ireland	2021	(1.3)	(0.6)	1.8	2.0	2.3
Ireland	2022	(2.7)	(0.9)	4.1	4.5	5.1
Ireland	2023	(3.8)	(1.0)	6.4	6.9	7.7
Ireland	2024	(3.8)	(0.9)	6.6	7.1	7.9
Ireland	2025	(3.5)	(0.9)	6.1	6.6	7.4

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

10. Portfolio investments *(continued)*

Year-end HPI rate (year-on-year) relative to Base (change in %)

Country	Segment	Upside	Mild upside	Stagnation	Downside	Severe downside
UK	2021	6.6	3.8	(4.9)	(7.0)	(10.6)
UK	2022	4.4	2.2	(6.5)	(9.1)	(13.8)
UK	2023	8.0	5.3	(4.2)	(6.8)	(11.9)
UK	2024	1.6	1.1	(0.8)	(1.4)	(2.7)
UK	2025	(1.4)	(0.2)	0.4	0.6	1.1
Portugal	2021	8.1	5.1	(3.8)	(5.7)	(9.0)
Portugal	2022	6.5	4.2	(3.0)	(4.7)	(7.7)
Portugal	2023	5.0	3.3	(2.5)	(4.0)	(6.8)
Portugal	2024	0.4	0.3	(0.2)	(0.3)	(0.6)
Portugal	2025	(0.4)	(0.2)	0.2	0.3	0.6
The Netherlands	2021	7.9	5.0	(3.5)	(5.3)	(8.4)
The Netherlands	2022	15.6	10.1	(6.7)	(10.5)	(17.2)
The Netherlands	2023	2.5	1.7	(1.4)	(2.3)	(4.0)
The Netherlands	2024	0.8	0.6	(0.5)	(0.8)	(1.5)
The Netherlands	2025	(0.4)	(0.3)	0.3	0.4	0.8
Italy	2021	2.8	1.7	(1.6)	(2.3)	(3.6)
Italy	2022	3.3	2.1	(1.4)	(2.2)	(3.5)
Italy	2023	3.7	2.4	(1.7)	(2.6)	(4.2)
Italy	2024	0.9	0.6	(0.4)	(0.6)	(1.0)
Italy	2025	(0.2)	(0.1)	0.1	0.2	0.3
Ireland	2021	12.1	7.5	(5.4)	(8.2)	(12.9)
Ireland	2022	11.6	7.6	(5.6)	(8.9)	(14.8)
Ireland	2023	4.7	3.2	(2.7)	(4.4)	(7.8)
Ireland	2024	(0.4)	(0.3)	0.2	0.4	0.7
Ireland	2025	(0.5)	(0.3)	0.3	0.5	0.9

In addition to these metrics, we also consider the impact of inflation and household indebtedness to provide additional context regarding macroeconomic conditions, albeit we consider these factors to have a less significant impact on performance.

When calculating the probability-weighted average for each country and asset class, the secured Base ERCs have been determined to most closely align to the 'Stagnation' macroeconomic scenarios. The forecasting methodology utilised for production of the unsecured Base ERCs, namely simulation methods, have an underlying assumption of a static macroeconomic environment, reflecting economic uncertainty rather than the anticipated macroeconomic improvements. To that end, the Group note that the unsecured Base ERCs have been produced using assumptions which are in the range between 'Stagnation' and 'Base' macroeconomic scenarios.

Application of the probability-weighted average on this basis indicates an anticipated increase in the Base ERCs as a result of future macroeconomic scenarios. However, given the continuing relative macroeconomic uncertainty, no macroeconomic adjustment (increase) has been applied to the Base ERCs.

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

11. Trade and other payables

	30 June 2021 £000	31 December 2020 £000	30 June 2020 £000
Current:			
Trade payables	5,747	9,889	14,524
Deferred consideration on acquisition of subsidiaries	11,192	18,497	14,147
Deferred consideration on portfolio investments	8,184	10,538	52,731
Taxation and social security	4,395	2,001	2,447
Accruals	39,109	33,300	27,492
Liabilities arising on acquisition of bankruptcy portfolios	5,563	12,959	-
Liabilities held on behalf of clients	8,550	-	-
Other liabilities	27,098	21,774	23,931
Lease Liability	6,205	3,560	4,272
	116,043	112,518	139,544
Non-current:			
Trade payables	17,722	8,137	4,360
Deferred consideration on acquisition of subsidiaries	126	1,633	10,309
Deferred consideration on portfolio investments	-	1,500	-
Taxation and social security	-	(124)	-
Accruals	2,990	887	546
Liabilities arising on acquisition of bankruptcy portfolios	20,936	23,367	15,782
Other liabilities	2,695	4,406	704
Lease liabilities	11,715	14,641	15,759
	56,184	54,447	47,460
Total trade and other payables	**172,227**	**166,965**	**187,004**

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.

12. Related party transactions

Key management are 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 2021 £000	31 December 2020 £000	30 June 2020 £000
Salaries and performance related bonus	636	1,222	594
Pension-related benefits	43	87	43
	679	**1,309**	**637**

The number of key management during the period was 7 members (2020: 7 members).

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

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

13. Borrowings and facilities

Secured borrowing at amortised cost	30 June 2021 £000	31 December 2020 £000	30 June 2020 £000
Senior secured notes (net of transaction fees of £10,535,000, 31 December 2020: £10,480,000, 30 June 2020: £11,677,000)	967,059	930,575	937,831
Revolving credit facility (net of transaction fees of £2,392,000, 31 December 2020: £2,790,000, 30 June 2020: £3,255,000)	201,504	277,552	280,788
Asset backed loan (net of transaction fees of £2,470,000, 31 December 2020: 4,708,000, 30 June 2020: £1,350,000)	93,856	143,985	91,950
Bank overdrafts and loans	3,094	3,648	4,198
Other borrowings – non-recourse facilities	2,487	3,247	4,365
	1,268,000	**1,359,007**	**1,319,132**
Total borrowings			
Amount due for settlement within 12 months	272,736	362,427	299,409
Amount due for settlement after 12 months	995,264	996,580	1,019,723

Senior secured notes

The senior secured notes comprise three publicly issued Euro and Sterling senior notes secured by substantially all of the assets of the Group; £320 million 5.125% fixed-rate notes due September 2024, €400 million floating rate senior secured notes due April 2025 at a coupon of 3.75% over three-month Euribor and €360 million floating rate senior secured notes, including the €75 million tap, due March 2026 at a coupon of 3.75% over three-month Euribor. The Euro notes are subject to a zero percent floor on Euribor.

On 12 February 2021, Arrow Global Finance plc issued €75 million senior secured notes maturing 2026, at an issue price of 99%. This tap issue of the existing €285 million senior secured floating rate bonds due 2026 means that all terms and conditions of the new bonds are identical to those of the existing 2026 bonds, except for the issue price. The proceeds from the transaction of €74,250,000 less transaction fees and expenses were used to partially repay drawings under the Group's revolving credit facility.

Revolving credit facility

The £285 million revolving credit facility, provided by a syndicate of banks, matures in January 2024. On 12 August 2020, the Group executed an amendment agreement with its lenders 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 of between 2.50% and 3.25%.

13. Borrowings and facilities *(continued)*

Asset Backed Securitisation

The Group has two non-recourse committed asset-backed securitisation term loans.

The first loan of £54.7 million as at 30 June 2021, secured on UK unsecured assets, pays LIBOR plus 3.1%. The Group initially established a £100 million asset-backed facility in April 2019 with £137 million of ERC being sold to a wholly owned subsidiary, AGL Fleetwood Limited and further ERC has been sold to AGL Fleetwood Limited at various times since the initial set up allowing further borrowings to be drawn.

Since 1 January 2020, there has been one such drawing. On 31 March 2020, the Group sold £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.

During July 2020, the Group entered into further arrangements in connection with the non-recourse facility to mitigate potential balance sheet cash 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. Since July 2020, no further drawings have been made.

During July 2020, the Group entered into a second non-recourse amortising loan of €104,700,000, which was fully drawn during the month. This loan was secured against €356 million of Portuguese 84-month ERC at a margin of 4.25%. The outstanding amount of the loan as at 30 June 2021 was €48 million.

As at 30 June 2021, £284,133,000 of the portfolio investments, set out in note 10, are pledged as collateral for the asset-backed securitisations.

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

14. Notes to the cash flow statement

	Period ended 30 June 2021	As re-presented period ended 30 June 2020
Cash flows from operating activities	**£000**	**£000**
Profit/(loss) before tax	510	(135,942)
Adjusted for:		
Balance sheet cash collections in the period	179,609	175,776
Income from portfolio investments	(69,603)	(91,182)
Fair value (gains)/losses on portfolios	(23,419)	12,841
Net impairment (gains)/losses	(17,655)	120,753
Depreciation and amortisation	8,581	8,151
Net interest payable	29,710	26,527
Lease liability interest	527	483
Foreign exchange (gains)/losses	(407)	732
Loss/(profit) on write-off and disposal of property, plant and equipment	41	(627)
Equity settled share-based payment expenses	3,572	1,175
Operating cash flows before movement in working capital	**111,466**	**118,687**
Decrease in other receivables	137	7,741
Increase/(decrease) in trade and other payables	26,019	(28,010)
Cash generated by operations	**137,622**	**98,418**
Income taxes and overseas taxation payable	(1,147)	(1,429)
Net cash flow from operating activities before purchases of loan portfolios	**136,475**	**96,989**
Purchases of portfolio investments	(94,775)	(42,882)
Net cash generated by operating activities	**41,700**	**54,107**

Included within cash and cash equivalents in £9,095,000 (2020: £14,332,000) of cash, which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated securitisation structure awaiting a payment date. The 2020 reconciliation above has been re-presented to remove these amounts from the net cash generated/used by operating activities, as in the prior period they were included within this line item, but are now included within cash and cash equivalents.

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

15. Share based payments

The following awards were made in 2021:

Share incentive plan scheme (SIP)
In 2021, 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 2021, 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 2021 awards do not include the right to receive a dividend equivalent.

2021 LTIP performance criteria
For each eligible employee, 33% of the LTIP awards are subject to ROE criteria and vests as follows:

Performance condition	Percentage vesting
Less than 25% average ROE over the three performance years	0%
25% average ROE over the three performance years (threshold performance)	25%
30% average ROE over the three performance years (maximum performance)	100%
Between 25% and 30% average ROE over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

For each eligible employee, 33% of the LTIP awards are subject to shareholder return criteria, being share price growth plus the value of dividend. The Group is compared against the FTSE 350 index, with the LTIP awards vesting as follows:

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

For each eligible employee, 33% of the LTIP awards are subject to FCF performance conditions and vests as follows:

Performance condition	Percentage vesting
Below £700 million cumulative FCF over the three performance years	0%
£700 million cumulative FCF over the three performance years (threshold performance)	25%
£850 million cumulative FCF over the three performance years (maximum performance)	100%
Between £700 million and £850 million cumulative FCF over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

For each Lee Rochford and Matt Hotson their LTIP vests as follows:

33% of the LTIP awards are subject to ROE criteria and vests as follows:

Performance condition	Percentage vesting
Less than 25% average ROE over the three performance years	0%
25% average ROE over the three performance years (threshold performance)	18.75%
30% average ROE over the three performance years (maximum performance)	100%
Between 25% and 30% average ROE over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

33% of the LTIP awards are subject to shareholder return criteria, being share price growth plus the value of dividend. The Group is compared against the FTSE 350 index, with the LTIP awards vesting as follows:

Performance condition	Percentage vesting
Below median ranking	0%
Median ranking (top 50%) (threshold performance)	18.75%
Upper quartile ranking (top 25%) (maximum performance)	100%
Between top 50% and top 25% ranking	Between the threshold performance and maximum performance on a straight-line basis

33% of the LTIP awards are subject to FCF performance conditions and vests as follows:

Performance condition	Percentage vesting
Below £700 million cumulative FCF over the three performance years	0%
£700 million cumulative FCF over the three performance years (threshold performance)	18.75%
£850 million cumulative FCF over the three performance years (maximum performance)	100%
Between £700 million and £850 million cumulative FCF over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

Restricted share award and deferred bonus share awards

A restricted share award was made in April 2021, which vests the day after the annual 2021 results are announced.

Accelerated share-based payment charge

In light of the potential acquisition of the business by TDR Capital, £2,623,000 of share-based costs have been accelerated, which would have otherwise not been incurred in the reporting period. The share-based payment charge before takeover costs for the period was £949,000, with a total share-based payment charge for the period of £3,572,000.

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

15. 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	1,855,148	3 years	9 April 2024
Equity settled award – restricted	Equity	64,357	1 years	23 March 2022
Equity settled award – SIP	Equity	61,340	3 years rolling	May – June 2024

The weighted average fair value of options granted during the period was £2.75. 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	**9 April 2021**	**6 April 2021**	**May 2021**
Expected life of options (years)	3	1	3
Share prices at date of grant	£3.04	£3.04	£3.05
Expected share price volatility (%)	74.1%	n/a	n/a
Risk free interest rate (%)	0.16%	n/a	n/a

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

	30 June 2021 £000
Equity settled share-based payment expense spread across vesting period	3,572
Total equity settled share-based payment expense recognised in the statement of comprehensive income	**3,572**

The basis of measures used to measure executive remuneration can be seen in the Annual Report & Accounts 2020 on the Company website at www.arrowglobalir.net.

16. 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 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 2021 £000**	**31 December 2020 £000**	**30 June 2020 £000**
Liabilities:			
Interest rate swaps	(40)	(83)	(316)
	(40)	**(83)**	**(316)**
Level 3			
Assets:			
Portfolio investments	239,322	187,421	152,050
Liabilities:			
Contingent consideration	(484)	(475)	(9,294)
	238,838	**186,946**	**142,756**

There have been no transfers between level 2 or 3.

16. 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 2021.

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 £343,998,000, with an average discount rate of 14.4%. An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at FVTPL of £2,393,000/(£2,393,000). An increase/decrease in the discount rate of 1% would lead to a decrease/increase in the carrying value of portfolio investments held at FVTPL of (£5,261,000)/£5,465,000.

The total ERC value for the Group's portfolio investments held at amortised cost is £1,089,304,000, with an average discount rate of 21.7%. 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 £7,354,000/(£7,354,000). An increase/decrease in the discount rate of 1% would lead to a decrease/ increase in the carrying value of portfolio investments held at amortised of (£11,330,000)/£11,747,000. A full reconciliation between the opening and closing portfolio investments held at FVTPL has been provided in note 10.

16. 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.

Level 3	**30 June 2021 £000**	**31 December 2020 £000**	**30 June 2020 £000**
Assets:			
Portfolio investments – amortised cost	735,353	793,554	809,792
	735,353	**793,554**	**809,792**

30 June 2021	**Mandatorily at FVTPL £000**	**FVOCI £000**	**Amortised cost £000**	**Total carrying amount £000**	**Total fair value £000**
Portfolio investments	239,322	-	735,353	974,675	1,119,690
Cash and cash equivalents	-	-	117,978	117,978	117,978
Other receivables classified as financial assets	-	-	63,189	63,189	63,189
Total financial assets	**239,322**	**-**	**916,520**	**1,155,842**	**1,300,857**

30 June 2021	**Mandatorily at FVTPL £000**	**FVOCI £000**	**Amortised cost £000**	**Total carrying amount £000**	**Total fair value £000**
Senior secured notes	-	-	967,059	967,059	976,173
Revolving credit facility	-	-	201,504	201,504	201,504
Asset-backed loans	-	-	93,856	93,856	93,856
Bank overdrafts	-	-	3,094	3,094	3,094
Other borrowings	-	-	2,487	2,487	2,487
Derivative liability	40	-	-	40	40
Trade and other payables classified as financial liabilities	484	-	107,329	107,813	107,813
Total financial liabilities	**524**	**-**	**1,375,329**	**1,375,853**	**1,384,967**

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

16. Financial instruments (*continued*)

31 December 2020	Mandatorily at FVTPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Total fair value £000
Portfolio investments	187,421	-	793,554	980,975	1,036,819
Cash and cash equivalents	-	-	182,892	182,892	182,892
Other receivables classified as financial assets	-	-	57,586	57,586	57,586
Total financial assets	**187,421**	**-**	**1,034,032**	**1,221,453**	**1,277,297**

31 December 2020	Mandatorily at FVTPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Total fair value £000
Senior secured notes	-	-	930,575	930,575	926,762
Revolving credit facility	-	-	277,552	277,552	277,552
Asset-backed loans	-	-	143,985	143,985	143,985
Bank overdrafts	-	-	3,648	3,648	3,648
Other borrowings	-	-	3,247	3,247	3,247
Derivative liability	83	-	-	83	83
Trade and other payables classified as financial liabilities	475	-	112,225	112,700	112,700
Total financial liabilities	558	-	1,471,232	1,471,790	1,467,977

16. Financial instruments (*continued*)

30 June 2020	Mandatorily at FVTPL	FVOCI	Amortised cost	Total carrying amount	Total fair value
	£000	£000	£000	£000	£000
Portfolio investments	152,050	-	809,792	961,842	1,017,107
Cash and cash equivalents – as re-presented	-	-	180,091	180,091	180,091
Other receivables classified as financial assets – as re-presented	-	-	39,146	39,146	39,146
Total financial assets	**152,050**	**-**	**1,029,029**	**1,181,079**	**1,236,344**

30 June 2020	Mandatorily at FVTPL	FVOCI	Amortised cost	Total carrying amount	Total fair value
	£000	£000	£000	£000	£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**

For more detail on the re-presentations, see the condensed consolidated statement of cash flows on page 23.

Additional information (unaudited)

The adjusted EBITDA reconciliations for the periods ended 30 June 2021 and 30 June 2020 respectively are shown below:

Reconciliation of net cash flow to adjusted EBITDA	30 June 2021 £000	As re-presented 30 June 2020 £000
Net cash flow used in operating activities	41,700	54,107
Purchases of portfolio investments	94,775	42,882
Income taxes paid	1,147	1,429
Working capital adjustments	(26,156)	20,269
Amortisation of acquisition and bank facility fees	-	29
Adjusting items	19,733	-
Adjusted EBITDA	**131,199**	**118,716**
Reconciliation of balance sheet cash collections to adjusted EBITDA		
Income/(loss) from portfolio investments including fair value and impairment losses and gains	110,677	(42,412)
Portfolio amortisation	68,932	218,188
Balance sheet cash collections (includes proceeds from disposal of portfolio investments)	**179,609**	**175,776**
Income from asset management and servicing and other income	55,655	45,799
Operating expenses	(135,585)	(112,319)
Depreciation and amortisation	8,581	8,151
Foreign exchange (gains)/losses	(407)	732
Amortisation of acquisition and bank facility fees	-	29
Share-based payments (excluding adjusting item)	949	1,175
Profit on disposal of property, plant and equipment	41	(627)
Adjusting items	22,356	-
Adjusted EBITDA	**131,199**	**118,716**
Reconciliation of operating profit to adjusted EBITDA		
Loss after tax	(865)	(110,433)
Net finance costs	30,237	27,010
Taxation charge/(credit) on ordinary activities	1,375	(25,509)
Operating profit/(loss)	**30,747**	**(108,932)**
Portfolio amortisation	68,932	218,188
Depreciation and amortisation	8,581	8,151
Foreign exchange (gains)/losses	(407)	732
Amortisation of acquisition and bank facility fees	-	29
Share-based payments (excluding adjusting item)	949	1,175
Profit on disposal of property, plant and equipment	41	(627)
Adjusting items	22,356	-
Adjusted EBITDA	**131,199**	**118,716**

For more detail on the re-presentations, see the condensed consolidated statement of cash flows on page 23.

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Additional information (unaudited) *(continued)*

Profit before takeover costs

	Unaudited period ended 30 June 2021 £000	Unaudited period ended 30 June 2020 £000
Total income	**166,332**	**3,387**
Collection activity and fund management costs	(66,400)	(64,279)
Other operating expenses	(46,829)	(48,040)
Total operating expenses	**(113,229)**	**(112,319)**
Operating profit/(loss)	**53,103**	**(108,932)**
Net finance costs	(30,237)	(27,010)
Profit/(loss) before tax and takeover costs	**22,866**	**(135,942)**
Taxation (charge)/credit on underlying activities	(2,296)	25,509
Profit/(loss) after tax before takeover costs	**20,570**	**(110,433)**
Non-controlling interest	**(73)**	**662**
Profit/(loss) before takeover costs attributable to owners of the company	**20,497**	**(109,771)**
Basic EPS before takeover costs (£)	**0.12**	**(0.62)**
Tax rate on results before takeover costs	**10.0%**	**18.8%**

Reconciliation between IFRS profit and profit before takeover costs:

	30 June 2021 profit before tax £000	30 June 2021 tax £000	30 June 2021 profit after tax £000	30 June 2020 profit before tax £000	30 June 2020 tax £000	30 June 2020 profit after tax £000
IFRS profit/(loss)	**510**	**(1,375)**	**(865)**	**(135,942)**	**25,509**	**(110,433)**
Adjusting items:						
Share-based payment, retention arrangements and deal costs acceleration	22,356	(921)	21,435	-	-	-
Profit/(loss) before takeover costs	**22,866**	**(2,296)**	**20,570**	**(135,942)**	**25,509**	**(110,433)**

Adjusting items are those items that by virtue of their size, nature or incidence (ie outside the normal operating activities of the Group) are not considered to be representative of the ongoing performance of the Group and these items are excluded to get to the profit before takeover costs.

In light of the potential acquisition of the business by TDR Capital, a number of costs relating to the potential acquisition have been accrued based on an estimate of the work performed to date by the Group’s professional advisors and some share-based payments and retention arrangements for key personnel below executive directors have been accelerated, all of which would have otherwise not been incurred in the reporting period, and may not be incurred at all if the acquisition does not proceed. Around £17,000,000 of the takeover costs are contingent on the successful completion of the deal, with the balance being unavoidable costs relating to the takeover.

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 2020 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	1,042,215	1,555,751	1,722,355	ERC brought forward
Portfolios acquired during the period [1]	94,775	116,658	120,509	ERC acquired during the period
Balance sheet cash collections in the period [2]	(179,609)	(179,609)	(179,609)	Balance sheet cash collections in the period
Income from portfolio investments at amortised cost [3]	68,570			
Income from portfolio investments – real estate inventories [3]	1,033			
Fair value gain on portfolio investments at FVTPL [4]	23,419			
Net impairment gain [5]	17,655			
Exchange and other movements	(40,032)			
		79,429	69,515	ERC roll forward and reforecast [6]
		1,572,229	**1,732,770**	ERC carried forward
Effect of discounting [7]		(544,203)		
Total	**1,028,026**	**1,028,026**		

[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 49 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.*

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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	69,603	110,006	179,609	Collections in the period
Fair value gains portfolio investments at FVTPL	23,419	(23,419)	-	
Net impairment gains	17,655	(17,655)	-	
Income from AMS and FIM	55,646	-	55,646	Income from AMS and FIM
Other income	9	-	9	
Total income [1]	**166,332**	**68,932**	**235,264**	
Total operating expenses	(135,585)	31,520[2]	(104,065)	Cash operating expenses
Operating profit	**30,747**	**100,452**	**131,199**	Adjusted EBITDA [4]
Net finance costs	(30,237)	157[3]	(30,080)	
Profit before tax	**510**	**100,609**	**101,119**	
Taxation (charge)/credit on ordinary activities	(1,375)	228	(1,147)	
Profit after tax	**(865)**	**100,837**	**99,972**	
			(9,310)	Capital expenditure
			90,662	**Free cash flow** [5]

[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 48) plus income from asset management and servicing and fund and investment management, being commission on collections for third-parties and fee income received. The other items add back loan portfolio amortisation to get to balance sheet cash 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 balance sheet cash collections.*

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

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

[4] *Adjusted EBITDA is a key driver to free cash flow. This measure allows us to monitor the operating performance of the Group. See page 46 for detailed reconciliations of adjusted EBITDA.*

[5] *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.

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 and Investment Management business and how this compares to others in the market.

Capital-light % of Group EBITDA

Capital-light % of Group EBITDA represents AMS and FIM segment EBITDAs as a percentage of total EBITDA. Capital-light % of Group EBITDA is an important metric because the Group is moving to an increasingly capital-light business model, to be less capital intensive and generate higher quality, capital-light earnings for shareholders.

AMS EBITDA margin

Asset Management and Servicing (AMS) EBITDA margin represents AMS segment EBITDA over AMS segment total income. AMS EBITDA margin is an important metric because the Group is moving to an increasingly capital-light business model, to be less capital intensive and generate higher quality, capital-light earnings for shareholders.

FIM EBITDA margin

Fund and Investment Management (FIM) EBITDA margin represents FIM segment EBITDA over FIM segment total income. FIM EBITDA margin is an important metric because the Group is moving to an increasingly capital-light business model, to be less capital intensive and generate higher quality, capital-light earnings for shareholders.

ROE

Return On Equity (ROE) is calculated by taking profit/loss after tax over the average equity attributable to shareholders, being the average quarterly equity from H1 2020 to H1 2021. As the 2020 results were large loss' after tax, for the ROE calculation for the 30 June 2021, the result has been annualised by extrapolating the H1 2021 result. ROE is an important metric because it measures the ability of the Group to generate profits from its shareholders' investments and is a metric used for the long-term incentive plan valuation criteria.

Free cash flow generation

Free cash flow generation (FCF) represents current cash generation on a sustainable basis, calculated as Adjusted EBITDA less cash interest, tax paid, purchase of property, plant and equipment and purchase of intangible assets. FCF is an important metric because It provides a measure of how much cash the Group generates across the reporting period and is a metric used for the long-term incentive plan valuation criteria.

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.
Free cash flow	The free cash flow 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 and purchase of intangible assets.	Free cash flow provides a measure of how much cash the Group generates across the reporting period which it can utilise on a discretionary basis.
Balance sheet cash collections	Balance sheet cash collections represent cash collections on the Group's existing portfolio investments including ordinary course portfolio sales and put-backs.	Balance sheet cash 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.
84-month ERC	The 84-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 84-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash 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 balance sheet cash collections on portfolio investments (of all classifications) over the next 120-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash 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 balance sheet cash collections from the Group's portfolio investments.
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 1’ is Arrow Credit Opportunities Scsp, 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.

‘AMS EBITDA margin’ is the EBITDA margin for the AMS segment and can be seen in note 5.

‘APM’ means alternative performance measure.

‘Average net assets’ is calculated as the average quarterly net assets from H1 2020 to H1 2021 as shown in the quarterly and half yearly statements.

‘Capital-light % of Group EBITDA’ is the Asset Management Servicing and Fund and Investment Management segment EBITDAs as a percentage of total EBITDA.

	30 June 2021 £000	**30 June 2020 £000**
AMS EBITDA	6,211	6,798
FIM EBITDA	7,588	(21)
Total capital-light	13,799	6,777
Group EBITDA before takeover costs	61,277	(100,049)
Capital-light % of Group EBITDA	**22.5%**	**(6.8)%**

‘CGU’ means cash-generating unit.

‘Customers’ means consumers whose secured and 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’ means Estimated Remaining Collections. More information on the 84-month and 120-month ERC can be seen on page 48.

‘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 movements and the impact of reforecast in the period.

‘ESG’ mean environmental, social and governance.

‘FCA’ means the Financial Conduct Authority.

‘FIM’ means Fund and Investment Management.

‘FIM EBITDA margin’ is the EBITDA margin for the FIM segment and can be seen in note 5.

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

‘Funds under management (FUM)’ means the value of all fund management assets managed by Arrow Global plc, including Arrow Credit Opportunities, Norfin Investimentos, Europa Investimenti, 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 and Investment Management business and how this compares to others in the market.

‘FVOCI’ means fair value through other comprehensive income.

‘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 2020.

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

	30 June 2021 £000	30 June 2020 £000
Third-party AMS income	44,821	39,836
Intra-Group AMS income	19,417	19,809
Gross AMS income	**64,238**	**59,645**
Third-party FIM income	10,825	5,622
Intra-Group FIM income	8,376	10,016
Income reallocation from Balance Sheet business	5,538	901
Gross FIM income	**24,739**	**16,539**
Balance Sheet business income	110,677	(42,412)
Income reallocation to FIM business	(5,538)	(901)
Gross Balance Sheet business income	**105,139**	**(43,313)**
Other income	**9**	**341**
Gross income	**194,125**	**33,212**

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

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

‘Liquidity headroom’ is cash on balance sheet, excluding the reclassified cash as detailed in the consolidated statement of cash flows on page 23, together with headroom on committed facilities.

‘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 2020 and the consolidated interim financial data of for H1 2021, and the subtraction of the consolidated interim financial data for H1 2020.

‘NCI’ means non-controlling interest.

‘Net debt’ means the sum of the outstanding principal amount of the senior secured notes and asset-backed loans, 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 2021 is as follows:

	30 June 2021	**31 December 2020**
	£000	**£000**
Cash and cash equivalents	(117,978)	(182,892)
Senior secured notes (pre-transaction fees net off)	971,887	935,487
Revolving credit facility (pre-transaction fees net off)	203,896	280,342
Asset-backed loans (pre-transaction fees net off)	95,953	148,044
Secured net debt	**1,153,758**	**1,180,981**
Deferred consideration – portfolio investments	8,184	12,038
Deferred consideration – business acquisitions	11,318	20,130
Senior secured notes interest	5,707	5,568
Asset-backed loan interest	373	649
Bank overdrafts	3,094	3,648
Other borrowings	2,487	3,247
Net debt	**1,184,921**	**1,226,261**

‘NPL’ means non-performing loan.

‘NPV’ means net present value.

‘Portfolio amortisation’ represents total balance sheet cash 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.

‘ROE’ means the return on equity. See page 50 for more detail.

‘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.