ARROW
GLOBAL

SMART thinking
Intelligent execution

Annual Report and Accounts 2018

Arrow Global is a leading European investor and asset manager in non-performing and non-core assets. We apply smart thinking and intelligent execution to unlock value others cannot realise.

In this year's annual report we showcase our unique model and the consistent high return investment and servicing opportunities it provides.

Strategic report

Governance

Financial statements

Underlying financial highlights

Underlying profit after tax
£64.1m +13.3%
(2017: £56.6m)

Underlying return on equity (ROE)
34.8% +1.9ppts
(2017: 32.9%)

Underlying basic earnings per share (EPS)
£0.37 +13.0%
(2017: £0.32)

Financial highlights

Total income
£361.8m +13.4%
(2017: £319.0m)

Profit after tax
£30.0m -24.9%
(2017: £39.9m)

Basic EPS
£0.17 -25.4%
(2017: £0.23)

Full-year dividend per share
12.7p +12.4%
(2017: 11.3p)

Asset Management and Servicing Business EBITDA margin
20%
(H1 2018: 19%)

Investment Business EBITDA margin
57%
(H1 2018: 56%)

84-month ERC
£1,634.8m +7.8%
(2017: £1,516.9m)

120-month ERC
£1,972.1m +10.8%
(2017: £1,780.2m)

Operational highlights

Assets under management
£52.6bn +11.0%
(2017: £47.4bn)

Core collections
£411.6m +20.3%
(2017: £342.2)

Leverage
3.7x
(2017: 3.9x)

Underlying cost: income ratio
63.9%
(2017: 64.6%)

Important notes:
IFRS, cash metrics and underlying results are important to understand the key drivers of the business. Reconciliations on pages 28 to 31 have been prepared to aid this understanding, which helps to support the commentary of the financial review of for the year.

Additional information on underlying results and a glossary of definitions can be seen on pages 142 to 146.

Jonathan Bloomer, Chairman

"It has been both a year of strong growth and financial results, with the correct strategy in place for us to continue to deliver on our targets."

Ambitious five-year strategy

This year the board approved Arrow's strategic vision for the next five years, which was presented at the Group's Capital Markets Day in November 2018. Our confidence in the continued growth opportunity for the business in markets we consider attractive is underpinned by through-the-cycle underlying return on equity (ROE) in the mid-20s per cent. An important factor in our belief in this consistent high return delivery is the growing contribution from the capital-light Asset Management and Servicing (AMS) Business. The capital-light income from this division is highly accretive to ROE and has grown rapidly from a negligible contribution at the time of the business's IPO in 2013, to 32.9% of gross total income in 2018. We have set ourselves an ambitious target to double income from the AMS business over the next five years, while also increasing its margins from the high-teens per cent to the mid-20s per cent.

We also outlined a new, lower, leverage target of 3.0x to 3.5x secured net debt to adjusted EBITDA, from 3.5x to 4.0x. This underlines our confidence in the business's ability to generate consistently strong cash flows, as we continue to see the benefits from our enlarged European footprint and more diversified income streams. This cash generation profile has also meant that we have taken the decision to increase our dividend policy, raising the pay-out ratio from 25%-35% of underlying profit after tax, to at least 35% of underlying profit after tax. Not only does this create an attractive returns profile when viewed alongside our high return on equity, but it also ensures continued balance sheet discipline – an area of significant focus for the board.

With the significant uncertainty that surrounds Brexit, the Group performed comprehensive stress tests, which showed the Group's future strategy to be resilient to potential economic uncertainty arising from Brexit. More details of this can be seen on page 44. We are mindful of the economic and political environment, but remain confident in the strategic opportunities for our differentiated business model.

"We now have the right pan-European platform across the countries and assets niches we view as most attractive."

Strong financial performance

I am pleased to report another strong set of financial results. High cash generation remains a fundamental part of this business's attractive model and, at £244.3 million (2017: £197.8 million), Arrow delivered another record year of operating cash flow prior to investment in new portfolios. This was driven by another excellent year of core collections from the Investment Business of £411.6 million (2017: £342.2 million) and capital-light gross income of £132.3 million from the AMS Business. Underlying profit after tax increased by 13.3% to £64.1 million (2017: £56.6 million), giving an increase in underlying earnings per share of 13.0% to 36.6p. This strong performance enables us to propose a final 2018 dividend of 8.7p, bringing the full-year dividend to 12.7p – a 12.4% increase and representing the top of our pay-out range.

A pan-European platform built to drive growth

In recent years, the Group has expanded from one geography and asset class to operate in five geographies and multiple asset classes. This growth has been driven by the significant market opportunity throughout Europe, as well as demand from our institutional fund clients to access our expertise across a broader footprint and gain exposure to attractive investments in high value niches. Through the acquisition of leading servicing businesses and high-quality management teams, we believe we now have the right pan-European platform across the countries and asset niches we view as most attractive in order to provide the best investment opportunities for us and our clients.

A business built to focus on customers and clients

Arrow has a core set of Group Values, which are focused on helping all of our customers and stakeholders to 'build better financial futures'. In order to ensure that these Values remain at the heart of everything we do, employee remuneration is closely aligned with 'living the Values', with behaviours such as providing excellent customer service being consistently rewarded. Arrow's business strategy is client-led, and this is emphasised by the fact that our co-investment partners, who represent some of the largest institutional funds in the world, invested over £1.6 billion alongside the £263.4 million we invested organically into portfolio purchases. We also focus on maintaining strong relationships with financial institutions and aim to assist them to deleverage and recapitalise by acquiring assets from them. As a trusted partner, we are often able to participate in off-market transactions – a key competitive advantage of the Arrow model – and these deals formed 78% of our portfolio purchases in 2018.

The board and executive management

The Arrow board continues to be made up of highly experienced individuals who all contribute valuable skills and thinking to Arrow's operations. Our Group chief executive officer, Lee Rochford, has been instrumental in shaping Arrow's five-year strategy and is already delivering well against the new objectives presented at the Group's Capital Markets Day. Lee leads a strong executive team of established members and new talent. The executive team's energy, focus and commitment is notable and gives me great confidence that they will continue to ensure we deliver against our strategic objectives in the coming years.

Looking forward

I am pleased that Arrow has achieved yet another strong year of growth and financial results and believe that we have the correct strategy in place for us to continue to deliver on our targets. The expansion of our pan-European platform is largely complete, which means the business has a more significant market opportunity available to it than any time since IPO. The Group, therefore, remains extremely well positioned for 2019 and beyond, with a strong balance sheet and proven management team underpinning its prospects.

Finally, I would like to thank my fellow board members, Arrow's senior leadership team and all of the Group's employees for their continued hard work and commitment to make 2018 another successful year for the Group. I also appreciate our shareholders' continued support for the Arrow strategy, as we position the business optimally to achieve sustainable through-the-cycle returns.

It continues to be an exciting time for Arrow and I remain confident that we have the right team and strategy in place to deliver long-term shareholder value.

Jonathan Bloomer
Chairman
28 February 2019

We have built a truly unique business with a proven track record of unlocking value

We aim to be the most sophisticated purchaser and specialist asset manager of debt portfolios across our five core European markets while fulfilling our purpose of building better financial futures for our stakeholders.

£1.6 billion
third-party co-investments in 2018

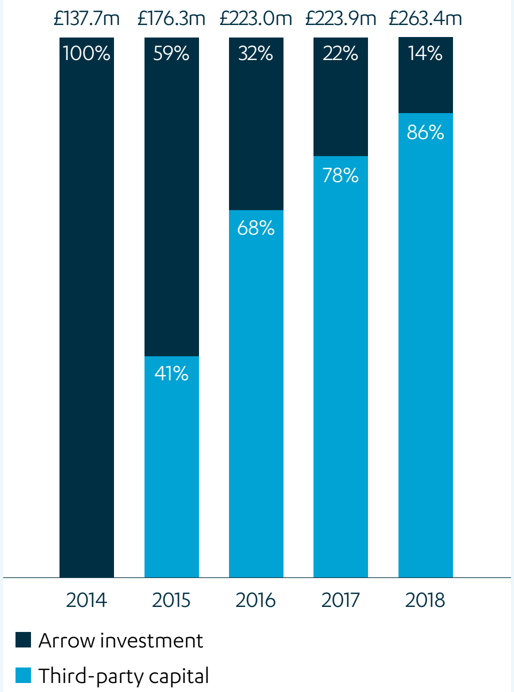
Read more about our specialist platform on page 13

Investment Business:

Specialist debt investor

- Consistent underwriting outperformance (104% cumulative performance since inception)
- Specialist focus on niche assets
- Aim to co-invest with institutional fund clients – generates servicing income
- Generates high returns – 17% net IRR achieved in 2018 (2017: 15%)
- Over 500 portfolios well diversified by geography and asset class

Investment by vintage split by Arrow balance sheet organic investment and third-party investment



Asset Management and Servicing Business:

Rapidly growing capital-light income

- Total AMS income of £132.3 million – 32.9% of total segmental income
- Five-year target to grow income contribution to towards 50% of Group gross income and increase margins from high-teens per cent to mid-20s per cent
- Fund management offering build out will contribute to income growth and margin enhancement

Arrow asset management timeline

2013: 100% of assets managed on balance sheet

2013 – 2017: Acquired leading servicing platforms

2018: Manage £52.6 billion of assets

2019 onwards: Shift to higher margin business via fund management offering

Lee Rochford, Group chief executive officer

"We are now positioned to maximise investment and servicing opportunities across five of the most active markets in Europe."

Q What are the key highlights of 2018?

Arrow delivered excellent performance throughout the year and ended 2018 a stronger more diversified Group. Not only did we deliver on our key financial targets, but we also largely completed the pan-European platform that positions us for success in the future. We are now operating leading businesses in all the key geographies where we believe we need a presence in order to offer a compelling service to our financial institutional clients and fund partners.

Our platform has deep investing and servicing capabilities in our chosen markets. This ensures that we continue to source attractive investment opportunities, growing our portfolio investment volumes by 18% in 2018, in order to take advantage of a two-percentage point improvement in net IRRs over the course of the year, from 15% to 17%. Operationally, the Investment Business saw core collections increase by over 20%, as we continued to benefit from enhanced synergies through the 'One Arrow' investment programme and experience strong outperformance versus our initial conservative underwriting practices. This resulted in another record year of operating cash flow prior to investment in new portfolios of £244.3 million, a 23.5% increase. Due to this strong cash generation, our leverage ratio reduced to 3.7x secured net debt to adjusted EBITDA from 3.9x in 2017. Importantly, our cash interest cover also grew to 6.7x, an improvement of 13.6%.

Balance sheet discipline is key to running our business efficiently, and in March 2018 we completed the journey to fully refinance our bonds. On 26 February 2019, we extended the revolving credit facility to 2024 with no change in margin. This means we now have no debt maturities due until 2024, extending the weighted average duration of our debt to 6.1 years and resulting in a weighted average cost of debt of only 3.9%, down from over 8% at IPO in 2013. We consider this to be a strong vote of confidence from the debt markets in the Group's business model and long-term opportunities. Given the softening appetite in the credit markets we have seen in the second half of 2018, we are very happy with our decision to build this attractive capital structure, which we believe is a competitive advantage and positions us well to weather and capitalise on any downturn in the wider economy. I therefore believe we now have the platform and balance sheet strength to continue to source and invest in attractive portfolio opportunities into 2019 and beyond, to drive consistent cash generation and EPS growth.

In our interim results in August, we started reporting our financial results on a new segmental basis. This provides the market with greater insight into our fast-growing and capital-light Asset Management and Servicing Business. This business again grew strongly in 2018, generating over £130 million of income. We remain excited about the potential for the business, targeting approximately double the income over the next five

"Delivering the momentous year we had in 2018 was a real team effort and I'm proud when I reflect on what we achieved together."

years, and strongly believe that this should be fundamental to the Group's future valuation.

We've also continued to build an extremely strong and capable management team. The business has grown and diversified in recent years, and it's been essential that we've invested in the depth of our management capabilities. The 'One Arrow' investment programme was an important part of this and I'm pleased to say that that project has now been completed on time and to scope. The improved systems and capabilities we have developed mean we are well positioned to drive the business forward.

Over the past 18 months, we've brought in a considerable amount of talent, which complements the existing team including the appointment of Paul Cooper as our Group chief financial officer and Dave Sutherland as our Group chief operating officer at the management level. The Group platform is largely complete, and we have a board that's confident we have the right team – with the right skills and experience – for the next chapter of Arrow's growth story. The same applies to the depth of talent within the Group teams and our country-level leaders and their teams – all of which we've invested in heavily.

Q What are the key drivers of your evolved strategy?

We have adapted our business strategy to respond to a more competitive market for purchasing non-performing and non-core assets. By focusing on high-value, smaller transaction niches where higher-quality returns are available we have successfully diversified our income and driven higher-quality earnings through our capital-light AMS Business. With the build-out of our unique platform now largely complete, we are in prime position in our chosen markets to deliver our strategic priorities over the next five years, which are to be a leading player in our chosen markets, develop our differentiated business model, ensure a fair outcome for our customers, create a high performance culture and realise the investment opportunities of 'One Arrow'. Our strategy aims to build a sustainable and growing business that delivers attractive returns to shareholders. We do not have an ambition to be the largest, but to be the best at what we do. Our two business lines are interdependent and together they will allow us to deploy capital intelligently and maximise returns through the credit cycle.

In November, we held a Capital Markets Day for analysts and investors. I felt that the entire senior management team did an excellent job in explaining what their key individual area of focus is and the way forward they see for Arrow, as we continue to mature as a diversified, pan-European business. It also provided us with the opportunity to outline a number of new targets that we have for the business over the next five years. These are:

- Continue to achieve an underlying ROE in the mid-20s through-the-cycle
- Double gross AMS income towards 50% of Group gross income and increase margins from high-teens per cent to mid-20s per cent
- Reduce leverage target to 3.0x to 3.5x secured net debt to adjusted EBITDA
- Increase our dividend policy to a pay-out ratio of at least 35% of underlying profit after tax
- Reduce our cost to income ratio towards 60%

Q How does stakeholder engagement impact your strategy?

Credit and Asset Management is a highly specialised industry that requires everything from knowing how to value and service an asset, to ensuring excellent customer experience and outcomes. Our purpose is to build better financial futures for all of our stakeholders.

All of our stakeholders expect us to act in an ethical and responsible way and this is at the heart of how we conduct our business. Our Group-wide Values support this approach and we seek out and reward behaviours across the organisation that will make us more sustainable, more successful.

On page 32, you will see how we proactively engage and respond to all of our stakeholders.

Q How have your two key business lines performed this year?

Investment Business

We continued to find opportunities to deploy capital that exceeded our mid-teens IRR target, due to our unique origination capabilities in the high-value niches targeted by our pan-European platform. As a result, we achieved a blended 17% net IRR for the 2018 investment vintage as a whole. The 2018 vintage is the most balanced by geography and asset class that we have ever recorded. The high-return opportunities we continue to originate in our non-UK jurisdictions has meant that, for the first time, the total proportion of our back book that is exposed to the UK – our original country of operation – fell below 50%, resulting in a more diversified book with better risk-adjusted returns. In total, the 120-month Estimated Remaining Collections (ERC) grew by 10.8% to £1,972.1 million.

The ability to price risk is a core competency of our business. We've built an outstanding track record of consistent underwriting, collecting more than our original expectations at the point of underwriting, and this is built on firm foundations, a deep team of experts, across both secured and unsecured asset classes, as well as a deep database of performance data, on which our forensic and prudent underwriting is focused. Maintaining this core competency is fundamental to what we do and facilitates our entry into new markets.

Our sustainable performance is also helped by local expertise, providing experience-based insight into our approach at each stage of the underwriting process. This has meant that the performance on the back book continually informs our front book underwriting. So, we are getting better as we build on our 13 years of experience. We were particularly pleased, therefore that core collections from our investment portfolio continued to outperform our initial expectations in 2018, with the cumulative core collections exceeding underwriting performance at 104%.

> "Arrow is a business with an outstanding track record of excellent financial results, a unique operating platform and a strong and disciplined capital structure."

Asset Management and Servicing Business

In 2018, we grew gross AMS income to £132.3 million and now it constitutes 32.9% of gross income. The AMS Business has been the fastest growing part of the Group in recent years, generating an increasing proportion of capital-light income. This has been built through the establishment of leading servicing platforms in all of the core geographies and asset classes in which we want to operate. This has been a client-focused strategy, guided by our wish to provide an increasingly sophisticated and attractive investment and servicing offering. We have taken great care in our approach to building this platform, meticulously identifying the niches that are most attractive and the businesses and management teams that run them. We believe that we now have the optimal platform covering the asset classes and geographies we view as attractive.

2018 saw a small, but quickly growing, contribution from our fund management business. In March, we announced that we had raised a £300 million fund with a single global institutional investor. The fee structure for this business is attractive and will contribute to margin expansion in the AMS Business over time. This fund is now nearly 50% invested – significantly ahead of our initial projections – at returns considered compelling by our sophisticated investment partner. Over the course of the year, we have also added a further number of smaller managed accounts with similar agreements and fee structures in place. We therefore remain excited about the potential to raise a future flagship fund that gives investors access to similar high-return deals, as well as the secondary market offered by our growing AUM base of £52.6 billion as the amortised tails of these assets get sold back into the market. During the year, we acquired Norfin Investimentos, a fund manager specialising in real estate investment. Given the trend in Portugal for banks to increasingly sell mixed portfolios consisting of residential mortgages – a core focus for our Whitestar business – alongside other assets, such as residential developments, office blocks and land, we found ourselves increasingly partnering with Norfin to help us value these parts of portfolios in order to ensure that we retained our pricing discipline. Norfin is an award-winning business and adds over £1 billion of pure fund management AUM to our AMS operations, as well as an experienced management team with notable fund management experience across asset classes.

Our confidence in our ability to continue to grow the AMS Business, due to the significant market opportunity we continue to see, means that we set out an ambitious target at our Capital Markets Day in November 2018, to double capital-light AMS income over the next five years.

Q How important is external recognition of your success?

It's extremely important as it validates what we do and how we do it. I was extremely proud of the industry recognition two of our divisions received this year. Our Portuguese business was named as the Credit and Portfolio Management Business of the Year 2018 and then awarded the prestigious Brand Excellence in Credit Portfolio Management towards the end of the year. I was also delighted to attend November's UK Credit Strategy awards, where we won three awards including Debt Purchaser of the Year (for a fifth year running), as well as Contact Centre Team and Agent of the Year, for Anna Smagiel.

Q What were your personal highlights for the year and how do you engage employees in the business strategy?

I'm delighted that we have largely completed the build-out of our unique and differentiated business model. We are now well positioned to maximise investment and servicing opportunities across five of the most active markets in Europe.

One of the activities I personally enjoyed most this year was touring the entire business during our recent SMART Story roadshow – a presentation reminding the business of the impressive journey we've been on and the exciting direction we are taking the business in next. Supported by my management team, I was delighted with the engagement and interest in our next chapter of growth. Following these presentations, I was also left with the impression that we have a very motivated and engaged team, and I thank all of our employees for their continued support and passion for what we do and how we do it.

Q What is your outlook for the business and why are you confident the business will continue to deliver?

Looking forward, we're confident that the business will continue the momentum that we've seen over the previous five years as we extract further operating leverage and cost synergies from our platform. That confidence is based on a number of key factors:

- We operate in a sector which offers a long-term growth opportunity. Financial institutions across Europe continue to have an enormous stockpile of non-performing and non-core assets, even 10 years after the financial crisis. Regulatory and accounting changes added to the pressure for accelerated recognition of NPLs and faster sales. In addition, we're starting now to see increasing secondary trades from assets that were first traded in 2012 and onwards, and all of this, before we consider the potential offered from another turn in the credit cycle
- Arrow has built a highly differentiated business model. We have an attractive Investment Business, with a history of investing at consistently strong returns. We also have a fast-growing Asset Management and Servicing Business, which is generating increased capital-light income. Importantly, these businesses

"We are now well positioned to maximise investment and servicing opportunities across five of the most active markets in Europe."

feed each other in a unique way. Our co-investment model is rapidly contributing to new servicing income, and our greatly expanded AUM provides many years of potential future purchasing opportunities

- We have an outstanding track record of underwriting. This has been maintained even as we've diversified the business – both by geography and by asset class. Over time we get better at what we do, as our data and our market penetration deepens, but also because we continually monitor positive and negative experiences and feed them back into the underwriting process
- Arrow invests in specialised asset classes that generate resilient cash flows, right through the cycle. We existed before the global financial crisis and, therefore, have a proven track record of 'through-the-cycle' returns. However, we recognise that we have expanded and diversified since then and, in response, we've invested heavily in our portfolio management and risk management capabilities. We believe that we are, therefore, more resilient than a typical financial institution in a downturn
- We remain acutely aware of where we are in the credit cycle; this applies to both the asset and the liability side of the balance sheet. As a management team, we have spent a considerable amount of time developing a capital-allocation framework that explicitly recognises this. However, the unique aspect of our business model is that it provides optionality to deploy varying degrees of capital intensity depending on the current stage of the economic cycle, by flexing between the capital-intensive Investment Business and the capital-light AMS Business
- Our entire approach is co-ordinated through a prudent risk management framework. This is demonstrably supported by our actions: we operate in mature regulatory environments where we can achieve regulatory conduct parity with the banks, we focus on building a diversified portfolio by geography and asset class, we have a disciplined approach to returns and we have good balance sheet discipline – a conservative asset recognition policy, long-duration debt and a prudent approach to leverage

Arrow is a business with an outstanding track record, a unique operating platform and a strong and disciplined capital structure – all supported by a talented management team. We, therefore, remain very ambitious for the business and confident in delivering considerable shareholder value.

As we approach the date for the UK's exit from the EU, we are fully prepared for any impact on our business. While by no means complacent, being separately regulated in each market in which we operate means that we expect limited to no impact on our licence to operate. However, a working group chaired by our Group chief risk officer means that we have active plans in place to manage people, business continuity and financial risks. Set out on page 44, our modelling indicates that our portfolio is resilient in the face of any potential downturn arising from a 'Hard Brexit' scenario.

Q Do you have any words for the Arrow team?

We have achieved an enormous amount this year, requiring a real team effort, and I'm immensely proud when I reflect on what we achieved together. We largely completed the build out of our unique investment and servicing platform that now sees us perfectly positioned for future growth in our five core markets; a market that has massive opportunity for our unique and differentiated business model with an addressable value of €1 trillion. The year started with the acquisition of Parr Credit in Italy, continued with the acquisition of Europa Investimenti in Italy and then ended with Norfin in Portugal in December – all of which added new, highly skilled colleagues to the deep talent pool we already have at Arrow.

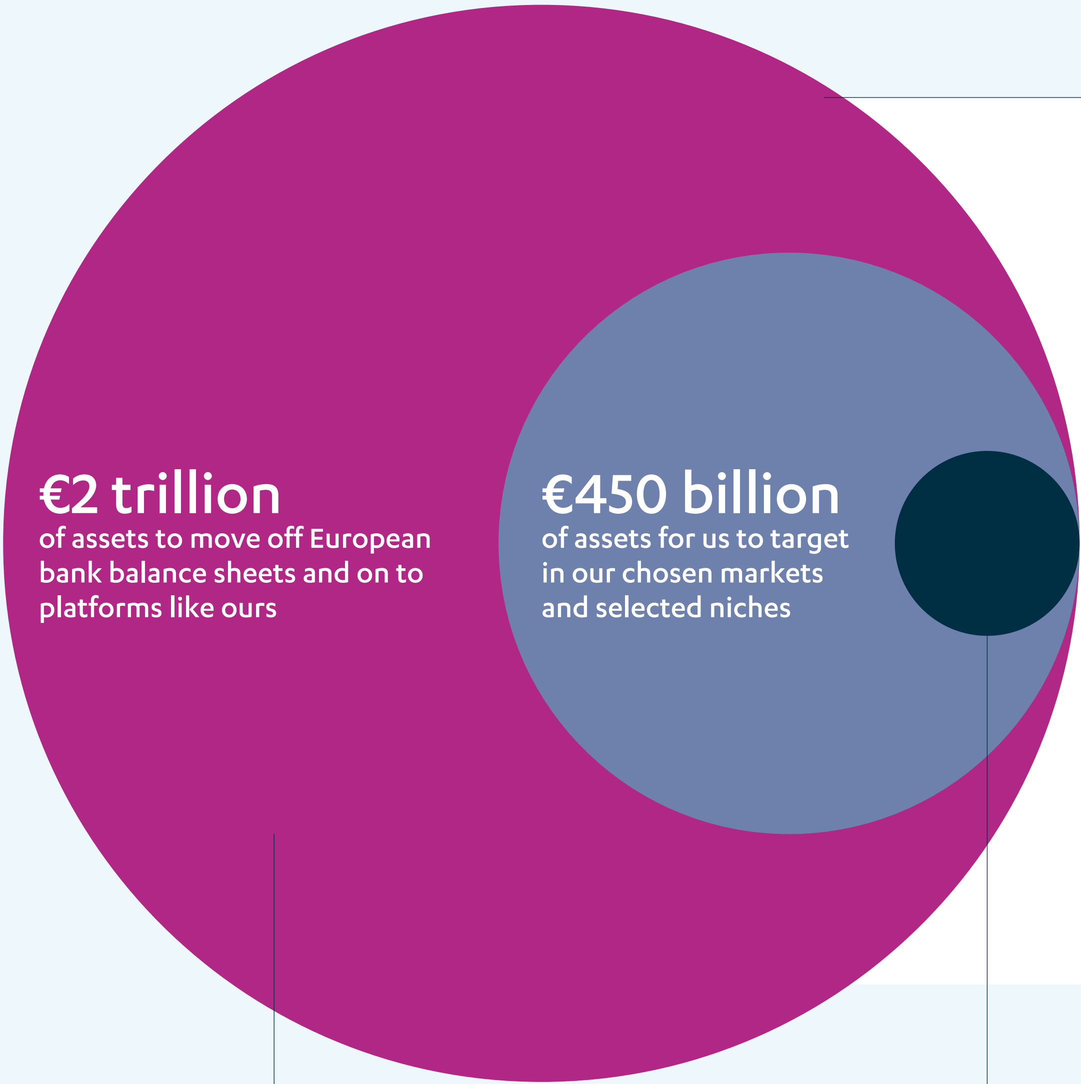
2018 was also momentous in that we launched our new Vision – to be the Valued and Innovative Partner in Credit and Asset Management – that better reflects our future ambitions and how we will work with our UK and European partners. I'm also hugely encouraged by the strong adherence that I see every day to our Purpose and Values. Although we operate across five different markets with language and cultural differences, we are united by our Purpose, 'Building Better Financial Futures', and by our Values that together guide our decision-making at all levels of the Group and provide a strong moral compass for everything that we do.

I strongly believe that our Values are a source of competitive advantage for us and will make us more successful a business – having the right culture in place is key to the success of any business. As part of this, we run a recognition scheme that rewards employees who noticeably embody and promote our Values. Every month, these colleagues are rightly given Group-wide recognition, and all attend an annual gala dinner with the senior management team as a way of showing our appreciation. This year alone 104 colleagues were recognised for their efforts and I am extremely proud of each and every one of them.

Lee Rochford

Lee Rochford
Group chief executive officer
28 February 2019

An enormous market of sustainable growth opportunities



Approximately
£180 billion
sold in 2018, leaving a significant opportunity in place

£53 billion
of assets under management already on our platform, providing future purchasing potential

Increasing regulatory and accounting pressure on EU banks, subsequent future secondary trades and the formation of new stock through regular credit cycles means that Arrow has an enormous pipeline of investment opportunities to selectively choose from.

European banks remain under growing pressure

There are over €2 trillion of non-performing and non-core assets on European bank balance sheets. More of these assets are being created all the time and, increasingly, banks are under pressure from the European Central Bank and accounting requirements such as IFRS 9 to recognise and provide for these assets much faster than they have done historically, increasing pressure to sell.

Our strategic positioning – Arrow has market leading positions in key markets where these assets are divested in large volumes and have attractive returns.

Our market provides a growing pipeline of opportunities

Ultimately, all €2 trillion of these non-core and non-performing loan assets must move from bank balance sheets into the capital markets.

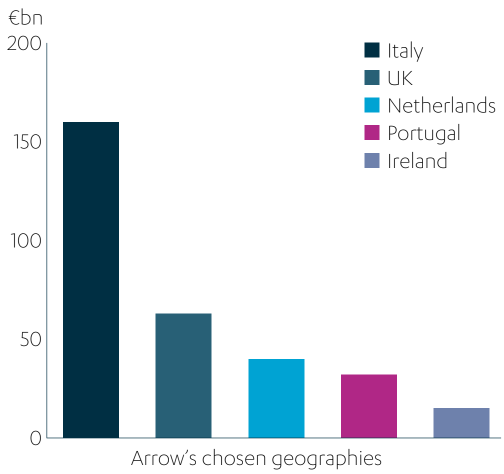
Our strategic positioning – Arrow facilitates this process through our ability to value, purchase and service these assets effectively; both for ourselves and our institutional fund relationships.

Bank clients rely on Arrow's services

Banks seek to partner with us to provide a solution to their non-core asset and non-performing loan assets.

Our strategic positioning – Arrow maintains regulatory parity with banks in terms of customer conduct in order to ensure the seamless transition of bank assets into our portfolio of managed assets.

Euros of European NPLs in chosen markets[1]



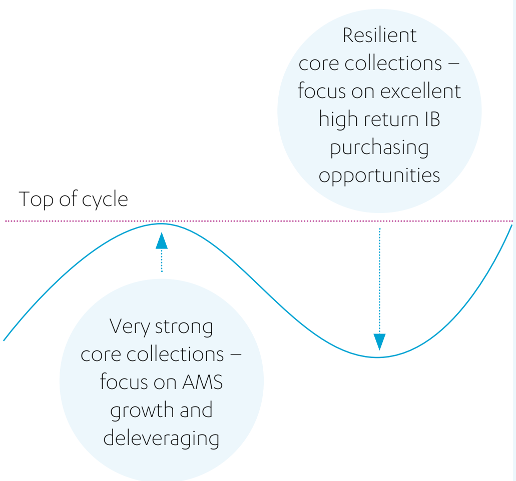
1. Source: European Banking Authority Risk Dashboard 2018 Q2

Arrow's pricing models are correlated to the credit cycle

Fresh non-performing loans and non-core assets are constantly being created as part of the usual cycle of lending and defaulting. However, the pricing of these assets can be correlated to the credit cycle: towards the top of the cycle, competition for these high return assets tends to increase – raising prices – and at the bottom of the cycle competition reduces – decreasing prices. Due to the enormous stock to be sold by banks, this usual cyclicality has been dampened in recent years.

Our strategic positioning – the current pricing environment indicates that we are near the top of the current credit cycle. Arrow's focus on smaller scale (average transaction size of only £7 million), niche investments that match our servicing platforms means that our returns have remained attractive at 17% in 2018 – especially against the Group's weighted average cost of debt of 3.9%. Arrow's flexible, dual business line model means that we can focus on growing the capital-light AMS Business at the top of the cycle when returns are lower and then commit increasingly more capital through our IB when the cycle turns, and returns are at their highest.

Smart capital allocation through the cycle

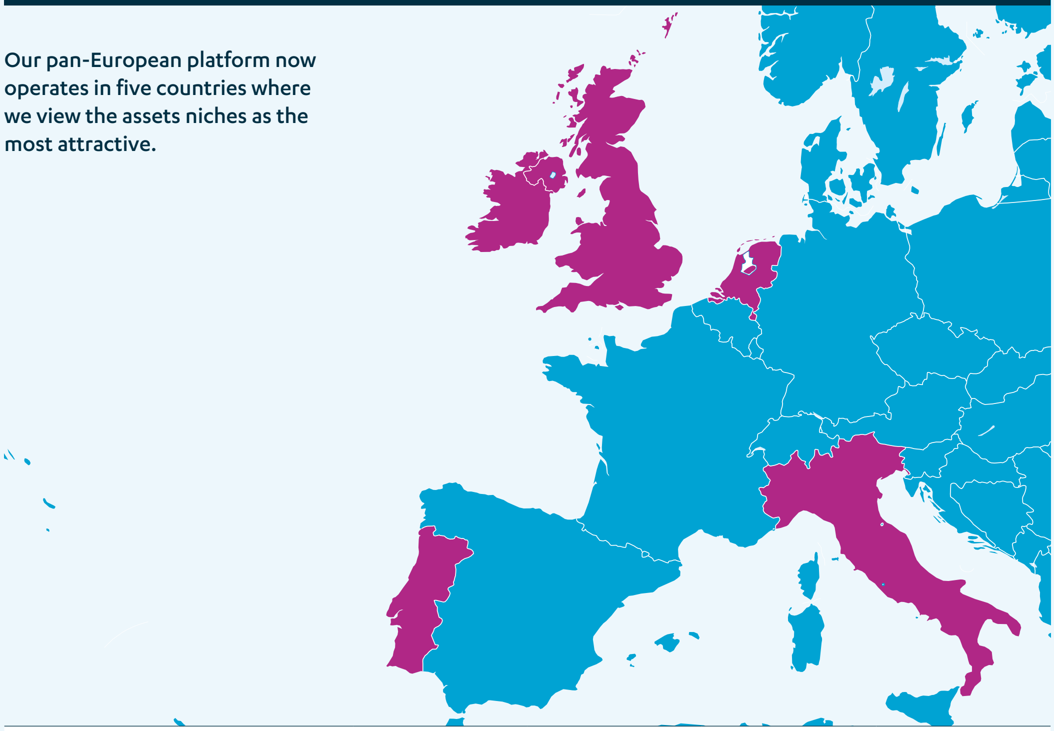


We are specialists in unlocking value from high-return niches

Our unique platform enables us to achieve returns significantly above our cost of capital, deliver significant shareholder value and fulfil our purpose of building better financial futures for our stakeholders.

Our focus

Our pan-European platform now operates in five countries where we view the assets niches as the most attractive.



Niches by asset class	UK	Portugal	Italy	Netherlands	Ireland
Consumer	Capquest	Gesphone	Parr Credit	Vesting	Small market
SME	Mars Capital	Whitestar	Europa Investimenti	RNHB	Mars Capital
Mortgage	Mars Capital	Whitestar	Expanding Parr	Vesting	Mars Capital
Real Estate	Mars Capital	Norfin Europa Investimenti (Vegagest)	M7	Mars Capital	
Master servicing/ Securitisation/ Credit bureau	Mars Capital	Hefesto	Zenith	Focum	Mars Capital
Fund management	Arrow UK	Norfin	Europa Investimenti (Vegagest)	Arrow Netherlands	Arrow Ireland

Our unique platform

Our unique platform strategically positions us to be a partner of choice for local banks, credit funds and the capital markets.

We originate high quality assets through our Investment Business and Asset Management and Servicing Business

We use our data advantage and local expertise for prudent underwriting across asset classes

We service our own and our clients' portfolios through a highly customer-centric approach

We maintain regulatory conduct parity with banks and prudently manage risk across our portfolios and operations

The value we create for our stakeholders

Customers

We help our customers build better financial futures by assisting them in creating affordable repayment plans in order to help them rehabilitate their credit scores.

Clients

We maintain strong relationships with financial institutions and institutional investors. This means we are able to assist financial institutions to deleverage by acquiring portfolios from them (the Investment Business) and are strongly positioned to assist our institutional fund partners to value and service their own portfolio acquisitions (the Asset Management and Servicing Business).

Employees

Our people provide the essential talent and energy to fulfil our purpose and goals. We rely on them to drive premium customer service and deliver excellent customer outcomes.

Communities

We believe in working with the communities where we operate, ensuring that we do all we can to have a positive influence through supporting local charities and initiatives. We have a clear strategy to support organisations that focus on financial education and support. We work closely with Citizens Advice (CA), as well as a range of debt charities and advisory firms, including StepChange, Payplan and Christians Against Poverty.

Shareholders and investors

We believe that focusing on ensuring excellent outcomes for all our stakeholders will help us to deliver consistently strong returns and, therefore, create long-term value for shareholders. We have a consistent track record of meeting our financial targets of delivering underlying return on equity in the mid-20s percentage and a dividend pay-out ratio of at least 35% of net underlying income. This consistency is further underpinned by balance sheet discipline that prioritises stable, long-term funding.

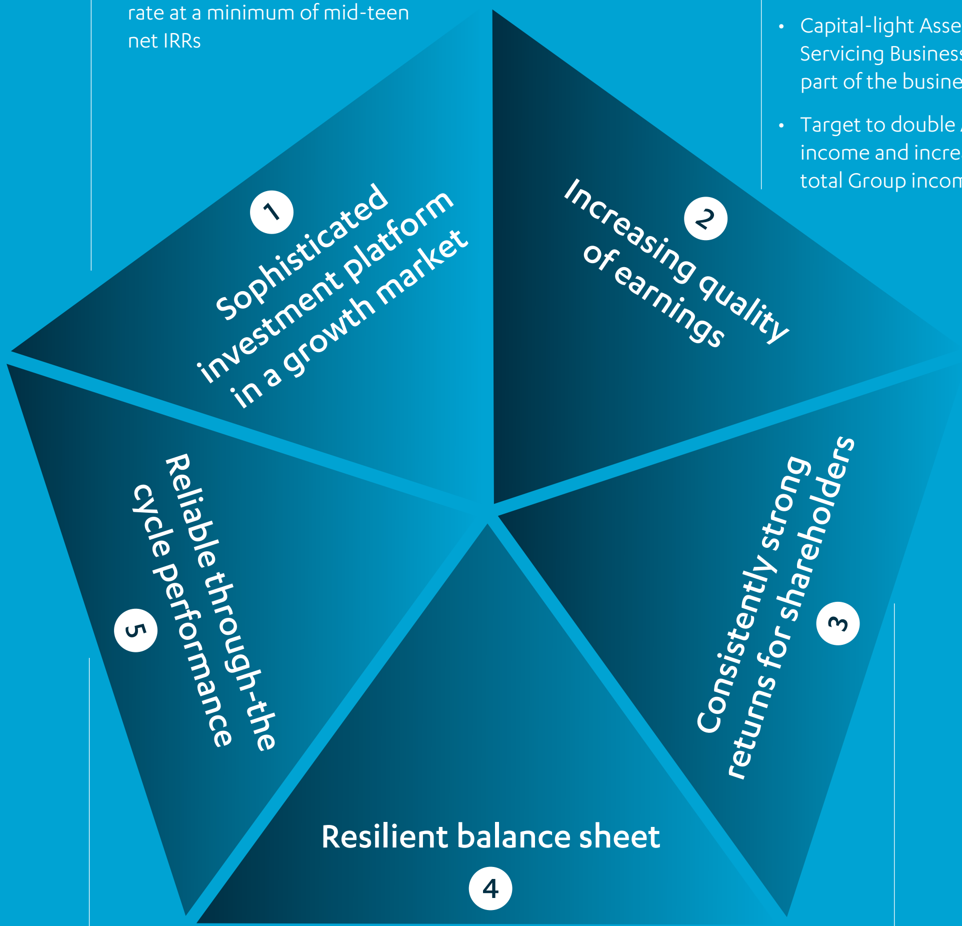
Read more about our stakeholders on page 32

SMART thinking Intelligent execution

Our focus is to provide servicing capabilities, through our platform, for key asset niches in our target markets, at a prudent return, with good customer outcomes.

- Focus on high value niches
- Unique origination channels
- Ability to invest above replacement rate at a minimum of mid-teen net IRRs

- Flexible model depending on credit cycle: capital intensive Investment Business and capital-light Asset Management and Servicing Business
- Capital-light Asset Management and Servicing Business fastest growing part of the business
- Target to double AMS Business income and increase it to 50% of gross total Group income over five years



- Balance sheet discipline
- Prudent approach to underwriting
- Sustainable returns for shareholders

- Long duration debt – first funding maturity not due until 2024
- Low weighted average cost of debt – reduced to 3.9% from over 8%
- New lower leverage ratio of 3.0x-3.5x secured net debt to adjusted EBITDA
- Focus on prudent portfolio investing

- Strong through-the-cycle underlying ROE target of 25%
- Sustainable dividend policy with a payout ratio of at least 35% of underlying profit after tax combined with reducing leverage

A unique business model with a track record of delivering strong growth at high returns

Q&A

Lee Rochford, Group chief executive officer

"Given our skills in these core disciplines, we diversified in order to address a much larger market."

Q Why is the platform you have built unique and how will it drive further growth?

We have consciously built the platform over the past five years, both by geography and by focusing on the highest value niches. When the business floated in 2013, it was heavily focused on a single country – the UK – and a single asset class – unsecured credit – albeit with an important European foothold in the shape of our Portuguese portfolio investments. The decision was made in 2014 that, in an increasingly regulated world, it would be a competitive advantage to also own our own servicing platforms, giving us the ability to drive the highest quality customer outcomes and control the entire value chain, from origination and underwriting, to collections. This has proven correct. Given our skills in these core disciplines, we diversified in order to address a much larger market opportunity. Our successful diversification has been built on acquiring the right in-market platforms to give us the data, the forensic underwriting experience in targeted niches, effective collections platforms and, importantly, the right management teams. In conjunction with our London-based origination arm, at the heart of Europe's capital markets, we have connected these platforms with an ever-increasing number of capital providers. And we've executed very well, identifying the right platforms in the right markets, paying attractive prices and retaining and incentivising key management team members.

Q Why do you need this platform to operate in your sector?

It would be almost impossible to be successful in this market without all the components of our platform. A business like ours needs the ability to originate and provide a range of solutions to financial institutions across a wide range of specialist asset classes. Effectively, you need: the insight to effectively underwrite complex assets, transforming them from assets with unpredictable cash flows into ones with predictable cash flows; the platforms to service different assets in the high-margin niches that we target; regulatory conduct parity with the banks, and; the ability to drive portfolio core collections and to manage the inherent risks. Arrow has, therefore, built a platform to enable the transfer of assets out of the banking system, either to our balance sheet, the capital markets or – increasingly – through a wide range of co-investors. This platform generates assets at returns that are considerably ahead of our own cost capital. These assets are also very attractive to institutional fund clients who want access to those high-return assets, but who have neither the skills, nor the desire, to run complex, regulated operating businesses for the long term.

Q How are you able to generate such high returns?

There has been some speculation about the degree to which high returns are available in our market, but our clients include some of the smartest investors in the alternative assets base, and they use our unique platform to access higher returns than they otherwise could. The powerful driver of this for our business model is that it creates a 'walled garden' of future purchasing opportunities, as those clients with funds shorter-dated than the asset tail lives have 100% propensity to sell. And Arrow now has £52.6 billion of assets under management. Given our high proportion of off-market deals, this alone feeds our purchasing pipeline for years to come. It's also important to remember just how big the market in which we operate really is: there are €2 trillion of non-performing and non-core assets on bank balance sheets throughout Europe – all of these need to shift into the capital markets. Our average transaction size in 2018 was less than £7 million; this deal size is not where the majority of the competition is. It's not uncommon to see transaction sizes of a multiple of 40x the size of our average deal size; it is these transactions, where large global funds can gain attractive asset level leverage meaning that lower returns are acceptable, that exhibit the most competitive characteristics. This is not Arrow's model, nor the market where we operate.

Balance sheet and capital allocation

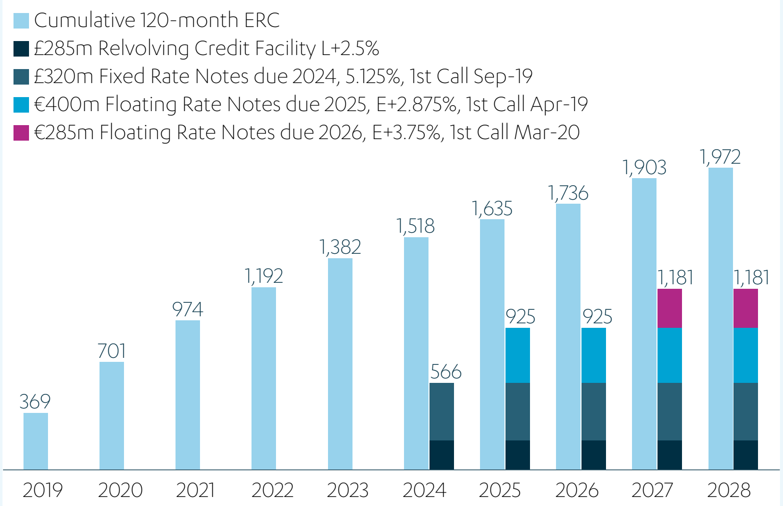
Paul Cooper, Group chief financial officer

"We have actively refinanced the entire balance sheet, taking advantage of an attractive point in the credit cycle to halve our cost of debt."

Q Why are you confident you retain balance sheet discipline?

Having balance sheet discipline is vital for a business such as Arrow. Over the last two years, we have actively refinanced the entire balance sheet, taking advantage of an attractive point in the credit cycle to halve our cost of debt and extend its duration. This has resulted in our weighted average cost of debt falling to 3.9%, with no bond maturities due until 2024. When combined with the resilient cash flows from our back book of portfolio investments, this is an extremely strong position to be in at this point in the cycle. We have plenty of capital available to continue to invest at attractive returns above our cost of capital. It also means we are well positioned to capitalise on investment opportunities generated by an economic downturn.

Debt maturity & 120-month ERC (£m)



"We've spent a considerable amount of time developing a capital allocation framework."

Q How do you think about capital allocation?

To run a business like ours successfully, you need to be acutely aware of where you are in the credit cycle. This applies to both the asset and the liability side of the balance sheet. As a management team, we've spent a considerable amount of time developing a capital allocation framework that explicitly recognises this. At a high level, depending on our view of market returns, we make capital allocation choices about portfolio purchases, leverage and capital returns to shareholders. For example, in the past when our view of market pricing was that it was improving, and higher returns were available, we increased the capital intensity of our purchases and increased leverage. The converse is true when our view of market returns is that they are reducing. However, the strength of the Arrow business model is that we have two business lines: The Investment Business – capital intensive – and the Asset Management and Servicing Business – capital-light. Together, they provide us with the ability to lean in with different degrees of capital intensity depending upon where we believe we are in the cycle.

Consistent underwriting generating strong returns

Q&A

"We take a conservative approach to underwriting."

Dan Perry, Director of investments, analytics and performance

"We have a track record of outperforming our initial underwriting assumptions."

Q You talk about your strong underwriting track record. What does this look like?

We take a conservative approach to underwriting. This has resulted in average outperformance versus our initial forecasts across all of our investments of 104%. This includes performance through the last financial crisis and demonstrates the strong cash flow profile of the investments we make that tend to be correlated to the macro economic climate.

Q 104% underwriting performance sounds impressive – how do you manage to achieve this consistently?

We achieve this through the use of our extensive historical datasets and incorporating previous learnings on over and under performance into the pricing process. This, combined with performing extensive due diligence as part of the portfolio acquisition process, generates high quality underwriting and hence lower variability and a trend of outperformance.

Resilience through the cycle

Clodagh Gunnigle, Group chief risk officer

"We purchase assets at a fraction of face value, conservatively forecasting predictable cash flows."

Q What does the 'cycle' look like for Arrow?

We purchase assets at a fraction of face value, turning unpredictable cash flows into predictable cash flows, and our customers' own economic cycle often does not coincide with the general economic cycle meaning that, while some of those core collections may be delayed during a credit cycle – we suffer very little ultimate loss of cash flow and also see increased returns on new investments as capital withdraws from the sector, reducing competition. As the cycle improves, typically bank balance sheets improve, less stock becomes available and prices tend to rise again. It is at this point where our business' focus tends to shift relatively towards the Asset Management and Servicing Business, driving capital-light fee and performance income from the wider market's desire to invest in these assets.

Q How resilient is the business through the cycle?

As a management team, we're acutely aware that the sector has traditionally been cyclical when it comes to new asset-purchasing opportunities. However, Arrow has the attractive characteristics of generating consistent cash flows during a downturn while being presented with compelling investment opportunities as more defaulting portfolios become available and competition withdraws from the sector. Furthermore, around a third of our income comes from AMS, which is far less cyclical. At our Capital Markets Day in November, I presented a scenario analysis of how the business might perform in a recessionary environment due to Brexit, using how the business performed during the last downturn as a reference point. This showed that we expect there would be a minimal impact on the cash returns on the average portfolio over a 10-year period of around 2% pre-foreign exchange movements. This minimal cash collection impact, therefore, positions us well to capitalise on the high-return investment opportunities a recessionary environment naturally presents to a business such as Arrow.

Clear strategic priorities

	Focus on strong consistent returns in the Investment Business	To grow our specialist capital-light Asset Management and Servicing Business
Our approach	• Maintain investment discipline and target our mid-teens IRR target • Ensure that investments are well diversified by geography and asset class to increase risk-adjusted returns • Specialise in high value niches where Arrow's specialist capabilities deliver sustainably high returns • Look to invest via bilateral trades and in off-market situations, which provide higher quality returns • Access larger deals by co-investing with partners, providing a combination of equity exposure and servicing fees for managing the assets • Significant diversification as a result of larger volumes of smaller deals	• Ensure our servicing platforms provide value for us and our clients • We have built a high-quality servicing platform across our chosen geographies which provides unique access to deal flow and regulatory conduct parity with European banks • Meet the growing demand from clients as banks increasingly outsource their specialist servicing requirements and alternative investors seek asset exposure, not servicing platform acquisition • Continue to grow diversified and predictable cash flows by increasing the number of long-term servicing contracts • Outperform client core collections targets in order to capitalise on incentive fee structure • Capitalise on our scale benefits through operating leverage, local expertise and local relationships • Grow our discretionary fund management offering in response to sophisticated institutional investor client demand • Grow total AUM – creates 'walled garden' of assets from which our Investment Business can purchase tails of proven assets at attractive returns
Progress in 2018	• Organically invested £263.4 million in portfolio purchases across 40 deals • 78% of transactions in off-market transactions • Average Arrow investment contribution per deal of £6.7 million • £1.6 billion of third-party capital invested alongside Arrow's equity • Ended the year with our 2018 vintage geographic split by investment of: UK: 20%, Ireland: 14%, Portugal: 17%, Netherlands: 18%, and Italy: 31%	• Grew AUM 11.0% from £47.4 billion to £52.6 billion • Acquired relevant European servicers in order to complete the formation of our pan-European platform focused on our chosen markets • Announced ambitious target to double AMS income by 2023 • Disposed of non-core Belgian platform
Key priorities in 2019	• Continue to invest in loan portfolios that meet our strict returns criteria of a mid-teens IRR • Continue to create balanced investment vintages by geography and asset class • Maintain investment volume growth in line with our target to grow faster capital-light earnings from our Asset Management and Servicing Business, but still grow volumes well above our replacement rate	• Grow AUM across all geographies • Continue to manage client assets accretively • Continue to grow AUM through managed accounts • Progress towards material fund raising ahead of the future launch of Arrow's discretionary fund management offering

To be a leading player in our chosen markets

- We have carefully identified the markets we want to operate in; those with strong NPL volumes, high returns characteristics and established regulatory environments
- We have focused on identifying and acquiring the best businesses with the best management teams in our chosen markets
- This has allowed us to increasingly diversify our earnings by both geography and asset class. It has also enabled us to increase our Asset Management and Servicing income significantly
- Operating over a wider geographical footprint has provided us with access to a greater range of investment opportunities and supported our ability to continue to source high-return opportunities
- We are regulated in all of our jurisdictions and actively participate in industry bodies that help lead change in legislation and best practice
- Our strong reputation and relationships make us a favoured buyer of portfolios, enabling us to engage in a greater number of off-market transactions

- Acquisition of Parr Credit in Italy
- Acquisition of Europa Investimenti in Italy
- Acquisition of Norfin in Portugal
- Organically purchased £263.4 million of portfolio investments and increased 84-month ERC by £117.9 million

- Ensure the smooth integration of the most recent acquisitions into the Group
- Continue to drive operational excellence throughout the business

To transform the customer journey within our industry

- Enable customers to build better financial futures by helping them to rehabilitate their credit scores and gain access to future credit
- We use industry leading data and analytics to better understand our customers' financial situations and tailor our interactions with them on an individual basis
- We work with debt charities and other organisations that provide free impartial services to ensure that customers get the best possible advice

- Customer engagement via digital means continued to increase
- We won three awards at the Credit Strategy awards
- Maintained our strong relationship with Citizens Advice in the UK
- Worked closely with and funded StepChange, Payplan and Christians Against Poverty on consumer debt issues

- Continue to focus on excellent customer outcomes
- Increase customers' digital interaction with us
- Maintain staff incentives based on positive customer outcomes

To attract and retain the best talent

- We understand that to be the best in one's industry it is vital to employ the best
- We aim to employ talent from leading financial and technology companies and education institutions
- We support all our employees through a focus on providing accessible training and career planning
- We look to retain talent by providing a competitive package of pay and benefits, as well as valued incentives and recognition programmes, with a focus on rewarding behaviours that promote a culture orientated around customer satisfaction
- We have an ongoing commitment to build the strength of the leadership, which is key to ensuring the productive growth of the Group

- Continued to promote our Group values and purpose programme with Group-wide management roadshows
- Strengthened leadership structures throughout the Group through key hires across all countries and at Group
- Average employees across the Group increased by 266, largely due to the acquisitions of Europa Investimenti, Parr Credit and Norfin

- Continue to cultivate a culture orientated around our Group Values that rewards positive customer outcomes and promotes an enjoyable working atmosphere
- Reward high flyers in order to maintain high retention rates of talented employees
- Attract new talent through offering unique working opportunities combined with attractive compensation and benefits packages

Measuring our performance

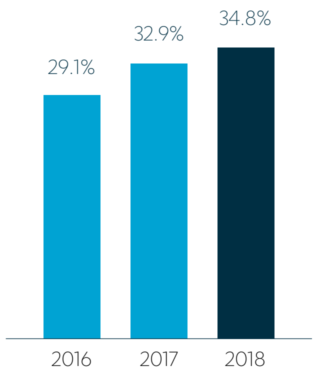
Our KPIs were discussed as part of the Capital Markets Day in November 2018. We also continue to define and shape how we manage the business, both financially and non-financially, and as these discussions develop into additional KPIs, we will share these in the future.

KPI

Underlying ROE

34.8%

(2017: 32.9%)



Description

- Arrow aims to achieve an underlying ROE in the mid-20s through-the-cycle
- The expectation is to reach this target range by the end of 2019

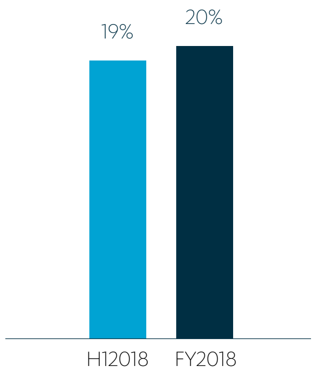
Link to strategy

- Arrow's two business segments – the Investment Business (IB) and the Asset Management and Servicing Business (AMS) – provide the capital allocation flexibility to sustain returns depending on the point of the cycle; at the bottom of the cycle, the Group will increase balance sheet intensity into a higher returns market environment and at the top of the cycle the Group will reduce balance sheet intensity into a lower returns environment and emphasise the capital-light AMS business
- The AMS business is projected to be the fastest growing division in the Group over the next five years and is highly accretive to ROE

AMS EBITDA margin

20%

(H1 2018: 19%)



Description

- Arrow has a five-year target to increase AMS margins from a level of high-teens per cent to mid-20s per cent, as well as to double AMS income to around 50% of Group gross income over the same period

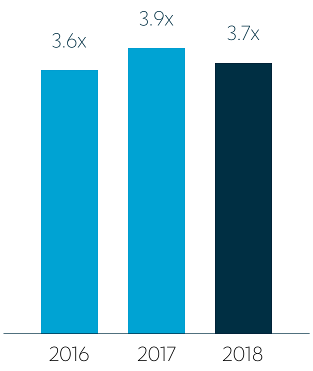
Link to strategy

- Arrow sees significant potential for margin enhancement as we continue to grow our servicing offering in high-margin niches where our specialist servicing capabilities allow us to be the partner of choice for sophisticated institutional fund clients
- The Group intends to build a fund management offering over time in response to institutional fund client demand. The Group began this process with the raising of a £300 million fund with a single institutional fund client in February 2018 and have since acquired other managed accounts
- The fund management business is expected to start contributing materially to the income statement by FY 2021

Leverage ratio

3.7x

(2017: 3.9x)



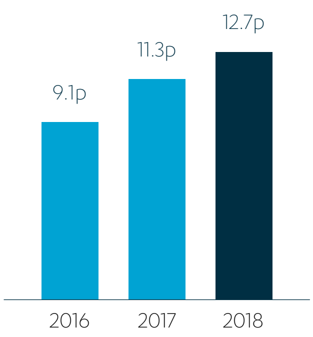
- At our Capital Markets Day in November 2018, the Group introduced a new lower leverage ratio target of 3.0x to 3.5x secured net debt to adjusted EBITDA

- The Group's view on leverage forms part of our conservative capital allocation framework
- When market pricing is less competitive and higher returns are available, the Group looks to increase the capital intensity of purchases and increase leverage. The converse is true when market returns are seen to reduce in a more competitive environment. This process is linked to the credit cycle and the Group's current view is that the market is near the top of the cycle
- Given our current assessment of the credit cycle, we have taken the decision to deleverage in the near-term in order to be well positioned to capitalise on the opportunities that present themselves should the cycle turn, competition reduce and returns increase

Dividend pay-out ratio

12.7p – 35%

(2017: 11.3p – 35%)



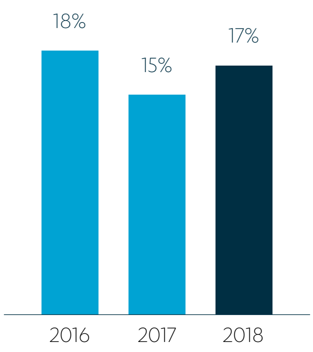
- At our Capital Markets Day, the Group outlined our new dividend policy as part of our revised capital allocation framework, increasing the pay-out ratio from up to 35.0% of underlying profit after tax to at least 35.0% of underlying profit after tax

- Arrow's decision to increase the pay-out ratio is closely related to our expectation that the AMS Business will be the fastest growing part of the Group over the next five years and will see significant margin enhancement over that period
- When combined with the consistent cash generation we forecast from the Investment Business, we have the confidence that we will be in a position to pay a higher dividend while continuing to deliver on our mid-20s per cent underwriting ROE target

Net IRRs

17%

(2017: 15%)



- The Group targets a mid-teens per cent net IRR for our Investment Business
- The target is on an annual blended basis and consists of investments made across our various geographies and asset classes

- The Group aims to build a balanced annual investment vintage by geography and asset class with an estimated return profile in the mid-teens per cent IRR
- If a return in the mid-teens per cent IRR was not considered attainable across the vintage, the Group would consider slowing the rate of investment until returns had improved
- Conversely, if the returns available are considered to be significantly in excess of our targets, the Group may choose to increase investment volumes

Performance highlights

We now have a platform that operates across five geographies.

Region

UK

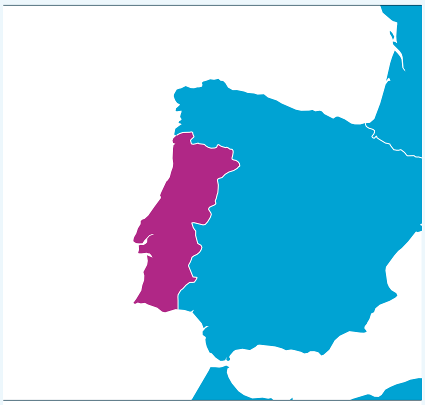
AUM: **£13.9bn**

ERC*: **43.3%**

2018 highlights

- Stable returns through 2018
- Established new UK leadership team
- Build out of secured servicing solutions with the integration of Mars Capital
- Continued development of digital platforms
- Streamlining and consolidation of servicing platforms across all businesses
- Received three awards at the Credit Strategy Collections and Customer Service awards 2018

Oliver Stratton,
UK country manager



Portugal

AUM: **£7.0bn**

ERC*: **29.2%**

- Increasing returns seen through 2018
- Core collections significantly ahead of forecasts
- Acquisition of Norfin Investimentos S.A. completed
- Senior management team enhanced through new business acquisitions
- Whitestar business won two international awards – the Global Banking and Finance 'Best Credit Portfolio Management Company Portugal 2018' and the Finance Digest 'Brand Excellence in Credit Portfolio Management Portugal 2018'

João Bugalho,
Portugal country manager

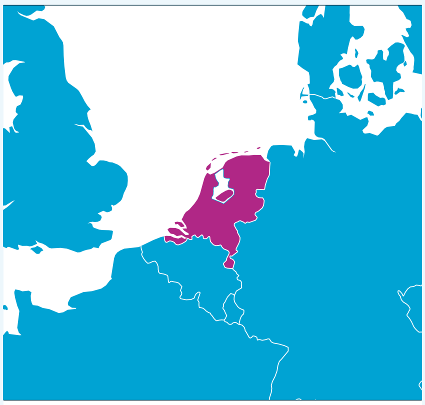
* Total investment split by 84-month ERC

Italy

AUM:	£26.2bn
ERC*:	13.2%

- Increasing returns seen through 2018
- Core collections significantly ahead of forecasts
- Acquisitions of Parr Credit and Europa Investimenti completed
- Acquisitions integrating well into the Group
- Further office consolidation achieved
- Further strength added to senior management team from acquisitions and recruitment of new talent

Massimiliano Ciferri,
Italy country manager

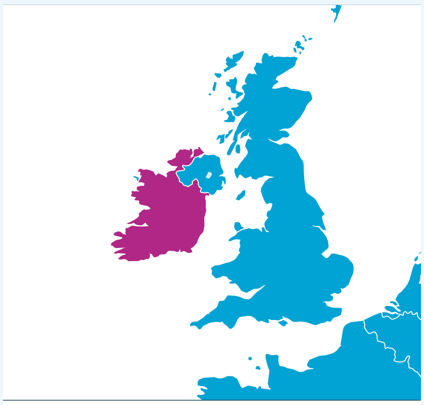


Netherlands

AUM:	£4.6bn
ERC*:	12.3%

- Stable returns throughout 2018
- Sold non-core Belgian business
- Completed consolidation of employees into one office
- Continued to increase efficiency, with improving core collections, client satisfaction and employee engagement

Madiha Mouchtak,
Netherlands country manager



Ireland

AUM:	£0.8bn
ERC*:	2.0%

- Mars now firmly established as a provider of credit servicing solutions in Ireland
- Completed the consolidation of Irish operations into one business and one office with established country manager and senior leadership team
- Successfully maintained strong relationships with all stakeholders in Ireland, including engagement with the Irish regulator and the Department of Finance regarding innovative proposals to solve Irish non-performing loans

Colin Maher,
Ireland country manager

Strong performance for 2018

"Both operating segments contributed strongly to earnings growth during the year."

Paul Cooper, Group chief financial officer

"Another excellent cash collection performance has driven strong cash generation and further deleveraging."

I am pleased to present another good set of results for 2018. They demonstrate strong returns together with high growth, underpinned by operational and financial excellence across the business contributing to sustainable, profitable growth and enhanced shareholder value.

Important note:

Both IFRS and cash metrics are important to understand the key drivers of the business. The reconciliations and commentary on the following pages have been prepared to aid this understanding, which helps to support the commentary of the financial review for the year. Additional information on underlying results and a glossary of definitions can be seen on pages 142-146.

Consistent cash generation

The business continued its track-record of strong cash generation in 2018, with net cash flow from operating activities prior to purchases of portfolio investments of £244.3 million (2017: £197.8 million). The positive result was driven by an increase in core collections to £411.6 million. This resulted in an increase in adjusted EBITDA of 27.5% to £294.0 million (2017: £230.6 million).

The reconciliation for the year of profit after tax to the cash result, including a reconciliation to adjusted EBITDA, is provided on page 31. Adjusted EBITDA is a key proxy of the business' cash flow and allows us to monitor the operating performance and cash flow generation of the Group.

Good income growth

The growth in total income to £361.8 million (2017: £319.0 million) has been driven by both our Investment Business and AMS Business, through the increasing size of the portfolio balance and higher volumes within the AMS Business.

Investment Business

Improving returns

Over the course of the year, net IRRs increased from 15% to 17%, as we have seen material benefits from our newly expanded platform and further improved our ability to select what we bid and transact for – all underlined by our disciplined approach to targeting returns in the mid-teens.

Portfolio purchases better than guidance

In the improving pricing environment, we have continued to grow our portfolio investment asset base conservatively due to the Group's view that we are approaching the top of the credit cycle. Our focus on appropriately deploying capital means we continued to focus on the significant opportunities presented by the AMS Business in 2018, growing incomes and AUM strongly. Increasing AUM size has tangible future benefits for the business, as it creates future purchasing opportunities when the owners of those portfolios look to sell into the secondary market – where we are

"Core collections were again ahead of our ERC forecast, reflecting our continued outperformance versus our initial underwriting expectations."

extremely well positioned to purchase them at attractive returns given our prior experience of servicing them.

Over the course of the year the Group organically purchased £263.4 million of new assets (2017: £223.9 million). Of the purchase price invested, 63% related to secured portfolios, 37% to unsecured portfolios and 78% was acquired in off-market transactions where no competitive auctions took place. Our strong client relationships and growing secondary market activity due to our large AUM base provides us with this competitive off-market transaction advantage. There continued to be a good balance of investment by geography, providing another important element of diversification.

The Group continues to acquire debt portfolios significantly in excess of the required replacement rate (the amount of annual investment required to keep the Estimated Remaining Collections (ERC) constant). This is reflected in the increased value of the ERC (84-months) from £1,516.9 million to £1,634.8 million, an increase of 7.8%.

All portfolios continue to be monitored carefully and, where appropriate, adjusted for both positively and negatively in the ERC forecast based upon our detailed modelling. Although it has increased in total, individual elements of the ERC have been adjusted up or down to account for any areas of over or underperformance.

Core collections – record performance

Core collections from our purchased portfolio asset base increased to £411.6 million (2017: £342.2 million), reflecting continued strong operational performance. Core collections were again ahead of our ERC forecast in 2018, reflecting our continued outperformance versus our initial underwriting expectations. As at 31 December 2018, we have cumulatively collected 104%, an improvement against 2017's 103%, reflecting our continued underwriting discipline.

Asset Management and Servicing Business

Continued income growth

Since IPO, the Group's third party AMS income has grown from £1.4 million to £91.7 million. This has been driven by the continued strength of the franchise, as well as the acquisitions of Mars Capital in November 2017 and Parr Credit in March 2018. Importantly, organic growth remained healthy.

In 2018, the Group published enhanced disclosure on a segmental basis demonstrating the contribution from both the Investment Business and AMS Business. The Group provides asset management and servicing to other group companies as well as external parties and its gross income was £132.3 million, including income from the Group's Investment Business on an arm's length equivalent basis.

At our Capital Markets Day in November 2018, we provided an ambitious target to double gross income from the AMS Business over the next five years to FY 2023 from £132.3 million in FY 2018. The growth in third-party co-investment volumes, representing £1.6 billion on top of our total organic portfolio purchases of £263.4 million means we remain confident of the long-term growth potential for this business.

The EBITDA margin in the AMS Business for 2018 was 20%. Previous guidance for the margins in this business was high-teens and at our Capital Markets Day in November 2018, we indicated that we expected this to increase to towards 25% as we deliver on our strategy to develop our servicing offering in high margin niches and build out our fund management offering. The Group began this process with the raising of a £300 million fund with a single institutional fund client in February 2018 and have since acquired other managed accounts. We expect the fund management business to start contributing materially to the income statement by FY 2021, which supports our AMS income and margin guidance.

Costs – continued ratio improvements

Our total cost-to-income ratio increased to 70.5% (2017: 66.8%) due to an increase in 'One Arrow' and acquisition related expenses. After adjusting items in the year of £23.8 million (2017 £7.1 million) the ratio was 63.9%, being a decrease from 64.6% in 2017. Adjusting items include £9.0 million (2017: £4.6 million) related to the 'One Arrow' investment programme and business acquisition costs of £14.7 million (2017: £2.4 million) that, due to their size and nature are outside the normal operating activities of the Group. The 'One Arrow' programme has now completed on track and on scope.

At our Capital Markets Day, the Group gave new guidance that it expects its underlying cost-to-income ratio to fall towards 60% over the next five years. The underlying rate of 63.9% in 2018 reflects the necessary investment in expanding Group functions, including several important executive level appointments, via the 'One Arrow' investment programme. The ratio will reduce through a combination of scale benefits and the benefits of strategic integration flowing from the 'One Arrow' programme, notwithstanding the more rapid growth of the AMS business which carries a higher cost-to-income ratio.

Our underlying cost-to-collect ratio improved by an impressive 4.3 percentage points to 32.6% (2017: 36.9%), as we began to see benefits from the 'One Arrow' investment programme over and above the impact of the growth in the AMS Business, which has a higher cost-to-collect than our Investment Business. Our statutory cost-to-collect ratio also improved to 32.9% (2017: 37.1%). Statutory other operating expenses were £136.0 million (2017: £94.6 million) and underlying other operating expenses were £113.3 million (2017: £88.3 million) in the year.

"Our focus on prudently deploying capital means we continue to focus on the significant opportunities presented by the AMS Business."

Tax
The tax charge of £10.0 million represents an effective tax rate of 25.1% (2017: 21.1%) on profit-before tax. The effective tax rate on underlying profit is 22.2% (2017: 19.5%) and has increased, as we continue to generate a greater amount of the Group's profit from non-UK jurisdictions, which have outperformed our business plan, but which have tax rates in excess of the UK.

Profit after tax
On an underlying basis, profit after tax increased by 13.3% to £64.1 million (2017: £56.6 million). Statutory profit after tax decreased to £30.0 million (2017: £39.9 million). FY 2017 includes an adjusting gain of £14.7 million from the sale of associate Promontoria MCS Holdings SAS.

As well as the factors outlined above, FY 2018 also includes non-underlying items totalling £42.4 million (2017: £34.4 million), which the Group considers adjusting items, arising from costs associated with restructuring the Group's long-term financing of £18.7 million and One Arrow costs and business acquisition and other costs of £23.8 million, with a full reconciliation shown in the table below. Offsetting the £42.4 million of adjusting items is a tax impact of £8.3 million.

The underlying result is driven by strong organic growth and sensible business expansion as discussed in previous sections.

Alternative performance measures (APMs)
The Group believes that the use of APMs for profitability, earnings per share and cash metrics (see pages 30 to 31), provide valuable information to the readers of the financial statements. They can provide a more comparable basis for assessing the Group's performance between financial periods, by adjusting for items that by their size, nature or incidence are not necessarily representative of the underlying performance of the business. APMs also reflect key operating targets and are used to monitor performance by the board. APMs are not defined within IFRS and, therefore, may not be directly comparable with similarly titled measures reported by other companies. APMs in this document are not a substitute for, but complement, statutory IFRS measures and readers should also consider these.

	2018			2017		
	PBT £000	Tax £000	PAT £000	PBT £000	Tax £000	PAT £000
Reported profit	**39,991**	**(10,022)**	**29,969**	50,559	(10,644)	39,915
Adjustments:						
Acquisition related costs	**14,717**	**(2,742)**	**11,975**	2,444	(267)	2,177
One Arrow costs	**9,039**	**(1,988)**	**7,051**	4,645	(896)	3,749
Bond refinancing costs	**18,658**	**(3,545)**	**15,113**	27,352	(5,265)	22,087
Gain on sale of associate	–	–	–	(14,696)	3,374	(11,322)
Total adjustments	**42,414**	**(8,275)**	**34,139**	19,745	(3,054)	16,691
Underlying profit before NCI	**82,405**	**(18,297)**	**64,108**	70,304	(13,698)	56,606
Non-controlling interest	–	–	–	(44)	–	(44)
Underlying profit after tax	**82,405**	**(18,297)**	**64,108**	70,260	(13,698)	56,562

See page 142 for further details of adjustments.

	2018		2017	
	Reported £000	Underlying £000	Reported £000	Underlying £000
Profit after tax	**29,969**	**64,108**	39,915	56,562
Average net assets	**184,083**	**184,083**	171,905	171,905
ROE (%)	**16.3%**	**34.8%**	23.2%	32.9%
Weighted average ordinary shares	**174,939**	**174,939**	174,768	174,768
Basic EPS (p)	**17.0p**	**36.6p**	22.8p	32.4p

The underlying figures in the table above are important as they are how the business is managed and monitored. It is important to be able to consider the underlying results excluding the adjusting items in the reported results as these may impact on how business decisions are made. See page 142 for further detail.

> "Since its IPO, the Group has more than halved its cost of debt while focusing on long duration debt for added balance sheet stability."

Balance sheet – further strengthened following full refinance

Funding and net debt

The Group has £131.4 million cash headroom and no facilities maturing until 2024 – a very strong position. On 7 March 2018, the Group issued €285 million floating rate senior secured notes due 2026 at EURIBOR + 3.75%. Additionally, the Group issued a tap of £100 million of the existing 5.125% fixed rate notes due 2024. As part of the transaction the Group redeemed its €230 million floating rate secured notes, which were issued at 4.75% over EURIBOR.

On 4 January 2018, the commitments under the revolving credit facility were increased from £215 million to £255 million. The maturity of the facility was extended to 2 January 2023 and the margin reduced to 2.5%. On 1 November 2018, the commitments under the revolving credit facility were increased from £255 million to £285 million, with the margin unchanged. Post year end on 26 February 2019, the revolving credit facility was extended to 2024, with the margin unchanged.

The Group's secured net debt position at the period end was £1,089.2 million (2017: £899.2 million). The Group's total assets at the end of the year increased to £1,596.1 million (2017: £1,258.5 million).

Leverage has reduced to 3.7x (2017: 3.9x), and we are on track to reach our new lower target range of 3.0x to 3.5x by FY 2019 and are committed to maintaining leverage in that range in order to position us well for any turn in the credit cycle.

The Group's weighted average cost of debt has been maintained at 3.9% and the average debt facility maturity is now 6.1 years. This means that since its IPO, the Group has more than halved its cost of debt while focusing on long duration debt for added balance sheet stability.

Strong returns and dividends

The underlying ROE is 34.8%, up from 32.9% at FY 2017, and well above our target of mid-20s underlying ROE. The Group has maintained its target of generating underlying ROE in the mid-20s per cent on a through-the-cycle basis.

Basic EPS is 17.0p compared to 22.8p in FY 2017, with the decrease largely due to adjusting costs offset by the growth in income. Underlying basic EPS has increased 13.0% to 36.6p (FY 2017: 32.4p).

Facilitated by the Group's guidance that income from the capital-light AMS Business will double over the next five years, the Group has revised its dividend policy, giving a pay-out ratio of at least 35% of underlying profit after tax, an increase from the previous guidance of between 25%-35% of underlying profit after tax. The Group proposes to pay an 8.7p final dividend, taking total declared and proposed dividends for the year to 12.7p. This is an increase of 12.4% from the FY 2017 dividend of 11.3p.

Sale of Belgian business

In December 2018, we took the decision to exit the Belgian market by selling our non-core Belgian platform and some associated portfolios. Our Belgian business existed in a relatively small NPL market and was acquired as part of our much larger acquisition in the Netherlands, to gain access to that attractive NPL opportunity. In line with our disciplined approach to capital allocation, the Belgian business was therefore considered non-core and the sale enables us to focus on the Netherlands as one of our five key geographies.

Brexit

The Group completed stress testing in light of the significant uncertainty around Brexit, which showed the Group and strategy to be resilient to possible outcomes. More details of this can be seen on page 44. With extensive scenario testing, strong liquidity, no debt maturities due until 2024 and potential foreign exchange upside in the event of a hard Brexit, the Group feels confident in its future position.

Summary and outlook

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

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

The guidance we have given regarding how we intend to grow strongly the AMS Business – by doubling its income and significantly increasing its margins over the next five years – provides for the business potential. Returns in the Investment Business saw an upward trend despite record levels of investment. When combined with our strong balance sheet, reduced leverage ratio, further operating leverage being extracted from our expanded platform and the delivery of an attractive through-the-cycle underlying ROE target at least in the mid-20s, we have continued belief in the strong prospects for the business.

Paul Cooper
Group chief financial officer
28 February 2019

IFRS to cash result reconciliations

"Our core competence is using data to identify, manage and collect non-performing portfolio investments."

Introduction

We provide two reconciliations between reported IFRS profit and cash measures. The first looks at the movement in our 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 reported results. The second reconciles the reported profit for the year to the cash result. For completeness we also separate out other adjusting items. A number of the terms referred to in this section are defined in the glossary on pages 144 to 146.

Our core competence is using data to identify, manage and collect non-performing and non-core portfolio investments. We use this competence to drive two key income streams: the Investment Business (IB), where we acquire the portfolio; and the Asset Management and Servicing Business (AMS), where we manage the portfolio, but do not take capital risk.

The way in which the business recognises income on each of these business streams differs substantially.

Investment Business

For IB, we acquire portfolios and turn these into regular, predictable and long-term cash flows; this predominantly involves high volumes of low value collections from customers.

We use analytical models to estimate cash flows we expect at an individual account level. The output of these account level forecasts is aggregated to a portfolio and then into the Group's total ERC.

When we purchase portfolio investments, we recognise them in the statement of financial position at the purchase price in accordance with IFRS. In terms of the equivalent cash measure, we add the portfolio ERC to the Group ERC at the point of purchase. We quote both 84-month and 120-month ERC forecasts as key performance measures for the business.

The ERC forecast to 84 months or 120 months from date of purchase divided by the purchase price is the gross money multiple (GMM) that we expect to achieve from that investment. The GMM is an important measure to understand the gross cash return on our investment. The GMM, therefore, is a measure of portfolio asset quality and is one of the metrics we evaluate when we appraise a portfolio. In 2018, we organically purchased portfolio investments for £263.4 million, which with an 84-month GMM of 1.5 times added £406.4 million to ERC and a 120-month GMM of 1.8 times added £463.8 million to ERC.

We are required to calculate the effective interest rate (EIR). This is the discount rate which would allow the estimated future cash flows to be discounted to the day one purchase price of the portfolio. This rate is used to calculate the amount of income we recognise each year. The EIR is fixed at the point of purchase. The EIR is used to allocate the collections received between a repayment of our original purchase price; this is accounted for as a reduction in the loan balance (amortisation) and the balance of the collection as interest income (which is accounted for as income from portfolio investments). This is akin to the way in which a mortgage would pay down.

Collections from portfolios can extend beyond 15 years; however, we only include 84 months of cash flow in assessing the majority of our portfolio investments. As we progress through the months of each year, we roll forward the ERC forecast, meaning we always have 84 months of expected cash flow from our portfolios recognised on the statement of financial position.

Due to the nature of our business, actual collections on portfolio investments will not perform exactly as initially forecast and, each half year, we review performance against collections experience and update the ERC forecast where appropriate. This updated cash flow forecast, discounted at the discount rate is the year-end carrying value of the portfolio investments. This movement of the portfolio investments is reflected in income from portfolio investments in the income statement. The size of the portfolio asset, associated ERC and cash collections in the year are therefore all key drivers to the result we report.

As we collect on our portfolios, the statement of financial position value, ERC and income we receive decreases over time. Based upon our target returns that we expect to invest at, we are able to calculate a replacement rate, or maintenance capex, being the amount we need to invest to hold the Group's total portfolio value constant. During a year, if we invest higher than the replacement rate at target returns, the income from debt purchase grows. The replacement rate is a key driver to the cash result the business generates.

Asset Management and Servicing Business

As part of our strategy to diversify the business, the Group has also strengthened its capabilities in asset management servicing to complement the strength it has in debt purchase. AMS income is driven by commissions received, largely based on collections, plus fee income.

AMS income does not require significant capital investment and therefore the development of this business is important to improving both the IFRS and cash result for the business.

Movement in portfolio investments under IFRS reconciled to cash ERC

	IFRS £000	ERC 84-month £000	ERC 120-month £000	
Brought forward	934,467	1,516,909	1,780,245	ERC brought forward
Portfolios acquired during the year[1]	263,350	406,362	463,790	ERC acquired during the year
Portfolio additions from acquired entities	11,853	20,753	21,112	
Collections in the year[2]	(411,588)	(411,588)	(411,588)	Collections in the year
Income from portfolio investments at amortised cost[3]	193,932	–	–	
Fair value gain on portfolio investments at FVTPL[4]	24,745	–	–	
Net impairment gains[5]	50,727	–	–	
Exchange and other movements	19,544	–	–	
		102,350	118,571	ERC roll forward and reforecast[6]
		1,634,786	1,972,130	**ERC carried forward**
Effect of discounting[7]		(547,756)		
Carried forward 31 December 2018	1,087,030	1,087,030		

1. Portfolios acquired in the year are added to the statement of financial position carrying value of portfolio investments at their initial purchase price. The undiscounted forecast of estimated remaining collections is included in the ERC
2. Collections made in the period are deducted from both the IFRS carrying value of portfolio investments and ERC
3. Income on portfolio investments at amortised cost is calculated with reference to the effective interest rate (EIR) of the portfolio. This income is recognised after taking account of new portfolios, collections, updated ERC forecast, disposals and any FX impacts. See 8 in the reconciliation of profit after tax to the cash result below for more detail on total income
4. Fair value gain on portfolio investments at FVTPL represents net increases to carrying values, discounted at a market rate, of portfolio investments held at FVTPL as a result of reassessments to their estimated future cash flows
5. Net impairment gain represents net increases to carrying values, discounted at the credit-adjusted EIR rate, of portfolio investments held at amortised cost as a result of reassessments to their estimated future cash flows
6. The ERC roll forward and reforecast reflects management's updated estimation of future collections. It takes account of updated information on specific portfolios, the latest exchange rate and rolls forward the 84-month forecast collection period
7. Under IFRS, the carrying value of portfolio investments includes 84-months of discounted cash flows, however we expect to see cash flows beyond this period and report a 120-month ERC also, as is customary for the industry

Reconciliation of profit after tax to the cash result

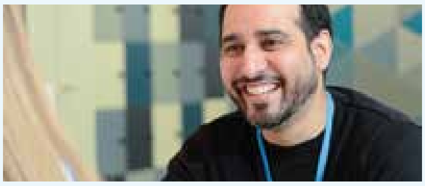
	Reported profit £000	Adjusting items[11] £000	Underlying profit after tax £000	Other items £000	Cash Result £000	
Income from portfolio investments	193,932	–	193,932	217,656	411,588	Collections in the period[2]
Fair value gains portfolio investments at FVTPL	24,745	–	24,745	(24,745)	–	
Impairment gains on portfolio investments at amortised cost	50,727	–	50,727	(50,727)	–	
Income from Asset Management and Servicing	91,661	–	91,661	–	91,661	Income from Asset Management and Servicing
Profit on sale of property	731	–	731	3,028	3,759	Proceeds from sale of property
Total income[8]	361,796	–	361,796	145,212	507,008	
Total operating expenses[9]	(255,013)	23,756	(231,257)	18,281	(212,976)	Cash operating expenses
Operating profit	106,783	23,756	130,539	163,493	294,032	Adjusted EBITDA[12]
Net financing costs	(66,792)	18,658	(48,134)	5,183[10]	(42,951)	
Profit before tax	39,991	42,414	82,405	168,676	251,081	
Taxation charge on ordinary activities	(10,022)	(8,275)	(18,297)	8,869	(9,428)	
Profit after tax	29,969	34,139	64,108	177,545	241,653	
					(10,944)	Capital expenditure[13]
					(153,181)	Replacement rate[14]
					77,528	**Cash result**

8. Total income is largely derived from income from portfolio investments as explained in 3 above, plus income from asset management and servicing being commission on collections for third parties and fee income received. The non-cash items add back loan portfolio amortisation to get to core collections. Amortisation reflects a reduction in the statement of financial position carrying value of the portfolio investments arising from collections, which are not allocated to income. Amortisation plus income from portfolio investments equates to core collections
9. Includes non-cash items including depreciation and amortisation, share-based payment charges and FX
10. Non-cash amortisation of fees and interest
11. The cash result is viewed on an underlying basis which excludes certain items. See APM table on page 28. These items have been excluded to provide a more comparable basis for assessing the Group's performance between financial periods. Details of the adjusting items are provided in the Group chief financial officer's review on page 28 and the additional information on page 142
12. Adjusted EBITDA is a key driver to the cash result. This measure allows us to monitor the operating performance of the Group. See additional information provided on page 143 for detailed reconciliations of adjusted EBITDA
13. Excludes £2.5 million of 'One Arrow' investment programme capital expenditure
14. Replacement rate is the rate of portfolio investments purchases, at our target portfolio returns, required during 2019 to maintain the 2018 average 84-month ERC

Responding to our stakeholder's needs

Our key stakeholders are those who impact or are impacted by our strategy materially. As a responsible business, we listen to our stakeholders regularly to define strategy and ensure we deliver relevant services that meet our clients' and customers' needs.

Customers



Employees

Why we engage

Customers

Understanding our customers' financial situations is vital to ensure we treat them in the most responsible and sustainable way possible. We also use this understanding to refine our processes, train our people and improve our industry-leading service

Employees

It is important to attract, retain and engage people who have the skills, values and expertise to implement our SMART strategy and ensure our clients and customers are serviced to the best of our ability. Engaged employees will make us more successful and act as business ambassadors

Key areas of interest

Customers

- Affordable repayment plans which repay debt in a sustainable and realistic time frame
- Flexible repayments and payment methods
- Convenience and functionality to support customer's preferred method of contact
- Empathetic and approachable conversations
- Trusted and responsible servicing panel and credit manager
- Clear and transparent communications

Employees

- Professional development and career development
- Recognition and fair reward
- Diversity and inclusion
- Transparent and timely communications
- Clarity on business purpose and Values
- Responsible and fair treatment of customers
- Safe and productive working environment

How we engage and respond

Customers

- Customer-friendly websites
- Interactive customer portals, designed in conjunction with customers, for customers
- Customer surveys to help improve the customer journey
- Customer-service centres and specialised panel of service providers ensure customers receive bespoke management
- Prompt and detailed complaint resolution process
- Quality-Assurance programme driving excellence
- Customer-journey mapping
- Market research and focus groups
- Forums focused on delivering best-in-class customer service

Read more about how we respond to our customers' needs on pages 34

Employees

- Design and implementation of career development frameworks
- Succession and talent development for high-potential colleagues
- Annual Senior Leadership Conference and strategy roadshow to all employees
- Management development programmes
- Engagement and pulse surveys
- Recognition and reward programmes
- Training and development programmes including data protection, conduct risk, regulation and policies
- Flexible working in the Netherlands enabled by technology

Read more about how we respond to our employees' needs on pages 36

Communities

We believe that we can add considerable value by engaging and working with the communities where our customers and employees live. Specifically, we believe that we can bring our Purpose 'Building Better Financial Futures' to life through financial education. Consumers who are well informed can make more responsible financial decisions

- Affordable repayment plans
- Employment
- Financial literacy programme via Junior Achievement Europe
- Wider community support programmes i.e. charity fundraising, volunteering

- Financial-literacy programmes
- Employee volunteering
- Charitable partnerships and donations
- Financial-literacy surveys
- Partnership with established and credible debt charities including Citizens Advice, Christians Against Poverty
- Funded FairShare contributions to StepChange, Christians Against Poverty and Payplan

Read more about how we respond to our communities' needs on pages 38

Regulators and industry

We proactively work with regulators and the wider industry through our well-established relationships in the sector to help influence regulation that delivers a positive outcome for consumers and business. Our approach is widely respected and evidenced by industry awards

- Compliance with EU and national regulations
- Control and supervision
- Affordable repayment plans
- Treating vulnerable customers fairly
- Taxation
- Employment

- Regular dialogue
- Board membership of sector associations like the Credit Sector Association and the Federation of National Collection Associations (FENCA)
- Participation on public consultations
- Engagement on draft regulation
- External adviser network

Read more about how we respond to our regulators' needs on pages 40

Shareholders and investors

As a publicly-listed organisation, we are required to provide fair, balanced and clear information to enable investors to fully understand our business, so they may make an informed and educated investment decision

- Strategy and performance
- Risk management and corporate governance
- Executive remuneration
- Dividend policy
- Access to senior management

- Ongoing dialogue and meetings
- Capital Markets Day
- Annual general meeting
- Annual Reports
- Investor roadshows and conferences
- Corporate website

Customers

"Our aim is to establish affordable and sustainable relationships with our customers."

"Understanding our customers' needs is vital for our operations. It is an evolving process and one which secures positive engagement over the customer account lifespan."

Better customer outcomes

The Arrow Global Group operates a hybrid business model with an in-house collections operation complemented by a panel of Arrow 'Approved Partners'. This model allows Arrow to make use of the skills of market-leading specialist partners to provide a service, which complements our internal capability. Understanding our customers' needs is vital for our operations. It is an evolving process and one which secures positive engagement over the customer account lifespan. In order to develop a comprehensive approach to this, we must at all times, work within the remit of the regulations set by the regulators in all of the geographies we operate in, including the Financial Conduct Authority (FCA), Portuguese Securities Market Commission (CMVM), Dutch Authority for Financial Markets (AFM), Banca D'Italia and the Central Bank of Ireland, when treating customers fairly and with the appropriate level of forbearance.

Our aim is to establish affordable and sustainable repayment plans with our customers, which enables them to rehabilitate their credit history and ultimately gain access to mainstream financial products. We work closely with our customers, colleagues and specialised servicing panel to help us to understand our customers' circumstances and to respond accordingly. Through our investment in leading customer-service platforms, we are able to ensure that all of our customers receive a best-in-class service.

Customer centricity

In the UK, we undertook a major research project, 'Debt Britain – The Changing Landscape in 2018' to further enhance our knowledge of customers in personal indebtedness in the UK. This helped shape our understanding and drove our desire to implement changes to our processes, giving customers more confidence and clarity around their finances.

These changes include investment in our induction and training programme to ensure front-line conversations support our Purpose to build better financial futures, and this sees new collections colleagues attend an 18-day New Starter Programme. The induction programme provides training on regulation, systems, processes and customer communication. Our external panel of service providers must comply with a set of minimum standards, which place fair and transparent customer treatment at the forefront of our expectations. This is tested in our extensive Quality-Assurance programme.

"Our customer portals lead the way in the industry, putting control back into the customer's hands."

2

International customer forums in 2019

In Portugal, we rolled out a comprehensive and tailor-made Customer Communication training programme for all customer service employees. The programme includes theory, role play and 1:1 coaching and feedback sessions. The concepts covered in the training are being reinforced and embedded through a refreshed Quality-Assurance programme, delivering our best in class service.

In Ireland, we have a dedicated Business Excellence Team, whose role is to monitor the activities of the Irish business to ensure the operation deliver on its commitment to ensure positive outcomes for our customers, and recommend changes to people, procedures or technology, where warranted.

Handing back control is very important for our customers in the Netherlands, and to do this we have developed easy-to-use self-service portals. The customer can not only get an up-to-date account status, but also make repayments, change their personal information, including their bank account details, and, if necessary, contact us or file a complaint.

Vulnerable customers

In the UK, we work closely with local organisations to discuss Mental Health Case Studies, which continues to support our managers and employees in understanding mental health issues and what this means to our customers, employees and our Group. We hold regular 'lunch and learn' sessions for all colleagues to ensure this is embedded in our culture and is included in everything that we do. Our managers and agents will conduct regular CARE call calibrations, so that CARE situations can be discussed in an open, honest and safe environment to ensure that we are doing the right thing by our customers. This also gives us an opportunity to celebrate our successes.

In Ireland, we have a dedicated vulnerable case manager, who is specifically trained and manages the vulnerable portfolio and all interactions with customers who may require an alternative approach while managing their financial difficulties. We feel that this is important as we hope to create a positive and supportive culture of relationship management for customers during difficult times, as the dedicated vulnerable case manager is fully aware of the issues and can make appropriate recommendations to service their accounts. In addition, escalation of accounts to management for risk assessment or removal is conducted through a vulnerable monthly forum, which ensures we continue to apply best practice approaches and consider various points of view when making decisions.

In the Netherlands, behavioural credit scores are combined with operational data to help the team identify, and then help, vulnerable customers. This focus on preventative arrears management, also extends to budget coaching, that sees our colleagues visit customers in their own homes to help plan realistic and affordable repayment plans.

Looking ahead to the future, in 2019 we will be assessing our frameworks for identifying and supporting vulnerable customers across all our geographies, with the aim to leverage best practices and to standardise our approaches to the highest levels of excellence. We are revising our customer policies across the Group to ensure we work towards the highest standards, which in some geographies means we go above and beyond the local regulatory requirements. Below are some examples of the work we are already doing across the Group.

Voice of the customer

The introduction of the Customer Satisfaction Surveys (CSAT) across our panel of specialist service providers has enabled us to utilise feedback provided directly by customers. This has provided a tool for customers to voice their opinions on the treatment they have received, and it has enabled the business to have a unique independent insight into the customer experience. This has highlighted key areas for improvements to ensure that the customer is treated to the best possible service.

Last year, we conducted an extensive piece of market research to understand how, when and why our customers want to engage with us. Of particular focus was our web portal and the content and layout of our mail correspondence. These changes have now been implemented, in line with recommendations provided by our customers.

Our customer portals lead the way in the industry, putting control back into the customer's hands. Similarly, the changes made to our mail correspondence inform the customer of what their situation is now, and what options they have to address.

We are now leveraging the learnings from this UK led market-research initiative to upgrade communication collateral and portals across all of our geographies.

Customer forums

This year, we piloted the creation of a Customer Committee in the UK. Supported by a bespoke MI suite, this committee drives the delivery of customer outcomes throughout the organisation – not just in front-line areas. The Committee is guided by senior leaders within the organisation, who can drive changes to ensure customers are treated fairly and responsibly. In 2019, we will host two international customer forum conferences. Here customers will be invited to attend to provide further insight to our colleagues. Finally, we have developed a customer-focused scorecard, which is prepared monthly and scrutinised by our board. This includes key-performance indicators, such as complaint volumes, customer-service levels and customer satisfaction scores. These performance indicators are reported and consolidated from all of our collection platforms across the Group.

Employees

"Our entrepreneurial drive is complemented by a deep commitment to rewarding work done in the right way, the Arrow way."

"Our shared Purpose, Vision and Values creates a powerful adhesive that binds our Group together and makes us stronger, more aligned."

Building employee engagement

2018 was an exciting year for the people agenda with teams from across the business continuing to make great progress in providing learning and development solutions to support our employees' careers. We deliver this through:

Strategic and leadership alignment

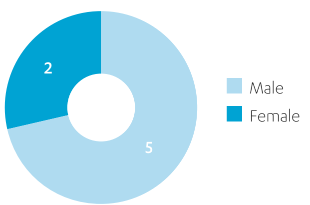
Aligning leadership teams across the Group around the Mission, Vision and Strategy (our SMART Story) is a key priority, ensuring we strengthen the 'One Arrow' family while utilising the competitive advantage each unique business brings. In March 2018, starting with the executive management team, Arrow embarked on a senior leadership development programme DIPS (Define – Insight – Practice – Sustain). The purpose of the programme is strategic, cultural and leadership alignment and takes teams through a learning journey over a 9 to 12-month period. In September, as part of our annual leadership conference, we introduced our top 100 leaders to our SMART Story and to the DIPS process. We will continue to roll out the DIPS programme out across the Group during 2019, and beyond.

Management development

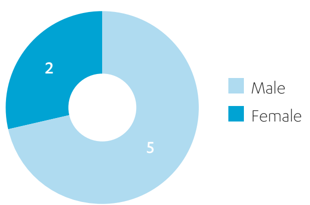
We recognise the critical role our leaders have in inspiring teams and we have worked hard to enhance management development programmes across the Group to build capability and confidence. In the Netherlands, management development is orientated around operational efficiency, or 'lean initiatives' that will be taken to other countries in 2019. In the UK, we were one of the first organisations to utilise the UK Government's apprenticeship levy and we now have a growing management development programme that will, by the end of 2019, consist of four cohorts. Our business in Portugal has also successfully introduced a development programme for line managers.

Gender diversity at 31 December 2018

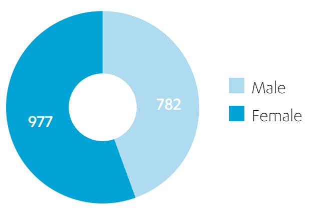
Board



Senior Management



All employees



“Recognition lays at the heart of our business, saying a simple thank you is what we do every day.”

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Employee Recognition Scheme winners across the Group in Ireland, Italy, the Netherlands, Portugal, and UK

Core capability

Locally, each Learning & Development (L&D) team ensures our employees have the skills to be highly competent in their current roles and provide support to build personal capability and confidence for the future. During 2018, we made enhancements on how we induct new colleagues, deliver regulatory skills requirements and identify development opportunities for future talent. Our ethos for learning and development is ‘doing the core tasks brilliantly’, ensuring quality design and development that is tailored to meet the needs of the learner. We have offered more experiential learning, taking into consideration diversity in generations working for the Group and learning preferences. As we move into 2019, our focus is to accelerate best practice and collaborate on the talent strategy including management onboarding, succession planning and career development pathways, the continued roll-out of DIPS, and creating and embedding the Arrow diversity and inclusion strategy.

Competitive total reward

Arrow delivers a reward and recognition structure that provides competitive remuneration that is fairly derived and incentivises high performance. There are a suite of benefits that support our employees short, medium and long-term personal goals and circumstances, and an Employee Recognition Scheme rewards and celebrates employees that live our Values. We deliver these items through:

Remuneration linked to Group and personal performance

Arrow benchmarks salaries across our businesses and locations to ensure we are providing competitive fixed pay that is reviewed and appropriately adjusted on an annual basis. The Group bonus scheme is driven by a combination of Group and personal performance to ensure employees are aligned to the delivery of our strategic objectives and corporate Values and that they are rewarded for delivering exceptional performance against those objectives and Values. Arrow also operates a Long-Term Incentive Plan to drive long-term engagement and retention of our most talented people.

Commitment to fairness and inclusivity

Arrow is committed to building a diverse and inclusive workforce and the treatment of Reward and Recognition is central to this commitment. For transparency the 2017/2018 Gender Pay report exceeded the statutory requirements and reported Gender Pay Ratio’s for both the UK workforce and the wider Group. The Group sets clear measurable actions to drive real outcomes. More information on this is available on the Group’s website. The report with April 2018 UK data will be published in April 2019 and included on the Group website in April 2019, in compliance with the UK regulations.

Competitive benefits provision

Giving our employees the opportunity to select benefits that support their short, medium and long-term personal goals and circumstances is a critical part of our Total Reward package. We have a vibrant and diverse workforce and we provide benefits that span a variety of topics such as health and well-being and retirement provision that are benchmarked across our geographies.

Employee recognition scheme

Intrinsic reward and recognition are extremely powerful, and they are a key part of creating a truly great place to work. Arrow operates a Group-wide Employee Recognition Scheme where all employees can nominate and are eligible to win. The core drivers are to recognise employees who live our Values, work at a continuously high standard and deliver innovative solutions, build long-term relationships, work collaboratively and seek to continuously improve all we do. Employees nominate colleagues monthly and the programme is supported by our Values Champions, over 50 of whom provide advice and guidance on how to engage in the scheme. Winners are publicly presented with their award in each of our locations on a monthly basis and they, alongside our Values Champions, attend the annual award gala, hosted by our executive committee, to celebrate their successes.

Communities

“Financial awareness is critically important and will help ensure consumers manage their finances in a responsible and affordable way.”

“Financial literacy is a key skill that supports long-term outcomes like entrepreneurship and employability. Working with Arrow Global contributes to closing the financial skills gap and helps young people succeed in the global economy.”

Caroline Jenner
Chief executive officer of JAE

Building financial literacy

Our Purpose is to Build Better Financial Futures and our employees work hard to equip young people with vital employability and financial literacy skills.

As a diverse organisation working across five countries with more than 1,700 employees, our Vision, Values and Purpose are incredibly important. They provide the glue that binds our organisation together and gives us a common set of standards and behaviours that we all adhere to.

In 2018, the board signed off our new Corporate Social Responsibility strategy, which saw us extend our partnership with Junior Achievement Europe (‘JAE’) from two to five countries across the Group. JAE is Europe’s leading non-profit provider of educational programmes for financial literacy and entrepreneurship and has a track-record of partnering with public and private organisations to equip young people with work readiness skills.

Having already worked very successfully in the UK and, Portugal, we knew they had the local expertise to meet our ambition to embed our Purpose across all of our operating businesses. This is particularly important as we expand our credit and asset management expertise in our five core markets and become the innovative and valued partner of choice.

In the UK, we ran several Economics for Success workshops across the UK, that expanded young people’s working knowledge of personal finance including smart budgeting, responsible credit management and reducing financial risks. The outcome is that young people can apply these skills to their everyday lives, whether it’s planning a birthday, organising a holiday, buying school books, or helping to prepare them for life away from home.

In addition, the UK team also established a mentoring programme called ‘Bridge Builder’, continuing our successful relationship with City Year, that saw a number of our colleagues become year-long mentors to young people from deprived backgrounds, helping to broaden their perspective on life’s opportunities.

In Portugal, the partnership with JAE is already delivering great results. During the course of the year, our Portuguese business, Whitestar, helped almost 2,000 school children across 34 schools to raise awareness and understanding of financial education. Expanding our Purpose outside Europe, the Portuguese team sponsored Ilocano school in Mozambique to help provide much-needed school places for children aged between three and six years old.

"It really shows that gaining an understanding of finances from a young age can make a difference and encourage them to work hard for what they want in life."
Claire Stapleton, volunteer, Arrow, Dublin, Ireland.

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Young people attending an Arrow-JAE workshop between October 2018 to January 2019

In the Netherlands, we continue to work with LEF, a foundation dedicated to reducing debt problems in society by increasing financial awareness amongst young people. The team also works with the Matchpoint Foundation, an organisation dedicated to reducing poverty through a diverse range of activities such as helping the homeless in Amersfoort, renovating accommodation for the vulnerable, hot meals for the elderly and workshops on debt to help make responsible financial decisions. In addition, our business in the Netherlands is busy planning activities for 2019 that will see it partner with JAE to launch a new Job Shadow programme, in addition to other local initiatives.

In 2019, we will work alongside JAE to support more than 2,200 young people, supported by our board and executive team. We expect around 150-200 employees will deliver this valuable programme thanks to their skills and commitment to our Purpose.

Recognising the intrinsic value to our organisation, our employees and the young people we help, we have also launched a CSR brand, Building SMART Skills, that will help us to communicate our activities, both internally and externally, in a more effective manner.

BUILDING SMART SKILLS ARROW GLOBAL BUILDING SMART SKILLS

JA Europe 100 YEARS OF ACHIEVEMENT A Member of JA Worldwide

Supporting debt charities

During the course of the year, we supported the activities of the major debt charities who provide free impartial advice to our customers, particularly in the UK. In addition to fully supporting StepChange, Payplan and Christians Against Poverty by way of FairShare contributions, we continued to work with Citizens Advice on its new Debt Management Service pilot, to provide a more effective end-to-end service for customers.

Helping our local communities

While we have developed a programme that will harmonise our approach to Building Better Financial Futures via financial education, we still promote a culture of independent initiatives to support the communities where we operate.

These initiatives are at the discretion of our in-country teams and take various forms to reflect local needs. Although too numerous to mention, examples include a 5-10 kilometre fun run to raise money for the LEF Foundation in the Netherlands, coffee mornings around the UK to support Macmillan Cancer, a 'Tour de Arrow' to support Sports Relief in Glasgow and Farnborough as well as Christmas and Easter collections to support the Wood Street Mission in Manchester; a charity helping children and families on low incomes.

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

Regulators and industry

"During the year, Arrow has actively contributed to a wide range of initiatives across the collections and debt advice sectors."

"Arrow remains fully committed to raising standards and promoting fairer practices in the collection of debt."

Regulatory and industry engagement

We actively contribute to a wide range of initiatives across the collections and debt advice sectors, to help Build Better Financial Futures for our customers. During the year, Arrow has actively contributed to a wide range of initiatives across the collections and debt advice sectors.

In 2018, we held a number of important industry positions:

- After an extended three-year presidency of the Credit Services Association (CSA) we retained a board seat for Public and European Affairs, promoting constructive and collaborative relationships with government and regulators, the debt advice sector and other stakeholders, to ensure they are made aware of the processes and high standards of Arrow and the rest of the membership of the CSA.
- Member of the Steering Committee on Reciprocity (SCOR), which governs the rules for credit data sharing in the UK, bringing about important new rules and safeguards for the use of credit data by debt buyers.
- The vice presidency of the Federation of European National Collection Associations (FENCA). Persistent FENCA lobbying to the department of justice resulted in significant changes to the final wording of the EU General Data Protection Regulation (GDPR), and we hold the responsibility through FENCA of developing a Code of Conduct for GDPR for the collections industry and liaison on the proposed EU Directive for debt collection and purchase. A draft Code has now been approved in 2019. This Code will help provide a level playing field for our customers across Europe, and clarity on GDPR industry regulation.
- Through FENCA, we have also contributed to consultations on the NPL secondary market, particularly the draft EU Directive regulating credit servicers and purchasers. We attended meetings with high-ranking officials who are responsible for EU policy on banking and finance.
- We hold a board position on the influential Money Advice Liaison Group, and a trusteeship of the FairLife Charity, promoting fair treatment of the consumer across financial services. We also hold the 2019 presidency of the prestigious International Collectors Group, organising the annual ICG conference in Portugal.
- In addition to our various CSR initiatives at Group and country level, specialising in financial education and data philanthropy, we have supported major debt charities during the year, assisting Citizens Advice to implement its Debt Management Service pilot, and helping Christians Against Poverty (CAP) toward its successful matched funding target. As a responsible industry partner, we also fully funded FairShare contributions to StepChange, Payplan and Christians Against Poverty.

We have continued to actively engage at numerous trade body events and conferences during 2018, and we chaired and presented regularly at non-performing loan and industry events and conferences throughout the year. We have a constructive and open relationship with the FCA and other European regulators. We also contributed to the Money Advice Service Debt Advice Operational Group, considering the future funding of debt advice as a result of Peter Wyman's report, and contributing a well-regarded case study indicating the benefits of free financial advice to our customers.

Arrow remains fully committed to raising standards, promoting fairer practices in the collection of debt by government and other sectors we are active in, lobbying for the Single Financial Guidance Body to be an effective successor to The Money Advice Service, and supporting better financial futures for children and adults who, as shown by our updated 2018 Debt Britain report, are so often in need of our help and support.

Supporting human rights

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

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Industry boards hold an Arrow representative

Sustainability – caring for the environment

Due to the nature of its business activities, the Group's environmental impact is considered minimal. An environmental policy is in place to increase employee awareness of environmental issues and complies with all relevant regulatory requirements.

With the acquisitions made in the last three years, the Group now has a truly European structure. This has inevitably seen an increase in international travel, but to reduce the impact of this and other travel on our carbon footprint, we actively encourage colleagues to increase the use of video and telephone conferencing facilities.

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

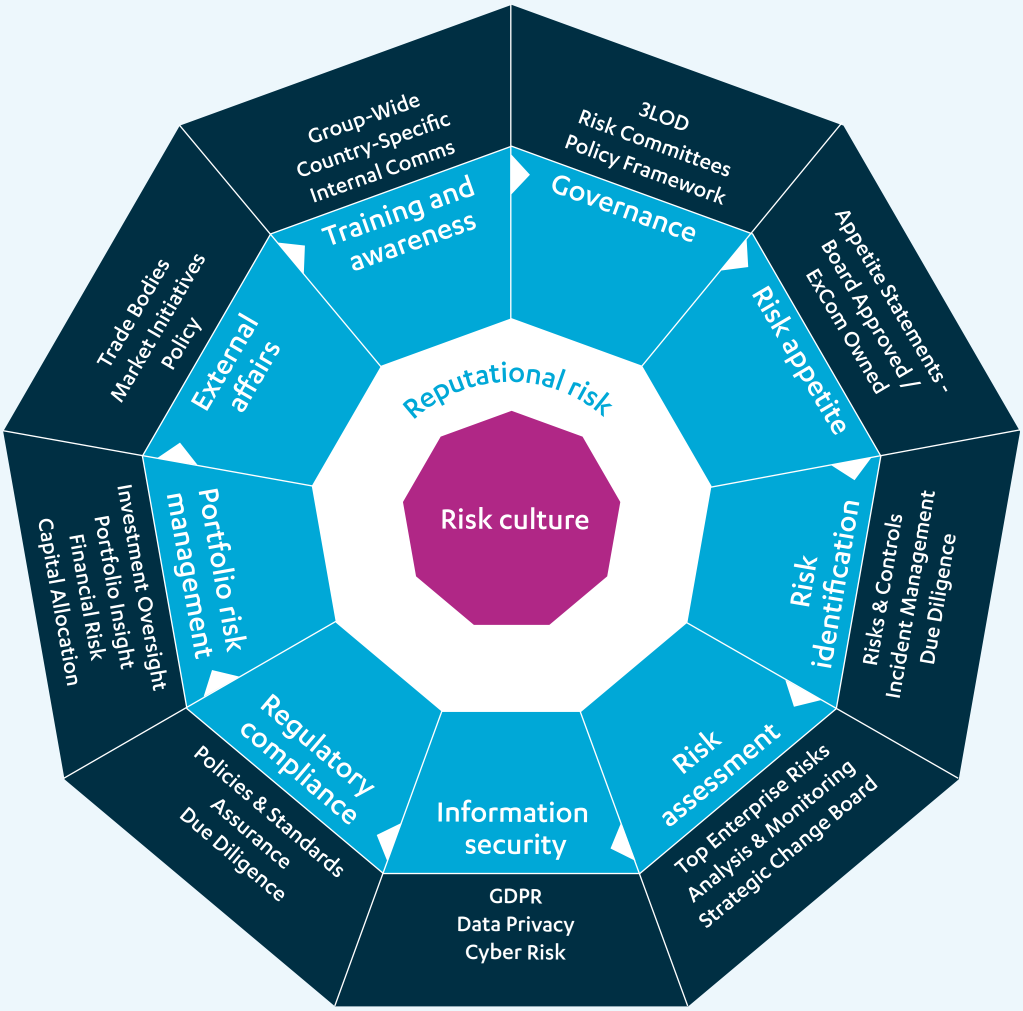
Key areas of the policy addressing the business' environmental impact are as follows:

- minimising paper usage and the purchase of recycled paper and packaging where possible;
- energy efficient office products;
- recycling office waste;
- increased use of video and conference calls and Skype for business facilities; and
- only booking travel for essential business reasons.

Reporting requirement	Some of our relevant policies	Relevant information including our impact and principal risks
Environmental matters	Environmental policy	Caring for the environment, page 41 Environmental policy and carbon reporting, pages 84 to 85
Employees	Equality and diversity policy	Employee engagement, page 36 Reward and recognition, page 37 Fairness and inclusivity, page 37 Diversity, page 65 Employee consultation, page 84
Human rights	Human rights policy	Supporting human rights, page 41 Modern slavery statement: www.arrowglobalir.net
Social matters	Corporate social responsibility policy	Building financial literacy, page 38 Supporting debt charities, page 39 Helping our local communities, page 39 Regulatory and industry engagement, page 40 Regulatory risk, page 47
Anti-bribery and corruption	Anti-bribery and corruption policy Whistleblowing policy	Bribery Act compliance, page 57 Whistleblowing, page 84
Business model	N/A	Business model, pages 12 to 13
Non-financial KPIs	N/A	Our stakeholders, pages 32-41 GhG emissions, page 85

Our approach to risk management

Robust and proportionate risk management is at the centre of our day-to-day activities and culture. It benefits our business through balanced investment and growth decisions, while protecting our customers and, ultimately, the long-term sustainability of future earnings via a disciplined approach to regulatory compliance.



"The ongoing investment in a risk management system facilitates the evolution of our risk culture."

Risk framework

The deployment, and continual improvement, of the Enterprise Wide Risk Management Framework defines a common approach across the whole organisation and embeds mechanisms to:

- Balance long-term risk and return
- Deliver within risk appetite
- Drive a robust and dynamic Risk Management culture
- Enable proportionate capacity, capability and infrastructure plans

The overall framework is underpinned by 10 Group-wide risk appetite statements covering each of our three headline risk categories; strategic, financial and operational. The governance structure is overseen by the board via a board risk committee, which is supported by the Group executive risk committee and country risk committees in the UK, Netherlands, Italy, Portugal and Ireland. Country risk committees are run independently by each country risk leader, with the Group chief risk officer in attendance. This approach allows for risks to be raised and mitigated with accountability where it is needed. The Group continues to review governance arrangements and is expanding the treasury and tax committee into an assets and liabilities committee, promoting increasingly robust and efficient oversight and control across the balance sheet, funding and income in line with our risk appetite.

Delivering our strategic priorities within stated appetite levels relies on the successful identification, assessment, management and reporting of risks and opportunities. There is an ongoing focus on the enterprise-wide top risks which could impact the business, alongside horizon scanning and monitoring of macro, geo-political and other emerging risks that may affect the business or wider sector in the future. People and infrastructure commitments have been made to support these key risk processes, thereby creating greater consistency across the Group in support of the One Arrow model. Our risk culture is a fundamental driver of success, is aligned to the Arrow Values and ensures that how we do things, as well as what we do, remains in focus.

The ongoing investment in a risk management system facilitates the evolution of our risk culture, helping to support a proactive and consistent approach to the identification and management of risks across the whole business. Notably, it provides transparency and allows for actions across all three lines of defence to be managed to completion via a single data source.

Three lines of defence

A three lines of defence model is employed in order to operationalise this approach, driving clear accountability into the first line. The country managers are, where applicable, approved people in their country, thereby maintaining the long-term perspective that we strive for.

The Group risk team maintains an overarching responsibility across key areas of the framework:

- Enterprise and operational risk
- Portfolio risk
- Country risk and compliance
- External affairs
- Cyber risk, information security and data privacy

Our three lines of defence

First line Business owners

- Day to day ownership and management of risks
- Adhere to risk framework and processes
- Responsible for control environment

Second line Risk and Compliance

- Business partner
- Develop and maintain risk framework
- Provide oversight, monitoring and assurance

Third line Audit

- Independent
- Review and challenge of first and second line

"Arrow is well positioned post-Brexit given the operating licences held by each of our regional servicers and strong ongoing relationships built across the local regulators."

The third line internal audit activity has been performed by Deloitte LLP, predominantly for UK and Group functions, with our own internal audit teams in our European businesses. As of 1 December 2018, the Group head of internal audit has been appointed to further embed a singular and proportionate approach to third line activity. Reporting to the board audit committee, the role also ensures a clear distinction between roles and responsibilities in the second and third lines.

Key considerations in 2018

Brexit

During recent periods, management have been preparing the Group for the UK's departure from the European Union, led by the Group chief risk officer and subject matter experts from both the UK business and Group functions.

While all risk categories have been reviewed, our focus is on financial impact, business continuity and our people.

With respect to financial risk, the Group has performed scenario analyses simulating the financial impact upon the Group should the UK not agree an orderly post-Brexit arrangement with the EU. The Group's 'No-Deal' Brexit scenario, modelled upon the last Global Financial Crisis (GFC) and shared at our Capital Markets Day in November, demonstrates the anticipated resilience of the Arrow book in the event of a disorderly departure from the EU by the UK. The Group's ability to withstand such an event and, indeed, thrive in the aftermath is due largely to five key factors:

- **Geographical diversification** – with circa 57% of expected receivables represented by non-UK investments, Arrow is far less exposed to the risk of any deteriorating macro-economic conditions in the UK
- **Currency diversification** – with almost 60% of 12-month collections due from euro-denominated assets, Group income is protected from a likely short-term devaluation in sterling
- **UK asset class resilience** – while the GFC highlighted some deterioration in settlement payment amounts, overall collections demonstrated strong resilience over this period
- **Funding** – Arrow is well positioned to withstand any potential volatility in credit markets, with external funding out to 2024. Meanwhile, Arrow's mix of bond issuance acts as a natural currency hedge to Group income
- **Investment business changes** – potential redeployment of capital, taking the form of either increased debt repayment or non-UK investments, ahead of improving financial returns for the UK investment business as NPL pipeline increases

Regarding business continuity, Arrow is well positioned post-Brexit given the operating licenses held by each of our regional servicers and strong ongoing relationships built across the local regulators.

With respect to our people, timely communications are provided to our teams across the UK and EU, providing targeted information on the Brexit process and encouraging engagement with the human resources team for those individuals uncertain of impact upon their personal situations.

Increasing regulatory scrutiny

With diversification comes a greater spread of regulatory relationships. While not all parts of the Group are prudentially regulated, we are fully focused on our regulatory conduct responsibilities across all platforms. This includes the FCA in the UK, the AFM in the Netherlands, Bank of Italy, Central Bank of Ireland and Bank of Portugal. The country risk and compliance director, reporting to Group chief risk officer, now has oversight of all countries with the local risk leaders reporting directly to that role. In doing so, we drive consistent culture and behaviour around the customer journey, treating customers fairly and broader regulatory compliance by blending our in-market expertise with Group-wide standards. In addition, it allows us to deploy the deep domain expertise inherent in the UK origins of the business. Given the span of regulation we interact with, we can see that other regulators are moving progressively towards the high standards of the FCA and are confident our experience stands us in good stead. We are in frequent dialogue with our regulators and trade bodies across our markets and have no regulatory fines to report.

Information security and resilience

A fundamental area of operational risk management in today's world is information security, which highlights the growing threat to all businesses of malicious cyber-attacks by external parties. Data is key to our value proposition and is therefore safeguarded for everyone's benefit including both our customers and our clients.

We baseline our minimum information security standards against the international standard of good practice for information security – ISO27001. Our framework involves identifying what our critical data is and applying strong protection controls to safeguard that data. However, we acknowledge that the cyber risk landscape is continually evolving. Hence, we advance our people, processes and technology to protect us, our customers and clients by strengthening our ability to detect, respond to, and recover from cyber threats that may cause us issues in the future. As cyber-attacks are inevitable, we are focused on deploying resources in this area and continue to build our cyber resilience.

Top enterprise risks

Top enterprise risks are identified through the risk framework and tracked via our risk committees. The table below identifies key thematic risks and mitigants, alongside an indicative risk rating based on risk framework data, management oversight and areas of business activity. These are further expanded on in principal risks and uncertainties.

Key risk	Key mitigating actions
Strategic risk	
A. Delivering long-term operational gains	• Detailed strategy defining operational initiatives
B. Pricing risk (on vs off-market opportunities)	• Clear capital allocation framework, strong origination franchise
C. Macro ('No Deal' Brexit)	• Independent country licenses, Euro bonds, stress testing
Financial risk	
D. Funding risk	• External funding out to 2024, strong cash interest coverage and underlying leverage
E. Risk/return assumptions	• Strong governance and second line oversight, underwriting track record
Operational risk	
F. Regulatory (fulfilling increasing conduct expectations)	• Local expertise, leveraging UK experience and external affairs
G. Cyber risk (information security and defence strategies)	• PwC verified approach, defined minimum standards and roadmap
H. Integration risk (ensuring acquisitions align with the Group)	• Prioritise embedding of risk governance into new businesses and align with IT infrastructure planning

More broadly, our principal risks are captured under the headline categories of strategic, operational and financial risk. The disclosures on the following page should not be regarded as a comprehensive list of all the risks and uncertainties facing the Group, instead providing a summary of those key areas with the potential for material impact. Further financial risks are discussed in note 24 to the financial statements.

Key risk	Key mitigating actions	Focus areas
Strategic risk		
A. Delivering long-term operational gains Lack of enterprise-wide alignment on strategic goals, budget management, target operating model and culture which causes a gap between plans and performance.	Long-term strategy, risk appetite and financial planning are aligned with the aim of providing greater depth of analysis and management tools for decision making. This is supported by the evolution of the organisation's capacity and capability through both acquisitive and organic growth.	The strategic plan is supported by second line activity covering risk identification and mitigation, risk appetite and capital allocation. Functional and country level forums are in place to manage performance against detailed financial and operational targets. A common set of values has been defined and rolled out across the Group and will increasingly form part of the performance management process. A culture steering committee provides senior management with a focal point to review progress of initiatives supporting our 'One Arrow' culture and behaviours.
B. Pricing risk (on versus off market opportunities) Failure to identify, establish, maintain and effectively exit strategic relationships which impacts on the operational performance and strategic execution of the Group.	In order to best leverage our market position, strong relationships have been developed with our creditor client base and investment funds in order to maintain competitive advantage through off-market transactions, minimising the amount of business that is generated via on-market auctions.	Continued focus on identification and selection of investments within risk appetite. Optimisation of investment process to ensure resources are allocated to those opportunities with returns in line with financial risk appetite while satisfying strategic and operational risk requirements.
C. Macro ('no deal' Brexit) Changes in the competitive, economic or political environment in the UK or Eurozone which could impact our ability to collect from portfolios, or competitively purchase and invest in line with our strategic objectives, consolidation or changing appetite within the sector.	Management monitor the competitive, economic and political environments in which we operate to influence future strategy. The board regularly carry out reviews of the markets and strategy, with impacts managed through our governance activities in accordance with regulatory requirements and industry best practice in each jurisdiction. The Group has continued to assess the risks associated with Brexit, including disruption within the UK political landscape. The analysis performed indicates that the Group is well positioned should the UK's exit from the EU be executed in a disorderly 'no deal' fashion.	The Group remains well-placed to capitalise on any market opportunities arising from possible disruption and our increased geographic diversification and increased exposure to euro-denominated assets provides further protection. In the event of a 'no deal' Brexit scenario, the executive management team have assessed strategic responses based upon financial modelling, supported by scenario analysis performed by the second line. The diversification of the debt portfolio in asset class and geography provides mitigation and strategic flexibility, as does the mix of sterling and euro financing.

Key risk	Key mitigating actions	Focus areas
Financial risk		
D. Funding risk The risk that the Group is unable to meet its obligations as they fall due.	Funding and liquidity risks are managed by ensuring asset receivables are funded beyond the weighted average maturity. This is supported by ongoing review and forecasting of funding requirements, application of scenario analysis and ensuring a balanced maturity profile of existing debt facilities.	Strong governance and alignment with risk appetite via the assets and liabilities committee in 2019. The business remains highly cash generative and aims to maintain a flexible cost base. Portfolio investment is largely discretionary, providing a large degree of control over working capital. In addition, appropriate currency liquidity management and scenario planning is in place.
E. Risk/return assumptions The risk of returns adverse to forecast due to inadequate portfolio purchase analysis and consequent mispricing, or inadequate portfolio performance, therefore affecting Estimated Remaining Collections (ERC).	Portfolio credit risk is managed through rigorous due diligence and controls to consider risks (including operational risks) and accurately price new investment opportunities. Newly proposed investments are subject to second line oversight by Group risk, executive review through an investment 'gate' process and in certain circumstances board approval prior to purchase execution in accordance with agreed mandate levels.	Mandate levels for 2019 designed to balance risk appetite and operational efficiency. Portfolio performance is regularly monitored by senior management and the board, subject to portfolio risk appetite limits. Management information further supports the process, with reporting metrics aligned to the relevant risk appetite statements.
Operational risk		
F. Regulatory risk Risk of non-compliance with regulatory obligations, increased regulatory scrutiny and inappropriate conduct and customer treatment.	We operate in highly regulated environments, particularly in the UK and increasingly in other European countries. Any actions leading to poor customer outcomes or customer detriment could lead to a breach of regulations, resulting in censure, financial loss and reputational damage. Poor customer outcomes or customer detriment could arise through the debt collection activities within our in-house operations or the third-party servicer network of collection agencies, whether we are collecting debt which we have acquired or whilst working on behalf of clients. We always seek to ensure we adhere to all local collections best practice and strive for regulatory parity with those counterparties that we transact with or act on behalf of.	Increased governance over our remediation activities has been established to address instances of customer detriment, including on behalf of clients. This now forms part of business as usual activity. Horizon scanning and industry body presence helps to influence best practice across the sector and ensures our internal practices and training are updated accordingly. Regulatory conduct and Treating Customers Fairly (TCF) are at the heart of our business. Employees and third parties acting on our behalf receive mandatory training, including conduct risk, handling vulnerable customers and complaints relevant to the local market and our activities.

Key risk	Key mitigating actions	Focus areas
Operational risk *continued*		
G. Cyber risk Risk of IT failures as a result of inadequate IT infrastructure, security and/or systems and applications.	The Group relies on IT systems for customer and data management including data analytics. Should these systems experience performance issues or outage through, for example, cyber-attack, our customers would be impacted, and we could experience financial loss and/or reputational damage.	Our IT systems are regularly tested, backed up and managed through a set of quality and security policies, supported by disaster recovery and business continuity plans. We are in the process of reviewing our IT infrastructure and systems across all geographies with a view to rationalising and consolidating where appropriate. This will enable us to be more efficient, by automating processes and managing data more effectively. Resilience and business continuity will be increasingly tested commensurate to the external and internal threats which exist.
H. Integration risk Risk that poorly executed processes and transactions result in financial loss and/or poor customer outcomes.	Process execution failures are managed through our incident process, with clearly defined reporting, escalation and governance in place. Incidents are assessed against a severity matrix which considers the impact from both a business, customer and third-party perspective, ensuring that we reduce these impacts where possible. We seek to learn from all instances of process failures, undertaking root-cause analysis in order that we can take appropriate action to resolve the incident and share lessons learned.	Alignment of country platforms with the Group governance framework and embedding of risk culture, especially to integrate new acquisitions. Significant plans to invest in technology infrastructure, overseen by strategic change board. The risk and control self-assessment process has been adopted by teams in each country and is being systemised to drive the next stage of risk management evolution across the Group. This will more readily identify process gaps and opportunities to enhance controls and efficiency.

Statement of viability

"The Group is highly-cash generative, receiving consistent flows of cash in the form of collections from customers."

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

The main considerations were as follows:

The Group prepares annually a five-year plan as part of its corporate planning process, which is aligned to the strategic goals approved by the board. The plan is predicated on a detailed year one budget, and extrapolated forecasts, in outer years. It is the first three years of the forecast, which command the greater focus and have the greater certainty over the forecasting assumptions used. Hence this is why the board has concluded that the viability statement should cover a period of three years.

The Group is highly cash generative, receiving constant cash flows in the form of collections from customers. Furthermore, the Group has a long-track record of generating predictable cash flows over many years. The directors have reviewed the available cash headroom of the Group and confirmed that the Group has sufficient resources to meet its future obligations as they fall due.

The principal banking covenant (event of default) of the revolving credit facility that the Group currently has in place is to maintain a leverage ratio which is below 4.4x 12-month rolling adjusted EBITDA measured in relation to the Group's secured net debt position. The directors have reviewed the Group's financial projections covering a minimum period of at least 12 months from the date of signing of these financial statements and the projections show covenant compliance. Furthermore, based on the three-year forecast and funding plan the Group will continue to be in compliance across the assessment period.

The directors have considered the Group's viability in detail over a three-year period to December 2021. This assessment is in accordance with provision C.2.2 of the UK Corporate Governance Code. It has been made taking into account the current position of the Group, the corporate planning and budget process, and the Group's principal risks as detailed in the strategic report on pages 46 to 48.

Additionally, a variety of stress tests are performed on the plan. The tests selected consider the principal risks faced by the Group. As explained in the risk management section on page 44, the Group has given significant consideration to the impact of Brexit on its future operations. As part of performing stress testing on the Group's three-year forecasts which are used as the basis of the viability assessment, a number of potential Brexit outcomes were modelled, including a hard-Brexit scenario.

Additional stress tests were also performed on specific variables in the plan, with the most material factor being future collections levels. As a result, the Group has determined that it would have sufficient headroom in a reasonably plausible collections reduction stress scenario, as a result of current headroom and where applicable, available management actions to mitigate the impact on the Group's financial position.

As a result of the analysis performed on the forecast future position of the Group, the directors have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their detailed assessment.

Approval of strategic report

The strategic report for the year ended 31 December 2018 has been approved by the board and was signed on its behalf by:

Lee Rochford
Group chief executive officer
28 February 2019

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1. Jonathan Bloomer MBE

Non-executive Chairman

Appointment
5 October 2013

Committee membership
Nomination (chair) and remuneration

Skills and experience
Jonathan has a wealth of experience in the financial services industry and has significant board experience both as an executive and non-executive. His previous positions include chief executive of Prudential Plc, Chair of the employee benefit business of Jardine Lloyd Thompson Plc, senior independent director of Hargreaves Lansdown Plc, Chair of the Practitioner Panel of the FSA, board membership of the Geneva Association and membership of the code committee of the Takeover Panel.

External appointments
Jonathan is currently Chair of Morgan Stanley International, Chair of Shepherd Direct Ltd, and director of Change Real Estate Limited.

Contribution in 2018
Jonathan led the board through a significant period of growth and diversification, highlights being the acquisition of Norfin in Portugal and the two acquisitions in Italy, being Europa Investimenti and Parr Credit, together with the continued evolution of the Group's asset management income streams. As chair of the nomination committee, Jonathan oversaw the beginning of the implementation of the diversity recommendations set out in the 2018 Corporate Governance Code.

2. Lee Rochford

Group chief executive officer

Appointment
3 January 2017

Committee membership
Disclosure, treasury and tax

Skills and experience
Before joining the Group, Lee was chief financial officer at Virgin Money between October 2013 and August 2015, seeing the group through its successful IPO and into life as a listed company. Prior to this he held a number of roles at RBS between 2007 and 2013, culminating as managing director and head of the Financial Institutions Group. A significant amount of his focus from 2008 onwards was advising banks and non-bank lenders on balance sheet restructuring after the global financial crisis and subsequent new capital regimes as well as working with funds and other buyers of assets from the lending industry. Earlier in his career, Lee was managing director of Wachovia Securities' Principal Finance team, managing director and head of European asset finance at Credit Suisse and head of Northern European securitisation at BNP Paribas. Lee has a degree in Philosophy, Politics and Economics from Oxford University.

External appointments
None.

Contribution in 2018
Lee has led the Group through a significant year of growth and financial performance in the Group's history, highlights include: total income growth of 13.4%, growth in underlying profit after tax of 13.3% and underlying return on equity now standing at 34.8%. Lee was instrumental in the implementation of the 'One Arrow' programme, which centred on investing in infrastructure and the Group's governance and core capabilities for future growth. As well as putting culture at the heart of the strategic focus of the Group, Lee has also supported the Group's new chief financial officer and chief operating officer and their integration into the management team.

3. Paul Cooper

Group chief financial officer

Appointment
1 January 2018

Committee membership
Disclosure, treasury and tax

Skills and experience
Paul has over 20 years' experience in financial services roles both in the UK and overseas. He joins Arrow from leading global insurance business Sompo Canopius Group, where he has been in a variety of senior executive roles since 2013. Previously, Paul was a partner at Ernst & Young LLP in the Financial Services division, following five years as a Finance Director at the quoted insurer, Hiscox. Paul is a Chartered Accountant, having trained at PwC.

External appointments
None.

Contribution in 2018
Paul joined the business in January 2018, as Group chief financial officer. Paul has been instrumental in delivering a strong set of results for 2018, which demonstrates the excellent progress that has been made to develop the business, in addition Paul has been pivotal in laying the foundation for future growth and enhancing shareholder value, has led financial due diligence on acquisitions, embedding them into the Group and has further strengthened the finance processes and strategic finance. Highlights of the financial results are set out in the Group chief financial officer's review on pages 26 to 29.

4. Iain Cornish

Non-executive director and senior independent director

Appointment
15 October 2013 (Iain became senior independent director on 4 June 2015)

Committee membership
Senior independent director, audit, disclosure (alternate), nomination, remuneration and risk (chair)

Skills and experience
Iain has a wealth of experience in the financial services industry having spent over 20 years in senior leadership roles, until 2011, at the Yorkshire Building Society, including eight years as chief executive officer. Iain was previously a non-executive director of the Prudential Regulatory Authority, the non-executive Chair of Shawbrook Group Plc, a non-executive director of Vanquis Bank, Chair of the Practitioner Panel of the FSA, Chair of the Building Societies Association and executive committee member of the Council of Mortgage Lenders.

External appointments
Iain is currently Chair of St James' Place Plc (and Chair of the risk and nomination committee), trustee and treasurer of Macmillan Cancer Support, and non-executive director of Leeds Building Society.

Contribution in 2018
As chair of the risk committee, during the year Iain oversaw the strengthening and

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development of the Group's risk management framework to align with the growth, scale, diversity and complexity of the business. Focus areas included the General Data Protection Regulation readiness programme, customer treatment and risks associated with external factors including Brexit and the political coalition risks in Italy. Iain also led the committee through the oversight of the risks associated with the acquisition and integration activity in relation to Norfin in Portugal, and the Europa Investimenti and Parr Credit acquisitions in Italy and the integration of Mars Capital into the Group. Iain has continued to support the Chair in his role as senior independent director.

5. Lan Tu

Non-executive director

Appointment
9 March 2015

Committee membership
Remuneration (chair), audit, nomination and risk

Skills and experience
Lan is currently chief strategy officer at Standard Life Aberdeen and previously had over 10 years of experience in senior leadership roles within American Express. Until 2015, Lan ran its Emerging Payment and Services business in Europe, Middle East and Africa; was the general manager for its UK and Nordics Merchant Services business; and previously led its International Strategic Planning group. Previous experience also includes 12 years at McKinsey & Company, working primarily in the financial services sector.

External appointments
Lan is chief strategy officer of Standard Life Aberdeen PLC and non-executive director of Kings College London.

Contribution in 2018
Lan chaired the remuneration committee throughout 2018 and oversaw the development of the Group's new remuneration policy which received strong shareholder support at the annual general meeting in May 2018. Lan also played a key role in leading the committee's review of its practices in light of the new Corporate Governance Code, which was published in July 2018 and will be effective for the Group's 2019 financial year onwards.

6. Maria Luís Albuquerque

Non-executive director

Appointment
7 March 2016

Committee membership
Audit and risk

Skills and experience
Maria Luís was Portuguese Minister of State and Finance from July 2013 until November 2015 when there was a change of government in Portugal, and Deputy Minister for Treasury from June 2011 to July 2013. She had previously held a number of senior finance/treasury positions in the Portuguese public sector, including Head of Issuing and Markets at the Portuguese Treasury and Debt Management Agency, and director of the department of financial management at REFER, the state-owned rail infrastructure company. She is an economist who also lectured in Universidade Lusíada of Lisbon from 1991 to 2006.

External appointments
Maria Luís is a Member of the Portuguese Parliament, having been re-elected in the general election of 4 October 2015.

Contribution in 2018
Maria Luís brings a wealth of international and financial expertise to the board and throughout the year provided insight and challenge to the board on the Group's geographic expansion and diversification, particularly in the context of European financial stability, preparation for Brexit and the Group's long-term funding strategy. As a member of the risk committee, Maria Luís was involved in the review of the risks associated with the acquisition and integration activity related to the Norfin Investimentos S.A. acquisition in Portugal, and the Europa Investimenti and Parr Credit acquisitions in Italy.

7. Andrew Fisher

Non-executive director

Appointment
9 December 2016

Committee membership
Audit (chair), remuneration, risk and disclosure (alternate)

Skills and experience
Andrew, a chartered accountant, was previously the finance director of Provident Financial plc for 12 years. He has spent over 20 years as a finance director of major-listed companies where he has accumulated broad international experience and a considerable depth of knowledge across a variety of consumer credit asset classes. Prior to working in the financial services industry, he was a partner with Price Waterhouse LLP.

External appointments
None.

Contribution in 2018
Andrew brings a wealth of international and financial sector knowledge and experience to the board and provides particular insight and challenge on the Group's long-term funding, accounting and tax strategies. As chair of the audit committee, Andrew has led the committee through the assessment of the integrity and effectiveness of the financial reporting process, together with the going concern review and approval of the long-term viability statement for recommendation to the board. Andrew has directed the committee through the review of the Group's approach to the implementation of IFRS 9 and the Group's move to segmental reporting and oversaw the handover from the outgoing Group chief financial officer to Paul Cooper.

8. Stewart Hamilton

General counsel and company secretary

Appointment
24 September 2013

Committee membership
Disclosure

Skills and experience
Stewart has over 16 years' experience as a solicitor in corporate and commercial law. He joined the Group from Addleshaw Goddard in 2011, where he worked principally on private company acquisitions and disposals and public fund raising, as well as gaining direct experience with the Clydesdale Bank plc and FTSE-listed healthcare company, Assura Group Limited. Stewart holds an M.A. (Hons) in economics and law from the University of Edinburgh and previously worked at Linklaters LLP and Baker & Mckenzie where he was based in London and Tokyo.

External appointments
None.

Executive management team

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1. Lee Rochford

Group chief executive officer

Skills and experience

Before joining the Group, Lee was chief financial officer at Virgin Money between October 2013 and August 2015, seeing the group through its successful IPO and into life as a listed company. Prior to this he held a number of roles at RBS between 2007 and 2013, culminating as managing director and head of the Financial Institutions Group. A significant amount of his focus from 2008 onwards was advising banks and non-bank lenders on balance sheet restructuring after the global financial crisis and subsequent new capital regimes as well as working with funds and other buyers of assets from the lending industry. Earlier in his career, Lee was managing director of Wachovia Securities' Principal Finance team, managing director and head of European asset finance at Credit Suisse and head of Northern European securitisation at BNP Paribas. Lee has a degree in Philosophy, Politics and Economics from Oxford University.

External appointments

None.

2. Paul Cooper

Group chief financial officer

Skills and experience

Paul has over 20 years' experience in financial services roles both in the UK and overseas. He joins Arrow from leading global insurance business Sompo Canopius Group, where he has been in a variety of senior executive roles since 2013. Previously, Paul was a partner at Ernst & Young LLP in the Financial Services division, following five years as a Finance Director at the quoted insurer, Hiscox. Paul is a Chartered Accountant, having trained at PwC.

3. Zachary Lewy

Founder and Group chief investment officer

Skills and experience

Zachary Lewy is the Founder and Group chief investment officer of Arrow Global. He was the CEO of the business from its inception until 2011 when Zachary changed the structure to focus on running the investment business. Prior to Arrow, Zachary was an Officer of Sallie Mae, a Director at Vertex (the BPO division of United Utilities), and a Founder and Executive Director of 7C (a U.K. BPO company acquired by Vertex). Zachary has previously chaired SCOR and was also the Chair of the UK Debt Buyers Association. He was named an Ernst and Young Entrepreneur of the Year in 2010.

Zachary is on the board of the English National Ballet, the English National Ballet School, and the organising committee for the Marie Curie Charity fundraiser. He graduated from Princeton University with a BA in Economics with Honours and a Certificate in Applied and Computational Mathematics with Honours.

4. Tracy French

Group HR director

Skills and experience

Tracy has over 25 years' experience in Human Resources with expertise in the area of transformation and change, M&A, organisational effectiveness and talent management. Before she joined Arrow, Tracy held senior roles in a number of service and retail organisations including Virgin Media, Npower and Assurant, she was also director and owner of Joint Resolutions Ltd. Tracy has a broad background of private equity, listed and privately-owned business experience from retail banking, insurance, mobile, utilities and food services. Tracy holds an Honours degree in Business from the University of Central England.

5. Dave Sutherland

Group chief operating officer

Skills and experience

Before joining Arrow, Dave was the UK Managing Director at Neilson Financial Services (NFS). Before joining NFS, he spent four years as Chief Operating Officer at TD Wealth International and was responsible for Customer Services, Global Trading, Operations, Technology, Shared Services and Business Change.

He has also previously worked as COO for Santander Cards UK, COO and Transformation Director of GE Money's UK Card Services, and Regional Director for Boots plc.

Dave has an MSc. in IT and Management from Sheffield Hallam University and an MBA from the University of Leeds.

6. Stewart Hamilton

General counsel and company secretary

Skills and experience

Stewart has over 16 years' experience as a solicitor in corporate and commercial law. He joined the Group from Addleshaw Goddard in 2011, where he worked principally on private company acquisitions and disposals and public fund raising, as well as gaining direct experience with the Clydesdale Bank plc and FTSE-listed healthcare company, Assura Group Limited.

Stewart holds an M.A. (Hons) in economics and law from the University of Edinburgh and previously worked at Linklaters LLP and Baker & Mckenzie where he was based in London and Tokyo.

7. Clodagh Gunnigle

Group chief risk officer

Skills and experience

Clodagh joins Arrow from GE Capital, where she spent 17 years in variety of senior risk roles including Chief Risk Officer of GE Capital's UK business and Chief Credit Officer across GE Capital's Global Consumer businesses. Clodagh is a qualified Chartered Accountant and has a depth of leadership experience having managed all aspects of risk including credit, conduct, operational, financial and enterprise across European portfolios.

Corporate governance report

"The board considers regular, active dialogue with its shareholders, bondholders and revolving credit facility providers is vital to the continued success of the Group."

"The board is responsible for the long-term success of the Group; its strategy, values and governance."

Compliance statement

This corporate governance report, together with the reports of the audit committee, risk committee, nomination committee and the directors' remuneration report, provides a description of how the main principles of the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in April 2016 (the 'Code') have been applied by the Group in 2018. The Code is available on the FRC website at www.frc.org.uk.

During the year, the Group was in compliance with the relevant provisions of the Code and intends to continue to comply with the requirements of the Code, which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The Group has begun working towards compliance with the new UK Corporate Governance Code published by the FRC in July 2018 (the 'New Code'). A substantial amount of the key principals are already addressed, and for any areas where we are not already compliant, we are well progressed, and we will be fully compliant in 2019.

The board currently comprises seven members, including me, as Chair, two executive directors (Lee Rochford and Paul Cooper) and four independent non-executive directors (Iain Cornish, Lan Tu, Maria Luís Albuquerque and Andrew Fisher). The board regarded me, as Chair, as independent upon my appointment and considers that I continue to meet the independence criteria.

Iain Cornish is the Group's senior independent director. The board is satisfied that Iain is independent in character and judgment and has skills and experience that meet the requirements of the role. The New Code recommends that at least half of the board of directors, excluding the chair, should be independent non-executive directors. The Group currently has four independent non-executive directors, excluding me as Chair, and therefore complies with the recommendations of the New Code.

Biographical details of all the directors are set on pages 50 to 51. The New Code recommends that all directors should be subject to annual re-election, which the board adopted at the first annual general meeting in 2014 and intends to continue this at the 2019 annual general meeting.

Shareholder, bondholder and revolving credit facility provider engagement

The board considers that regular, active dialogue with its shareholders, bondholders and revolving credit facility providers is vital to the continued success of the Group. Further details regarding these engagements are set out on page 57.

Jonathan Bloomer
Non-executive Chairman
28 February 2019

Leadership

The board

The board is responsible for the long-term success of the Group; its strategy, values and governance. The board maintains a formal schedule of matters for consideration, which include:

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

Specific key considerations of the board in 2018 also included:

- the acquisition of Europa Investimenti and Parr Credit in Italy;
- the acquisition of Norfin Investimentos S.A in Portugal;
- approval of the new five-year SMART Strategic plan; and
- approval of the sale of the non-core Belgian business.

Chair and Group chief executive officer

The positions of the Chair and Group chief executive officer are held by separate individuals and the board has clearly defined their responsibilities. The Chair is primarily responsible for the effective working of the board and ensuring that each director, particularly the non-executive directors, is able to make an effective and challenging contribution. The Group chief executive officer has responsibility for operational matters, which includes the implementation of the Group strategy and policies approved by the board.

Non-executive directors

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

Effectiveness

Time commitment

The individual letters of appointment set out the expected time commitment for non-executive directors and are available for inspection at our registered office. Other significant commitments are disclosed to the board on each occasion that these commitments change.

Undertakings are given that non-executive directors will have sufficient time to meet the requirements of the role. Details of the Chair's and other directors' commitments can be seen in the director biographies on pages 50 to 51.

Board activity

The board discharges its responsibilities through an annual programme of board and committee meetings which are held at the various operational sites of the Group. The board visited the Zenith business in Italy in March 2018, the Vesting offices in the Netherlands in June 2018 and both the Whitestar and the Norfin offices in Portugal in September 2018.

Board attendance

The board held 10 scheduled meetings in 2018. Details of board attendance by all directors who held office during the year are set out below:

Director	Eligible to attend	Attended
Jonathan Bloomer	10	10
Lee Rochford	10	10
Iain Cornish	10	10
Lan Tu	10	10
Maria Luís Albuquerque	10	10
Andrew Fisher	10	10
Paul Cooper	10	10

Ad hoc conference calls and meetings were also convened to deal with specific matters which required attention between scheduled meetings.

Continued professional development undertaken during the year

Training is offered to all new directors as necessary. The Chair, together with the Group chief executive officer and company secretary, ensures new directors receive a full, formal and tailored induction upon joining the board, including full briefing packs.

As part of a tailored induction programme, new directors receive a comprehensive induction pack which includes background information on the Group, material on matters relating to the board and its committees, and governance-related information (including the duties and responsibilities of directors). New directors meet with key advisors and members of the executive team. Visits to operational sites are arranged as well as meetings with the external and internal auditors. Ongoing training was provided during the year for existing directors. Major shareholders are welcome to meet newly appointed non-executive directors should they express a desire to do so.

Paul Cooper undertook a thorough induction process leading up to his appointment on 1 January 2018 and throughout the handover period during January and February 2018 with Rob Memmott.

Access to independent advice

An approved procedure for all directors to take independent professional advice, at the Group's expense, is in place. The committees are provided with sufficient resources, including the ability to appoint external advisors when they deem it appropriate to call upon a particular resource. All directors have access to the advice and services of the company secretary and are entitled to rely on the impartial and independent nature of such advice and services. The company secretary is responsible to the board for both the proper administration of procedures and arrangements established by the board for the conduct of its own business, and the Group's compliance with internal and external rules and regulations. The board receives agendas and supporting papers in advance of board meetings with sufficient time given for consideration of the board papers.

Evaluation of the board and committees

An independent evaluation of the board, its performance and effectiveness was carried out by SCT Consultants Limited during 2018. A questionnaire was issued to board members and senior management to review and complete. The report, following interviews with each director and member of senior management and observing the board in operation, it concluded that for a 'young' company, the board worked well, had a clear strategy and was well led by the Chair who encouraged the non-executive directors to challenge the executive directors. The report made a series of recommendations including broader engagement with stakeholders and further 'deep dive' review of the business operations. The recommendations were discussed and agreed by the board and the Chair is working with the company Secretary to monitor their implementation throughout 2019.

Iain Cornish, as senior independent director, led the meeting of the non-executive directors (without the Chair being present) to appraise the Chair's performance. No actions were considered necessary as a result of these evaluations. The board has confirmed that its performance, as well as the contribution of each of the executive and non-executive directors continues to be effective, that they continue to demonstrate commitment to their respective roles and that the board members' respective skills complement one another and enhance the overall operation of the board. The board, therefore, recommends that shareholders approve the resolutions to be proposed at the 2019 annual general meeting in relation to the re-election of the directors.

Accountability

Adequacy of risk management and internal control systems

The Code requires that the board should monitor the Group's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The board complies with this Code provision in line with the guidance published by the FRC, 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014)'. In this context, the board is responsible for, and monitors, the Group's systems of internal controls (which include financial, operational and compliance controls) and risk management systems. The risk management framework is designed to identify and mitigate risks to an acceptable level based on the Group's appetite for risk, which takes into consideration the expectations of our shareholders. The board has approved an appropriate suite of policies on risk management and internal control and seeks regular assurance that the systems of internal control are effective in managing risks in line with its articulated risk appetite. The Group has a formal three lines of defence model, with internal audit provided by Deloitte LLP together with in-house internal audit functions. During the year, the board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These are documented on pages 45 to 48 of the strategic report.

The following activities are considered to cover the most critical business processes and associated risks:

- A disciplined underwriting process, overseen by the board, with delegated authority to the executive committee for certain transactions, based on the Group's defined risk appetite. This process ensures an objective, rigorous and consistent approach to pricing and due diligence. Additionally, any transactions greater than £20 million in investment value or those that represent a new asset class are escalated to the board for approval. The processes and controls are documented in a portfolio acquisition policy.
- A strong risk and compliance framework supported by the enterprise wide risk management framework, risk committees and maintaining the Group, country and departmental risk registers.
- Regular monitoring of portfolio performance, overseen by the portfolio review committees, which considers actual versus forecast results, focusing on significant individual portfolio variances, reforecasts cash flows on a six-monthly basis, signs off the latest ERC forecast, assesses the carrying value of the portfolio assets and reviews income recognition.
- Internal controls exist over all key processes of the Group that have an impact on business operations, the treatment of customers, regulatory compliance, the Group's reputation and the financial results.

Comprehensive reporting to the audit and risk committees and the board on the above activities took place throughout the year. The audit committee carried out a review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls. In carrying out this review, the committee received a report from the Group chief risk officer and the Group chief financial officer on the Group's internal controls (including financial, operational and compliance controls) and risk management systems.

The assessment for 2018 provided a broad assessment of risk management across the Group, including the Group's operating subsidiaries in the UK, Portugal, the Benelux countries, Ireland and Italy. For 2019, there will be oversight of the respective risk management and internal control systems within the recently acquired Norfin Investimentos S.A. and Europa Investimenti.

No new or open high-risk observations were identified by the external auditor, KPMG, during the interim audit for 2018. The risk management framework provides assurance and evidence that the Group's risks are understood and are being appropriately managed. With continued growth in both new and existing geographic territories, and exposure to increasing levels of client expectation and regulatory scrutiny, the expected standards of risk management continue to increase.

The audit committee monitored the Group's risk management and internal control systems and, following a review of their effectiveness, concluded that they were adequate. There were no material failings or weaknesses identified following the committee review, however, the committee noted the need to continue to develop and embed a consistent and robust approach across the Group for all categories of risk. It was further noted that, as well as investment in second-line risk resource across the Group, the Group's culture is being matured to support effective risk management and embed the Group's values. Based on the audit committee's recommendation, the board concluded that, overall, the Group's risk management and internal control systems were adequately effective.

Non-audit services provided by the external auditor

The provision of non-audit services by the external auditor is monitored throughout the year; any such work must be authorised in accordance with the Group's non-audit services policy. Further detail of the non-audit services policy is set out on page 60.

Non-audit services performed by the external auditor during the year included audit-related services performed in relation to the issuance of the €285 million senior secured notes due 2026. Additionally, the external auditor performed a controls report for Vesting in its capacity as a service organisation and, undertook monitoring work on a securitisation issue on which a Group company acts as servicer and administration agent. The level of non-audit fees and audit related assurance services provided by the external auditor for the year can be seen in note 9 on page 109.

The audit committee has concluded that the provision of non-audit services to date has not compromised external auditor independence and objectivity.

Internal audit function

The audit committee was responsible for monitoring and reviewing the effectiveness of internal audit activities in 2018. The formerly combined audit and risk committee approved the appointment of an outsourced internal audit provider, Deloitte LLP, in October 2015, which has a Group-wide remit. A Group Head of Internal Audit has recently been appointed and there are also in-house internal audit teams at Whitestar and Vesting.

Conflicts of interest

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

Approving significant transactions and investment decisions

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

The origination team reviews approximately 150 transactions per year, with approximately 40 completed transactions. Transactions range from repeat transactions with creditors and asset classes familiar to the Group, through to more complex consortium trades with special purpose vehicle structures.

An authority matrix sets out the delegated authority to the investment committee and executive committee. The board retains authority for any new asset classes or geography, complex deals over £10 million and any transaction over £20 million. Based upon recent performance, the board will be asked to consider circa four to five transactions per annum. In 2018, the board approved, amongst others, the acquisition of Norfin Investimentos S.A, Europa Investimenti and Parr Credit.

Bribery Act compliance

The Group has anti-bribery and corruption policies and standards applicable to all its employees. There is a summary of the policy complying with the provisions of the UK Bribery Act available on the Group's website, which is in line with Ministry of Justice (MOJ) Guidance on the Bribery Act 2010 ('MOJ Guidance'). The policy contains a gifts and hospitality procedure and prohibits facilitation payments. Adequate and regular training on the policy and the principles outlined therein is provided to staff and directors.

The Group considers it to have adequate procedures within the meaning of the MOJ Guidance. The Group chief risk officer has primary and day-to-day responsibility for implementing this policy.

Remuneration

In line with the Code and the Directors' Remuneration Disclosure Regulations 2013, details on remuneration including the annual report on remuneration to be approved at the 2019 annual general meeting, can be seen on pages 66 to 81.

Dialogue with shareholders, bondholders and revolving credit facility providers

In 2018, the Group held a Capital Markets Day for institutional investors and analysts, which included presentations on results and information on the Group's activities. The capital markets presentation can be accessed on the Group's website at www.arrowglobalir.net

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

Following the announcement of the preliminary and interim results and the executive directors' presentations to analysts and shareholders, the board receives a report on institutional feedback prepared by the Group's advisors.

The Group chief executive officer and the Group chief financial officer also verbally report on their meetings with shareholders. Copies of analysts' and brokers' briefings are circulated to the board.

Annual general meeting

The annual general meeting is an opportunity for all shareholders to both vote on resolutions put forward and ask the board any questions they may have. See page 85 for information on the 2019 annual general meeting. The notice of meeting and annual report will be sent out at least 20 working days before the meeting. Separate votes will be held for each proposed resolution and a proxy count will be given in each case.

The proxy forms will provide a 'vote withheld' option. The chairs of the audit, risk, remuneration and nomination committees attend and are available to answer questions.

Disclosure committee

The disclosure committee is made up of Lee Rochford, Paul Cooper and Stewart Hamilton. The Chair of the meeting alternates between Iain Cornish and Andrew Fisher depending on the subject matter. The disclosure committee meets at such times as may be necessary or appropriate.

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

Audit committee

Details regarding the audit committee and its responsibilities can be seen on pages 58 to 61.

Risk committee

Details regarding the risk committee and its responsibilities can be seen on pages 62 to 63.

Nomination committee

Details regarding the nomination committee and its responsibilities can be seen on pages 64 to 65.

Remuneration committee

Details regarding the remuneration committee and its responsibilities can be seen on pages 66 to 81.

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

This report was approved by the board and signed on its behalf by:

Stewart Hamilton
Company secretary
28 February 2019

Audit committee report

"The committee continues to focus on those matters it considers to be important by virtue of their size, complexity, subjectivity or impact."

Dear Shareholder
I am pleased to provide a report of the audit committee's activities in 2018.

The committee continues to operate independently from the risk committee which the board, supported by the nomination committee, considered to be appropriate in light of the Group's increased geographic footprint, the complex regulatory environments in which the Group operates and the consequent impact on risk exposures. The committee does, however, continue to maintain close links with the risk committee, with the chair of each committee being a member of the other. This cross-membership facilitates effective communication between both committees. The committee also works with the remuneration committee to ensure that risk is appropriately considered when setting the Group's remuneration policy. I am also a member of the remuneration committee.

The principal issues on which the committee focused in 2018 are set out in this report. They include the measurement of purchased asset portfolios and investments based on estimated future cash flows, the valuation of goodwill, the implementation of IFRS 9 and the introduction of segmental reporting. In addition, the committee also reviewed the accounting with regards to the three corporate acquisitions completed in the year, focusing on the more judgmental areas of those transactions.

A review of the performance of the internal audit function took place during the year. Deloitte LLP was appointed as the Group's internal auditor in 2015, supplemented by the in-house internal audit teams that existed in the Portuguese and Benelux businesses. The committee concluded that Deloitte LLP's performance as internal auditor was satisfactory. A further review of the Group's entire internal audit function took place in mid-2018. This resulted in the appointment of an in-house head of internal audit, further strengthening this Group function.

In accordance with best practice and the non-audit services policy, the committee has continued to keep the provision of non-audit services under review. Fees of £397,000 were paid to our external auditor for non-audit services in the year. Further details of the work carried out can be seen on page 56. We anticipate the ratio of the Group's non-audit fees to audit fees to reduce in 2019 and to continue to be low in future reporting periods.

As part of the overall board evaluation review, a number of areas for further improvement were identified and will be acted upon. A common theme was that the anticipated benefits, following the formal separation of the audit and risk committees, had been realised. The independent review of the board effectiveness carried out during the year concluded that the audit committee functioned well.

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

Andrew Fisher
Chair of the audit committee
28 February 2019

The committee's responsibilities are set out in its terms of reference. They include responsibility for external and internal audit, financial reporting and monitoring and assessing the effectiveness of the Group's internal controls and risk management systems. The terms of reference also set out the authority of the committee to carry out its responsibilities.

The committee focuses particularly on compliance with accounting policies as well as monitoring and reviewing the Group's external auditor and internal audit function and reviewing and recommending approval of the annual report and half-year statements to the board.

The committee met five times in 2018 at the appropriate times in the financial reporting and audit cycle. The attendance of our members is shown in the table below.

During 2018, the committee also met separately with representatives of the external auditor, KPMG, and the head of the internal audit function from Deloitte without any management present.

The Code recommends that, for companies outside the FTSE 350, the audit committee comprises at least two members who are independent non-executive directors and includes one member with recent and relevant financial experience. The Code also requires the audit committee to have competence relevant to the sector in which the Group operates. In addition, the Disclosure Guidance and Transparency Rules (DTR 7.1.1) provide that at least one member of the audit committee must have competence in accounting or auditing, or both.

For meetings held in 2018, the committee was comprised of the following members:

Andrew Fisher as chair, Iain Cornish, Lan Tu and Maria Luís Albuquerque. All are independent non-executive directors and, therefore, satisfy the Code's requirements. Andrew Fisher has recent and relevant financial experience as well as having competence both in accounting and auditing, gained as finance director of Provident Financial Plc until his decision to step down in December 2018. Iain Cornish also has recent and relevant experience, having held senior positions at Yorkshire Building Society until his retirement in 2011 as well as a number of other non-executive directorships as outlined on page 50.

Arrow has an experienced audit committee where all four members have considerable expertise of the financial services sector. This can be seen from the biographies set out on pages 50 to 51 and the Group's website. Following an assessment, the board, concluded that the audit committee had competence relevant to the sector in which the Group operates. The board based its conclusion on the experience of the members of the audit committee and the practice at other listed companies.

Committee members	Eligible to attend	Attended
Andrew Fisher (chair)	5	5
Iain Cornish	5	5
Lan Tu	5	4
Maria Luís Albuquerque	5	4

Finance team

Following the appointment of Paul Cooper as Group chief financial officer at the beginning of the year, a review of the existing finance team was undertaken. This resulted in several new senior appointments designed to strengthen the finance structure to meet increasing demands on the team from the rapid growth of the Group.

Significant areas considered by the committee

Significant areas discussed with the external auditor were:

Estimation of future cash collections from purchased loan portfolios

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

Fair value of net assets acquired as part of business combinations

During the year, the Group completed three acquisitions, Parr Credit and Europa Investimenti in Italy, and Norfin in Portugal.

Value of purchased loan portfolio assets and setting of the EIR

On acquisition of purchased loan portfolios, the initial EIR is set based upon the initial best estimate of future cash flows arising from the portfolios. The committee considered the basis of assessing the EIR of portfolios acquired in the year and the judgments made by management relating to the expected life and related cash flow of portfolios. The portfolios are reviewed by management for any possible indications of impairment gains/losses at the statement of financial position date in accordance with IFRS 9 – Financial Instruments. The committee considered the value of the loan portfolios by reference to cash flow models, and considered the external auditor review on this.

Other areas of consideration by the committee

Goodwill impairment review

The year-end balance sheet includes goodwill of £263 million. The committee reviewed the carrying value of goodwill with reference to the values attributable to each cash generating unit, the expected value-in-use based on projected cash flows and the key economic assumptions related to growth rates and discount values. The committee also considered the work undertaken by the external auditor in testing the projections. The committee discussed the appropriateness of the assumptions and challenged both the discount rates and the factors used to consider whether a reasonable change in assumptions may indicate impairment. After discussion, it was satisfied that the assumptions were reasonable, and no impairment was required.

Accounting for material transactions

The Group is increasingly making equity investments in addition to purchasing portfolios in different asset classes and geographies, which can lead to new and sometimes complex transactions and accounting. The buying process is a multi-stage approach. The underwriting process includes a four-stage approval or gate process, before presentation of the credit memorandum to the credit committee. The investment committee then determines whether to recommend the purchase to the board of material or complex portfolios in advance of submission of a final bid. For material and complex transactions, the finance team are also involved throughout the process and, where appropriate, accounting papers are produced and disclosed for discussions with the external auditor and approval by the audit committee.

The committee also received reports on the Group's implementation of IFRS 9, covering the classification and measurement of the loan portfolios and determination of loan portfolio impairment provisions and approach to IFRS 16, bringing previously off balance sheet contracts on balance sheet.

Internal control and risk management systems

The committee is responsible for monitoring and reviewing the effectiveness of the Group's internal control and risk management systems. Through monitoring the effectiveness of its internal controls and risk management, the committee is able to maintain a good understanding of business performance, key judgmental areas and management's decision-making processes. The committee considered the adequacy of management's response to matters raised and the implementation of recommendations made. The committee carried out the following in 2018:

- reviewed the framework and effectiveness of the Group's system of internal control and risk management, including financial, operational and compliance controls;
- received regular updates from management on internal control improvements and requested that KPMG report on progress as part of their year-end work;
- reviewed comprehensive reports from the external auditor, KPMG, of the results of their controls testing as part of the external audit; and
- reported to the board on its evaluation of the operation of the Group's internal control and risk management system, informed by reports from Deloitte LLP as internal auditor, and KPMG as external auditor.

External auditor

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

- considered and approved the proposed materiality and audit plan prepared;
- considered the quality and effectiveness of the external audit process as part of an ongoing process of review throughout the year, with the committee seeking assurances and understanding of the auditor's approach to the audit and the quality control processes applied on a regular basis throughout the year. The committee considered the FRC Audit Quality Review of KPMG and discussed the actions taken by KPMG in light of the recommendations. The committee were satisfied with KPMG's performance and there was nothing of concern that would impact on the effectiveness of the external audit process;
- reviewed the Group's policy on the provision of non-audit services by the external auditor; and
- having considered KPMG's independence, compliance with regulatory and ethical standards, and assessed its objectivity, the committee unanimously recommended to the board that a resolution for the re-appointment of KPMG LLP as the Group's external auditor be proposed to shareholders at the 2019 annual general meeting.

The external auditor, KPMG LLP, was appointed in July 2014 following a comprehensive and competitive tender. The lead audit partner changed in 2018 in accordance with the FRC's Revised Ethical Standard 2016 rotation rules of every five years to ensure independence. The external audit contract will be tendered at least every 10 years as prescribed by EU and UK legislation, with a change of auditor after 20 years.

Both the committee and the external auditor have in place safeguards to avoid any compromise of the independence and objectivity of the external auditor. The committee considers the independence of the external auditor annually and the Group has a formal policy for the engagement of its external auditor to supply non-audit services.

The policy is designed to ensure that neither the nature of the service to be provided nor the level of reliance placed on the services could impact the objectivity of the external auditor's opinion on the Group's financial statements.

The policy precludes the appointment of the external auditor to provide certain prohibited services as set out in the FRC Guidance on Audit Committees 2016 and the FRC's Revised Ethical Standard 2016, as well as setting out where certain types of non-audit services for which the use of the external auditor are pre-approved. New EU legislation on permitted non-audit services came into effect from 17 June 2016, which introduced a permitted non-audit services fee cap of 70% of the average audit fee over a consecutive three-year period. This cap will come into effect for the Group in the financial year ending 31 December 2020.

Internal audit

Following a comprehensive thorough and competitive tender, Deloitte LLP was appointed by the board in October 2015 to provide an internal audit function to the Group.

In 2018, the committee carried out the following:

- continued to oversee the activities of the internal audit function, recognising that in the UK full FCA authorisation brings with it an even higher expectation in terms of customer outcomes and conduct risk;
- reviewed and approved the internal audit plan which defines the scope of work that internal audit function will carry out;
- reviewed results from audits performed, having scrutiny over unsatisfactory audit findings and related action plans;
- reviewed open audit actions, together with monitoring progress against the actions;
- reviewed the assurance map to ensure there is clear and comprehensive risk and assurance coverage; and
- met with the lead internal audit partner on four occasions.

During the year, the committee monitored progress of the internal audit function against that plan, ensuring that the internal audit function had sufficient resource to carry out its duties effectively. Reports on internal audit work have been received by the committee and, where necessary, appropriate actions have been recommended to the board. The results of this work, together with the committee's engagement with the management information of the Group and the executive directors, have enabled them to conclude that the statements given on pages 56 and 57 of the corporate governance report relating to the Group's systems of internal control and its management of risk are appropriate.

Audit committee terms

The terms of reference can be found on the Group's website at www.arrowglobalir.net

Revisions to the UK Corporate Governance Code 2018 (the "Code")

The Committee welcomes the revisions to the Code which applies to accounting periods beginning on or after 1 January 2019. A working party has been established to review the revisions and it is the intention of the Committee to be (where it is not already) fully compliant with the Code as soon as possible.

Separation of audit and risk committees

As stated in the audit committee chairman's statement on page 58, separate audit and risk committees were set up with effect from 25 January 2017. Each committee has its own terms of reference which can be found on the Group's website at www.arrowglobalir.net

Work of the committee

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

Reporting	• Monitor the integrity and effectiveness of the financial reporting process, including the half-year and annual results, related commentary and announcements and associated reports prepared by KPMG and make appropriate recommendations to the board • Continuing appropriateness of and changes to accounting policies and the use of estimates and judgments as noted in the Group's report and accounts • Review key judgments and estimates included in preparation of the financial statements • Going concern review and approval of longer-term viability statement for recommendation to the board • Fair, balanced and understandable concept in respect of the 2018 report and accounts • Reviewed accounting in respect of the three corporate acquisitions completed in the year • Review and monitoring of IFRS 9 implementation plan and approval of methodologies and judgments
External audit	• KPMG's annual external audit plan review and approval • Effectiveness of the external audit process and reporting to the board on how the external auditor has discharged its responsibilities • Regular meetings with the external auditor (at planning and reporting stages) with further private meetings held without executive directors and management present • Changes to the regulatory framework in respect of external audit tendering and recommending reappointment of the external auditor to the board • Consideration of management letters from external auditors and review of representation letters requested by the external auditor • Impact of new accounting standards • Reviewing policy on the supply of non-audit services by the external auditor to avoid any threats to auditor objectivity and independence and ensuring compliance with this policy • Approving the terms of engagement of the external auditor at the start of the audit and agreeing its remuneration for both audit and non-audit services
Risk management and internal controls	• Monitoring and effectiveness review of risk management and internal control systems (including financial, operational and compliance) across the Group and approving the statements to be included in the annual report regarding such effectiveness • Reviewing and approving the statements to be included in the annual report concerning the principal risks facing the Group and how they are being managed along with the assessment of the Group's prospects
Whistleblowing and prevention of bribery	• Reviewing Whistleblowing Policy • Reviewing procedures for preventing bribery and fraud
Internal audit	• Review of the Group internal audit charter which sets out the objectives, accountability and independence, authority, responsibilities, scope of work and standards and performance for internal audit • Adequacy of the internal audit programme over the Group's processes and controls, including coverage, prioritisation and allocation of resource • Updates on the activities of internal audit, including receipt of audit reports, to gain and provide assurance that the control environment continued to operate effectively • Status reports on the implementation and follow-up of internal audit recommendations • Effectiveness of the internal audit function
Other	• The effectiveness of the committee • The committee's terms of reference and work programme • FRC and governance update • Reviewing and approving a new Group tax Policy • Reviewing current and future funding structures • Considering the implications of the GDPR measures which came into force in May • The continuing threat of cyber security

This report was approved by the board and signed on its behalf by:

Andrew Fisher
Chair of the audit committee
28 February 2019

Risk committee report

"The Group continued to invest in strengthening and developing its risk management culture and framework during the year."

Dear Shareholder
I am pleased to provide a report of the risk committee's activities in 2018.

The committee operates independently from the audit committee in light of the Group's diversified geographic footprint and asset class mix, the increasing regulatory scrutiny and uncertain political environments in which the Group operates. The committee does, however, maintain close links with the audit committee, with the chair of each committee being a member of the other, facilitating effective communication between committees. The committee also works with the remuneration committee, which I am also a member of, to ensure that risk is appropriately considered when setting the Group's remuneration policy.

The Group continues to invest in strengthening and developing its risk management culture and framework in 2018, in line with the growing scale, diversity and complexity of the business. Clodagh Gunnigle, who was appointed as the Group's chief risk officer in May 2017, strengthened the risk team further in 2018 with senior appointments in information security and portfolio risk management. Additionally, existing internal expertise has been added to the risk team operating model to cover oversight of country risk and compliance and external affairs – thereby strengthening alignment across the regulatory agenda.

The committee's agenda for the year has once again been full. In addition to its primary role of reviewing the Group's risk management systems and assisting the board in its oversight of risk across the Group, the committee has overseen various activities undertaken by management to further embed the systems of risk management across the enlarged Group. The committee visited the Group's operations in the UK, Italy, the Netherlands and Portugal during the year, meeting with the local risk officers to gain deeper insight into the risks and opportunities in each business, with further visits scheduled to take place in 2019.

The risk profile of the Group has continued to change as a consequence of both the significant expansion and diversification of the Group geographically, into different asset classes, and as a result of changes in the external environment. The committee recognises the importance of continuing to invest in the risk management framework and resources of the Group to ensure it is well placed to identify, manage and mitigate the new risks which it faces. Inevitably it will take time for the risk management processes to become fully mature, but the committee is confident that through the processes we have in place we have been able to identify and manage risks appropriately. The board receives accurate and timely reports on the risk environment, which allows us to oversee risks and mitigants effectively.

During the year, the Group completed the acquisitions of Parr Credit and Europa Investimenti in Italy and Norfin in Portugal. The risk committee was actively involved in overseeing the due diligence programmes in respect of these acquisitions, and in ensuring that the respective integration programmes include adequate focus on the development of the local risk and control frameworks, so that they will meet Group standards and integrate effectively into the wider Group risk framework.

As part of the overall board evaluation review, the committee reviewed the findings in relation to its own performance. While confirming its overall effectiveness, a number of areas for further improvement were identified. These related principally to the committee ensuring that it is continuing to receive appropriate information aligned to the enhanced risk appetite framework in light of the expansion of the Group. These improvements are being addressed as part of the wider risk framework development programme.

Iain Cornish
Chair of the risk committee
28 February 2019

The committee's responsibilities and authority to carry out its responsibilities are set out in its terms of reference, which are published on the Group's website at www.arrowglobalir.net.

The committee is responsible for advising the board on the Group's overall risk appetite and strategy, and for overseeing and advising the board on the current risk exposures of the Group and the overall risk management approach. As part of this, the committee reviews the Group's risk assessment processes and methodology and its capability for identifying and managing risk. In addition, it considers material proposed transactions and reviews reports on significant incidents and position against risk appetite.

The committee met five times in 2018. The attendance of our members is shown in the table opposite. For meetings held in 2018, the committee comprised the following members: Iain Cornish as Chair, Lan Tu, Maria Luís Albuquerque and Andrew Fisher. All are independent non-executive directors.

Committee members	Eligible to attend	Attended
Iain Cornish (chair)	5	5
Lan Tu[1]	5	5
Maria Luís Albuquerque	5	5
Andrew Fisher	5	5

1. Lan Tu was only able to attend part of one meeting due to a prior commitment.

Biographies of the members of the committee are set out on pages 50 to 51.

Work of the committee

The committee has a schedule of standing items that it reviews at each meeting and a work programme including training and 'deep dive' sessions and also considers any specific matters highlighted to the committee for consideration. The committee's schedule is continuing to evolve to reflect the Group's ongoing expansion and diversification. During the period under review, the following work was carried out:

Risk management	• Updates on corporate risk assessment management activities, including risk registers and the robustness of assessment and mitigation of the principal risks facing the Group • Advising the board on the current risk exposures of the Group and future risk strategy • Approval of appropriate policies • Consideration of specific risk exposures and associated mitigations, including acquisitions, legal claims and litigation, tax status and customer outcomes • Review of half-yearly reports from money laundering reporting officer, including reports on protecting against fraud and other forms of financial crime • Review and challenge of due diligence on risk issues relating to material transactions and strategic proposals that are subject to board approval
Review of regulatory risk	• Review of the regulatory landscape and oversight of the management of regulatory issues • Review of reports from management on the treatment of customers including complaints handling, vulnerable customers, litigation and oversight of third-party servicers • Review of reports on compliance issues including oversight of compliance monitoring activity and findings • Training on specific regulatory topics to support effectiveness of the committee including forbearance, the General Data Protection Regulation and the Senior Managers & Certification Regime
Italy integration	• Oversight of the Zenith integration activity and subsequent group development and integration following acquisitions of Parr Credit and Europa Investimenti • Consideration of the risks that exist in Italy and the Group's response to them
Mars Capital integration	• Oversight of the Mars Capital integration activity
New acquisitions	• The acquisitions of Parr Credit and Europa Investimenti in Italy • The acquisition of Norfin Investimentos S.A in Portugal
Political Risks	• Consideration of the probable risks and consequences of the UK leaving the EU without an agreed settlement and a new coalition in Italy
Other	• Review of the effectiveness of the committee • Review of the committee's terms of reference and work programme • Oversight of the development of the Group-wide risk management framework

Overview of committee's activities for 2019

In 2019, the committee will work on ensuring that the acquisitions of Europa Investimenti and Norfin Investimentos S.A. are fully incorporated into the risk management framework and will continue to develop the country risk functions. The committee will work on further developing the financial risk management framework to encompass new asset classes, leverage and the funding environment, managing these through political and economic uncertainty. Finally, the committee will continue to ensure good customer outcomes in an environment of intensifying regulatory demand.

This report was approved by the board and signed on its behalf by:

Iain Cornish
Chair of the risk committee
28 February 2019

Nomination committee report

"A key focus during the year was to consider the Combined Code on Corporate Governance recommendations."

Dear Shareholder
I am pleased to provide a report of the nomination committee's activities in 2018.

The board is best placed to ensure the long-term success of the Group. The committee works with the board and plays an important role in ensuring that the Group operates effectively in the context of our strategic objectives.

The committee's primary focus this year has been reviewing the recommendations contained within the 2018 Combined Code on Corporate Governance (the "Code"). In particular the committee considered in detail the Codes requirements regarding diversity – not only at board level but throughout the Group's European workforce. A Working Group chaired by the Group HR Director, Tracy French, with representatives from across the Group has been established with a detailed remit of ensuring compliance with the Codes recommendations. Our aspirations are to go further than the Code's requirements since we recognise the vital contribution of diversity to a flourishing business.

The committee continues to monitor board and executive management succession throughout the Group to ensure the correct and appropriate balance of skills and experience, with due regard given to the benefits of diversity, and that opportunities for talent progression are identified and developed.

A key area of focus for the committee includes reviewing the composition of the board and the capabilities of all directors to ensure that board membership is sufficiently diverse and reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities. As mentioned earlier a Working Group has been established to progress this matter throughout the Group.

Further information regarding the committee's activities during the year and its roles and responsibilities are set out in the remainder of this report.

Jonathan Bloomer
Chair of the nomination committee
28 February 2019

Committee membership and meetings

I chair the nomination committee and I was regarded as independent on appointment. The committee also comprises two other independent non-executive directors, Iain Cornish and Lan Tu. I will not chair the committee when it is dealing with the matter of succession to the chairmanship. The committee is compliant with the provisions of the Code as the majority of the committee members are independent non-executive directors.

Biographies of the members of the committee are set out on pages 50 to 51.

The committee held two scheduled meetings during the year. Details of attendance by all members who held office during the year are set out below:

Committee members	Eligible to attend	Attended
Jonathan Bloomer (chair)	2	2
Iain Cornish	2	2
Lan Tu	2	2

Role

The committee's responsibilities are set out in its terms of reference. They include responsibility for considering and making recommendations to the board in respect of appointments to the board, the board committees and the chairmanship. It is also responsible for keeping the structure, size and composition of the board under regular review and for making recommendations to the board with regard to any changes necessary. The committee also manages the process for evaluating the performance of the board.

The work of the committee in 2018 has included:

- reviewing the recommendations of the 2018 Combined Code on Corporate Governance;
- reviewing the terms of reference of the committee;
- continued monitoring of the structure, size, composition and diversity of both the board and its committees;
- monitoring and overseeing the 2018 board and committee performance evaluation and recommending that an externally facilitated revaluation is conducted; and
- recommending to the board the re-election/election of the entire board at the forthcoming annual general meeting.

Succession planning

The committee has considered the recommendations published by the FRC (FRC Feedback Statement: UK Board Succession Planning Discussion Paper (May 2016)) and recognises the importance of strategic, thoughtful and practical succession planning as a key driver in maximising board effectiveness and as an important contributory factor to the Group's long-term success. The committee has taken an active interest in talent management and acknowledges that internal candidates for senior management and board positions should be given a broader experience of the business, with greater exposure to the board and boardroom experience. The committee supported the board in its initial review of talent progression opportunities across the Group's senior leadership team and will continue to work with the relevant internal parties, and external executive search providers where appropriate, to enhance the succession planning programme throughout 2019.

Diversity

The board recognises the benefits that diversity can bring and seeks to recruit directors from different backgrounds with a range of experience, perspectives, personalities, skills and knowledge, in line with the Group's equality and diversity policy. The board supports, in principle, the recommendations outlined in the Hampton-Alexander Review published in November 2016, updated in 2017, particularly in improving the representation of women both at board level and below in senior leadership positions. The Group is a member of the international women's network, 'Women on Boards', which all senior female leaders have been invited to join.

A key policy statement of the Group's equality and diversity policy is to promote equality of opportunity for all. The policy is applicable to all colleagues within the Group and is made available to all colleagues. Each colleague is responsible for upholding the policy and the roles and responsibilities of the board, the executive committee, the human resources department, management and colleagues are clearly defined.

The committee and the board have a fundamental obligation to ensure that appointments are of the best candidates, selected on merit against objective criteria. Subject to this, the availability of suitable candidates and compliance with the requirements of the Equality Act 2010, the board is committed to strengthening female representation at board and senior management level. The board has set a 30% female representation in leadership target to be achieved by the end of 2020. Although the Group is currently outside the FTSE 350, the committee keeps under review the Hampton-Alexander Review recommendations for female board representation in relation to FTSE 350-listed companies as well as recommendations in relation to improvements on under-representation on the executive committee and on the layer immediately below for such companies.

The board currently has two female non-executive directors, Lan Tu and Maria Luís Albuquerque, who together represent 29% (2017: 29%) female board membership, just below the 33% target recommended by the Hampton-Alexander Review for FTSE 350-listed companies. The executive committee has two female members, who represent 29% (2017: 29%) of the committee's membership.

Board evaluation

Although the Group currently sits outside the FTSE 350 and is therefore not required to undertake an externally facilitated board evaluation, on the recommendation of the committee, an externally facilitated review took place in 2018. This focused on the effectiveness of the board and its committees was carried out by SCT Consultants Limited. The review concentrated on areas such as the operation of the board, strategic development, culture and engagement. Development areas to be actioned in 2019 include:

- identifying and developing 'top talent' in the business as a whole;
- ensuring that each board and its committee has a structured business plan to ensure that we achieve our Group strategy; and
- consider ways of encouraging stakeholder feedback, particularly employees.

The board, based on the outcome of the evaluation exercise, concluded that the committee was considered to be effective in fulfilling its role throughout 2018.

This report was approved by the board and signed on its behalf by:

Jonathan Bloomer
Chair of the nomination committee
28 February 2019

Directors' remuneration report

"We remain committed to a responsible approach to executive pay."

Dear shareholder

The report complies with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), the 2016 version of the UK Corporate Governance Code ('the Code') and the Financial Conduct Authority's Listing Rules.

On behalf of the board, I am pleased to present our directors' remuneration report for the year ended 31 December 2018. Our directors' remuneration policy was approved by shareholders at the 2018 annual general meeting and we were delighted with the strong level of shareholder support reflected in over 95% of the votes being cast in favour of it, along with over 95% of the votes being cast in favour of the annual report on remuneration. In 2019, we will apply the policy approved at the 2018 annual general meeting, and further information is set out across and on pages 77 to 81. At the end of this statement, I have summarised how key aspects of our directors' remuneration policy relate to our overall corporate strategy.

Annual statement

Our current directors' remuneration policy was approved by shareholders at the 2018 annual general meeting, no changes are proposed to the policy and, accordingly, the intention is to next present this to shareholders for approval at the 2021 annual general meeting. Therefore, this report is split into four sections: our remuneration at a glance for our executive directors and wider workforce, the annual report on remuneration, the 2018 LTIP awards and then an extract from the directors' remuneration policy approved at the 2018 annual general meeting. The directors' remuneration report (excluding the directors' remuneration policy) will be subject to an advisory vote at the 2019 annual general meeting.

Performance and variable pay outcomes for the year ended 31 December 2018

As described in the strategic report, the Group continues to perform strongly, delivering profitable earnings growth and strong progress against our strategy of diversifying by geography, asset class and income stream, while driving strong returns on investment, as summarised below:

Underlying profit after tax
Increased by 13.3% to £64.1 million

Underlying basic EPS
Increased to 36.6p, representing growth of 13.0%

Underlying ROE
34.8% underlying ROE delivered

Strategic developments
The executive directors and their teams have successfully integrated the Zenith acquisition, and the acquisition of the Mars Capital business in UK and Ireland. In addition, acquisitions continued during 2018 with Europa Investimenti and Parr Credit in Italy, and Norfin Investimentos S.A, all requiring the time and commitment of the executive teams to integrate these companies into the Group.

Taking into account the performance achieved during the year, the executive directors have earned annual bonuses as follows:

- Lee Rochford: £505,601; and
- Paul Cooper: £260,000.

Further rationale for these payments can be found on pages 69 to 71.

33% of Paul Cooper's bonus will be delivered in the form of deferred shares. Deferral will apply to 40% of the bonus earned by Lee Rochford recognising his greater bonus opportunity, as described in the 2017 directors' remuneration report. Before approving the level of annual bonus for 2018, the remuneration committee sought the views of the Group chief risk officer and the risk committee chair on the effectiveness of the executive's management of conduct and risk during the year.

LTIP awards granted in 2016 are scheduled to vest in April 2019 based on performance to 31 December 2018 assessed against earnings per share (EPS) as regards 50% of each award, underlying return on equity (ROE) as regards 25% of each award and total shareholder return (TSR) as regards 25% of each award. Neither Lee Rochford nor Paul Cooper participates in these LTIP awards.

As set out in the 2017 directors' remuneration report, the Company agreed to compensate Paul Cooper for awards he forfeited as a result of his resignation from his former employer. These buy-out awards are subject to continued employment to the vesting date and malus/ clawback provisions consistent with the Company's ordinary variable remuneration arrangements and to a specific clawback provision if Paul Cooper gives notice before 1 January 2020. The total value of these awards is £426,254 as at the date of grant are shown in the single figure table of remuneration on page 69. However, these awards vest over the period April 2018 to April 2021 reflecting the vesting/payment dates of the awards forfeited by Paul Cooper.

Executive director changes

Group chief financial officer

Rob Memmott stepped down as Group chief financial officer and as a director of the Company on 1 January 2018 and left the business on 28 February 2018. Paul Cooper joined the Company as Group chief financial officer on 1 January 2018. The remuneration arrangements relating to Paul joining the business and Rob leaving the business were set out in the 2017 directors' remuneration report; where relevant, further information is included in this report.

Looking forward to 2019

In line with our remuneration policy, Lee Rochford's salary will be increased by 3% in line with the average increase across the wider workforce, to £450,883 with effect from 1 March 2019. Paul Cooper's salary was set at £365,000 on his appointment in January 2018 and will not be increased in 2019.

No changes to the policy or the overall structure of remuneration are proposed for 2019.

To increase alignment with the Group's updated five-year strategy to further develop the quality of our earnings and deliver consistently strong returns for our shareholders, for LTIP awards to be granted in 2019, underlying Free Cash Flow (FCF) is being introduced as a performance measure. The board agreed to remove EPS as a core financial metric underpinning our five-year strategic plan in October 2018. Therefore, the committee is of the view that while underlying ROE and relative TSR remain relevant and appropriate LTIP performance metrics, EPS is no longer aligned with our forward looking strategy. 25% of the award will be based on underlying FCF, 25% will continue to be based on relative TSR and the underlying ROE element will increase to 50%. Underlying FCF captures the profitability of the business while also reflecting the cost to collect and cost effectiveness of the Group's activities. Strong underlying FCF performance enables the Company to invest, pay dividends and enables the business to manage the equity base and leverage. It is a measure that will be transparent for our colleagues, directors and shareholders.

In line with the directors' remuneration policy approved at the 2018 annual general meeting, subject to the continued strong performance of the Group, the committee's stated intention was to increase the annual LTIP opportunity from 150% of salary to 200% of salary for Lee Rochford and to 175% of salary for Paul Cooper in 2019. The Group continues to perform strongly, delivering profitable earnings growth and strong progress against our strategy of diversifying by geography, asset class and income stream, while driving strong returns on investment. The committee has carefully considered Arrow's consistently strong performance and investor confidence in the delivery of our strategy together with the individual performance and contribution of the executive directors. Accordingly, the committee strongly believes that it is appropriate to increase the LTIP for Lee Rochford to 200% of salary in line with the proposal set out in the remuneration report last year. We have decided to defer increasing the LTIP award for Paul Cooper until 2020. Therefore, his LTIP award will be 150% of salary for 2019 with the intention that this will be increased to 175% of salary for the 2020 LTIP, subject to the continued strong performance of the Group. The whole of the awards will be subject to a two-year holding period following the end of the performance period.

As disclosed in the remuneration report last year, we have reviewed the level of stretch in the performance targets to ensure that they are commensurate with the increased opportunity and have increased the threshold underlying ROE target from 20% to 24%. Furthermore, the amount that is paid for threshold performance (as a percentage of salary) will not be increased. This will ensure executive directors do not receive more for delivering threshold performance, notwithstanding the proposed increase in the LTIP maximum in 2019.

No changes to the annual bonus plan are proposed for 2019. Lee Rochford's bonus opportunity for 2019 will be 140% of salary and Paul Cooper's bonus opportunity will be 125% of salary.

The new Corporate Governance Code published in 2018 (the 'Code') introduced a number of new provisions relating to remuneration. While we currently comply with the updated Code in a number of areas, the committee will be considering its approach to compliance in the remaining areas during 2019, including developing a post-employment shareholding policy. We will report upon these provisions in the Group's 2019 Annual Report and Accounts as required by the Code.

Committee evaluation

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

We remain committed to a responsible approach to executive pay. Overall, given the Group's performance over the one and three-year periods ended 31 December 2018, we believe that the remuneration of the executive directors in respect of 2018 continues to reflect our success in the delivery of our strategy and the drive for profitable and sustainable long-term growth for our shareholders. The following pages describe in further detail how we have implemented our remuneration policy in respect of 2018, together with our plans for 2019.

Lan Tu
Chair of the remuneration committee
28 February 2019

Remuneration at a glance

We take a disciplined approach to the implementation of our remuneration policy to ensure that our remuneration framework rewards the right behaviours and supports the strategic goals of the Group. We have set out below an overview of how our approach to remuneration supports the strategic objectives of the business in relation to our executive directors and our wider workforce.

Annual bonus performance metrics	We balance profit growth with other key financial and non-financial targets and specific personal objectives linked to our strategic goals. The strategic goals are; protecting and enhancing our market-leading position, diversifying the business, delivering strong risk-adjusted investment returns and developing our customer proposition. We ensure that the strategic goals are specific, measurable and fairly assessed.
Annual bonus deferral	For our executive directors a proportion of any annual bonus is deferred into shares to ensure that executive directors consider the longer-term impact of decisions and the sustainability of the business.
LTIP	The LTIP is designed to encourage behaviours which facilitate the delivery of sustainable growth of the business, while delivering value to stakeholders and promoting the long-term success of the Group. For 2019: • 50% is based on underlying ROE, which is a key driver of shareholder value and reflects the importance of purchasing debt of a suitable quality with an appropriate return; • 25% is based on underlying FCF, this is linked directly to the cash generated from our operations, demonstrating the shareholder value created from the asset portfolio; and • 25% is based on TSR, maintaining a link to share price performance and assessing our performance to that of peers, namely TSR currently relative to the constituents of the FTSE 350 Index (excluding investment trusts). In addition to the performance conditions outlined above, awards will vest only to the extent that the committee considers the vesting in accordance with those performance conditions reflects the underlying financial performance of the company over the performance period. In line with best practice, LTIP awards granted to our executive directors in 2019 will be subject to a two-year holding period following the end of the performance period, further aligning the interests of the executive directors with those of shareholders.
Risk	Variable remuneration targets are set at levels which reward high performance, but which do not encourage inappropriate business risk. Annual bonus payments determined by reference to the performance measures are subject to a review of the executive directors' management of conduct and risk during the year. The vesting of LTIP awards is subject to a further underpin based on an assessment of risk management throughout the performance period. All executive director annual bonus and LTIP awards are subject to both malus and clawback provisions.
Shareholding requirements	Shareholding guidelines apply to all executive directors to align their long-term interests with those of shareholders. These guidelines require each executive director to acquire shares with a value equal to 200% of salary. During the course of 2019, we will formulate our policy on post-cessation shareholding requirements for the executive directors in line with the updated Code, and we will report on this in the 2019 directors' remuneration report.

UK wider workforce remuneration

The committee is well placed to take into account wider workforce remuneration and related policies when reviewing the remuneration policy for executive directors.

Our remuneration structure is consistently applied throughout our workforce. The approach to annual bonus performance is equally split to account for financial performance and individual performance against our strategic objectives. Remuneration outcomes were in line with the core principles of our remuneration policy and an overview of the outcomes was presented to the committee.

Annual report on remuneration

Directors' remuneration (audited information)

Details of the executive directors' remuneration are as follows:

	Salary and fees £000		Taxable benefits[1] £000		Performance-related bonus[2] £000		Long-term incentives[3] £000		Pension-related benefits[4] £000		Total compensation £000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Director												
Lee Rochford	**436**	424	**4**	2	**506**	452	**–**	N/A	**65**	64	**1,011**	942
Paul Cooper[5]	**365**	N/A	**3**	N/A	**260**	N/A	**426**	N/A	**55**	N/A	**1,109**	N/A
Former director												
Rob Memmott[6]	**53**	318	**–**	3	**–**	289	**–[7]**	465	**8**	46	**61**	1,121
Total	**854**	742	**7**	5	**766**	741	**426**	465	**128**	110	**2,181**	2,063

1. Private medical and dental cover.
2. Performance-related bonus is the value of the bonus earned in respect of the year, including the value of the deferred shares. Further information in relation to the performance conditions applied for 2018 is provided on pages 69 to 71.
3. Long-term incentives reflect the value of the awards vesting by reference to performance where the performance period ended in the relevant year. In the 2017 directors' remuneration report, the value of the LTIPs scheduled to vest in June 2018, with performance criteria ended in 2017, was calculated, in accordance with the applicable regulations, by reference to the average share price over the three-month period ending 31 December 2017 (£4.0687). In the table above, these values have been restated to reflect the share price on 14 June 2018, the last dealing day before the date of vesting on 15 June 2018 (£2.67). Neither Lee Rochford nor Paul Cooper participated in the LTIP awards granted in 2016 which are scheduled to vest in April 2019 based on performance to 31 December 2018. The 2018 LTIP awards for Paul Cooper relate to the value of the buy-out awards granted on 18 June 2018 (based on the share price on the date of grant of £2.605). These buy-out awards are subject to continued employment to the vesting date and malus/clawback provisions consistent with the Company's ordinary variable remuneration arrangements and to a specific clawback provision if Paul Cooper gives notice before 1 January 2020. They are therefore disclosed above based on the value of the awards as at the date of grant. However, these awards vest over the period April 2018 to April 2021 reflecting the vesting/payment dates of the awards forfeited by Paul Cooper. Further details are set out on page 72.
4. Each executive received a monthly cash allowance of 15% of salary in lieu of participation in a pension arrangement. The cash allowance is not included in the annual bonus or LTIP allocation.
5. Paul Cooper was appointed as Group chief financial officer on 1 January 2018.
6. Rob Memmott stepped down from the board on 1 January 2018. Payments made to him in 2018 are described on page 74.
7. Rob Memmott's LTIP award granted in 2016 and 2017 lapsed in 2018 when he left the business.

Additional disclosures

2018 annual bonuses (audited information)

For 2018, Lee Rochford was eligible for an annual performance-related bonus of up to 140% of salary and Paul Cooper was eligible for a bonus of up to 125% of salary, subject to meeting stretching performance targets. These targets are:

- 50% of the bonus was based on Group underlying profit after tax ('financial element'); and
- 50% was based on a balanced range of financial, strategic, personal and other key Group objectives ('strategic business/personal objectives').

The bonus pay-outs for 2018 are detailed in the table below. Further details on how the elements of the bonuses have been earned are shown below:

Directors

The directors who served during the financial year were as follows:

	Financial element out-turn	Strategic business/personal objectives out-turn			Total bonus out-turn		
Director	Monetary out-turn based on 75% of opportunity vesting for financial element	Overall performance rating	% of opportunity vesting and corresponding monetary out-turn	Monetary out-turn for strategic business/personal objectives element	% of salary	% of maximum opportunity	£
Lee Rochford	£229,819	Above and beyond	90%	£275,783	115.5%	82.5%	505,601
Paul Cooper[1]	£119,766	Exceeds expectations	61.5%	£140,234	71.23%	57%	260,000

1. For Paul Cooper, the committee exercised discretion to reduce the monetary out-turn based on 75% of the opportunity vesting for the financial element from £171,094 to £119,766.

For Lee Rochford, 40% of the bonus earned will be deferred into shares for a period of three years. For Paul Cooper, 33% of the bonus earned will be deferred into shares for a period of three years.

Financial element – out-turn

The financial element of the 2018 annual bonus was based on achieving underlying profit after tax, in accordance with the schedule on the next page.

20% of the financial element of the bonus vests at threshold performance. 50% of this element vests for on-target performance. Taking into account the level of stretch built into achieving an underlying profit after tax of £64.1 million (which represents year-on-year growth of 13.3% on prior year underlying profit after tax of £56.6 million, and being an over 80% increase on our 2015 underlying profit after tax of £35.4 million), 75% of the financial element vests for achieving this stretching target.

For the maximum to vest under the financial element an underlying profit after tax of £67 million would need to have been achieved.

	Threshold[1]	Target[1]	Stretch Target[1]	Maximum vesting target[1]	Actual[2]
Performance level (£ millions)	59.2	61.6	64	67	64.1
Vesting (% of financial element)	20	50	75	100	75

1. Straight-line vesting between the points.
2. This is underlying profit after tax

Strategic business/personal objectives element – out-turn

This element of the bonus was measured on achievement of clear personal objectives and targets which supported the strategic objectives of the business.

The following factors were considered in the round by the committee in determining the executive directors' level of performance in 2018 and out-turn of the strategic business/personal objectives element:

- the relative importance and impact of each of the objectives;
- performance against the objectives, taking into account external market influences over the course of 2018; and
- the views of the Group chief risk officer and the risk committee chair on the effectiveness of the executive's management of conduct and risk during the year.

The objectives, targets and relevant achievements are summarised below.

Objective	Achievements
Financial	
• Maintain credit rating of at least BB- to maintain weighted average cost of debt	• Ba3 rating maintained from Moody's • Weighted average cost of debt remains below 4%
• Progressive dividend policy to budget	• Total 12.7p dividend for 2018 proposed, which is at the top end of our guided pay-out ratio and a 12.4% uplift on 2017
• High-teens underlying basic EPS growth	• Underlying basic EPS continues to perform well and grew by 13.0% in 2018
• Deliver underlying ROE in excess of 25%	• Underlying ROE similarly performed well and delivered 34.8% in 2018
• Build asset management revenue in line with strategic objective	• Third-party asset management income was ahead of budget and 28.9% up on 2017
• Deliver against our collection targets	• Collections were ahead of target
• Management of cost base according to budget	• The collection activity costs were below budget, however the other operating expenses ended the year above the reforecast
Market	
• Develop capability in secured and unsecured assets in all our core markets. Build further presence in western Europe and continue collaboration with credit funds in line with strategy	• Italy continues to represent a significant market opportunity for the Group. Following the Zenith acquisition in April 2017 our operations were further strengthened by the acquisitions of Europa Investimenti and Parr Credit. The Portuguese operation was further strengthened with the acquisition of Norfin in December 2018. Entry into the Irish secured market was a key step. Collaboration and expansion of relationships with credit funds has continued in 2018
• Invest in line with Group purchasing target, according to the agreed purchasing profile and returns hurdle	• Group purchasing target achieved, which was broadly in line with returns hurdles, reflecting the diversified asset base and high-quality books of debt acquired
• Develop asset management strategy	• The focus on driving gross AMS income to 50% of gross total income and increasing EBITDA margins towards 25% through a shift in mix has been well received

Strategic business/personal objectives element – out-turn *continued*

Objective	Achievements
Regulator/society	
• Develop and maintain constructive and transparent regulatory relationships across all key markets	• Positive progress has been made within the year in all countries, under-pinned by our commitment to transparent and proactive communication
• Further evolve risk culture	• Strong progress in many areas. We have established comprehensive governance, improving transparency and consistency of risk reporting
• Develop customer behaviour thought leadership across all countries (e.g. Debt Britain)	• A refreshed Debt Britain report was issued in Q3 2018 together with media engagement led by the Group chief executive officer, which has been positively received
• Create better financial futures through work in the community	• In 2018, the Group began working with Junior Achievement Europe to help provide education programmes for entrepreneurship, work readiness and financial literacy
Customer	
• Execute on plans for operational excellence	• The "BigThree" initiatives of Lean Automation and Digital Transformation, Cross Group Procurement and Technology Synergy are underway
• Continue to develop and build market leading digital strategy	• Good progress is being made across the Group in extending our digital footprint. Ongoing IT change programmes across the Group are also expected to deliver further improvements in 2019
• Develop and execute plans to put the customer at the heart of the business	• Country initiatives are taking shape such as the UK customer experience forum
People	
• Create One Arrow culture and embed 'building better financial futures' and Group Values	• Ongoing focus on culture reinforced through a programme of events including a Group-wide leadership programme and CSR plan. We have affiliated with Junior Achievers Europe to help us focus and coordinate activities
• Embed the Group country structure, with effective M&A integration	• Group-country structure now in place
• Talent strategy to attract, retain and develop with attention on key/early talent and gender	• In 2018, we continued to implement a top talent development programme, 'Succeeding Together', with participants drawn from across the Group. We continue to work towards our 'Women in Management' agenda, with a target of 30% female representation in leadership roles by the end of 2020, which has seen progress across the management levels
• Employee engagement levels of at least national benchmark across the Group	• Group Values and recognition schemes have been communicated to all parts of the Group. Work continues on the areas of focus determined by the results of the Group-wide engagement survey undertaken in December 2017

LTIPs vesting by reference to performance in 2018 (audited information)

Neither Lee Rochford nor Paul Cooper has an LTIP award vesting by reference to performance in 2018. Rob Memmott's LTIP award granted in 2016 and which was subject to a performance condition assessed to 31 December 2018 lapsed on his departure from the business as referred to in the 2017 directors' remuneration report.

Non-executive directors' remuneration (audited information)

Details of the non-executive directors' remuneration are as follows:

	Salary and fees £000		Taxable benefits £000		Performance-related bonus £000		Vesting remuneration £000		Pension-related benefits £000		Total compensation £000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Director												
Jonathan Bloomer	**170**	170	**–**	–	**–**	–	**–**	–	**–**	–	**170**	170
Iain Cornish	**75**	75	**–**	–	**–**	–	**–**	–	**–**	–	**75**	75
Lan Tu	**65**	65	**–**	–	**–**	–	**–**	–	**–**	–	**65**	65
Maria Luís Albuquerque	**55**	55	**–**	–	**–**	–	**–**	–	**–**	–	**55**	55
Andrew Fisher	**65**	65	**–**	–	**–**	–	**–**	–	**–**	–	**65**	65
Total	**430**	430	**–**	–	**–**	–	**–**	–	**–**	–	**430**	430

There were no fee increases for non-executive directors in 2018.

2018 LTIP awards (audited information)

The table below outlines LTIP awards made to executive directors during 2018:

Date of grant	Participant	Basis of award	Number of shares	Face value of award £[1]	Performance period
27 June 2018	Lee Rochford[1]	150% of salary	263,598	656,625	1 January 2018 to 31 December 2020
27 June 2018	Paul Cooper[2]	150% of salary	219,791	547,500	1 January 2018 to 31 December 2020

1. Based on the average closing middle market quotation price during the five business days ending on the business day before the award date being £2.491.
2. Paul Cooper was also granted a tax advantaged option over 12,043 shares at a per share exercise price of £2.491. The option is subject to the same performance conditions as apply to the LTIP award. If the tax advantaged option is exercised at a gain, the number of shares that may be acquired under the LTIP is reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award is not increased by the grant of the tax advantaged option.

The performance conditions attaching to the 2018 LTIP awards are the same as for the awards granted in 2017. The 2018 LTIP awards will not receive a dividend equivalent.

Measure and alignment with strategy and shareholder value creation	Weighting (% of award)		Performance target	Vesting level (% of maximum)
Growth in underlying basic EPS	50%	Threshold	10% per annum	25%
		Maximum	20% per annum	100%
Underlying ROE (three-year average)	25%	Threshold	20%	25%
		Maximum	30%	100%
TSR relative to FTSE 350 (excluding investment trusts)	25%	Threshold	Median	25%
		Maximum	Upper quartile	100%

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

In addition to the performance conditions outlined above, awards will vest only to the extent that the committee considers the vesting in accordance with those performance conditions reflects the underlying financial performance of the company over the performance period.

In addition to the LTIP awards, the Company also granted Paul Cooper awards to compensate him for awards he forfeited as a result of his resignation from his former employer. The details of the buy-out awards are set out in the 2017 directors' remuneration report, and they were formally granted on 18 June 2018. These buy-out awards are subject to continued employment to the vesting date and malus/clawback provisions consistent with the Company's ordinary variable remuneration arrangements and to a specific clawback provision if Paul Cooper gives notice before 1 January 2020. The total value of these awards £426,254 as at the date of grant are shown in the single figure table of remuneration on page 69. However, these awards vest over the period April 2018 to April 2021 reflecting the vesting/payment dates of the awards forfeited by Paul Cooper.

50% of the first award over 36,178 shares representing the value of the 2017 bonus that Paul Cooper forfeited vested in April 2018 and was exercised on 18 June 2018.

Details of the outstanding awards are included in the 'executive directors – share plan interests' table on page 73.

Directors' shareholdings (audited information)

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

Following shareholder approval of the new directors' remuneration policy at the 2018 annual general meeting, the shareholding requirement has increased to 200% of salary for all executive directors. Until such time as the required holding has been achieved, an executive director must retain 50% of all shares acquired under the LTIP or deferred bonus arrangements (in each case net of tax).

The actual shareholdings of our executive directors in office at the end of 2018 are: 111% of salary for Lee Rochford and 56% of salary for Paul Cooper.

a. Executive directors – share ownership

Director	Shares owned	Shares owned – value £000[1]	% of salary[2]
Lee Rochford	279,492	485,198	111
Paul Cooper	118,654	205,983	56

1. Based on the closing share price on 31 December 2018 of £1.736.
2. Based on the salary applying as at 31 December 2018.

b. Executive directors – share plan interests

Director	Plan	Award date	Number of shares at 1 January 2018	Granted during the year	Lapsed during the year	Exercised during the year	**Number of shares at 31 December 2018**	Status	Performance period
Lee Rochford	LTIP	31 March 2017[1]	184,248	–	–	–	**184,248**	Unvested, subject to performance condition	1 January 2017–31 December 2019
	LTIP	27 June 2018	–	263,598	–	–	**263,598**	Unvested, subject to performance condition	1 January 2018–31 December 2020
	DSBP	26 March 2018	–	43,205	–	–	**43,205**	Unvested[3]	N/A
	SIP[2]	–	580	1,394	–	–	**1,974**	Unvested	N/A
Paul Cooper	LTIP	27 June 2018[4]	–	219,791	–	–	**219,791**	Unvested, subject to performance condition	1 January 2018–31 December 2020
	Buy-out award[5]	18 June 2018	–	18,089	–	18,089	**–**	Vested[6]	N/A
	Buy-out award[5]	18 June 2018	–	31,862	–	–	**31,862**	Unvested, subject to continued employment[7]	N/A
	Buy-out award[5]	18 June 2018	–	70,098	–	–	**70,098**	Unvested, subject to continued employment[8]	N/A
	Buy-out award[5]	18 June 2018	–	25,491	–	–	**25,491**	Unvested, subject to continued employment[9]	N/A
	SIP[10]	–	–	1,068	–	–	**1,068**	Unvested	N/A

1. On the same day, Lee Rochford was granted a tax advantaged option subject to the same performance conditions over 8,670 shares at an exercise price of £3.46 per share on the basis that if the tax advantaged option is exercised at a gain, the number of shares that may be acquired under the LTIP is reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award is not increased by the grant of the tax advantaged option.
2. Pursuant to a regular monthly instruction, Equiniti Share Plans Trustees Limited acquires Partnership shares using a fixed contribution from Lee Rochford's gross salary. The Company gives Lee Rochford one matching share for each Partnership share bought on his behalf. The matching shares are subject to a three-year forfeiture period. 152 shares have been allocated to Lee Rochford under the SIP, from 1 January 2019 to 27 February 2019.
3. This award is scheduled to vest on 26 March 2021.
4. On the same day, Paul Cooper was granted a tax advantaged option subject to the same performance conditions over 12,043 shares at an exercise price of £2.491 per share on the basis that if the tax advantaged option is exercised at a gain, the number of shares that may be acquired under the LTIP is reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award is not increased by the grant of the tax advantaged option.
5. These are the buy-out awards which were granted to Paul Cooper as disclosed on page 71 of the 2017 annual report and accounts and referred to on page 72 of this report.
6. This award vested on 18 June 2018.
7. This award is scheduled to vest on 30 April 2019.
8. This award is scheduled to vest on 30 April 2020.
9. This award is scheduled to vest on 30 April 2021.
10. Pursuant to a regular monthly instruction, Equiniti Share Plans Trustees Limited acquires Partnership shares using a fixed contribution from Paul Cooper's gross salary. The Company gives Paul Cooper one matching share for each Partnership share bought on his behalf. The matching shares are subject to a three-year forfeiture period. 152 shares have been allocated to Paul Cooper under the SIP, from 1 January 2019 and 27 February 2019.

Directors' shareholdings (audited information) *continued*

c. Non-executive directors – share ownership

Non-executive directors	Shares owned
Jonathan Bloomer	50,896
Lan Tu	23,309
Andrew Fisher	30,000

There were no changes in the interests of executive or non-executive directors between 31 December 2018 and 1 March 2019, other than the SIP allocation to Lee Rochford and Paul Cooper under their monthly allocation for January and February 2019 as referred to on page 73.

Payments to past directors and payments for loss of office (audited information)

Rob Memmott stepped down from the board on 1 January 2018 and left the business on 28 February 2018. His remuneration between 1 January 2018 and 28 February 2018 was £60,967 (consisting of salary, benefits and cash allowance in lieu of pension contributions). Rob Memmott's bonus for 2017 was disclosed in the 2017 Directors' remuneration report, along with the vesting of his 2015 LTIP award (which vested on 15 June 2018).

TSR performance

The graph below shows TSR performance of the Company from IPO to 31 December 2018 compared with the FTSE SmallCap index. Throughout the year ended 31 December 2018, the Company has been a constituent member of the FTSE SmallCap index, and, therefore, the committee has selected this index for comparison purposes in this report.

Chief executive officer disclosures

a. Group chief executive officer remuneration

The table below sets out the total pay of the Group chief executive officer since the IPO on 11 October 2013. The Company was only established shortly before the IPO and, therefore, information prior to this does not exist.

Director	CEO single figure £000	CEO bonus (as a % of maximum) £000	CEO LTIP vesting (as a % of maximum)
2018 (Lee Rochford)	1,009	82.5	N/A[1]
2017 (Lee Rochford)	942	85.0	N/A[1]
2016 (Tom Drury)	1,421	80.0	86
2015 (Tom Drury)	722	70.3	–
2014 (Tom Drury)	631	62.5	–
2013 (Tom Drury)	154	80.0	–

1. Lee Rochford became Group chief executive officer in 2017 and did not hold an LTIP which was capable of vesting by reference to performance in 2017 or 2018.

Chief executive officer disclosures *continued*

b. Percentage change in Group chief executive officer remuneration

The table below shows how the percentage change in the Group chief executive officer's salary, taxable benefits and annual bonus pay-out between 2017 and 2018 compared with the percentage change in the average of each of those components for the workforce as a whole.

Director	% change in salary and fees	% change in taxable benefits	% change in performance-related bonus
Group chief executive officer	3%	81%[1]	12%
Workforce	3%	-%	13%

1. Increase in Lee Rochford's medical insurance plan as referenced in the single figure table on page 69.

Relative importance of spend on pay

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

Director	Total employee remuneration[1] £000	Shareholder distribution
2018	53,346	21,158
2017	42,954	16,797
Difference	10,392	4,361

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

Service agreements and letters of appointment

The service agreements of our executive directors and the letters of appointment of our non-executive directors are as summarised below:

Director	Date of service agreement/ letter of appointment	Expiry	Notice period
Lee Rochford	6 December 2016	N/A*	12 months
Paul Cooper	18 October 2017	N/A*	12 months
Jonathan Bloomer	7 October 2013[1]	8 October 2019*	1 month
Iain Cornish	5 October 2013[2]	8 October 2019*	1 month
Lan Tu	7 March 2016[3]	8 March 2021*	1 month
Maria Luís Albuquerque	7 March 2016	7 March 2019*	1 month
Andrew Fisher	9 December 2016	9 December 2019*	1 month

* Subject to re-election at the 2019 annual general meeting.

1. As amended in an extension letter dated 27 July 2017
2. As amended in an extension letter dated 26 July 2017
3. As amended in an extension letter dated 23 February 2018

Implementation of remuneration policy in 2019

The approach to directors' remuneration is as follows:

(a) Base salaries

In line with our remuneration policy, Lee Rochford's salary will be increased by 3% in line with the average increase across the wider workforce, to £450,883 with effect from 1 March 2019. Paul Cooper's salary was set at £365,000 on his appointment in January 2018 and will not be increased in 2019.

(b) Annual bonus

Lee Rochford's bonus opportunity for 2019 will be 140% of salary. Paul Cooper's bonus opportunity will be 125% of salary. As for 2018, the 2019 annual bonus will be based on:

- underlying profit after tax as regards 50% of the opportunity; and
- an assessment against a balanced range of financial, strategic and other key Group objectives as regards 50% of the opportunity.

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

33% of any bonus earned by Paul Cooper for 2019 will be deferred into shares. 40% of any bonus earned by Lee Rochford will be deferred into shares.

(c) LTIP

As discussed in the annual statement from the chairman of the committee, to increase alignment with the Group's updated five-year strategy to further develop the quality of our earnings and deliver consistently strong returns for our shareholders, the 2019 LTIP awards will be subject to amended performance measures, being underlying ROE, underlying FCF and relative TSR performance. The weightings for each measure have been set to balance what the committee consider to be the direction of focus for management in its day to day direction of the business with its ultimate responsibility to shareholders:

Implementation of remuneration policy in 2019 *continued*

- 25% underlying FCF – aligns clearly to the Group's strategy to focus on the quality of our earnings. Measures the profitability of the business whilst also reflecting the cost to collect and cost effectiveness of the Group's activities. Strong underlying FCF performance enables the Group to invest, pay dividends and drives the gearing in the business. It is a measure that will be transparent for our colleagues, directors and shareholders.
- 25% relative TSR – used under the existing LTIP awards, clearly aligned to shareholders and maintains a direct link to share price performance.
- 50% underlying ROE – a key driver of shareholder value and reflects the importance of purchasing debt of a suitable quality with an appropriate return. Underlying ROE continues to be a key and robust metric which fully supports Arrow's strategy over the medium/long term and is a mature internal KPI fully recognised and used in the day to day management of the business.

In line with the directors' remuneration policy approved at the 2018 annual general meeting and as referred to in the 2017 directors' remuneration report that, subject to the continued strong performance of the Group, the committee's stated intention was to increase the annual LTIP opportunity from 150% of salary to 200% of salary for Lee Rochford and to 175% of salary for Paul Cooper in 2019. The Group continues to perform strongly, delivering profitable earnings growth and strong progress against our strategy of diversifying by geography, asset class and income stream, while driving strong returns on investment. The committee has carefully considered Arrow's consistently strong performance and investor confidence in the delivery our strategy together with the individual performance and contribution of the executive directors. Accordingly, the committee strongly believes that it is appropriate to increase the LTIP for Lee Rochford to 200% of salary in line with the proposal set out in the remuneration report last year. We have decided to defer increasing the LTIP award for Paul Cooper until 2020. Therefore, his LTIP award will be 150% of salary for 2019 with the intention that this will be increased to 175% of salary for the 2020 LTIP, subject to the continued strong performance of the Group. The whole of the awards will be subject to a two-year holding period following the end of the performance period.

As disclosed in the remuneration report last year, recognising the increased opportunity, the percentage vesting for threshold performance (as a percentage of salary) is not increased. This will ensure executives do not receive more for delivering threshold performance, notwithstanding the proposed increase in the LTIP maximum in 2019. We have also reviewed the level of stretch in the performance targets to ensure that they are commensurate with the increased opportunity and have increased the threshold underlying ROE target from 20% to 24%. Accordingly, the performance conditions and vesting schedules will be as follows:

Performance measure	Weighting (% of award)		Performance target	Vesting level (% of max for Lee Rochford)	Vesting level (% of max for Paul Cooper)
Underlying ROE (three-year average)	50%	Threshold	24%	21.42%	25%
		Maximum	30%	100%	100%
Underlying FCF	25%	Threshold	Targets to be	21.42%	25%
		Maximum	determined	100%	100%
TSR relative to the FTSE 350 (excluding investment trusts)	25%	Threshold	Median	21.42%	25%
		Maximum	Upper quartile	100%	100%

The committee recognises the importance of ensuring that the targets reflect the three-year direction of the business and demonstrate the need for appropriately stretching delivery by management. The committee is in the process of adding underlying FCF performance targets to the Group's five-year plan. These will be disclosed at the earliest opportunity to the extent they are not considered to be commercially sensitive.

As with the 2018 LTIP awards, in addition to the performance conditions outlined above, awards will vest only to the extent that the committee considers the vesting in accordance with those performance conditions reflective of the underlying financial performance of the Group over the performance period.

The 2019 LTIP awards will not be entitled to dividend equivalents.

The remuneration committee

Throughout the year, the committee consisted of Lan Tu (as chair), Iain Cornish and Andrew Fisher, each of whom is an independent non-executive director. In addition, the Company Chairman, Jonathan Bloomer, who was considered independent on appointment, is a member of the committee.

The committee held three scheduled meetings during the year. Details of attendance by all members who held office during the year are set out below:

Committee members	Eligible to attend	Attended
Lan Tu	3	3
Jonathan Bloomer	3	3
Iain Cornish	3	3
Andrew Fisher	3	3

The terms of reference of the committee are on the Group's website at www.arrowglobalir.net.

Advisor

During the year, the committee was assisted in its work by Deloitte LLP, which was appointed as advisor in July 2014, following a comprehensive competitive tender. Deloitte LLP is a member of the Remuneration Consultants Group and, as such, voluntarily operates under that Group's Code of Conduct in relation to executive remuneration consulting in the UK. The total fees paid to Deloitte LLP for providing remuneration advice were £32,415 for the year ended 31 December 2018. Deloitte LLP also provided internal audit services and advice in relation to taxation during the year.

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

The Group chief executive officer and the Group human resources director have also attended committee meetings to provide advice and respond to specific questions, but is not in attendance when his own remuneration is discussed. The company secretary acts as secretary to the committee.

Statement of shareholder voting

At the 2018 annual general meeting, the directors' remuneration policy was approved by shareholders with the following votes:

% of votes for	% of votes against	Number of votes withheld
94.54%	5.46%	3,841

At the 2018 annual general meeting, the annual report on remuneration was approved by shareholders with the following votes:

% of votes for	% of votes against	Number of votes withheld
95.93%	4.07%	3,841

Directors' remuneration policy

The Company's directors' remuneration policy was approved by shareholders at the annual general meeting on 22 May 2018 and took effect from the date of that meeting. We have set out below the 'policy tables' from the approved policy (except that we have updated date specific provisions) and the associated notes. The full policy as approved at the 2018 annual general meeting is available on the Group's website at www.arrowglobalir.net

Directors' remuneration policy *continued*

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity

Salary
Provides core remuneration for the role at a level to recruit and retain executive directors with the required skills and experience.
	• Positioned within a broad range around the mid-market level for the role.
	• Paid monthly and ordinarily reviewed annually.
		• Base salaries are ordinarily reviewed annually, though not necessarily increased, having regard to market conditions and other relevant factors such as pay increases for the Group's employees, internal relativities and individual performance.
		• The maximum annual salary increase will not normally exceed the average increase which applies across the UK wider workforce (in percentage of salary terms). Larger increases may be awarded in certain circumstances including, but not limited to:
		  • increase in scope or responsibilities of the role;
		  • to apply salary progression for a newly appointed director; and
		  • significant market movement.
		• Such increases may be implemented over such period as the committee deems appropriate.

Benefits Provide a competitive benefits package at a level to recruit and retain executive directors with the required skills and experience.	• Typically comprises private medical and dental cover, life insurance and permanent health insurance. • Reviewed from time to time to ensure market competitive and meet operational needs of the business. Benefits may be extended in certain circumstances (such as relocation expenses). • Access to flexible benefits on same basis as the wider workforce.	• None. • The cost of providing benefits is borne by the Group and varies from time to time.
Pension Provides a competitive level of long-term retirement saving for executives.	• Contribution to a defined contribution pension arrangement or monthly cash allowance in lieu of pension (or a combination of contribution and cash allowance).	• 15% of basic salary.
Annual bonus Rewards the achievement of annual objectives whilst encouraging a long-term focus through the use of deferred shares, awarded as nil-cost share options, conditional awards or restricted shares.	• Performance targets set annually. • Pay-outs determined by the committee following the end of the performance period. • Up to 50% of the bonus earned is deferred into shares for up to three years, subject, ordinarily, to continued employment during the vesting period. Deferred share awards may be settled in cash at the election of the committee. • The committee may make a dividend equivalent payment to reflect dividends that have been paid over the period of the shares vesting (and which may assume the reinvestment of the dividend equivalents). The payment may be in the form of additional shares or a cash payment equal to the value of those additional shares. • Malus and clawback provisions apply, as described following this table, on page 80.	• Maximum bonus opportunity of 140% of annual base salary. • Split between financial and strategic/personal performance measures in support of business strategy. • Bonus for achieving threshold financial performance target is up to 20% of the maximum opportunity for that element. • Vesting of the bonus in respect of strategic or personal measures will be between 0% and 100% based on the committee's assessment of the extent to which the measure has been achieved.

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity
LTIP Rewards the achievement of long-term objectives, promotes and aligns interests of executives with those of shareholders.	• Nil-cost share options, conditional awards or restricted shares can be awarded. Share awards can be settled in cash at the election of the committee. • Three-year vesting period subject to performance conditions. • Awards granted from 2019 onwards will be subject to an additional two-year holding period following the end of the performance period and will only be 'released' to the participant following the end of that period. The holding period may be implemented so that the participant is not entitled to acquire shares until the end of it. Alternatively, it may be implemented on the basis that shares can be acquired following the vesting of the award but that, other than as regards sales to cover tax liabilities and any exercise price, the participant is not able to dispose of shares acquired until the end of the holding period. • The committee may, at its discretion, structure awards as qualifying LTIP awards consisting of both an HMRC tax-qualifying option and an LTIP award. Qualifying LTIP awards enable the participant and the Company to benefit from tax-advantaged treatment in respect of part of the award without increasing the pre-tax value delivered to participants. The qualifying LTIP awards will be structured as a tax qualifying option and an LTIP award with the vesting of the LTIP award scaled back to take account of any gain made on the exercise of the tax-advantaged option. • The committee may make a dividend equivalent payment to reflect dividends that would have been paid, on shares that vest, over the period to vesting and over any holding period. This payment may assume the reinvestment of the dividend equivalents. The payment may be in the form of additional shares or a cash payment equal to the value of those additional shares. • Malus and clawback provisions apply, as described following this table, on page 80.	• Maximum award of 200% of annual base salary per year. • Tax qualifying options may be granted. Shares subject to a tax qualifying option granted as part of a qualifying LTIP award are not taken into account for the purposes of the individual limits because, as referred to in the operation column, the LTIP award will be scaled back to reflect the gain made on the exercise of the tax advantaged option. • Performance targets based on financial measures such as EPS growth, ROE and TSR. • 25% of award vests for threshold performance rising to 100% for maximum performance.
Share incentive plan (SIP) Promotes alignment with shareholders across Group's entire employee base.	• In the UK, a tax qualifying plan permitting the award of free, partnership or matching shares. Dividends paid on plan shares may be delivered in the form of additional dividend shares. • Operated on a broadly equivalent basis for employees (including, if relevant, any executive directors) outside the UK. • Minimum three-year vesting period. • Open to all employees generally.	• No performance targets. • Under the UK plan, maximum awards and matching share ratio reflect the limits in the applicable tax legislation from time to time (as at the date of approval of this policy in any year up to £3,600 free share award; up to £1,800 partnership share acquisition; and a matching share ratio of up to 2:1 based on partnership shares acquired, in each case). • Broadly equivalent limits apply under the plan for employees outside the UK.
Save as you earn plan ('sharesave') Promotes further alignment with shareholders across Group's entire employee base.	• The Group may consider the implementation up of a sharesave in the future to complement the SIP. • In the event that a sharesave is introduced, the executive directors will be eligible to participate in the sharesave on the same terms as other eligible employees.	• There would be no performance targets under the sharesave. • The limits will reflect those in the applicable tax legislation from time to time (as at the date of this policy a participant may save up to £500 per month over three or five years to exercise an option granted with an exercise price at a discount of up to 20% to the value of a share when invited to participate).

Notes to the policy table

Annual bonus – performance metrics

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

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

LTIP awards – performance metrics

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

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

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

Adjusting performance measures and operation of share plans

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

Awards may be adjusted in the event of a variation of capital, demerger, special dividend or other transaction which will materially affect the value of shares.

The committee may exercise operational and administrative discretions under the relevant plan rules as set out in those rules.

Malus and clawback

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

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

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

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

Shareholding guidelines

To align the interests of executive directors with those of shareholders, the committee has adopted formal shareholding guidelines. Each executive director is required to acquire shares with a value equal to 200% of salary. Until such time as the required holding has been achieved, the director must retain 50% of all shares acquired under the LTIP or deferred bonus arrangements (in each case net of tax). Shares subject to awards which have vested but not been released (i.e. LTIP awards which are subject to a holding period) or which are exercisable but have not been exercised count towards the guidelines on a net of assumed tax basis.

Components and structure of remuneration – non-executive directors

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

Element and purpose	Operation and link to business strategy	Maximum opportunity
Fees To attract and retain high calibre non-executive directors by offering competitive fees. **Benefits** Non-executive directors may be eligible for benefits such as the use of secretarial support, travel costs or other benefits.	• A base fee is paid for holding the office of non-executive director or Chairman. • Additional fees may be paid to reflect extra responsibilities such as committee chair or SID. • With the agreement of the Chairman of the Group, non-executive directors can carry out specific project work for the Group on fees to be agreed. • Benefits are provided that are appropriate to the performance of the role.	Fees are reviewed periodically to comparable companies' pay. If benefits are provided to non-executive directors, they are provided at an appropriate level taking into account the individual circumstances.

This report was approved by the board and signed on its behalf by:

Lan Tu
Chair of the remuneration committee
28 February 2019

Report of the directors

"Total dividends of 12.7p per share were declared and proposed for the year."

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2018. The corporate governance report set out on page 54 to 57 forms part of this report. The Company's principal subsidiaries are listed in note 23.

The following information is set out in the strategic report on pages 1 to 49:

- particulars of post balance sheet events of the Company and its subsidiaries; and
- indication of likely future developments in the business of the Company and its subsidiaries.

Results and going concern

The Group's results are discussed in the Strategic report starting on page 1, including the Chairman's statement, Group chief executive officer's review and Group chief financial officer's review on pages 2, 6 and 26 respectively, which are incorporated into this report by reference.

Consideration of going concern can be seen on page 49. After making their assessment, the directors are satisfied that the Company and the Group have adequate and sufficient resources to continue to operate as a going concern for a period in excess of 12 months from the date of signing. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Fair, balanced and understandable

As required by the UK Corporate Governance Code 2016 Edition (the 'Code'), the directors confirm that they consider that this annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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

Dividends

The directors recommend the payment of a final dividend of 8.7p per ordinary share for the financial year ended 31 December 2018 (2017: 8.1p) to be paid (assuming shareholder approval is obtained) on 12 July 2019 to ordinary shareholders on the register on 7 June 2019. The ex-dividend date for the final dividend is 6 June 2019 and the dividend reinvestment plan election date is 21 June 2019. The recommended final dividend, together with the interim dividend of 4p per share (2017: 3.2p) paid on 12 October 2018, brings the total dividend declared and proposed for the year to 12.7p per share (2017: 11.3p).

The Company held £183.7 million distributable reserves at 31 December 2018, sufficient to pay the dividend.

Share capital

As at 31 December 2018, the Company had 176,263,343 ordinary shares in issue, of one class, with a nominal value of 1p each. Full details of the share capital of the Company are set out in note 20 to the Group financial statements on page 115. The information in note 20 is incorporated by reference and forms part of this directors' report. On a show of hands at a general meeting of the Company, each member present in person or by proxy, and entitled to vote, shall have one vote and, on a poll, every member shall have one vote for every ordinary share held. There are no issued shares in the Company with special rights with regard to control of the Company.

Purchase of own shares

At the 2018 annual general meeting, shareholders authorised the Company to make market purchases of up to 17,526,662 ordinary shares representing 10% of the issued share capital at that time, and to allot up to an aggregate nominal amount of £584,222.08. These authorities expire at the 2019 annual general meeting. During the year ended 31 December 2018, no shares were repurchased. Resolutions to renew these authorities will be proposed at the 2019 annual general meeting.

The Company operates an independent employee benefit trust for future benefit to employees of the Group. Estera Trust (Jersey) Limited is the trustee of the Arrow Global Group 2016 Employee Benefit Trust (the 'Estera Trust'). On 15 June 2018, 996,719 shares were allotted by the Company to the Estera Trust to satisfy future share options granted to employees, which was announced by RNS announcement on 15 June 2018. RNS announcements will be made in accordance with the Disclosure, Guidance and Transparency Rules when future allotments occur.

During the financial year, the Estera Trust transferred shares to LTIP participants and also to the trustee of the Arrow Global Share Incentive Plan (the 'SIP') to satisfy awards of shares to participating employees under the SIP.

As at 31 December 2018, the Estera Trust held 1,030,766 ordinary shares (2017: 257,337 shares) representing 0.58% (2017: 0.15%) of the Company's issued share capital. The Trust deed contains a dividend waiver provision in relation to these shares. During the year, the Estera Trust purchased 1,746,596 shares for future benefit to employees of the Group.

Transfer of securities

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

The board may decline to register a transfer of any share which is not fully paid. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the articles of association) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The board may decline to register a transfer of a certificated share unless the instrument of transfer: (i) is duly stamped or certified or otherwise shown to the satisfaction of the board to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the board may reasonably require; (ii) is in respect of only one class of share; and (iii) if joint transferees, is in favour of not more than four such transferees.

Further, the board may decline to register a transfer of a certificated share where the transfer is requested by a person with more than a 0.25% interest in the issued share capital of the Company (excluding treasury shares) if such a person has been served with a restriction notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006, unless the transfer is shown to the board to be pursuant to an arm's length sale (as defined in the articles of association).

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

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

Substantial shareholdings

As at 31 December 2018, the Company had been notified under Rule 5 of the Disclosure, Guidance and Transparency Rules of the Financial Conduct Authority, of the following holdings of voting rights in its shares:

Shareholder	No. of ordinary shares/voting rights notified	% of ordinary share capital/ voting rights notified
Jupiter Asset Management Limited	34,515,394	19.58
Schroders Plc	11,416,231	6.47
Lazard Asset Management LLC Group	9,926,960	5.63
Legal & General Investment Mgmt Ltd	8,360,851	4.74
M&G Investment Management Ltd	7,654,113	4.34
Odin Fortvaltning AS	6,522,836	3.70
Columbia Threadneedle Investments	6,157,261	3.49

Directors

The directors who served during the financial year were as follows:

Director	Position	Service in the year ended 31 December 2018
Jonathan Bloomer	Non-executive Chairman	Served throughout the year
Lee Rochford	Group chief executive officer	Served throughout the year
Iain Cornish	Senior independent non-executive director	Served throughout the year
Lan Tu	Independent non-executive director	Served throughout the year
Maria Luís Albuquerque	Independent non-executive director	Served throughout the year
Andrew Fisher	Independent non-executive director	Served throughout the year
Paul Cooper	Group chief financial officer	Appointed 1 January 2018 and served throughout the year

Biographical details of the directors of the Company during the year and to the date of this report can be seen on pages 50 and 51.

Further details relating to board and committee composition are disclosed in the corporate governance report and committee reports on pages 54 to 81.

The directors are aware of the retirement by rotation provisions in the Code that apply to FTSE 350 companies and have adopted these provisions. All directors will offer themselves for re-election at the 2019 annual general meeting.

Directors' interests

The directors' interests in the share capital of the Company at 31 December 2018 are set out on pages 72 to 74.

Directors' indemnities

During the financial year ended 31 December 2018 and up to the date of this directors' report, the Company has maintained appropriate liability insurance for its directors and officers.

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

Interim report

Current regulations permit the Company not to send copies of its interim reports to shareholders. Furthermore, the 2018 interim results will not be sent to shareholders. Interim results and other information about the Company will be available on the Company's website at www.arrowglobalir.net

Electronic and website communication with shareholders

The Company's articles of association permit electronic communication with shareholders as provided in the Companies Act 2006. The Company obtained authority from its shareholders at the 2014 annual general meeting to implement electronic communication. It is intended that the 2018 annual report and notice of annual general meeting 2019 will be distributed electronically again and via the Company's website to shareholders who have consented or deemed to have consented. Shareholders who have requested shareholder information in hard copy form will continue to receive this.

Employee consultation

Further information concerning employees is given on pages 36 to 37.

The Group places considerable value on the involvement of its employees and uses a number of ways to engage with the team on matters that impact them and the performance of the Group. These include regular site-wide update meetings and email communication, use of the employee engagement forum, the distribution of a weekly newsletter, focus group meetings, employee surveys and regular Company-wide business update meetings and workshops. Our people managers carry out monthly one-to-one meetings with their direct reports and the senior management team has an open-door policy, which allows all employees to discuss any concerns or new initiatives.

Employees are encouraged to be involved in the Company's performance via the SIP, the detail of which is set out at note 27.

The Group also has a whistleblowing policy and employees are made aware of this at induction and through regular ongoing refresher training.

Disabled persons

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

Environmental policy

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

- minimising paper usage and the purchase of recycled paper and packaging where possible;
- energy efficient office products;
- recycling office waste;
- increased use of video and conference calls and Skype for business facilities;
- supporting cycling to work through a cycle to work scheme; and
- travel should only be booked for essential business reasons.

Carbon reporting – methodology

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

The financial control method, which captures the sources that fall within our consolidated financial statements, has been used. Although we operate an outsourced model working with partners, these partners do not work exclusively for the Group and, therefore, it is not deemed appropriate to include emissions outside of the Group consolidated financial statements.

The reporting period aligns to the financial period (i.e. the year ended 31 December 2018) and the Group's carbon reporting falls under three scopes:

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

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

Activities that the Group was responsible for led to 2,450.5 tonnes of annual CO2 emissions in 2018 (2017: 2,127.3 tonnes) as documented below:

Scope	CO_2 emissions (tonnes) per annum 2018	CO_2 emissions (tonnes) per annum 2017
1	**465.3**	438.6
2	**1,403.1**	1,194.4
Total scope 1 and 2	**1,868.4**	**1,633.0**
3	**582.1**	494.3
Total	**2,450.5**	**2,127.3**
Tonne of CO_2 per employee (using average number of employees for the year)	**1.4**	1.5

Branches outside of the UK

The Company has no overseas branches. The Companies subsidiaries are detailed in note 23 to the financial statements.

Risk management

Please refer to the strategic report, on pages 42 to 48.

Statement of disclosure of information to the auditor

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

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

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

Auditor

KPMG LLP has indicated its willingness to accept reappointment as auditor of the Company. Resolutions to reappoint KPMG LLP as independent auditor to the Company and to authorise the directors to determine its remuneration will be proposed at the forthcoming annual general meeting.

Board effectiveness

In 2018, the board engaged SCT Consultants Ltd to conduct the first independent review of the board's effectiveness. The review focused on examining the way and manner the board conducted itself and how effective it was pursuing its business strategy. The report concluded that for a relatively young company the board worked well, there was good engagement with key stakeholders, the Chairman managed meetings well encouraging the non-executive directors to question the executive directors and had a clear developed strategy.

Corporate governance

The board considers that it has complied throughout the year under review with the requirements of the UK Listing Authority relating to the UK Corporate Governance Code, details of which can be found on pages 54 to 57.

The board has begun implementing the provisions of the new UK Corporate Governance Code 2018 (the "2018 Code") published by the Financial Reporting Council (FRC) in July 2018, in order to be fully compliant in 2019. It should be noted that the Company is already compliant with the main provisions of the 2018 Code.

Annual general meeting

The forthcoming annual general meeting of the Company will take place at The Cavendish Hotel, 81 Jermyn Street, St. James, London, SW1Y 6JF, on Tuesday 4 June 2019 at 9.30am. Notice of the annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appears in the document accompanying this annual report and accounts and will be available on the Group website at www.arrowglobalir.net

This report was approved by the board and signed on its behalf by:

Stewart Hamilton
Company secretary
28 February 2019

Directors’ responsibilities statement

“We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable.”

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

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable, relevant and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Group and parent company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company’s transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

By order of the board:

Paul Cooper
Group chief financial officer
28 February 2019

Lee Rochford
Group chief executive officer
28 February 2019

KPMG

Independent auditor's report

to the members of Arrow Global Group plc

1. Our opinion is unmodified

We have audited the financial statements of Arrow Global Group plc ("the Company") for the year ended 31 December 2018 which comprise the Consolidated statement of profit or loss & other comprehensive income, Consolidated & parent company statement of financial position, Consolidated & parent company statement of changes in equity, Consolidated & parent company statement of cash flows and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 2 July 2014. The period of total uninterrupted engagement is for the 5 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£3.3m (2017:£2.8m) 4.4% (2017: 4.4%) of normalised profit before tax	
Coverage	100% (2017: 100%) of group profit before tax	
Key audit matters		**vs 2017**
Event driven	**New:** The impact of uncertainties due to Britain exiting the European Union on our audit	▲
Recurring risks	Estimation of future cash collections from portfolio investments	◄►
Event driven	Fair value of intangibles acquired as part of business combinations	◄►
Recurring risks **(Parent company KAM)**	Recoverability of parent company's investment in subsidiaries and intra-group debtor balance due	◄►

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 44 (risk management), 46 (principal risks) and page 49 (viability statement).*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in Estimation of future cash collections from portfolio investments below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; — **Sensitivity analysis:** When addressing Estimation of future cash collections from portfolio investments and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on Estimation of future cash collections from portfolio investments together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** — As reported under Estimation of future cash collections from portfolio investments, we found the resulting estimates and related disclosures in relation of the impact of Brexit to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

2. Key audit matters: our assessment of risks of material misstatement (cont.)

	The risk	Our response
Estimation of future cash collections from portfolio investments (£1,087.0 million; 2017: £951.5 million) *Refer to page 59 (Audit Committee Report), pages 105-106 (accounting policy) and pages 113-114 (financial disclosures).*	**Forecast based valuation:** The Group's estimate of the future cash collections (ERCs) from the loan portfolios and loan notes is the key variable in determining the Effective Interest Rate ('EIR'), any subsequent revenue adjustments and the portfolio carrying amount. The Group uses cash flow forecasting models to calculate an initial estimate of future collections. The assumptions used in the models include the value, probability and timing of expected future cash flows for each type of asset class within a portfolio or at a portfolio level. These estimates are subject to ongoing review by management to assess reasonableness, comparing actual performance against previous forecasts. Given the diverse nature of the Group's portfolio investments and loan note investments, estimation of future cash collections for more bespoke assets involves a greater degree of management judgement, whereas other portfolio investments are valued using a complex simulation model. The simulation model increases the accuracy of future cash collections, where outliers are easily identified. The ERCs are most sensitive to management's strategy in managing the portfolios (e.g. changes in collection policies or use of specialist collectors). Due to the level of subjectivity inherent in the assumptions used in the cash flow forecasting models this is a key judgement area for our audit.	Our procedures included: — **Controls design:** We assessed the design and operating effectiveness of UK controls over data used in the cash flow forecasting models including monitoring of debt servicer collections, reconciliations of system cash collected to actual receipts, and general IT controls over the UK collection systems driving the estimated future cash flows; — **Governance controls:** We assessed the design and implementation of approval controls such as the portfolio review committee that covers the outputs of the models and manual adjustments to obtain evidence that these have been authorised by appropriate management personnel; — **Methodology implementation:** We assessed the UK simulation model and methodology used in valuing loan portfolios using our internal specialists to review the modelling code and to test the stability of forecasting model; — **Critical assessment of cash flows:** We assessed the modelled cash flows by portfolio to identify those portfolios where more judgement has been exercised (for example due to changes in approach by management to managing the portfolios) and/or we consider greater risk existed (for example due to under/over-performance against historic forecasts). Taking into account these risk factors, on a sample basis we critically assessed the cash flow forecasts and any manual adjustments made by the Group with reference to actual historic collections and our understanding of the Group. We also considered the methodology against our knowledge of industry peers; and — **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the degree of estimation involved in forecasting cash collections. **Our results** — We found the resulting forecast based valuation to be acceptable (2017 result: acceptable).

2. Key audit matters: our assessment of risks of material misstatement (cont.)

	The risk	Our response
Fair value of net assets acquired as part of business combinations (£15.3 million; 2017: £7.8 million) *Refer to page 59 (Audit Committee Report), page 103 (accounting policy) and pages 136-140 (financial disclosures).*	**Forecast based valuation:** During the year ended 31 December 2018, the Group acquired Parr Credit S.r.l and Europa Investimenti S.p.A. in Italy, Norfin Investimentos S.A. in Portugal and Bergen Capital Management Limited in the UK with the assets and liabilities purchased accounted for at fair value at the date of acquisition. The Group prepared the acquisition balance sheets based on its estimate of the fair value of assets and liabilities acquired. In particular, the Group prepared discounted cash flow models to arrive at its estimates of the acquired intangible assets including customer relationships. This required it to exercise judgement in determining the expected cash flows from the assets and the discount rates to be applied. This required them to exercise of management judgement in determining the expected cash flows from the assets and the discount rates to be applied.	Our procedures included: — **Accounting analysis:** We assessed the accounting policy adopted against the requirements of the relevant accounting standard; — **Our Sector experience:** We challenged the completeness of the acquired net assets and associated assumptions with reference to our business understanding of the acquired entities and testing of the Directors' assessments. We challenged the assumptions including value, probability and timing of cash flows, made in calculating the fair value assigned to acquired intangibles with reference to the business plan, existing customer contracts and actual performance achieved. — **Sensitivity analysis:** We performed sensitivity analysis on the Group's key assumptions being the forecast future cash flows and discount rate applied to help us assess their reasonableness and identify areas of potential additional focus including any management bias in their judgement; and — **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the fair value. **Our results** — We found the fair value of the acquired net assets to be acceptable (2017 result: acceptable).

2. Key audit matters: our assessment of risks of material misstatement (cont.)

	The risk	Our response
Recoverability of parent company's investment in subsidiaries and intra-group debtor balance due from Group entities **(Parent key audit matter)** (Investment in subsidiary £307.5 million; 2017: £307.5 million. Intra-group debtors £202.7 million; 2017: £88.5 million) *Refer to page 104 (accounting policy) and page 121 (financial disclosures).*	**Low risk, high value:** The carrying amount of the parent company's investments in subsidiaries and intra-group debtor balance due from group entities represents 100% (2017: 100%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: — **Tests of detail:** We compared the carrying amount of the investments, representing 100% (2017: 100%) of the total investment balance; with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making; — We assessed 100% of group debtors to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making; — **Assessing subsidiary audits:** We assessed the work we performed on those subsidiaries and considered the results of that work, on those subsidiaries' profits and net assets; and — **Our sector experience:** For the investments where the carrying amount exceeded the net asset value, we compared the carrying amount of the investment with the expected value of the business based on the expected cash flows of the underlying subsidiaries. **Our results** — We found the group's assessment of the recoverability of the parent company's investment in subsidiaries and intra-group debtor balance to be acceptable (2017 result: acceptable).

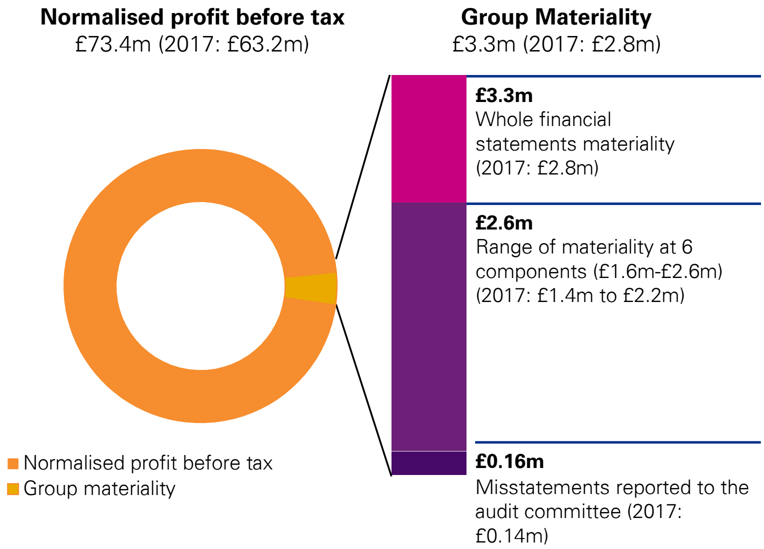
3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £3.3m (2017: £2.8m), determined with reference to a benchmark of profit before tax, normalised to exclude £14.7 million of costs in relation to acquisitions and £18.7 million in relation to the Group's bond finance as set out on page 28. The materiality represents 4.4% (2017: 4.4%).

We consider normalised profit before tax to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax.

Materiality for the parent company financial statements as a whole was set at £1.6m (2017: £1.4m), determined with reference to a benchmark of total company assets, of which it represents 0.4% (2017: 0.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £165,000 (2017: £140,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.



How we scoped our audit

Of the group's 10 (2017: 6) reporting components, we subjected 6 (2017: 6) to full scope audits for group purposes.

The group team performed procedures on the items excluded from normalised group profit before tax.

The components within the scope of our work accounted for the percentages illustrated opposite.

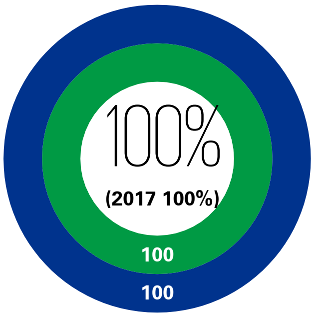
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team approved the component materialities, which ranged from £1.6m to £2.6m (2017: £1.4m to £2.2m), having regard to the mix of size and risk profile of the Group across the components.

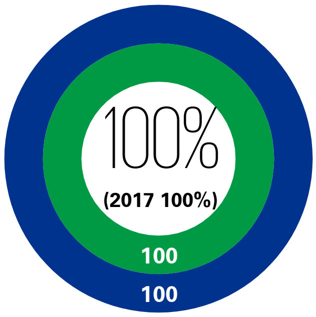
The Group team is based in the UK and is responsible for the audit of the Group, UK operating and non-operating subsidiaries and the Mars Capital Operating and non-operating entities.

The Group team visited the component teams in Portugal, Italy and Netherlands to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

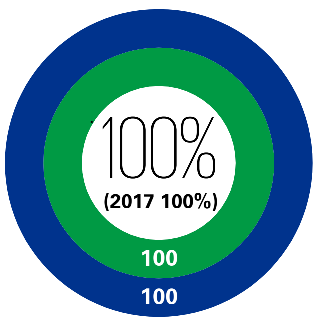
Group revenue



Group profit before tax



Group total assets



Full scope for group audit purposes 2018

Full scope for group audit purposes 2017

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and Company's available financial resources over this period was significant reduction of cash collections due to macroeconomic slow down impacting the Group's ability to comply with financing covenants.

As this was a risk that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 66 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the statement of viability page 49 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the statement of viability of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the statement of viability. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or

— the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

— a corporate governance statement has not been prepared by the company.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

— with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  – we have not identified material misstatements therein; and
  – the information therein is consistent with the financial statements; and

— in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6. We have nothing to report on the other matters on which we are required to report by exception

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

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 86, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards) and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, employment law and certain aspects of company legislation, customer conduct, recognising the financial and regulated nature of the group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Alexander Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One St Peter's Square
Manchester
M2 3AE
28 February 2019

KPMG

Consolidated statement of profit or loss & other comprehensive income

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Continuing operations			
Income from portfolio investments at amortised cost		**193,932**	179,538
Fair value gain on portfolio investments at FVTPL		**24,745**	5,298
Impairment gains on portfolio investments at amortised cost*		**50,727**	63,081
Total income from portfolio investments		**269,404**	247,917
Income from asset management and servicing		**91,661**	71,098
Other income		**731**	–
Total income		**361,796**	319,015
Operating expenses:			
Collection activity costs		**(119,041)**	(118,468)
Other operating expenses	10	**(135,972)**	(94,603)
Total operating expenses		**(255,013)**	(213,071)
Operating profit		**106,783**	105,944
Finance income	7	**76**	9
Finance costs	8	**(66,868)**	(71,669)
Share of profit in associate net of tax	23	**–**	1,578
Gain on sale of associate	23	**–**	14,697
Profit before tax		**39,991**	50,559
Taxation charge on ordinary activities	11	**(10,022)**	(10,644)
Profit after tax	6	**29,969**	39,915
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
FX translation difference arising on revaluation of foreign operations		**1,370**	2,431
Movement on hedging reserve		**(241)**	289
Items that will not be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		**–**	(25)
Total comprehensive income		**31,098**	42,610
Profit after tax attributable to:			
Owners of the Company		**29,969**	39,871
Non-controlling interest		**–**	44
		29,969	39,915
Basic EPS (£)	12	**0.17**	0.23
Diluted EPS (£)	12	**0.17**	0.22

* The 2017 comparative was in the prior year included within total income, and represented the portfolio write-up, which was taken in 2017 on the Group's portfolio investments.

Consolidated & parent company statement of financial position

As at 31 December 2018

	Note	**Group 2018 £000**	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Assets					
Non-current assets					
Goodwill	13	**262,679**	152,779	**–**	–
Other intangible assets	14	**44,264**	43,493	**–**	–
Property, plant and equipment	15	**7,761**	10,168	**–**	–
Investment in subsidiary undertakings	23	**–**	–	**307,500**	307,500
Deferred tax asset	19	**8,113**	7,780	**–**	–
Total non-current assets		**322,817**	214,220	**307,500**	307,500
Current assets					
Cash and cash equivalents		**92,001**	35,943	**8**	9
Trade and other receivables	17	**94,206**	56,885	**222,579**	88,544
Portfolio investments	16	**1,087,030**	951,467	**–**	–
Total current assets		**1,273,237**	1,044,295	**222,587**	88,553
Total assets		**1,596,054**	1,258,515	**530,087**	396,053
Equity					
Share capital	20	**1,763**	1,753	**1,763**	1,753
Share premium	20	**347,436**	347,436	**347,436**	347,436
Retained earnings		**116,589**	118,710	**183,740**	47,333
Hedging reserve		**(584)**	(343)	**–**	–
Other reserves		**(273,547)**	(272,408)	**(5,800)**	(3,291)
Total equity attributable to shareholders		**191,657**	195,148	**527,139**	393,231
Non-controlling interest		**601**	173	**–**	–
Total equity		**192,258**	195,321	**527,139**	393,231
Liabilities					
Non-current liabilities					
Senior secured notes	28	**920,798**	763,740	**–**	–
Trade and other payables	18	**52,476**	16,569	**–**	–
Deferred tax liability	19	**14,930**	21,940	**–**	–
Total non-current liabilities		**988,204**	802,249	**–**	–
Current liabilities					
Trade and other payables	18	**145,181**	81,790	**2,251**	1,405
Derivative liability	26	**502**	2,865	**–**	–
Current tax liability		**7,915**	4,528	**697**	1,417
Revolving credit facility	28	**242,121**	153,036	**–**	–
Bank overdrafts	28	**2,696**	1,332	**–**	–
Other borrowings	28	**11,635**	10,724	**–**	–
Senior secured notes interest	28	**5,542**	6,670	**–**	–
Total current liabilities		**415,592**	260,945	**2,948**	2,822
Total liabilities		**1,403,796**	1,063,194	**2,948**	2,822
Total equity and liabilities		**1,596,054**	1,258,515	**530,087**	396,053

Approved by the board of directors on 28 February 2019, signed and authorised for issue on its behalf by:

Paul Cooper
Group chief financial officer
Company number: 08649661

Lee Rochford
Group chief executive officer

Consolidated & parent company statement of changes in equity

For the year ended 31 December 2018

Group	Ordinary shares £000	Share premium £000	Retained earnings £000	Hedging reserve £000	Own share reserve[1] £000	Translation reserve[1] £000	Merger reserve[1] £000	Total £000	Non-controlling interest £000	Total £000
Balance at 1 January 2017	1,744	347,436	92,327	(632)	(1,936)	5,413	(276,961)	167,391	–	167,391
Profit after tax	–	–	39,871	–	–	–	–	39,871	44	39,915
Exchange differences	–	–	–	–	–	4,301	–	4,301	–	4,301
Recycled to profit after tax	–	–	–	–	–	(1,870)	–	(1,870)	–	(1,870)
Net fair value losses – cash flow hedges	–	–	–	348	–	–	–	348	–	348
Tax on hedged items	–	–	–	(59)	–	–	–	(59)	–	(59)
Remeasurements of the defined benefit liability	–	–	(25)	–	–	–	–	(25)	–	(25)
Total comprehensive income for the year	–	–	39,846	289	–	2,431	–	42,566	44	42,610
Share-based payments	–	–	3,334	–	–	–	–	3,334	–	3,334
Shares issued	9	–	–	–	–	–	–	9	–	9
Repurchase of own shares	–	–	–	–	(1,355)	–	–	(1,355)	–	(1,355)
Dividend paid	–	–	(16,797)	–	–	–	–	(16,797)	–	(16,797)
Dividend paid by NCI	–	–	–	–	–	–	–	–	(58)	(58)
Non-controlling interest on acquisition	–	–	–	–	–	–	–	–	187	187
Balance at 31 December 2017	1,753	347,436	118,710	(343)	(3,291)	7,844	(276,961)	195,148	173	195,321
Impact of adopting IFRS 9	–	–	(14,000)	–	–	–	–	(14,000)	–	(14,000)
Impact of adopting IFRS 15	–	–	(199)	–	–	–	–	(199)	–	(199)
Balance post IFRS adjustments at 1 January 2018	1,753	347,436	104,511	(343)	(3,291)	7,844	(276,961)	180,949	173	181,122
Profit after tax	**–**	**–**	**29,969**	**–**	**–**	**–**	**–**	**29,969**	**–**	**29,969**
Exchange differences	**–**	**–**	**–**	**–**	**–**	**2,572**	**–**	**2,572**	**–**	**2,572**
Recycled to profit after tax	**–**	**–**	**–**	**–**	**–**	**(1,202)**	**–**	**(1,202)**	**–**	**(1,202)**
Net fair value gains – cash flow hedges	**–**	**–**	**–**	**(291)**	**–**	**–**	**–**	**(291)**	**–**	**(291)**
Tax on hedged items	**–**	**–**	**–**	**50**	**–**	**–**	**–**	**50**	**–**	**50**
Total comprehensive income for the year	**–**	**–**	**29,969**	**(241)**	**–**	**1,370**	**–**	**31,098**	**–**	**31,098**
Shares issued	**10**	**–**	**–**	**–**	**–**	**–**	**–**	**10**	**–**	**10**
Repurchase of own shares	**–**	**–**	**–**	**–**	**(2,509)**	**–**	**–**	**(2,509)**	**–**	**(2,509)**
Share-based payments	**–**	**–**	**3,267**	**–**	**–**	**–**	**–**	**3,267**	**–**	**3,267**
Dividend paid	**–**	**–**	**(21,158)**	**–**	**–**	**–**	**–**	**(21,158)**	**–**	**(21,158)**
Dividend paid by NCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(43)**	**(43)**
Non-controlling interest on acquisition	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**471**	**471**
Balance at 31 December 2018	**1,763**	**347,436**	**116,589**	**(584)**	**(5,800)**	**9,214**	**(276,961)**	**191,657**	**601**	**192,258**

1. Other reserves total £273,547,000 deficit (2017: £272,408,000 deficit).

Company	Ordinary shares £000	Share premium £000	Retained earnings £000	Own share reserve £000	Total £000
Balance at 1 January 2017	1,744	347,436	37,509	(1,936)	384,753
Profit after tax	–	–	23,287	–	23,287
Total comprehensive income for the year	–	–	23,287	–	23,287
Shares issued	9	–	–	–	9
Repurchase of own shares	–	–	–	(1,355)	(1,355)
Share-based payments	–	–	3,334	–	3,334
Dividend paid	–	–	(16,797)	–	(16,797)
Balance at 31 December 2017	1,753	347,436	47,333	(3,291)	393,231
Profit after tax	**–**	**–**	**154,298**	**–**	**154,298**
Total comprehensive income for the year	**–**	**–**	**154,298**	**–**	**154,298**
Shares issued	**10**	**–**	**–**	**–**	**10**
Repurchase of own shares	**–**	**–**	**–**	**(2,509)**	**(2,509)**
Share-based payments	**–**	**–**	**3,267**	**–**	**3,267**
Dividend paid	**–**	**–**	**(21,158)**	**–**	**(21,158)**
Balance at 31 December 2018	**1,763**	**347,436**	**183,740**	**(5,800)**	**527,139**

Consolidated & parent company statement of cash flows

For the year ended 31 December 2018

	Note	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Net cash (used in)/generated by operating activities	32	**(19,021)**	(27,478)	**23,656**	18,144
Investing activities					
Purchase of property, plant and equipment		**(2,367)**	(4,885)	**–**	–
Purchase of intangible assets		**(11,077)**	(9,112)	**–**	–
Proceeds from disposal of intangible assets and property, plant and equipment		**3,759**	1,319	**–**	–
Dividends received from associate		**–**	7,233	**–**	–
Disposal of associate		**–**	18,143	**–**	–
Acquisition of subsidiaries, net of cash acquired		**(57,022)**	(8,201)	**–**	–
Acquisition of subsidiary, deferred consideration		**(11,612)**	(8,888)	**–**	–
Net cash used in investing activities		**(78,319)**	(4,391)	**–**	–
Financing activities					
Movements in other banking facilities		**91,092**	66,327	**–**	–
Proceeds from senior notes (net of fees)		**345,847**	340,546	**–**	–
Redemption of senior notes		**(203,467)**	(290,867)	**–**	–
Early repayment of bond		**(13,623)**	(17,631)	**–**	–
Repayment of interest on senior notes		**(36,522)**	(31,119)	**–**	–
Repurchase of own shares		**(2,509)**	(1,355)	**(2,509)**	(1,355)
Issue of share capital		**10**	9	**10**	9
Bank interest received		**76**	9	**–**	–
Bank and other similar fees paid		**(6,248)**	(4,274)	**–**	–
Payment of dividends		**(21,201)**	(16,855)	**(21,158)**	(16,797)
Payment of deferred interest		**(257)**	(610)	**–**	–
Net cash flow generated by/(used in) financing activities		**153,198**	44,180	**(23,657)**	(18,143)
Net increase/(decrease) in cash and cash equivalents		**55,858**	12,311	**(1)**	1
Cash and cash equivalents at beginning of year		**35,943**	23,203	**9**	8
Effect of exchange rates on cash and cash equivalents		**200**	429	**–**	–
Cash and cash equivalents at end of year		**92,001**	35,943	**8**	9

Notes to the financial statements

1. General information

Arrow Global Group PLC is a company incorporated in England and Wales and is the ultimate parent company of the Group. The address of the registered office is presented on the inside back cover. The financial statements are presented in Pounds Sterling and rounded to the nearest thousand.

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

The Group's principal activity is to identify, acquire and manage secured and unsecured defaulted and non-core loan portfolios and real estate from and on behalf of financial institutions, such as banks, institutional investors and credit card companies.

The Group's and the Company's financial statements for the year ended 31 December 2018 have been prepared in accordance with IFRS as adopted for use in the EU, and therefore comply with Article 4 of the EU IFRS Regulation. The accounting policies have been applied consistently in the current and prior periods, except for transitional arrangements as discussed in note 2.

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

2. Accounting standards

New standards

The following new standards and interpretations are mandatory for the year beginning 1 January 2018:

- IFRS 15 Revenue from Contracts with Customers;
- IFRS 9 Financial Instruments;
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4);
- Transfers of Investment Property (Amendments to IAS 40);
- Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28); and
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

During 2018, these new standards and interpretations had an insignificant effect on the consolidated financial statements, apart from IFRS 9 and IFRS 15 which are discussed in note 2.1 and 2.2.

2.1 IFRS 9 *'Financial instruments'*

The only material impact from the introduction of IFRS 9 on the Group's financial statements is associated with portfolio investments. As discussed in the following paragraphs, the Group has taken the low credit risk exemption for the remainder of its financial assets. IFRS 9 has not restated comparative information as a result of IFRS 9.

The classification and measurement of the Group's financial liabilities has also been considered under IFRS 9, and no material impact on the classification or measurement of the Group's financial liabilities arose upon transition. For further details please refer to note 26.

Classification of portfolio investments

Under IFRS 9, the Group is required to classify all portfolio investments into one of three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through the profit or loss (FVTPL). Note 26 contains a category analysis of the Group's portfolios.

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

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

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

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

None of the Group's portfolios are currently classified as fair value through other comprehensive income (OCI). All portfolio investments not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at FVTPL.

All of the Group's and Company's financial assets, including cash and cash equivalents, trade and other receivables and portfolio investments have been assessed as being in a 'hold to collect' business model. Therefore, the only reason why a financial asset would be classified as FVTPL would be due to the failure of the SPPI test.

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

Income from portfolio investments

Income from portfolio investments primarily represents the yield from acquired portfolio investments, and also includes profits from the sale of Real Estate Owned (REO) assets in the period. Portfolio investments are financial assets that are accounted for under IFRS 9 and recognised at fair value at the purchase date that equals the price paid. Unless measured at FVTPL they are subsequently measured at amortised cost.

The EIR method is a method of calculating the amortised cost of a portfolio investment and of allocating interest income over the expected life of the portfolio. The EIR is the rate that exactly discounts the estimated future cash receipts of the purchased portfolio asset to the net carrying amount at initial recognition (i.e. the price paid to acquire the asset, inclusive of deal costs). Following implementation of IFRS 9 the EIR is a credit-adjusted rate taking into account of expected credit losses (ECLs).

2. Accounting standards *continued*

Portfolio investments measured at fair value

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

Recognition of economic interests in portfolios

The Group purchases and holds economic interests in loan portfolio assets in a variety of ways. This interest could either be a co-investment alongside other third parties, or an individual economic interest in a portfolio. The Group makes an assessment of the economic substance of such holdings when determining how to classify and measure these financial assets. Individual assessments of each structure are made against the requirements of the relevant standards, but the general accounting principles applied by the Group in such circumstances are as follows:

- Where the arrangement entered into is materially economically equivalent to holding a direct proportional share of the underlying portfolio, the Group will account for its interest in the arrangement on a basis equivalent to accounting for the Group's share of the underlying asset.
- Where the arrangement modifies the allocation of the cash flows arising from the underlying asset, such as introducing levels of subordination, the Group shall account for its holdings as loan notes. These loans notes are then assessed against the various criteria of IFRS 9 to determine whether they are accounted for as amortised cost financial assets, or as FVTPL assets.

This results in the most appropriate accounting treatment being applied to each deal.

Impairment of portfolio investments

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

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

- No significant increase in credit risk since origination (Performing)
- A significant increase in credit risk has occurred since origination (Underperforming)
- Credit impaired where an incurred loss even has been observed (Credit impaired)
- The asset is considered purchased or originated credit impaired on initial recognition (POCI)

Due to the characteristics of the Group's portfolio investments they are classified as POCI as the assets are considered purchased or originated credit impaired. ECL is not provided for on initial recognition. Instead, lifetime ECL is incorporated into the calculation of the effective interest rate. Any changes in lifetime ECL after initial recognition are recognised in profit or loss. ECL calculation for POCI assets is based on an ECL over 84 months.

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

Impairment gains/losses are changes to carrying values, discounted at the EIR rate, of the acquired debt portfolios as a result of reassessments of their estimated future cash flows and are recognised in the line item 'impairment gains on portfolio investments at amortised cost'. In the income statement, a comparative representing the portfolio 'write up' has been presented, which was previously within 'total revenue'.

As all of the Group's amortised cost portfolio assets are POCI, the cash flows are subject to reassessment each period. For any portfolios which may be sold to a third party from time to time, these are first subject to a cash flow reassessment. Expected cash flows in such a scenario would be linked to the likely sale proceeds, meaning that all such assets would be written to their expected selling price via an impairment gain/loss, before being sold.

Others

The Group and Company have applied the low credit risk exemption to cash and cash equivalents and the simplified approach to trade and other receivables. See note 26 for further IFRS 9 transitional information.

Impact of IFRS 9

The line item 'portfolio investments' in the statement of financial position was impacted by the introduction of IFRS 9, disclosed as 'purchased loan portfolios' and 'loan notes' in previous accounting periods. The opening reserves reduction as a result of IFRS 9 was £14,000,000 (pre-tax impact of £17,000,000) reducing the portfolio value as a result of the pre-tax IFRS 9 impairment, as disclosed in note 16. There was no impact to the opening reserves of the Company.

The income statement sees the addition of the line items 'fair value gain on portfolio investments at FVTPL' and 'impairment gains on portfolio investments at amortised cost' included as part of total income, which was previously known as 'total revenue'. On the balance sheet, 'portfolio investments' now replaces and subsumes what was known as 'purchased loan portfolios' and 'loan notes'.

Hedge Accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. The Group has chosen not to defer the adoption of IFRS 9 hedge accounting and has therefore discontinued with IAS 39 hedge accounting.

2. Accounting standards *continued*

Policy applicable before 1 January 2018

The policies which are materially different under IFRS 9 from the previous accounting policies standard IAS 39 are disclosed below:

Revenue recognition and effective interest rate method (EIR)
Income from purchased loan portfolios

Income from purchased loan portfolios represents the yield from acquired portfolio investments. Purchased loan portfolios are financial instruments that are accounted for under IAS 39 and recognised at fair value at the purchase date that equals the price paid. They are subsequently measured at amortised cost using the EIR method.

The EIR method is a method of calculating the amortised cost of a purchased loan portfolio and of allocating interest income over the expected life of the portfolio. The EIR is the rate that exactly discounts 84 months of estimated future cash receipts of the purchased portfolio asset to the net carrying amount at initial recognition (i.e. the price paid to acquire the asset).

Upward revaluations (write-ups) are increases to carrying values, discounted at the EIR rate, of the acquired debt portfolios as a result of reassessments to their estimated future cash flows and are recognised in the income from purchased loan portfolios line within revenue. Any subsequent reversals to write-ups are also recorded in this line. If these reversals ('write-downs') exceed any previously recognised cumulative write-ups (i.e. a write-down reduces the portfolio carrying amount below its initial purchase price) then impairment is recognised as a separate line in the statement of profit or loss and other comprehensive income.

Unallocated cash is held as a liability in the statement of financial position until it is reconciled. Unallocated cash is held as liability until all reasonable steps have been taken to show that it has been extinguished, only being released to the consolidated statement of profit or loss and other comprehensive income at this point.

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

Recognition of loan notes as portfolios

When the Group purchases loan notes in entities that in turn have legal ownership of underlying loan portfolios, the Group has assessed the substance of the loan notes under the criteria set out in IAS 39 to determine whether to account for the underlying portfolio loan assets or to recognise an investment in the loan note asset in the entity that has issued the loan notes.

The decision is based on whether the circumstances meet the requirements of IAS 39, paragraph 19, which deems that the Group would recognise its proportionate share of the asset on balance sheet as portfolio loan assets, where the following criteria are met:

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

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

If these criteria are met, the Group recognises its appropriate share of the underlying loan portfolios and if criteria are not met, then the Group recognises an investment in the loan notes.

Impairment of purchased loan portfolios and loan notes

The portfolios are reviewed for indications of impairment at the statement of financial position date, such as variances to historical cash curves, in accordance with IAS 39. This is considered on a portfolio basis. Where portfolios exhibit objective evidence of impairment, an adjustment, being the difference between the current carrying value and the net present value of future estimated cash flows, is recorded to the carrying value of the portfolio. Objective evidence of impairment is considered to be where the carrying value is less than the original purchase price less revenue recognised.

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

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

The Group considered the revenue recognition policies in the context of the requirements of IFRS 15. As a result of the assessment, it concluded there was no material change resulting from the implementation of IFRS 15.

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

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

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

ii) Asset management and servicing income – master servicing

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

iii) Transition

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

The above accounting policies form the basis of the Group's significant accounting policies for asset management income.

2. Accounting standards *continued*

2.3 Standards issued but not yet effective

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

a. IFRS 16 – Leases

Of the standards issued but not yet effective, IFRS 16 Leases is likely to have the most significance for the Group. The standard is effective for annual periods beginning on or after 1 January 2019 and it introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 replaces the old standard, IAS 17.

So far, the most significant impact identified is that the Group will recognise new assets and liabilities for the operating leases of office buildings occupied by the Group. The Group will calculate the IFRS 16 impact on a lease-by-lease basis as they are incepted in the future.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements that IFRS 16 is expected to have on implementation. From initial work carried out, a number of property and car contracts will gross up the balance sheet with approximately £18 million additional assets and liabilities, opening reserves will be adjusted by an expected £0.6 million of charge and the 2019 impact versus the previous accounting standard is expected to be less than £0.1 million.

Given the fact that IFRS 16 will increase the assets and liabilities of the Group, management have considered whether there will be any impact on the Group's banking covenants. Given the move away from LTV covenants, and the fact the lease liabilities will not be included within secured net debt, no impact is expected.

The Group has applied the modified retrospective approach when calculating the expected IFRS 16 impact, and as if IFRS 16 had been applied when measuring the liability. The transition rules include the option to apply 'grandfathering' to all IAS 17 judgments previously made by an entity regarding whether a contract was indeed a lease or not, and the Group have applied this option in the IFRS 16 considerations made. There is also an exemption for short-term leases, i.e. 12 months or less (and not containing a purchase option) and low value assets to be expensed and the Group has taken this option.

The Group has calculated the incremental borrowing rate for each material class of operating leases and has applied these rates in the IFRS 16 calculations. The discount rates used have been tested for sensitivity and the opening adjustment was not materially sensitive to changes in discount rates. No IFRS 16 impact is expected to systems or processes.

b. Other standards

The following new and revised standards and interpretations have been issued but are not yet endorsed or effective for these financial statements and have not been early adopted:

- IFRIC 23 Uncertainty over Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IFRS 9)
- Plan Amendment, Curtailment or Settlement (IAS 19 Amendments)
- Annual Improvements to IFRS Standards 2015-2017 Cycle – (Various)

The Group is assessing the potential impact on its consolidated financial statements resulting from the new and revised standards and interpretations. So far, the Group does not expect any significant impact.

3. Significant accounting policies

Basis of preparation

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

The financial statements of the Group have been prepared under the historical cost convention other than the fair value of derivative contracts and certain portfolio investments and the amortised cost value of portfolio investment assets.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2018 and comparative period. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with its investee entity and has the ability to affect these returns through its power over the investee entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Also see the accounting policy 'shares held in an employee benefit trust' (EBT).

Going concern

The directors have undertaken a thorough review of forecast cash flow models and scenarios for a period in excess of 12 months from the date of approval of these accounts. These forecasts have been subject to stress testing, and downside scenarios have been considered including several hard-Brexit scenarios. This is set out in more detail on page 44.

In all reasonable scenarios, and in a severe stress situation, after taking management actions as required, the Group maintains sufficient cash and banking covenant headroom to continue as a going concern.

Following this review, and in the light of current cash availability, economic conditions and information available about future risks and uncertainties, the directors have concluded that it is appropriate to prepare the Group financial statements on a going concern basis.

Business combinations

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

IFRS 3 allows a measurement period of up to one year after acquisition to reflect any new information obtained about facts and circumstances that were made available to the Group at the acquisition date.

3. Significant accounting policies *continued*

Goodwill

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

Goodwill is not amortised but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired e.g. financial performance of the respective acquired entity/CGU is significantly below expectations. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. Calculation of the value in use requires an estimate of the amount and timing of future cash flows expected to arise from the CGU, which are discounted by an appropriate discount rate to calculate a present value of the future cash flows. The discount rate applied is the Group's weighted average cost of capital with an adjustment to reflect the specific risk characteristics of the CGU.

This calculation inherently involves a number of judgments in that cash flow forecasts are prepared for periods that are beyond the normal requirement of management reporting, and the appropriate discount rate relevant to the CGU is an estimate.

Sensitivities and identification of CGUs have been considered in note 13.

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

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

Associates

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

Retirement benefit costs

Payments to defined contribution retirement schemes are charged as the employees provide services to the Group.

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

Foreign currency translation

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

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

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

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

Leases

Assets leased are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownerships to the lessee, but not necessarily legal title. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. All other leases are classified as operating leases.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

Intercompany receivables

The Company holds material intercompany receivables on its balance sheet. These have been assessed under IFRS 9 ECL criteria, taking into account guidance specific to intercompany assets. The Company has concluded that these assets have no material ECL.

3. Significant accounting policies *continued*

Taxation

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

Current tax

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

Deferred tax

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

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

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

Share-based payment transactions

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

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

Shares held in an employee benefit trust (EBT)

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

Property, plant and equipment and other intangibles

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

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

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

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

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

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

Financial instruments

Financial assets and financial liabilities are classified and measured according to the outcome of the business model and SPPI tests, which have been explained in section 2.1.

Portfolio investments measured at amortised cost

The Group's amortised cost portfolio investments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Under IFRS 9, such assets are classified as 'amortised cost' and are measured at amortised cost using the EIR method less any impairment.

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

The portfolio asset is analysed as current in the statement of financial position as part of the Group's normal operating cycle.

Portfolio investments also include a small element of Real Estate Owned (REO) assets, which are acquired when possession is taken of the real estate security underlying a secured loan asset, or when an element of REO assets already exist in a purchased portfolio.

3. Significant accounting policies *continued*

Portfolio investments measured at fair value

Other portfolio investments are non-derivative financial assets and measured at fair value. Under IFRS 9, such assets are classified as 'FVTPL', due to the fact that they have failed the SPPI test. This will usually be due to either a clause in the underlying loans in the purchased portfolio meaning their cash flows are not SPPI, or the manner in which the Group has invested in the portfolio leads to the asset not being SPPI.

The portfolio investments are initially recorded at their fair value, being their acquisition price, and are subsequently measured at fair value using a discounted cash flow model.

Fair value measurements

The fair value of financial instruments is determined in accordance with IFRS 13 and IFRS 9 in the manner described in note 25.

Derecognition of financial assets

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

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

Provisions

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

Financial liabilities and equity instruments

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

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

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

Derivative financial instruments

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

All derivative financial instruments are assessed against the hedge accounting criteria set out in IFRS 9. The majority of the Group's derivatives are cash flow hedges of highly probable forecast transactions and meet the hedge accounting requirements of IFRS 9. Derivatives are initially recognised at the fair value on the date a derivative contract is entered into and are subsequently remeasured at each reporting date at their fair value. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately within the profit or loss. For derivatives that are designated as cash flow hedges and where the hedge accounting criteria are met, the effective portion of changes in the fair value is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of finance costs. Amounts accumulated in equity are recognised in profit or loss when the income or expense on the hedged item is recognised in profit or loss.

The Group discontinues hedge accounting when:

- the hedging derivative expires, or is sold, terminated or exercised; or,
- the hedge no longer meets the criteria for cash flow hedge accounting; or,
- if the hedge designation is revoked, the hedge is discontinued prospectively.

Borrowings

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

Cash and cash equivalents

Cash and cash equivalents comprise demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

For amounts held in bank accounts which are controlled and therefore consolidated into the Group financial statements, but are not able to be freely used as cash or cash equivalents by the Group, such balances are classified as 'other receivables'.

Legal transaction fees

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

Operating expenses

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

Other reserves

Other reserves include the own share reserve, the translation reserve and the merger reserve. These reserves are further explained in the glossary on pages 144 to 146.

4. Critical accounting judgments and estimates

In the application of the Group's accounting policies, which are described in notes 2 and 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

a. Fair value of net assets acquired as part of business combinations

The Group capitalises goodwill on the acquisition of entities as discussed in the significant accounting policies. Goodwill is the excess of the consideration paid over the fair value of its net assets, therefore the fair value of assets acquired directly impacts the amount of goodwill recognised on acquisition. The determination of the fair value of acquired net assets requires the exercise of management judgment, particularly for those financial assets or liabilities for which there are no quoted prices, or assets such as acquired portfolio investments and customer intangibles where valuations reflect estimates and timing of future cash flows. Different valuations would result in changes to the goodwill arising and to the post-acquisition performance of the acquired entities. Further detail on the valuation of acquired loan portfolios is given in section b. below. Note 30 provides further detail on acquisitions in the period and the net assets acquired on each.

b. Carrying value of portfolio investments

The carrying value of portfolio investments is £1,087,030,000 at 31 December 2018. The majority of these portfolio investments are measured at amortised cost, and the remainder at FVTPL. The carrying value of the portfolio investments are based on cash flow forecasts that are prepared for each portfolio. Typically, these forecasts cover an 84-month period, except in the case of a small number of FVTPL portfolios where it is necessary to forecast cash flows over a 120-month period. The 84-month period is deemed to be the most appropriate timeframe over which expected cash flows are measured, as this is the point that modelling accuracy begins to fall below a supportable threshold. These forecasts are generated using statistical models incorporating a number of factors, including predictions of probability to pay, which is informed by customer and account level data, credit agency data and our historical experience with accounts which have similar key attributes. A further key model input is previous payments made by a customer. Additionally, estimates are made of the movement of accounts from non-paying to paying, and vice-versa, either through breakdown of the account or settlement/pay down of the balances due. In relation to non-paying accounts, assumptions will be made as to which operational strategy is the most appropriate to move the account to paying status, this may include placing these accounts into litigation. Operational factors, that may impact future estimated cash flows, are also considered such as improved collections processes and systems.

Management also review the model on a portfolio basis to take into account external factors, which have impacted historical, or will impact future performance and where necessary portfolios are calibrated to take into account these known factors. Known or estimated factors such as HPI increases/decreases, or planned litigation action are examples of key assumptions which are made that impact management's forecast of ERCs. The assumptions and estimates made are specific to the particular characteristics of each portfolio.

The ERCs created from the ERC forecasting models are regularly benchmarked at a portfolio level against actual performance, and this helps to inform the decision as to whether an impairment gain/loss may be required. Furthermore, with the introduction of IFRS 9 in 2018, ERCs now include specific consideration of multiple economic scenarios and the impact these are likely to have on collections in the future.

The estimated future cash flows generated by the above process are the key estimate/judgment in these financial statements. Flexing the expected future gross cash flows by +1/-1% would impact the closing carrying value of the portfolio investments as at 31 December 2018 by +/- £10,870,000 (2017: +/- £9,515,000). Flexing the expected future gross cash flows by +3/-3% would impact the closing carrying value of the portfolio investments as at 31 December 2018 by +/- £32,611,000 (2017: +/- £28,544,000).

c. Impairment assessment of goodwill balances

The carrying amount of goodwill is £262,679,000 at 31 December 2018. In line with the Group's accounting policies, the goodwill balance is assessed for impairment at each annual reporting date. The impairment assessment is carried out on a value in use basis, using discounted cash flow models for each cash generating unit (CGU) to determine whether the ongoing value in use of each CGU is higher than its carrying amount. No impairment was recognised as a result of the assessment performed as at 31 December 2018. This assessment is sensitive to the discount rate applied, and management's forecast future cash flows for each CGU. Further information about the methodology applied and sensitivities to these factors are disclosed in note 13.

5. Segmental reporting

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

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

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

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

5. Segmental reporting *continued*

	Investment Business £000	Asset Management and Servicing Business £000	Group functions £000	Intra-segment elimination £000	Adjusting items	**Total year ended 31 December 2018 £000**	Total year ended 31 December 2017 £000
Total income	269,404	132,306	731	(40,645)	–	**361,796**	319,015
Collection activity costs	(94,617)	(63,989)	–	40,645	(1,080)	**(119,041)**	(118,468)
Gross margin	174,787	68,317	731	–	(1,080)	**242,755**	200,547
Gross margin %	65%	52%					
Other operating expenses excluding depreciation, amortisation and forex	(20,715)	(41,613)	(36,733)	–	(22,676)	**(121,737)**	(83,485)
EBITDA	**154,072**	**26,704**	**(36,002)**	**–**	**(23,756)**	**121,018**	117,0622
EBITDA margin %	57%	20%					
Depreciation, amortisation and forex	–	–	(14,235)	–	–	**(14,235)**	(11,118)
Operating profit	**154,072**	**26,704**	**(50,237)**	**–**	**(23,756)**	**106,783**	105,944
Net finance costs	–	–	(48,134)	–	–	**(48,134)**	(44,308)
Refinancing costs	–	–	–	–	(18,658)	**(18,658)**	(27,352)
Share of profit in associate net of tax	–	–	–	–	–	**–**	1,578
Gain on sale of associate	–	–	–	–	–	**–**	14,697
Profit before tax	**154,072**	**26,704**	**(98,371)**	**–**	**(42,414)**	**39,991**	50,559

Other operating expense inclusive of depreciation, amortisation and forex totals £135,972,000. See page 142 for further detail of adjusting items as part of the reconciliation of reported to underlying results.

Geographical information	**UK entities 2018 £000**	**Foreign entities 2018 £000**	**Intra-group trading 2018 £000**	**Total 2018 £000**
Non-current assets	**243,887**	**78,930**	**–**	**322,817**

Geographical information	UK entities 2017 £000	Foreign entities 2017 £000	Intra-group trading 2017 £000	Total 2017 £000
Non-current assets	203,701	10,519	–	214,220

6. Profit after tax

Profit after tax has been arrived at after crediting/(charging):	Note	**2018 £000**	2017 £000
Net foreign exchange gains		**2**	611
Operating leases – properties		**(5,570)**	(2,531)
Depreciation and amortisation	14, 15	**(14,235)**	(11,729)
Staff costs	10.b	**(53,346)**	(42,954)

7. Finance income

	2018 £000	2017 £000
Bank interest	**76**	9
Finance income	**76**	9

8. Finance costs

	2018 £000	2017 £000
Interest and similar charges on bank loans	**7,168**	6,047
Interest on senior secured notes	**37,458**	34,616
Interest rate swap and forward exchange contract hedge costs	**1,568**	2,095
Other interest	**2,016**	1,562
Bond refinancing costs	**18,658**	27,349
Total finance costs	**66,868**	71,669

8. Finance costs *continued*

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

In 2017, bond refinancing costs comprised £27,349,000 incurred on the early redemption of the €335 million notes due 2021, of which £17,631,000 was a cash cost related to the call premium and cancellation of interest rate hedging linked to the 2021 Notes. The remaining £9,718,000 was due to a non-cash write-off of related transaction fees, related to the 2021 Notes.

9. Auditor's remuneration

The analysis of auditor remuneration is as follows:	2018 £000	2017 £000
Fees payable for audit services – Company	**55**	65
Fees payable for audit services – subsidiaries	**1,072**	820
Total fees payable for audit services	**1,127**	885
Fees payable for audit-related assurance services – Company	**88**	52
Total fees payable for audit-related assurance services	**88**	52
Fees payable for other assurance services	**209**	211
Fees payable for transaction services	**100**	–
Total fees payable for non-audit services	**397**	263
Total fees payable	**1,524**	1,148

10. Staff costs and other operating expenses

a. Other operating expenses

	Note	2018 £000	2017 £000
Staff costs	10.b	**53,346**	42,954
Other staff related costs		**8,625**	7,255
Premises		**8,242**	7,353
IT		**11,520**	9,213
Depreciation and amortisation		**14,235**	11,729
Net foreign exchange gains		**(2)**	(611)
Acquisition related expenses		**14,717**	2,444
Other operating expenses		**25,289**	14,266
Total other operating expenses		**135,972**	94,603

In 2018, £7,537,000 of the other staff-related costs relates to temporary labour, recruitment and training (2017: £7,240,000).

b. Staff costs

	2018 £000	2017 £000
Wages, bonuses and salaries	**40,804**	33,352
Pension costs	**1,313**	2,154
Social security costs	**4,715**	3,674
Share-based payments	**3,267**	3,334
Staff restructuring	**3,247**	440
	53,346	42,954

The total executive and non-executive directors' remuneration during the year was £2,611,000 (2017: £2,720,000), including £128,000 in relation to pension costs (2017: £110,000). See the remuneration report for more disclosure of directors' remuneration. Staff costs included in other operating expenses are all indirect with all direct staff costs included in the consolidated statement of profit or loss caption 'collection activity costs'.

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

	2018	2017
Operations	**1,084**	828
Investments, data and analytics	**120**	86
Finance and legal	**204**	214
IT and change	**147**	142
Management	**13**	16
Risk	**47**	47
Support services	**115**	131
	1,730	1,464

11. Tax

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax. The effective tax rate for the year ended 31 December 2018 is higher than the standard rate of corporation tax in the UK at 19% (2017: 19.25%). The differences are as follows:

	2018 £000	2017 £000
Profit before tax	**39,991**	50,559
Tax charge at standard UK corporation tax rate	**7,598**	9,733
Adjustment in respect of prior years	**(933)**	(724)
Expenses not deductible for tax purposes	**768**	454
Share in profit in associate reported net of tax	**–**	(304)
Differences in corporate tax rates	**(17)**	186
Differing overseas tax rates	**2,606**	1,327
Movements in unrecognised deferred tax	**–**	(572)
Chargeable gains	**–**	544
Tax charge	**10,022**	10,644
Effective tax rate relating to continuing operations	**25.1%**	21.1%
Standard UK corporation rate for the year	**19.0%**	19.25%
Effective tax rate higher/lower than standard UK corporation rate for the year	**Higher**	Higher

	2018 £000	2017 £000
Tax charge for the year consists of:		
Current tax charge:		
UK and foreign corporation tax based on profit after tax	**13,328**	8,947
Adjustment in respect of prior years	**(849)**	(825)
Total current tax charge	**12,479**	8,122
Deferred tax charge:		
Origination and reversal of temporary differences	**(2,373)**	2,806
Adjustment in respect of prior years	**(84)**	102
Movement in deferred tax previously not recognised	**–**	(572)
Differences in tax rates	**–**	186
Total tax charge	**10,022**	10,644

In 2018, the tax charge is inflated by an increase in expenses not deductible for tax purposes largely due to current year subsidiary acquisition costs and a higher level of taxable income from overseas countries with higher tax rates. This is offset by the movement through deferred tax of GAAP differences on overseas subsidiaries.

Deferred tax

The Group has not recognised a deferred tax asset in respect of £859,000 (2017: £11,455,000) of tax losses carried forward, due to uncertainties over the future utilisation of the losses including the future profitability of the relevant subsidiaries. These losses may be available for offset against future profits and have no expiry date.

The rate of UK corporation tax, as enacted under previous Finance Acts, reduced from 20% to 19% from 1 April 2017 and is expected to reduce to 17% from 1 April 2020. Deferred taxation is measured at the tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the statement of financial position date. Accordingly, deferred tax balances have generally been calculated using a rate of 17% in these accounts, apart from balances on overseas companies that are recognised at the relevant rate applicable in the appropriate jurisdictions.

See note 19 for a breakdown of deferred tax assets and liabilities.

12. Earnings per share (EPS)

	2018 £000	2017 £000
Profit after tax attributable to shareholders	**29,969**	39,871
Weighted average ordinary shares	**174,939**	174,768
Potential exercise of share options	**4,515**	4,344
Weighted average ordinary shares (diluted)	**179,454**	179,112
Basic earnings per share (£)	**0.17**	0.23
Diluted earnings per share (£)	**0.17**	0.22

Refer to table of alternative performance measures on page 28 for details of underlying earnings per share.

13. Goodwill

	£000
Cost	
At 1 January 2017	130,390
Additions	20,911
Exchange rate differences	3,787
At 31 December 2017	155,088
Additions	107,984
Exchange rate differences	1,916
At 31 December 2018	**264,988**
Amortisation and impairment	
At 31 December 2017 and 31 December 2018	**2,309**
Net book value	
At 31 December 2018	**262,679**
At 31 December 2017	152,779

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to four aggregated CGUs on the basis that these represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the single operating segment defined under IFRS 8 (Operating Segments).

Change in goodwill CGU allocation

In relation to goodwill, the four CGUs identified are UK & Ireland, comprising all group companies acquired in the Capquest acquisition, Arrow Global Receivables Management Limited, Mars Capital and Bergen; Portugal, comprising of all the group companies acquired in the Whitestar, Gesphone, Redrock and Norfin acquisitions; Benelux, comprising all the group companies acquired in the Vesting acquisition; and Italy, comprising Zenith, Parr Credit and Europa Investimenti S.p.A. The UK & Ireland, Portugal, Benelux, and Italy CGUs, represent the cash flows generated principally from collections on acquired portfolio investments and management and servicing of third-party debt.

Given the expansion of the Group in recent years, it has been deemed appropriate to combine a number of CGUs for impairment testing purposes, which were previously assessed separately. This is in line with the Group's stated strategy of providing a range of services in each geographic region in which the Group operates, and represents the lowest level at which the Group's resources and assets are allocated internally.

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

	2018 £000	2017 £000
UK & Ireland	**64,312**	58,415
Portugal	**73,061**	41,225
Benelux	**43,132**	42,614
Italy	**82,174**	10,525
	262,679	152,779

An impairment review was carried out at 31 December 2018 that resulted in no impairment to goodwill. The goodwill was assessed to be appropriately stated. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGUs is determined as the higher of fair value, less cost to sell and value in use. The key assumptions for the value in use calculations are those regarding the discount rate and forecast cash collections net of direct collection costs, and allowable forecast synergies.

Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The starting point for determining the discount rates for each CGU was to use the Group's weighted average cost of capital ('WACC') and adjust this for specific factors for each of the CGUs to derive a market participant's rate. The factors took into account the risks inherent in each of the CGUs; such as currency, regulatory, and economic risks and the different operations in the CGUs were also considered. As a result of applying the various risk factors noted above to the Group's WACC, a market participant rate of 8.5% (2017: 6.1%) was determined for the UK & Ireland CGUs, a rate of 8.9% (2017: 8.5%) was determined for the Portuguese CGU, a rate of 8.2% (2017: 6.0%) was determined for the Benelux CGU and a rate of 8.9% (2017: 6.6%) for the Italian CGU.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows into perpetuity. The forecasts assume growth rates in collection activity which in turn drive the forecast collections and cost figures. These assumptions are in keeping with the directors' expectations of future growth. Appropriate tax rates are applied to the cash flow forecasts for each CGU.

13. Goodwill *continued*

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

	A cash flow reduction of	A discount rate increase of
UK & Ireland	30%	2%
Portugal	25%	2%
Benelux	51%	5%
Italy	50%	4%

14. Intangible assets

	Customer intangibles £000	Contractual rights £000	IT platform £000	Software licences £000	Total £000
Cost					
At 1 January 2017	19,773	2,345	21,807	8,117	52,042
Assets acquired on acquisition of a subsidiary	5,010	–	444	74	5,528
Exchange differences	903	97	139	208	1,347
Additions	–	16	6,738	2,358	9,112
Reclassifications	–	–	873	(873)	–
Disposals	–	(1,514)	–	(53)	(1,567)
At 31 December 2017	25,686	944	30,001	9,831	66,462
Assets acquired on acquisition of a subsidiary	1,718	37	–	191	1,946
Exchange differences	282	12	93	50	437
Additions	–	485	8,751	1,841	11,077
Reclassifications	–	7	–	(7)	–
Disposals	–	–	(619)	(701)	(1,320)
At 31 December 2018	**27,686**	**1,485**	**38,226**	**11,205**	**78,602**
Accumulated amortisation					
At 1 January 2017	3,274	469	3,903	5,252	12,898
Exchange differences	184	19	24	279	506
Amortisation charge for the year	4,540	245	2,746	2,282	9,813
Reclassifications	–	–	674	(674)	–
Disposals	–	(248)	–	–	(248)
At 31 December 2017	7,998	485	7,347	7,139	22,969
Exchange differences	151	(3)	35	31	214
Amortisation charge for the year	5,120	216	4,485	2,146	11,967
Reclassifications	–	–	(22)	22	–
Disposals	–	–	(226)	(586)	(812)
At 31 December 2018	**13,269**	**698**	**11,619**	**8,752**	**34,338**
Carrying amount					
At 31 December 2018	**14,417**	**787**	**26,607**	**2,453**	**44,264**
At 31 December 2017	17,688	459	22,654	2,692	43,493

15. Property, plant and equipment

	Land & Buildings £000	Leasehold improvements £000	Computer equipment £000	Furniture £000	Vehicles £000	Total property, plant and equipment £000
Cost						
At 1 January 2017	–	3,007	2,381	1,479	41	6,908
Assets acquired on acquisition of a subsidiary	2,976	53	177	41	2	3,249
Exchange differences	132	57	114	37	4	344
Additions	6	3,402	955	522	–	4,885
Reclassifications	–	(2)	2	–	–	–
Disposals	–	–	(8)	–	(40)	(48)
At 31 December 2017	3,114	6,517	3,621	2,079	7	15,338
Assets acquired on acquisition of a subsidiary	–	103	127	93	182	505
Exchange differences	(128)	56	93	16	15	52
Additions	1	701	1,309	356	–	2,367
Disposals	(2,987)	(128)	(43)	(604)	–	(3,762)
At 31 December 2018	**–**	**7,249**	**5,107**	**1,940**	**204**	**14,500**
Accumulated depreciation						
At 1 January 2017	–	1,080	1,545	672	27	3,324
Exchange differences	3	(92)	42	14	3	(30)
Disposal	–	–	–	–	(40)	(40)
Reclassifications	–	(2)	2	–	–	–
Charge for the year	60	1,034	492	319	11	1,916
At 31 December 2017	63	2,020	2,081	1,005	1	5,170
Exchange differences	2	14	11	7	1	35
Charge for the year	46	1,050	780	386	6	2,268
Disposal	(111)	(106)	(36)	(481)	–	(734)
At 31 December 2018	**–**	**2,978**	**2,836**	**917**	**8**	**6,739**
Carrying amount						
At 31 December 2018	**–**	**4,271**	**2,271**	**1,023**	**196**	**7,761**
At 31 December 2017	3,051	4,497	1,540	1,074	6	10,168

In the prior year, the Group leased a property under a finance lease, which was held within Zenith at the date of acquisition (see note 30, prior year acquisitions (a)) and had a net carrying amount of £3,051,000 at 31 December 2017. During 2018, the Group no longer leased the property.

16. Portfolio investments

Split of portfolio investments by period:

	2018 £000	2017 £000
Expected falling due after one year	**841,890**	758,113
Expected falling due within one year	**245,140**	193,354
Total	**1,087,030**	951,467

16. Portfolio investments *continued*

Purchased loan portfolios

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

The movements in portfolio investments was as follows:

	2018 £000	2017 £000
As at the year brought forward	**951,467**	804,107
Impact of adopting IFRS 9 at 1 January 2018	**(17,000)**	–
Brought forward after impact of adopting IFRS 9 opening adjustment	**934,467**	804,107
Portfolios purchased during the year	**263,350**	223,949
Portfolio additions from acquired entities	**11,853**	–
Collections in the year	**(411,588)**	(342,210)
Income from portfolio investments at amortised cost	**193,932**	179,538
Fair value gain on portfolios at FVTPL	**24,745**	5,298
Net impairment gain	**50,727**	63,081
Exchange and other movements	**19,544**	18,178
Purchase price adjustment relating to prior year	**–**	(474)
	1,087,030	951,467

The impact of IFRS 9 shown above is pre-tax. The post-tax impact is £14,000,000 and can be seen in the statement of changes in equity. The closing IFRS 9 position has not been shown in the table above, as post-implementation the impact of IFRS 9 is subsumed within the net impairment gain, and within income from portfolio investments at amortised cost. See page 127 for a reconciliation of portfolio investments measured at FVTPL, which are included within the overall purchased loan portfolios balance.

17. Trade and other receivables

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Trade receivables	**45,436**	32,780	**–**	–
Other receivables	**2,672**	4,355	**–**	–
Due from subsidiary undertakings	**–**	–	**222,371**	88,430
Prepayments	**5,427**	3,233	**208**	114
Bank balances not classified as cash and cash equivalents	**40,671**	16,517	**–**	–
	94,206	56,885	**222,579**	88,544

18. Trade and other payables

Current	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Trade payables	**24,133**	19,634	**198**	–
Deferred consideration on acquisition of subsidiaries	**11,119**	6,618	**–**	–
Deferred consideration on portfolio investments	**12,031**	10,830	**–**	–
Taxation and social security	**163**	152	**–**	–
Due to subsidiary undertaking	**–**	–	**2,053**	1,405
Accruals	**53,954**	28,793	**–**	–
Other liabilities	**43,781**	15,763	**–**	–
	145,181	81,790	**2,251**	1,405

In December 2017, Vesting Finance vacated an office building as part of its office consolidation. The property had an unexpired lease term of six years and a provision of £1,169,000 was included in trade and other payables at 31 December 2017. During 2018, the rental obligation was settled, with no provision needed or included as at 31 December 2018.

Non-current	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Trade payables	**3,673**	3,509	**–**	–
Deferred consideration on acquisition of subsidiaries	**48,803**	8,581	**–**	–
Deferred consideration on portfolio investments	**–**	4,479	**–**	–
	52,476	16,569	**–**	–

18. Trade and other payables *continued*

Italian subsidiaries

The employees in the Italian business' are part of statutory indemnity schemes, compulsory by law, that entitles them to deferred pay, typically at the end of their employment, the 'Trattamento di fine rapport' (TFR). A liability is recognised to reflect that the indemnity will be paid in the future when the employees leave employment. As at 31 December 2018 the estimated liability was €1,970,000 (£1,771,000) (31 December 2017: €715,000 (£635,000)) and is included within non-current trade and other payables on the statement of financial position. The liability is calculated by an independent expert through an actuarial valuation, the key assumptions used are detailed below:

	2018	2017
Discount rate	**1.3% to 1.6%**	1.3%
Annual inflation rate	**1.5%**	1.5%
Wage inflation	**2.0% to 3.5%**	3.5%
Probability of leaving employment for reasons other than retirement (employees aged 18-60)	**2.6% to 10.0% per annum**	10.0% per annum

19. Deferred tax

	2018			2017		
	Assets £000	**Liabilities £000**	**Total £000**	Assets £000	Liabilities £000	Total £000
Fixed assets	**463**	**–**	**463**	303	–	303
IFRS transitional adjustments	**–**	**(1,416)**	**(1,416)**	–	(1,748)	(1,748)
Share schemes	**704**	**–**	**704**	1,225	–	1,225
Hedging reserve	**120**	**–**	**120**	70	–	70
Other temporary differences	**1,144**	**(316)**	**828**	–	–	–
Losses	**5,682**	**–**	**5,682**	5,432	–	5,432
Fair value adjustment on acquisition of subsidiaries	**–**	**(13,198)**	**(13,198)**	750	(20,192)	(19,442)
	8,113	**(14,930)**	**(6,817)**	7,780	(21,940)	(14,160)

The following table reconciles from the 2017 to the 2018 net deferred tax position:

	1 January 2018 £000	IFRS 9 £000	Transferred in on acquisition £000	Recognised in statement of profit or loss and other comprehensive income £000	Recognised in statement of changes in equity £000	Foreign exchange £000	**31 December 2018 £000**
Fixed assets	(303)	–	–	(160)	–	–	**(463)**
IFRS transitional adjustments	1,748	–	–	(332)	–	–	**1,416**
Share schemes	(1,225)	–	–	328	193	–	**(704)**
Hedging reserve	(70)	–	–	(50)	–	–	**(120)**
Losses	(5,432)	–	(1,004)	796	–	(42)	**(5,682)**
Other temporary differences	(750)	–	310	(523)	–	135	**(828)**
Fair value and IFRS 9 transitional adjustments	20,192	(3,000)	(1,305)	(2,566)	–	(123)	**13,198**
	14,160	(3,000)	(1,999)	(2,507)	193	(30)	**6,817**

Fair value of net assets acquired as part of business combinations is considered in note 4.

20. Share capital

Issued, fully paid and authorised	**2018 £000**	2017 £000
176,263,343 (2017: 175,266,624) ordinary shares of 1p each	**1,763**	1,753
Offset by own shares	**(10)**	(3)
	1,753	1,750

Total consideration for the shares was £349,180,000 (2017: £349,180,000), giving rise to a share premium of £347,436,000 (2017: £347,436,000). £41,680,000 was raised as part of the IPO, net of £8,420,000 of IPO costs, which were netted against the share premium account in accordance with the Companies Act 2006, section 610. The Company's ordinary shares carry the right to receive dividends and distributions paid by the Company.

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

21. Operating leases

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

	2018 £000	2017 £000
Less than one year	**3,517**	3,688
Between one and five years	**15,032**	12,780
More than five years	**9,440**	8,297
	27,989	24,765

22. Related party transactions

Group

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

	Key management personnel £000	Total £000
As at 31 December 2018 and 2017:		
Trade	–	–
	–	–

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

Summary of transactions

Key management, defined as permanent members of the executive committee, were awarded the following compensation for the financial year:

Remuneration	**2018 £000**	2017 £000
Salaries and performance-related bonus	**3,836**	4,555
Pension-related benefits	**214**	222
	4,050	4,777

The number of key management during the year was 7 (2017: 10).

Company

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

	Arrow Global Group Holdings Limited £000	**Arrow Global Limited £000**	**Arrow Global One Limited £000**	**Vesting Finance Detachering B.V. £000**	**Total £000**
As at 31 December 2018					
Due from subsidiary undertakings	**–**	**–**	**222,331**	**40**	**222,371**
Due to subsidiary undertakings	**(1,367)**	**(686)**	**–**	**–**	**(2,053)**
	(1,367)	**(686)**	**222,331**	**40**	**220,318**

	Arrow Global Group Holdings Limited £000	Arrow Global Limited £000	Arrow Global One Limited £000	Vesting Finance Detachering B.V. £000	Total £000
As at 31 December 2017					
Due from subsidiary undertakings	–	–	88,390	40	88,430
Due to subsidiary undertakings	(1,358)	(50)	–	–	(1,405)
	(1,358)	(50)	88,390	40	87,025

Balances relate to intercompany loans that are repayable on demand and are therefore held as current liabilities or assets. No other transactions occurred between the related parties, excluding those disclosed above.

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

23. Investments in subsidiaries and associate

Details of the Company's subsidiaries at 31 December 2018 are as follows:

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Arrow Global (Holdings) Limited (AG(H)L)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGIHL
Arrow Global Accounts Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGL
Arrow Global Europe Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGIHL
Arrow Global Finance Plc	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGIHL
Arrow Global Guernsey Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L
Arrow Global Investments Holdings Limited (AGIHL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGGHL
Arrow Global Legh Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L
Arrow Global Limited (AGL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AG(H)L
Arrow Global Luna Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AG(H)L
Arrow Global Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L
Arrow Global Massey Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L
Arrow Global One Limited (AGOL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGGP
Arrow Global Portugal Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AG(H)L
Arrow Global Portugal Investments Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGL
Arrow Global Receivables Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AG(H)L
Capquest Asset Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Capquest Debt Recovery Limited (CDRL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	CGL
Capquest Debt Recovery Services Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Capquest Group Limited (CGL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	QNL
Capquest Investments Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	CGL
Capquest Investments 2 Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Capquest Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Capquest Mortgage Servicing Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	CGL
Capquest UK Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Care Debt Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Data Verification Services Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	CGL
Erudio Customer Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Dormant	AG(H)L

23. Investments in subsidiaries and associate *continued*

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Quest Bidco Limited (QBL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	QTL
Quest Newco Limited (QNL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	QBL
Quest Topco Limited (QTL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGIHL
Western Acquisition Holdings Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	50	Trading	AGL
Mars Acquisition Limited (MAL)	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGIHL
Mars Capital Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	MAL
Mars Capital Finance Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	MAL
Bergen Capital Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	MAL
Mars Capital Management Ireland DAC	Republic of Ireland	Grand Canal House, 1 Grand Canal Street Upper, Dublin 4 D04Y7R5	100	Trading	MAL
Mars Capital Finance Ireland DAC	Republic of Ireland	Grand Canal House, 1 Grand Canal Street Upper, Dublin 4 D04Y7R5	100	Trading	MAL
Arrow Global Debt Limited (AGDL)	Guernsey	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey	100	Dormant	AGGHL
Arrow Global Guernsey Limited	Guernsey	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey	100	Dormant	AGIHL
Arrow Global Guernsey Holdings Limited (AGGHL)	Guernsey	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey	100	Trading	AGOL
Arrow Global Guernsey Management Limited	Guernsey	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey	100	Dormant	AGDL
Arrow Global Investments Holdings Italia S.R.L. (AGIHIS)	Italy	Via V. Betteloni 2, 20131 Milan	100	Trading	AGIHL
Zenith Service S.p.A. (ZSS)	Italy	Via V. Betteloni 2, 20131 Milan	100	Trading	AGIHIS
Structured Finance Management – Italy S.R.L.	Italy	Via V. Betteloni 2, 20131 Milan	50	Trading	ZSS
Arrow Global Italia S.R.L. (AGIS)	Italy	Via V. Betteloni 2, 20131 Milan	100	Trading	AGIHL
VAR Reoco S.r.l.	Italy	Via V. Betteloni 2, 20131 Milan	100	Trading	AGIS
Europa Investimenti Spa (EIS)	Italy	Via Lanzone 31, 20123 Milan	71.80	Trading	AGIS
Europa Investimenti Trading Srl (EITS)	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EIS
Marine d'Italia Srl	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EITS
Fieramosca Dieci Srl	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EIS
Vegagest SGR Spa	Italy	Via della Posta 10, 20123 Milan	72.13	Trading	EIS
Europa Investimenti Aziende Srl (EIAS)	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EIS
Europa Investimenti Gestione Attivi Srl	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EIS
Lanzone Due Srl	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EIS
Lanzone Cinque Srl	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EIS

23. Investments in subsidiaries and associate *continued*

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Europa Investimenti Corporate Finance Srl	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EIS
Lanzone Diciannove Srl	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EIS
Lanzone Quattordici Srl	Italy	Via Lanzone 31, 20123 Milan	51	Trading	EIS
Lanzone Dodici Srl	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EIS
Conserve Srl	Italy	Via Lanzone 31, 20123 Milan	100	Trading	EIS
PARR Credit S.R.L. (PCS)	Italy	Via Pieve Torina, 44–46/a, 00156 Rome	100	Trading	AGIS
New Call S.R.L.	Italy	Via Pieve Torina 44, 00156 Rome	100	Trading	PCS
PARR SH. P.K.	Albania	Kryqezimi i Rruges Irfan Tomini me Bulevardin Gjergj Fishta – Tirana	20	Trading	PCS
Strzala Sp. z o.o.	Poland	Al. Jerozolimskie nr 148, 02–326, Warszawa	100	Dormant	AG(H)L/ AGL
Capquest Debt Recovery S.A (pty) Limited	South Africa	Office Suite 15, Canal Edge 1, Tyger Waterfront, Carl Cronje Drive, Bellville, Western Cape, 7530, South Africa	100	Dormant	CDRL
AGHL Portugal Investments Holdings, S.A. (AGHLPIH)	Portugal	Av. da República, nº 25, 1º andar, Lisbon, Portugal	100	Trading	AGIHL
Gesphone – Serviços de Tratamento e Acquisição de Dívidas, S.A.	Portugal	Edifício Dom Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, Oeiras, Portugal	100	Trading	AGIHL
Redrock Capital Partners, S.A.	Portugal	Edifício Q54 D. José, Rua Quinta do Quintã, nº1, Piso 0, Fracção B, Quinta da Fonte, Oeiras, Portugal	100	Trading	AGHLPIH
Sandalgreen, Assets, S.A.	Portugal	Edifício Dom Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, Oeiras, Portugal	100	Trading	AGHLPIH
Whitestar Asset Solutions, S.A.	Portugal	Edifício Dom Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, Oeiras, Portugal	100	Trading	AGHLPIH
Hefesto STC, S.A.	Portugal	Edifício Dom Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, Oeiras, Portugal	100	Trading	AGHLPIH
Norfin Investimentos, S.A.(NISA)	Portugal	Avenida da República, nº 35, 4º, 1050–186 Lisboa–Portugal	100	Trading	AGHLPIH
Norfin SGFII	Portugal	Avenida da República, nº 35, 4º, 1050–186 Lisboa–Portugal	100	Trading	NISA
Norfin – Serviços, S.A	Portugal	Avenida da República, nº 35, 4º, 1050–186 Lisboa–Portugal	100	Trading	NISA
Amstelveste Vastgoed B.V.	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHB/VFS

23. Investments in subsidiaries and associate *continued*

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Arrow Global Investments Holdings Benelux B.V. (AGIHB)	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHL
Focum Groep B.V. (FG)	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHB
Focum Solutions B.V.	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	FG
Fiditon Holding B.V. (FH)	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHB
Focum Commerce B.V.	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	FG
Focum Finance B.V.	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	FG
Incassobureau Fiditon B.V.	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	FH
Universum Inkasso B.V. (UI)	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Non–Trading	AGIHB
Vesting Finance Detachering B.V.	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	VFH
Vesting Finance Holding B.V. (VFH)	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHB
Vesting Finance Incasso B.V.	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	VFH
Vesting Finance Servicing B.V. (VFS)	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHB
Arrow Global Benelux (Holdings) B.V. (AGBH)	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGIHB
Spark Hypotheken B.V.	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGLH
KU88 B.V.	the Netherlands	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands	100	Trading	AGLH
Arrow Global Luxembourg (Holdings) S.á.r.l. (AGLH)	Luxembourg	15 Boulevard Friedrich Wilhelm Raiffeisen, L–2411 Luxembourg	100	Trading	AGBH
Principal Residential Operating Platform Evaluating Receivables 1 S.á.r.l.	Luxembourg	15 Boulevard Friedrich Wilhelm Raiffeisen, L–2411 Luxembourg	100	Trading	AGLH
Focum Belgium (BVBA)	Belgium	Bellevue 1–3 9050 Gent, Belgium	100	Trading	AGIHB/FG

All subsidiaries are included in the Group consolidation, including where the Group does not own 100% of the ordinary shares of the company. This may arise where the Group exercises control over the relevant activity of the entity, and can use this control to impact the variability of returns from the company.

23. Investments in subsidiaries and associate *continued*

Company: investment in subsidiaries	Arrow Global One Limited £000	Total £000
At 31 December 2017 and 31 December 2018	307,500	307,500

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

The 15% interest in the Company's associate, Promontoria MCS Holding SAS (MCS), was sold on 18 October 2017. The Group had acquired an indirect 15% economic interest in MCS through a participation agreement on 15 December 2014. The terms of the participation agreement meant that the Group demonstrated significant influence over the MCS group. The associate was accounted for using the equity method.

Summarised below is a reconciliation of the movements in the carrying value of the Group's interest in MCS during 2017 until the date of disposal:

	£000
Interest in the net assets of the associate as at 1 January 2017	10,371
Foreign exchange differences	497
Share of profit in associate during the year	1,578
Dividends received from associate	(7,233)
Interest in the net assets of the associate as at 18 October 2017	**5,213**

The sale generated a gain, which was calculated as follows:

	£000
Interest in the net assets of the associate as at 18 October 2017	(5,213)
Proceeds	18,143
Foreign exchange gain	1,870
Disposal costs	(103)
Gain on disposal	**14,697**

24. Risks arising from financial instruments

Risk management

Treasury related risks

The board approves treasury policies and the treasury function manages the day-to-day operations. The board delegates certain responsibilities to the treasury and tax committee, which will be superseded by a board approved assets and liabilities committee in 2019. During 2018, the treasury and tax committee, which is chaired by the Group chief financial officer, was empowered to take decisions within that delegated authority. Treasury activities and compliance with treasury policies are reported to the board on a regular basis and are subject to periodic independent reviews and audits, both internal and external. Treasury policies are designed to manage the main financial risks faced by the Group in relation to funding and liquidity risks, counterparty credit risk and market risks being interest rate risk and foreign currency risk. This is to ensure the Group is properly funded, that financial counterparties are of appropriate credit quality and that interest rate and currency risk is managed within set limits. Policies also set out the specific instruments that can be used for risk management.

The treasury function enters into derivative transactions, principally interest rate swaps, currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's business operations. No transactions of a speculative nature are undertaken, and written options may only be used when matched by purchased options. No written options were entered into during 2018 (2017: £nil).

Liquidity risk

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

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plans for growth. The treasury policy adopted by the Group serves to reduce this risk by setting a specific policy parameter that there are sufficient committed debt facilities to cover forecast borrowings plus operational headroom plus appropriate stress testing for the next 18 months on a rolling basis. Further, the aim is to ensure that there is a balanced refinancing profile with phased maturity dates, diversification of debt funding sources and no over-reliance on a single or small group of lenders. At 31 December 2018, the Group's senior secured notes and revolving credit facility had an average period to maturity of 5.8 years (2017: 6.1 years). Total undrawn facilities as at 31 December 2018 were £39,413,000 (2017: £60,575,000).

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

24. Risks arising from financial instruments *continued*

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

Group As at 31 December 2018	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Amounts due to:					
Non-interest bearing					
Trade and other payables	**145,181**	**26,255**	**12,426**	**13,795**	**197,657**
Interest bearing					
€400 million secured senior note (2.875% plus 3-month EURIBOR)	**10,566**	**11,964**	**43,643**	**379,833**	**446,006**
€285 million secured senior note (3.75% plus 3-month EURIBOR)	**9,800**	**10,803**	**37,912**	**287,804**	**346,319**
£320 million secured senior note (5.125%)	**16,400**	**16,400**	**49,200**	**331,616**	**413,616**
Non-recourse facility	**8,978**	**2,978**	**–**	**–**	**11,956**
Bank overdrafts	**2,696**	**–**	**–**	**–**	**2,696**
Revolving credit facility[1]	**9,446**	**10,195**	**268,317**	**–**	**287,958**
Total	**203,067**	**78,595**	**411,498**	**1,013,048**	**1,706,208**

1. Reflects all drawings at 31 December 2018 being held to the facility maturity date of 02 January 2023.

Group As at 31 December 2017	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Amounts due to:					
Non-interest bearing					
Trade and other payables	81,790	4,999	10,450	1,120	98,359
Interest bearing					
€400 million secured senior note (2.875% plus 3-month EURIBOR)	10,352	10,439	39,598	390,616	451,005
€230 million secured senior note (4.75% plus 3-month EURIBOR)	9,835	9,884	34,425	208,318	262,462
£220 million secured senior note (5.125%)	11,275	11,275	33,825	239,261	295,636
Non-recourse facility	4,560	4,805	–	–	9,365
Finance lease	171	171	514	1,377	2,233
Bank overdrafts	1,332	–	–	–	1,332
Revolving credit facility[1]	5,997	6,730	172,361	–	185,088
Total	125,312	48,303	291,173	840,692	1,305,480

1. Reflects all drawings at 31 December 2017 being held to the facility maturity date of 30 March 2022.

Company As at 31 December 2018	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Amounts due to:					
Non-interest bearing					
Trade and other payables	**2,251**	**–**	**–**	**–**	**2,251**

Company As at 31 December 2017	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Amounts due to:					
Non-interest bearing					
Trade and other payables	1,405	–	–	–	1,405

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

In addition to the above, the Group has entered in to certain forward flow agreements to which it has committed to pay £6,257,000 (2017: £2,506,000) over the next five years.

24. Risks arising from financial instruments *continued*

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

	2018		2017	
	Outflow £000	**Inflow £000**	Outflow £000	Inflow £000
Not later than one month	**63,392**	**63,512**	46,644	46,361
Later than one month and not later than six months	**48,254**	**48,224**	74,450	72,139
Later than six months and not later than one year	**57**	**5**	55,072	54,343
Later than one year and not later than two years	**4**	**3**	342	220
Later than two years and not later than five years	**–**	**–**	–	–
	111,707	**111,744**	176,508	173,063

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

The above table shows the gross cash flows receivable and payable on our derivative financial instruments. Our derivative financial instruments are held across a number of counterparties; the largest net cash flow exposure to a single counterparty at 31 December 2018 is £0.3 million (2017: £1.2 million).

A maturity analysis of the Group's receivables and borrowing facilities is presented below:

As at 31 December 2018	**Portfolio investments £000**	**% of total £000**	**Borrowing £000**	**% of total £000**
Less than one year	**245,140**	**22.6**	**262,510**	**21.9**
Later than one year	**841,890**	**77.4**	**938,515**	**78.1**
	1,087,030	**100.0**	**1,201,025**	**100.0**

As at 31 December 2017	Portfolio investments £000	% of total £000	Borrowing £000	% of total £000
Less than one year	193,354	20.3	168,080	17.6
Later than one year	758,113	79.7	785,750	82.4
	951,467	100.0	953,830	100.0

This demonstrates the headroom on the Group's borrowings at 31 December 2018 in comparison to the current portfolio investment's estimated collections over an 84-month period. The value of portfolio investments shown above represents the carrying amount. The equivalent undiscounted ERC at 31 December 2018 is £1,634.8 million (2017: £1,516.9 million).

Market risk

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

Interest-rate risk

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

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

	2018 £000	2017 £000
Fixed-rate instruments		
Financial liabilities	**320,000**	220,000
	320,000	220,000
Variable-rate instruments		
Financial assets	**(92,001)**	(35,943)
Financial liabilities	**861,153**	715,104
Effect of interest-rate swaps	**(453,811)**	(399,538)
Net-variable rate	**315,341**	279,623

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24. Risks arising from financial instruments *continued*

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

	2018 £000	2017 £000
Increase in fair value of derivatives taken to equity	**1,134**	1,048
Reduction in profit before taxation	**(849)**	(874)

This sensitivity analysis is based on the following assumptions:

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

Currency risk

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

Cash flow exposure

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

Net asset exposure

A proportion of the Group's net assets are denominated in Euro. The Group limits its exposure to currency risk on non-functional funding through forward currency contracts. The statement of financial position is reported in Sterling and this means that there is a risk that a fluctuation in foreign exchange rates will have an impact on the net assets of the Group. The Group aims to minimise the value of net assets denominated in Euro by funding portfolio assets with Euro denominated borrowings where possible.

Income statement exposure

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

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

Equity and net assets	2018 £000	2017 £000
Currency		
Euro (EUR)	**10,097**	6,728
	10,097	6,728

Net profit	2018 £000	2017 £000
Currency		
Euro (EUR)	**6,837**	2,932
	6,837	2,932

The above assumes that there is no impact on retained earnings or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

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

Equity and net assets	2018 £000	2017 £000
Currency		
Euro (EUR)	**(8,261)**	(5,505)
	(8,261)	(5,505)

Net profit	2018 £000	2017 £000
Currency		
Euro (EUR)	**(5,594)**	(2,399)
	(5,594)	(2,399)

The above assumes that there is no impact on retained earnings or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

24. Risks arising from financial instruments *continued*

Credit risk

The Group's principal activity is the acquisition and management of non-performing and non-core consumer and commercial secured and real estate portfolios. Most portfolios by their nature are impaired at acquisition and the Group continually monitors cash collections that in turn inform the ERC's on which the portfolio carrying value is calculated. The ongoing risk is managed through a portfolio valuation process including modelling current expectations of recoverability based on historical information on debt types, also factoring in recoveries from collateral held on the secured portfolios and sales. Further details of the forecasting process are given in note 4 b.

A pricing credit committee is in place which includes at least two members of the executive board as well as other key members from appropriate areas of the business, including oversight by the risk management function. The Group also monitors its exposure to geographic concentration of assets. This process exists to scrutinise all aspects of a portfolio acquisition from reputational and regulatory risk through to the financial assumptions and maximum bid price.

Where portfolio investments are measured at amortised cost using the EIR method, as part of the regular monitoring process, the future cash flows in the ERCs are updated, with impairment gains/losses as a result of changes to the estimated cash flows discounted at the EIR rate. Where portfolio investments are measured at FVTPL, they are measured using a discounted cash flow model.

With the introduction of IFRS 9 in 2018, the Group's management of credit risk is now further enhanced through the modelling of multiple economic scenarios and the impact this is expected to have on future collections performance. All of the Group's portfolio investments have been classified as POCI, due to their credit-impaired nature at the date of purchase. Therefore, no consideration has been given to the staging requirements of IFRS 9 for the Group's portfolio assets. The transition to IFRS 9 led to an opening provision of £17,000,000 on the Group's assets existing at the date of transition to IFRS 9, and a lower, credit-adjusted EIR being used for new purchases post-transition.

The Group's most significant credit risk exposure is to debt portfolios. At 31 December 2018 the carrying value by geography is shown below:

	2018 £000	2017 £000
UK	**438,103**	481,900
Ireland	**29,017**	–
Portugal	**308,843**	299,100
Netherlands	**166,652**	124,900
Italy	**144,415**	45,567
	1,087,030	951,467

In the UK, the Group constructed its own proprietary data repository in 2005 and has added additional historic data on credit performance in the markets in which it operates. It now has tens of millions of records. This is used to inform collections strategies and to help establish affordable repayment plans and settlements with our customers across all geographies.

As part of credit risk, the Group is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks and foreign currency and derivative financial instruments. Counterparty risk with debt sellers is managed through contractual arrangements and warranties.

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

No collateral or credit enhancements are held in respect of any financial derivatives. The maximum credit risk on derivatives and trade receivables is the full carrying amount. The maximum exposure to counterparty risk is as follows:

	2018 £000	2017 £000
Cash and cash equivalents	**92,001**	35,943
	92,001	35,943

The table represents a worst-case scenario of the counterparty risk that the Group is exposed to. The 31 December 2018 balance is spread across a number of counterparties with the top five accounting for 72% of the total (2017: 58%). The maximum exposure to one counterparty is £47 million (2017: £7.1 million).

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

Capital risk management

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

The Group aims to maintain appropriate capital to ensure that it has a strong statement of financial position but at the same time is providing a good return on equity to its shareholders. The Group's long-term aim is to ensure that the capital structure results in an optimal ratio of debt and equity finance.

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

24. Risks arising from financial instruments *continued*

Management reviews the capital structure on an ongoing basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group's position as at 31 December 2018 was:

	2018 £000	2017 £000
Ordinary share capital and premium	**349,199**	349,189
Other reserves excluding opening IFRS 9 and IFRS 15 adjustments	**(143,343)**	(154,041)
Impact of adopting IFRS 9	**(14,000)**	–
Impact of adopting IFRS 15	**(199)**	–
Total equity and reserves	**191,657**	195,148

25. Financial instruments

Fair value estimation

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted market prices within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, using prices from observable current market transactions and dealer quotes for similar instruments and unobservable inputs such as historic performance data and the Proprietary Collections Bureau output. The portfolio investments' fair value is calculated using our ERC derived through our own in-house models. Derivative financial instruments are initially recognised, and subsequently measured, at fair value. The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Borrowings are initially measured at fair value and are subsequently held at amortised cost.

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	2018 £000	2017 £000
Liabilities:		
Foreign currency contracts	**(294)**	2,543
Interest rate swaps	**796**	322
	502	2,865
Level 3		
Assets:		
Portfolio investments	**217,974**	30,889
	217,974	30,889

There have been no transfers in or out of level 2 or level 3.

The fair value of derivative financial instruments has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at 31 December 2018.

25. Financial instruments *continued*

Reconciliation of Level 3 fair values

	2018 £000	2017 £000
As at the year brought forward	**30,889**	21,315
Reclass due to IFRS 9	**76,734**	–
Portfolio investments acquired during the year	**93,836**	11,058
Fair value gain on portfolio investments at FVTPL	**24,745**	5,298
Acquired	**8,514**	–
Collections in the year	**(23,889)**	(8,464)
Income from portfolio investments	**5,070**	710
Foreign exchange gain	**2,075**	972
	217,974	30,889

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

- estimated future cash flows, derived from management forecasts;
- the application of an appropriate exit multiple; and
- discounting using a rate appropriate to the investment and the anticipated rate of return.

Financial instruments not measured at fair value – fair value hierarchy

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

Level 3	2018 £000	2017 £000
Assets		
Portfolio investments	**869,056**	920,578
Total assets	**869,056**	920,578

There have been no transfers in or out of level 3.

The statement of financial position value of the Group's portfolio investments not measured at fair value, is derived from discounted cash flows generated by an 84-month ERC model. The inputs to the ERC model are historical portfolio collection performance data. This ERC model is updated with the core collections experience to date on a monthly basis.

Estimates of cash flows that determine the EIR are based on the Group's collection history with respect to portfolios comprising similar attributes and characteristics such as date of purchase, original credit grantor, type of receivable, customer payment histories, customer location, and the time since the original charge off.

Following acquisition, the fair value will move directionally in line with carrying amount, but may deviate as market conditions change. For more information on how the fair value of portfolio investments is calculated, please see page 126.

The Group has an established control framework covering the measurement of portfolio investment values. This includes regular monitoring of portfolio performance overseen by the portfolio review committee, which considers actual versus forecast results at an individual portfolio level, re-forecasts cash flows on a semi-annual basis, reviews actual against forecast gross money multiple, approves the latest ERC forecast, assesses the carrying value of the portfolio assets and reviews revenue recognition.

A reconciliation of the opening to closing balances for the year of the portfolio investments can be seen in note 16.

The Company did not hold any other financial instruments not measured at fair value for which a fair value needs to be calculated (2017: none).

Cash flow hedges

The Group uses foreign currency contracts ('cash flow hedges') to hedge foreign currency cash flows that are highly probable to occur within 12 months of the statement of financial position date and interest rate swaps ('cash flow hedges') to hedge those interest cash flows that are expected to occur during the period to November 2020. The effect on the statement of profit or loss and other comprehensive income will also be within these periods. An amount of £291,000 has been charged to equity for the Group in the period in respect of cash flow hedges (2017: £348,000). All hedge relationships have been effective in the year and are expected to maintain effectiveness. No charge has been made to the Company's equity.

The Group has interest rate swaps in place for a notional amount of £453,812,000 (2017: £399,534,000). In 2017 and 2018, these interest rate swaps covered current borrowings, being the floating rate Euro notes.

25. Financial instruments *continued*

Hedge effectiveness is assessed based upon the relative changes in cash flows arising from the specified portion of the Group's floating rate borrowings, relative to the change in cash flows of the interest rate swaps (using the hypothetical derivative method). The hedges are deemed to be highly effective in the current and prior period. In such hedge relationships, the main source of potential hedge ineffectiveness is counterparty credit risk, of both parties, including the Group. There are no other material sources of hedge ineffectiveness.

Interest rate swaps in place at the statement of financial position date are designated, and are effective under IFRS 9, as cash flow hedges, and their fair value has been recognised in the hedging reserve. All interest rate swaps are categorised as highly effective, so no charge has been made to the statement of profit or loss and other comprehensive income in the year (2017: no charge). No re-classifications into or out of the hedging reserve were made in relation to interest rate swaps.

Interest rate swaps at December	Weighted average interest rate 2018	Maturity date	Fair value 2018 £000	Weighted average interest rate 2017	Maturity date	Fair value 2017 £000
Euro	**(0.13%)**	**Mar 2020**	**(796)**	(0.07%)	Mar 2019	(322)

The Company did not hold any interest rate swaps at 31 December 2018 (31 December 2017: £nil).

Forward foreign exchange contracts

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

The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2018 is £35,300,000 (2017: £127,800,000). These comprise foreign currency contracts to sell sterling for a total notional of £35,300,000 (2017: £127,800,000). These contracts have maturity dates to March 2019. These contracts have been designated and are effective as cash flow hedges under IFRS 9 and, accordingly, the fair value thereof has been deferred in equity and fair value will be recycled to the statement of profit or loss and other comprehensive income in March 2019. In such hedge relationships, the main source of potential hedge ineffectiveness is counterparty credit risk, of both parties, including the Group. There are no other material sources of hedge ineffectiveness.

As at 31 December 2018 the aggregate amount of net gain/loss under forward foreign exchange contracts that have been recognised in the consolidated statement of profit or loss and other comprehensive income relating to the exposure on these anticipated future transactions is £nil (2017: £nil).

During the year, £1,202,000 (2017: £1,804,000) was recycled from equity to the statement of profit or loss, within finance costs, and other comprehensive income as a result of maturity of the short dated foreign exchange swaps during the year.

The Company did not hold any foreign exchanges swaps at 31 December 2018 (31 December 2017: £nil).

26. Financial assets and financial liabilities

Financial assets	2018 £000	2017 £000
Portfolio investments	**1,087,030**	951,467
Cash and cash equivalents	**92,001**	35,943
Trade and other receivables	**94,206**	56,885
	1,273,237	1,044,295

	2018 £000	2017 £000
Senior secured notes (excluding fees)	**935,567**	779,347
Revolving credit facility (excluding fees)	**245,587**	155,757
Bank overdrafts (excluding fees)	**2,696**	1,332
Other borrowings	**11,635**	8,908
Senior secured note interest	**5,542**	6,670
Finance lease	**–**	1,816
Derivative liabilities	**502**	2,865
Trade and other payables	**197,657**	98,359
Current tax liabilities	**7,915**	4,528
	1,407,101	1,059,582

26. Financial assets and financial liabilities *continued*

Fair values of financial assets and liabilities

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

	Fair value 2018 £000	Book value 2018 £000	Fair value 2017 £000	Book value 2017 £000
Portfolio investments	**1,100,001**	**1,087,030**	962,820	951,467
Cash and cash equivalents	**92,001**	**92,001**	35,943	35,943
Other receivables	**94,206**	**94,206**	56,885	56,885
Financial assets	**1,286,208**	**1,273,237**	1,055,648	1,044,295

The carrying value of cash and cash equivalents is deemed to be their fair value, and this would be a level 1 value. Other receivables' fair value is deemed to be materially equal to their carrying value due to their short maturity and low credit risk, being a level 3 value.

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.

	Fair value 2018 £000	Book value 2018 £000	Fair value 2017 £000	Book value 2017 £000
Senior secured notes (excluding fees)	**859,293**	**935,567**	784,166	779,347
Revolving credit facility (excluding fees)	**245,587**	**245,587**	155,757	155,757
Bank overdrafts (excluding fees)	**2,696**	**2,696**	1,332	1,332
Other borrowings	**11,635**	**11,635**	8,908	8,908
Senior secured note interest	**5,542**	**5,542**	6,670	6,670
Finance lease	**–**	**–**	1,816	1,816
Derivative liabilities	**502**	**502**	2,865	2,865
Trade and other payables	**197,657**	**197,657**	98,359	98,359
Current tax liabilities	**7,915**	**7,915**	4,528	4,528
Financial liabilities	**1,330,827**	**1,407,101**	1,064,401	1,059,582

The carrying value of the bank borrowings is deemed to be a good approximation of their fair value. Bank borrowings can be repaid within six months if the Group decides not to roll over for further periods up to the contractual repayment date. The impact of discounting is therefore negligible. These fair values would be categorised as level 3 values.

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

Derivative financial instruments are held at fair value, which is equal to the expected future cash flows arising as a result of the derivative transaction. For other financial assets and liabilities, which are all short-term in nature, the carrying value is a reasonable approximation of fair value.

IFRS 9 transition – classification and measurement

The transition to IFRS 9 resulted in a number of classification changes from previous categories from IAS 39. Under IFRS 9, the Group must, for each of its financial assets, make a 'business model' assessment, which reflects management's strategy for the asset, whether that is 'hold to collect', 'hold to collect and sell' or 'other'. For a business model to be 'hold to collect', the strategy must be to hold the asset to collect its contractual cash flows. A 'hold to collect and sell' model' would be a strategy which contemplates both holding the asset to collect contractual cash flows as well as regular asset sales. The 'other' classification is applied to any other business model. The Group has assess its business model for all its financial assets, and on the basis that any sales of assets would be infrequent, and for specific reasons such as liquidity or credit risk mitigation, that the business model for all financial assets is 'hold to collect'.

The Group must also assess the staging category of each of its financial assets, as described in note 2.1. All of the Group's portfolio investments are considered to be POCI, as set out in note 2.1. The Group has applied the low credit risk exemption for cash and cash equivalents, on the basis that all cash balances are held with investment grade banks, and therefore the credit risk is deemed to be minimal. For trade and other receivables, the Group has applied the simplified approach, as such receivables are mainly short-term and no ECL has been considered for these assets.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

26. Financial assets and financial liabilities *continued*

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Original IAS 39 classification	IFRS 9 classification	Original carrying amount under IAS 39 £000	New carrying amount under IFRS 9 £000
Financial assets				
Portfolio investments (a)	Loans and receivables	Amortised cost	843,845	826,936
Portfolio investments (b)	Loans and receivables	FVTPL (mandatory)	56,924	56,924
Portfolio investments – Loan notes (a)	Loans and receivables	Amortised cost	9,120	9,029
Portfolio investments – Loan notes (b)	FVTPL	FVTPL (mandatory)	30,889	30,889
Portfolio investments – Loan notes (c)	Loans and receivables	FVTPL (mandatory)	10,689	10,689
Cash and cash equivalents	Loans and receivables	Amortised cost	35,943	35,943
Other receivables	Loans and receivables	Amortised cost	56,885	56,885
Total Financial assets			**1,044,295**	**1,027,295**
Financial liabilities				
Senior secured notes (excluding fees)	Amortised cost	Amortised cost	779,347	779,347
Revolving credit facility (excluding fees)	Amortised cost	Amortised cost	155,757	155,757
Bank overdrafts (excluding fees)	Amortised cost	Amortised cost	1,332	1,332
Other borrowings	Amortised cost	Amortised cost	8,908	8,908
Senior secured note interest	Amortised cost	Amortised cost	6,670	6,670
Finance lease	Amortised cost	Amortised cost	1,816	1,816
Derivative liabilities	FVTPL	FVTPL (held–for–trading)	2,865	2,865
Trade and other payables	Amortised cost	Amortised cost	98,359	98,359
Current tax liabilities	Amortised cost	Amortised cost	4,528	4,528
Total financial liabilities			**1,059,582**	**1,059,582**

The only classification change which is deemed material to the Group's financial statements is the reclassification and remeasurement of the Group's portfolio investments. A full review of the Group's portfolio investments has been performed upon the transition to IFRS 9, and have concluded that the business model is 'hold to collect' for all portfolio investments.

SPPI testing is performed by the Group by assessing the nature of the underlying cash flows in the purchased loan portfolios in which it invests. The underlying contracts of the loans are examined to make this determination, and if any contractual cash flows arise which are not either interest or repayments of principal outstanding, this will fail the test. The basis of reclassifications have mainly therefore been as a result of SPPI testing conclusions, which have included several large portfolios moving to FVTPL as they failed the SPPI test.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount as at 1 January 2018 £000	Reclassification £000	Remeasurement £000	IFRS 9 carrying amount as at 1 January 2018 £000
Amortised cost financial assets				
Purchased loan portfolios:				
Opening balance	900,769			
Remeasurement		–	(16,909)	
Closing balance				**883,860**
Loan notes:				
Opening balance	19,809			
Remeasurement		–	(91)	
Closing balance				**19,718**
Cash and cash equivalents	35,943	–	–	35,943
Other Receivables	56,885	–	–	56,885
Total amortised cost	**1,013,406**	**–**	**(17,000)**	**996,406**

There were no other gains/losses as a result of reclassifications or remeasurements on transition to IFRS 9 for the Group.

26. Financial assets and financial liabilities *continued*

The following table summarises the impact of transition to IFRS 9 on the opening balance of the Group's retained earnings. There is no impact on other components of equity.

Retained earnings	Impact of adopting IFRS 9 at 1 January 2018 £000
Closing balance under IAS 39 (31 December 2017)	118,710
Recognition of expected credit losses under IFRS 9	(17,000)
Related tax	3,000
Opening balance under IFRS 9 (1 January 2018)	104,710

There was no further transitional impact of IFRS 9 when taking into account provisions for loan commitments and financial guarantee contracts under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

27. Share-based payments – Group and Company

Share incentive plan (SIP)

In 2018 (and previously April 2017, 2016, 2015 and 2014), the Group offered to all UK employees the opportunity to participate in a 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.

On 30 December 2014, the Group provided eligible employees with a free share award worth £500, with a grant date price per share of £2.29 as part of the Arrow Global Group SIP. The free shares vested during the previous year, with restrictions attached to these shares ceasing to have effect from the vesting date.

Long-term incentive plan (LTIP)

LTIP Awards 2015, 2016, 2017 and 2018

On 27 June 2018, 31 March 2017, 8 April 2016 and 19 May 2016, nil-cost share options were granted to eligible employees based on a maximum of 150% of base salary. Conditional awards were also granted to eligible Dutch employees on 27 June 2018, 31 March 2017 and 19 May 2016. The LTIP awards vest at the end of three years subject to the achievement of performance conditions. On the same dates, tax-qualifying options were granted as part of the LTIP awards ('CSOP options') to eligible UK employees.

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

On the 30 June 2015 and 15 June 2015, further awards of nil-cost share options were granted to eligible employees based on maximum of 150% of base salary. The LTIP awards vest at the end of three years, subject to the achievement of performance conditions. These vested on 15 June 2018 at 100%. CSOP options were granted to eligible UK employees on 15 June 2015.

The 27 June 2018 awards do not include the right to receive a dividend equivalent.

LTIP Awards 2015, 2016, 2017 and 2018 criteria

For each eligible employee, 50% of the LTIP awards are subject to underlying basic EPS growth criteria and vest as follows:

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

27. Share-based payments – Group and Company *continued*

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

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

LTIP Awards 2018 criteria

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

Performance condition	Percentage vesting
Less than 26% average ROE over the three performance years	0%
26% average ROE growth over the three performance years ('threshold performance')	25%
30% average ROE growth over the three performance years ('maximum performance')	100%
Between 26% and 30% average ROE growth over the three performance years	Between the threshold performance and maximum performance on a straight–line basis

LTIP Awards 2015, 2016 and 2017 criteria

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

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

LTIP Awards 2014

On 11 March 2014, nil-cost share options were granted to eligible employees based on a maximum of 150% of base salary. The LTIP awards vest at the end of three years, subject to the achievement of performance conditions. These vested on 11 March 2017 at a level of 86.04%.

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

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

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

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

Further nil-cost share option LTIP awards were made on 30 May 2014 and 8 December 2014, both of which vested at the same time as the 11 March 2014 LTIP awards and had the same criteria for vesting. A conditional LTIP award was made on 30 May 2014. This award vested during the year with restrictions attached to these shares ceasing to have effect from vesting date.

Restricted share awards

Restricted share awards were made on 10 May 2018, 31 March 2017, 19 May 2016 and 15 June 2015. These awards vest on 10 May 2020 and 31 March 2019 respectively, subject to continuity of employment with the awards made on and 19 May 2016 and 15 June 2015 vested on 19 May 2018 and 11 May 2017 respectively.

27. Share-based payments – Group and Company *continued*

Deferred share bonus plan (DSBP)

Up to 50% of the bonus earned by the executive directors is deferred into shares for up to three years via the DSBP, subject to continued employment during the vesting period. DSBP awards were made on 31 March 2017, 8 April 2016 and 9 April 2015. See page 70 for details of the bonus delivered in the form of deferred shares for the financial year 2018. The deferred shared granted on 9 April 2015 vested on 9 April 2018. Awards granted to Tom Drury on 8 April 2016 and 31 March 2017 vested on 31 December 2018.

Buy-out awards

Buy-out share awards were made on 2 January 2018, in respect to compensation of forfeited awards for Paul Cooper as a result of his resignation from his former employer. The first award vested on 18 June 2018. These remaining awards vest between 30 April 2019 to 30 April 2021, subject to continuity of employment.

Grant information

The terms and conditions of the grant are as follows:

Name	Method of settlement accounting	Number of instruments	Vesting period	Contractual life of options
Grant date/employees entitled				
Equity settled award – SIP	Equity	81,298	3 years	31 October 2016
Equity settled award – SIP	Equity	90,252	3 years	30 December 2017
Equity settled award – LTIP	Equity	1,478,751	2.3–3 years	11 March 2017
Equity settled award – LTIP	Equity	88,202	2 years	30 May 2016
Equity settled award – SIP	Equity	16,676	3 years (rolling)	30 May 2017
Equity settled award – LTIP	Equity	1,483,532	3 years	15 June 2018
Equity settled award – LTIP	Equity	32,739	3 years	15 June 2018
Equity settled award – restricted	Equity	266,008	2 years	1 May 2017
Equity settled award – SIP	Equity	55,003	3 years (rolling)	May – June 2018
Equity settled award – LTIP	Equity	1,563,299	3 years	8 April 2019
Equity settled award – LTIP	Equity	176,053	2.9 years	8 April 2019
Equity settled award – restricted	Equity	272,638	2 years	1 May 2018
Equity settled award – SIP	Equity	73,261	3 years (rolling)	April 2019
Equity settled award – DSBP	Equity	44,183	3 years	9 April 2018
Equity settled award – DSBP	Equity	77,739	3 years	8 April 2019
Equity settled award – LTIP	Equity	1,430,117	3 years	31 March 2020
Equity settled award – LTIP	Equity	74,052	3 years	31 March 2020
Equity settled award – restricted	Equity	202,312	2 years	31 March 2019
Equity settled award – SIP	Equity	50,106	3 years (rolling)	May – June 2020
Equity settled award – DSBP	Equity	65,374	3 years	31 March 2020
Equity settled award – LTIP	Equity	1,814,874	3 years	27 June 2021
Equity settled award – restricted	Equity	189,702	2 years	10 May 2020
Equity settled award – SIP	Equity	111,097	3 years rolling	May – June 2021
Equity settled award – deferred	Equity	70,891	3 years	26 March 2021
Equity settled award – buy out	Equity	18,089	n/a	18 June 2018
Equity settled award – buy out	Equity	49,951	1 year 4 months	30 April 2019
Equity settled award – buy out	Equity	70,098	2 years 4 months	30 April 2020
Equity settled award – buy out	Equity	25,491	3 years 4 months	30 April 2021

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

	2018		2017	
	WAEP	**Number of options**	WAEP	Number of options
Outstanding at the beginning of the year	**£2.90**	**4,076,095**	£2.57	4,296,354
Granted during the year	**£2.73**	**2,350,193**	£3.48	1,821,961
Forfeited during the year	**£2.88**	**(436,320)**	£3.00	(819,078)
Exercised during the year	**£2.59**	**(812,896)**	£2.47	(1,090,533)
Expired during the year	**–**	**–**	£2.46	(132,609)
Outstanding at 31 December	**£2.88**	**5,177,072**	£2.90	4,076,095
Exercisable at 31 December	**£2.53**	**718,631**	£2.29	197,851

27. Share-based payments – Group and Company *continued*

The weighted average share price at the date of exercise of share options exercised during the year was £2.54 (2017: £3.44). The share options outstanding at 31 December 2018 have a weighted average contractual life of 1.3 years (2017: 1.2 years). The weighted average fair value of options granted during the year was £2.61 (2017: £3.21). The majority of options granted to date are nil-cost options (2017: nil-cost options).

The fair value of equity settled share-based payments has been estimated as at date of grant using the Black-Scholes model. The inputs to the models used to determine the valuations fell within the following ranges:

Grant date	27 June 2018	10 May 2018	May 2018	26 March 2018	2 January 2018
Expected life of options (years)	3	2	3	3	4 months – 3 year 4 months
Share prices at date of grant	£2.49	£3.69	£2.88	£3.45	£3.93
Expected share price volatility (%)	38.2%	n/a	n/a	n/a	n/a
Risk free interest rate (%)	0.7%	n/a	n/a	n/a	n/a

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

	2018 £000	2017 £000
Equity settled share-based payment expense spread across vesting period	3,267	3,334
Total equity settled share-based payment expense recognised in the statement of comprehensive income	**3,267**	3,334

The Company holds the obligation to settle the share options; however, the benefit arises in the subsidiaries in which the employees reside, with the charge in the statement of profit or loss and other comprehensive income recharged to AGL, CDRL and the Dutch employee holding company.

Please see the directors remuneration report for further information about directors' share options.

28. Borrowings and facilities

	2018 £000	2017 £000
Senior secured notes (net of transaction fees of £14,769,000, 2017: £15,607,000)	920,798	763,740
Revolving credit facility (net of transaction fees of £3,466,000, 2017: £2,721,000)	242,121	153,036
Senior secured notes interest	5,542	6,670
Bank overdrafts	2,696	1,332
Finance lease	–	1,816
Non-recourse facility	11,635	8,908
	1,182,792	935,502
Total borrowings:		
Amount due for settlement within 12 months	**259,045**	165,360
Amount due for settlement after 12 months	**923,747**	770,142

Senior secured notes

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

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

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

On 30 March 2017, the Group issued €400 million senior secured floating rate notes due 2025 (the '2025 Notes') at a coupon of EURIBOR +2.875% per annum with EURIBOR being not less than 0%. Interest is paid quarterly in arrears. The 2025 Notes can be redeemed in full or in part on or after 1 April 2019 at the Group's option. Prior to 1 April 2019 the Group may redeem, at its option, some or all of the 2025 Notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable make-whole premium.

The proceeds from the 2025 Notes were used to redeem the existing €335 million 2021 Notes, pay the early redemption and transaction fees payable in respect of the €335 million 2021 Notes and repay drawings under the revolving credit facility.

The Euro senior notes and Sterling senior notes are secured by substantially all of the assets of the Group.

28. Borrowings and facilities *continued*

Revolving credit facility

On 4 January 2018 the commitments under the revolving credit facility were increased from £215 million to £255 million. The maturity of the facility was extended to 2 January 2023 and the margin reduced to 2.5%. On 1 November 2018 the commitments under the revolving credit facility were increased from £255 million to £285 million. Post year end on 26 February 2019, the revolving credit facility was extended to 2024, with the margin unchanged.

On 24 February 2017 the commitments under the revolving credit facility were increased from £180 million to £215 million. Upon the redemption of the €335 million 2021 Notes on 30 March 2017, the maturity of the facility was extended to 31 March 2022.

Finance lease liabilities

Due to the acquisition of Zenith Service S.p.A., in the prior year, the Group's liabilities included a finance lease in relation to a property which was payable as follows. The property was sold during 2018 and the finance lease liability extinguished.

	Future minimum lease payments		Interest		Present value of minimum lease payment	
	2018 £000	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Less than one year	**–**	171	**–**	57	**–**	114
Between one and five years	**–**	685	**–**	192	**–**	493
More than five years	**–**	1,377	**–**	168	**–**	1,209
Total payable	**–**	2,233	**–**	417	**–**	1,816

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Senior secured notes £000	Senior secured notes interest £000	Revolving credit facility £000	Other borrowings (a) £000	Total liabilities relating to cash flow from financing activity £000	Interest rate swap liabilities and forward exchange contracts £000	Total £000
Balance at 31 December 2017	763,740	6,670	153,035	28,849	952,294	2,280	954,574
Changes from financing cash flows							
Movements in other banking facilities	–	–	89,040	2,052	91,092	–	91,092
Proceeds from senior notes (net of fees)	345,847	–	–	–	345,847	–	345,847
Redemption of senior notes	(203,467)	–	–	–	(203,467)	–	(203,467)
Early repayment of bond	(13,623)	–	–	–	(13,623)	–	(13,623)
Repayment of interest on senior notes	–	(36,522)	–	–	(36,522)	–	(36,522)
Payment of deferred interest	–	–	–	(257)	(257)	–	(257)
Bank and other similar fees paid	–	–	–	(5,326)	(5,326)	(846)	(6,172)
Total changes from financing cash flows	128,757	(36,522)	89,040	(3,531)	177,744	(846)	176,898
Changes arising from obtaining or losing control of subsidiaries or other businesses	–	–	–	52,209	52,209	–	52,209
Sale of asset	–	–	–	(1,902)	(1,902)	–	(1,902)
The effect of changes in foreign exchange rates	7,565	15	790	518	8,888	30	8,918
Changes in fair value	–	–	–	–	–	(2,392)	(2,392)
Other changes	7,565	15	790	50,825	59,195	(2,362)	56,833
Liability-related							
Interest expense on senior secured notes	–	35,379	–	–	35,379	–	35,379
Amortisation of capitalised transaction fees -bond	2,078	–	–	–	2,078	–	2,078
Interest on senior secured notes	2,078	35,379	–	–	37,457	–	37,457
Interest expense and similar charges on bank loans	–	–	–	5,371	5,371	–	5,371
Amortisation of capitalised transaction fees -revolving credit facility	–	–	763	–	763	–	763
Interest and similar charges on bank loans	–	–	763	5,371	6,134	–	6,134
Bond refinancing costs	18,658	–	–	–	18,658	–	18,658
Interest rate swap and forward exchange contract hedge costs	–	–	–	12	12	1,556	1,568
Other interest including interest on finance lease	–	–	–	1,177	1,177	–	1,177
Capitalised transaction fees	–	–	(1,507)		(1,507)	–	(1,507)
Acquisition of subsidiary, deferred consideration	–	–	–	(6,471)	(6,471)	–	(6,471)
Total liability-related and other changes	28,301	35,394	46	50,914	114,655	1,556	116,211
Balance at 31 December 2018	**920,798**	**5,542**	**242,121**	**76,232**	**1,244,693**	**628**	**1,245,321**

Financial statements

28. Borrowings and facilities *continued*

a) Other borrowings

	2018 £000	2017 £000
Other borrowings	**11,635**	10,724
Bank overdrafts	**2,696**	1,332
Other liabilities relating to cash flow from financing activity	**76,232**	16,793
	90,563	28,849

29. Dividend

Dividends paid of £21,158,000 have been included in these financial statements, being the 2017 final dividend of 8.1p per share and the 2018 interim dividend of 4.0p per share. A final dividend for 2018 has been proposed of 8.7p per share, taking the total declared and proposed dividends for the year ended 31 December 2018 to 12.7p, being 35% of underlying profit after tax. The proposed final dividend is subject to approval at the annual general meeting and has, therefore, not been included as a liability in these financial statements.

The 2018 interim dividend was declared at 50% of the 2017 final dividend with the subsequent final dividend being proposed based on the underlying profit after tax for the year.

The ex-dividend date for the final dividend is 6 June 2019 with a record date of 7 June 2019 and a payment date of 12 July 2019. Shareholders will have the opportunity to elect to reinvest their cash dividend and purchase existing shares in the Company through a dividend reinvestment plan with an election date of 21 June 2019.

30. Acquisition of subsidiary undertaking

Current year acquisitions

a. Parr Credit s.r.l.

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

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

Effect of the acquisition

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

	Total £000
Intangible assets	264
Property, plant and equipment	84
Investments in associates	49
Cash and cash equivalents	21
Trade and other receivables	3,581
Current tax receivables	197
Trade and other payables	(4,387)
Accruals	(298)
Provisions	(868)
Bank overdraft	(5)
Total identifiable net assets	**(1,362)**
Goodwill on acquisition	22,533
	21,171
Fair values of consideration:	
Cash	13,011
Deferred consideration	4,106
Contingent consideration	4,054
	21,171
Cash reduction at acquisition date:	
Cash consideration	13,011
Offset by cash and cash equivalents acquired	(21)
	12,990

30. Acquisition of subsidiary undertaking *continued*

Goodwill of €25,624,000 (£22,533,000) was created as a result of this acquisition. The primary reason for the acquisition was to create scale and servicing capabilities across multiple asset classes in the Italian market following the purchase of Zenith in 2017.

In the period from acquisition to 31 December 2018, Parr Credit contributed income of £13,900,000 and a loss after tax contribution of £2,100,000 to the consolidated results for the year. If the acquisition had occurred on 1 January 2018, Group total income would have been higher by an estimated £2,600,000 and profit after tax would have been lower by an estimated £400,000.

b. Europa Investimenti S.p.A (EI)

On 13 September 2018, the Group acquired 100% of the share capital of EI. EI originates and manages Italian distressed debt investments. The acquisition builds on the 2017 acquisition of Zenith, and subsequent acquisition of Parr Credit in 2018, providing a platform to drive returns from corporate and SME assets. The total undiscounted consideration for the acquisition is €69,500,000 (£62,092,000) including deferred and contingent consideration.

Contingent consideration is payable in one tranche. It is included at its fair value, at the maximum amount contractually agreed. The contingent consideration is based on the business meeting certain cumulative income targets by the end of 2022.

Effect of the acquisition

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

	Total £000
Deferred tax asset	1,066
Other non-current assets	248
Portfolio investments	11,853
Cash and cash equivalents	5,280
Trade and other receivables	2,171
Tax receivables	382
Trade and other payables	(6,191)
Provisions	(3,636)
Tax payable	(212)
Total identifiable net assets	**10,961**
Goodwill on acquisition	48,219
	59,180
Fair values of consideration:	
Cash	31,716
Deferred consideration	13,304
Contingent consideration	14,160
	59,180
Cash reduction at acquisition date:	
Cash consideration	31,716
Offset by cash and cash equivalents acquired	(5,280)
	26,436

Goodwill of €53,972,000 (£48,219,000) was created as a result of this acquisition. The primary reason for the acquisition was to create scale and servicing capabilities across multiple asset classes in the Italian market following the purchase of Zenith in 2017 and Parr in 2018.

In the period from acquisition to 31 December 2018, EI contributed income of £13,600,000 and profit after tax contribution of £6,500,000 to the consolidated results for the year. If the acquisition had occurred on 1 January 2018, Group total income and profit after tax would not have been materially different at £361,796,000 and £29,969,000 respectively, due to the majority of EI's 2018 deals closing in the period since acquisition.

c. Norfin Investimentos S.A. (Norfin)

On 21 December 2018, the Group acquired 100% of the share capital of Norfin. Norfin manages real estate investments in Portugal. The acquisition allows the Group to offer a comprehensive set of servicing solutions to investors in Portugal. The total undiscounted consideration for the acquisition is €43,100,000 (£38,731,000) including expected contingent consideration.

Contingent consideration is split into two tranches and is based upon the assets under management (AUM) growth and margins achieved in the business by the end of 2020. If such targets are met, a share of the AUM over the performance threshold will be paid as contingent consideration in the first half of 2021. There is an upper limit to contingent consideration payable of €33,000,000.

30. Acquisition of subsidiary undertaking *continued*

Effect of the acquisition

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

	Total £000
Property, plant and equipment	262
Customer intangible	2,068
Fee receivables	1,209
Cash and cash equivalents	2,471
Trade and other receivables	1,745
Trade and other payables	(1,992)
Total identifiable net assets	**5,763**
Goodwill on acquisition	31,335
	37,098
Fair values of consideration:	
Cash	16,445
Contingent consideration	20,653
	37,098
Cash reduction at acquisition date:	
Cash consideration	16,445
Offset by cash and cash equivalents acquired	(2,471)
	13,974

An intangible asset of €2,301,000 (£2,068,000) has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from existing customer relationships. Goodwill of €34,644,000 (£31,135,000) was created as a result of this acquisition. The primary reason for the acquisition was to expand the offering of servicing solutions from the Group to investors in Portugal.

In the period from acquisition to 31 December 2018, Norfin did not contribute any material income or profit after tax to the 2018 Group result. If the acquisition had occurred on 1 January 2018, Group total income would have been higher by an estimated £5,900,000 and profit after tax would have been an estimated £500,000 higher.

d. Bergen Capital Management Limited (Bergen)

On 1 July 2018, the Group acquired 100% of the share capital of Bergen. Bergen manages corporate real estate secured loans. The acquisition provides the Group with additional servicing capabilities in this asset class in the UK. The total undiscounted consideration for the acquisition is £5,200,000.

Effect of the acquisition

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

	Total £000
Property, plant and equipment	13
Cash and cash equivalents	92
Trade and other receivables	34
Trade and other payables	(83)
Current tax liability	(20)
Total identifiable net assets	**36**
Goodwill on acquisition	5,164
	5,200
Fair values at consideration:	
Cash	4,200
Deferred consideration	1,000
	5,200
Cash reduction at acquisition date:	
Cash consideration	4,200
Offset by cash and cash equivalents acquired	(92)
	4,108

Goodwill of £5,164,000 was created as a result of this acquisition. The primary reason for the acquisition was to enable the Group to take advantage of opportunities in the small ticket UK commercial real estate secured loan market.

30. Acquisition of subsidiary undertaking *continued*

In the period from acquisition to 31 December 2018, Bergen contributed no material income or profit after tax contribution to the consolidated results for the year.

Prior year acquisitions

a. Zenith Service S.p.A.

On 28 April 2017, the Group acquired 100% of the ordinary share capital of Zenith Service S.p.A. ('Zenith'). Zenith has a similar principal activity to that of the Group and is a leading master servicer in the Italian structured finance market, and provider of various structuring and securitisation services.

The Group paid cash consideration of €11,327,000 (£9,630,000) together with deferred consideration of €7,551,200 (£6,420,000). Deferred consideration is payable on the one-year anniversary of the transaction and has been included at its fair value leading to an overall consideration of €18,588,000 (£15,803,000).

Effect of the acquisition

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

	Total £000
Intangible assets	2,517
Property, plant and equipment	3,087
Deferred tax asset	965
Cash and cash equivalents	4,555
Other receivables	3,803
Trade and other payables	(7,610)
Deferred tax liability	(672)
Current tax liability	(727)
Total identifiable net assets	**5,918**
Minority interest	(187)
	5,731
Goodwill on acquisition	10,072
	15,803
Fair values of consideration:	
Cash	9,630
Deferred consideration	6,173
	15,803
Cash reduction at acquisition date:	
Cash consideration	9,630
Offset by cash and cash equivalents acquired	(4,555)
	5,075

An intangible asset of €2,872,000 (£2,442,000) has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from contractual customer relationships. Goodwill of €11,847,000 (£10,072,000) was created as a result of this acquisition. The primary reasons for the acquisition were to enter the Italian market via the acquisition of an existing well-established company, and to create scale and servicing capabilities across multiple asset classes.

Trade and other payables in the acquired entity include a finance lease liability of €2,054,000 (£1,746,000) in relation to a property.

In the period from acquisition to 31 December 2017, Zenith contributed income of £8,681,000 and profit after tax of £1,055,000 to the consolidated results for the period. If the acquisition had occurred on 1 January 2017, Group total income would have been an estimated £331,942,000 and profit after tax would have been an estimated £41,498,000.

The minority interest, relating to a non-controlling interest in Zenith's subsidiary, Structured Finance Management – Italy S.r.l (SFM), was recorded as the non-controlling party's proportionate interest in the fair value of the identifiable assets of SFM at the acquisition date.

30. Acquisition of subsidiary undertaking *continued*

b. Hefesto

On 31 March 2017, the Group acquired 100% of the ordinary share capital of Hefesto STC. Hefesto is a regulated Portuguese special purpose vehicle for the securitisation of loans and receivables. Whitestar acts as servicer and administrator of Hefesto. The Group paid cash consideration of €743,000 (£636,000) which was equal to the fair value of the net assets acquired. The assets and liabilities acquired comprised €1,880,000 (£1,608,000) of cash, €1,181,000 (£1,010,000) of trade and other liabilities and €44,000 (£38,000) of other receivables. These figures are after fair value adjustments totalling €66,000 (£56,000).

c. Mars Capital

On 30 November 2017, the Group acquired 100% of the ordinary share capital of Mars Capital Finance Limited ("Mars Capital").

Mars Capital is the leading UK and Irish mortgage servicing business and will strengthen the Group's asset management capabilities and reinforce its leading position in the UK, while providing strategic entry into Ireland.

The Group will pay £4,178,000 in cash together with deferred cash consideration of £10,000,000. The deferred consideration is payable on the four-year anniversary of the transaction. There is an amount of the deferred consideration contingent on the timing of the commencement of a new servicing contract. The deferred consideration has been included at its fair value, £8,581,000, taking into account management's best estimate of the contingent amount payable. This gives an overall consideration of £12,759,000.

Effect of the acquisition

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

	Total £000
Intangible assets	3,011
Property, plant and equipment	162
Cash and cash equivalents	80
Other receivables	3,214
Trade and other payables	(3,937)
Deferred tax liability	(462)
Current tax liability	(148)
Total identifiable assets	**1,920**
Goodwill on acquisition	10,839
	12,759
Fair values of consideration:	
Cash	4,178
Deferred consideration	8,581
	12,759
Cash reduction at acquisition date:	
Cash consideration	4,178
Offset by cash and cash equivalents acquired	(80)
	4,098

An intangible asset of £2,568,000 has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from contractual customer relationships. Goodwill of £10,839,000 was created as a result of this acquisition. The primary reasons for the acquisition were to enter the Irish market, which offers significant debt purchasing and servicing potential via the acquisition of an existing well-established company, whilst enhancing the Group's asset management capabilities.

In the period from acquisition to 31 December 2017, Mars Capital contributed income of £696,000 and profit after tax of £79,000 to the consolidated results for the period. If the acquisition had occurred on 1 January 2017, Group total income would have been an estimated £327,315,000 and profit after tax would have been an estimated £41,915,000.

Measurement period

Whilst the Group believes the acquisition accounting fair value adjustments to be complete, IFRS 3 allows a measurement period of up to one year after acquisition to reflect any new information obtained about facts and circumstances that were made available to the Group at the acquisition date. If any additional material changes are required within this measurement period, these will be reflected in the 2019 half year results of the Group.

31. Commitments

In December 2018, the Group entered into three binding contract to buy portfolio investments for £13,257,000. As payments have not been made and title has not yet passed, the portfolio investments and associated purchase price liability have not been recognised within the financial reporting period.

32. Notes to the cash flow statement

	Group Year ended 31 December 2018 £000	Group Year ended 31 December 2017 £000	Company Year ended 31 December 2018 £000	Company Year ended 31 December 2017 £000
Profit before tax	**39,991**	50,559	**154,298**	23,944
Adjusted for:				
Collections in the year	**411,588**	342,210	**–**	–
Income from portfolio investments	**(193,932)**	(179,538)	**–**	–
Share in profit in associate	**–**	(1,578)	**–**	–
Fair value gain on portfolios	**(24,745)**	(5,298)	**–**	–
Net impairment gain	**(50,727)**	(63,081)	**–**	–
Gain on sale of associate	**–**	(14,697)	**–**	–
Depreciation and amortisation	**14,235**	11,729	**–**	–
Profit on sale of property	**(731)**	–	**–**	–
Loss on disposal of intangible assets	**508**	–	**–**	–
Net interest payable	**66,792**	71,660	**–**	–
Foreign exchange gains	**(2)**	(611)	**–**	–
Equity settled share-based payment expenses	**3,267**	3,334	**–**	–
Operating cash flows before movement in working capital	**266,244**	214,689	**154,298**	23,944
Increase in other receivables	**(28,132)**	(13,224)	**(91)**	(2)
Increase in amounts due from subsidiary undertakings	**–**	–	**(130,029)**	(5,848)
Increase/(decrease) in trade and other payables	**15,645**	5,915	**198**	(14)
Cash generated by operations	**253,757**	207,380	**24,376**	18,080
Income taxes and overseas taxation (paid)/received	**(9,428)**	(9,598)	**(720)**	64
Net cash flow from operating activities before purchases of portfolio investments	**244,329**	197,782	**23,656**	18,144
Purchase of portfolio investments	**(263,350)**	(225,734)	**–**	–
Purchase price adjustment relating to prior year	**–**	474	**–**	–
Net cash (used in)/generated by operating activities	**(19,021)**	(27,478)	**23,656**	18,144

33. Events occurring after the reporting period

On 26 February 2019, the revolving credit facility was extended to 2024, with the margin unchanged.

Additional information (unaudited)

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

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

	31 December 2018 £000	31 December 2017 £000
Continuing operations		
Income	**361,796**	319,015
Operating expenses		
Collection activity costs	**(117,961)**	(117,638)
Other operating expenses	**(113,296)**	(88,344)
Total operating expenses	**(231,257)**	(205,982)
Operating profit	**130,539**	113,033
Finance income	**76**	9
Finance costs	**(48,210)**	(44,317)
Share of profit in associates	**–**	1,578
Underlying profit before tax	**82,405**	70,303
Taxation charge on underlying activities	**(18,297)**	(13,697)
Underlying profit after tax before non-controlling interest	**64,108**	56,606
Non-controlling interest	**–**	(44)
Underlying profit after tax	**64,108**	56,562
Underlying Basic EPS (£)	**0.37**	0.32
Underlying tax rate	**22.2%**	19.5%

Reconciliation of reported to underlying costs

	2018			2017		
	Reported £000	**Adjustments £000**	**Underlying £000**	Reported £000	Adjustments £000	Underlying £000
Collection activity costs	**(119,041)**	**1,080**	**(117,961)**	(118,468)	830	(117,638)
Other operating expenses	**(135,972)**	**22,676**	**(113,296)**	(94,603)	6,259	(88,344)
Finance costs	**(66,868)**	**18,658**	**(48,210)**	(71,669)	27,352	(44,317)

Collection activity cost adjusting items relate to 'One Arrow' costs incurred during the current and prior year.

Of the £42,414,000 (2017: £34,441,000) adjusting items total, £18,658,000 (2017: £27,352,000) related to bond refinancing costs, £14,717,000 were acquisition related costs, and £9,039,000 related to 'One Arrow' costs. Bond refinancing costs consisted of a £13,623,000 cost related to the call premium, along with £5,035,000 due to a non-cash write-off of related transaction fees, in connection with the 2023 Notes.

Of the £14,717,000 (2017: £2,444,000) acquisition related costs, £3,068,000 related to acquisitions in the current year, and £11,649,000 related to contingent consideration payments on previous periods' acquisitions.

The remaining £9,039,000 (2017: £4,645,000) related to 'One Arrow', which was a Group-wide programme which began in 2017 and came to an end in 2018, and included the development of a revised governance structure, office consolidations and IT/change investment across the Group. Given the aggregate size and nature of this Group-wide transformation programme, these costs have been presented as profit adjusting items as they are considered to warrant separate presentation. The Group expects this will drive longer term benefits into future periods.

'Adjusted EBITDA' means profit before interest, tax, depreciation, amortisation, foreign exchange gains or losses and other adjusting items. The Adjusted EBITDA reconciliations for the year to 31 December are shown below:

Reconciliation of net cash flow to adjusted EBITDA	31 December 2018 £000	31 December 2017 £000
Net cash flow used in operating activities	**(19,021)**	(27,478)
Purchases of portfolio investments	**263,350**	225,734
Purchase price adjustment relating to prior year	**–**	(474)
Income taxes paid	**9,428**	9,598
Working capital adjustments	**12,487**	7,309
Amortisation of acquisition and bank facility fee	**273**	273
Proceeds from sale of property	**3,759**	–
Dividends and interest from associate	**–**	7,233
Disposal of intangible asset	**–**	1,332
Acquisition costs	**14,717**	2,444
One Arrow costs	**9,039**	4,645
Adjusted EBITDA	**294,032**	230,616
Reconciliation of core collections to adjusted EBITDA		
Income from portfolio investments including fair value and impairment gains	**269,404**	247,917
Portfolio amortisation	**142,184**	94,293
Core collections (includes proceeds from disposal of portfolio investments)	**411,588**	342,210
Other income	**91,661**	71,098
Operating expenses	**(255,013)**	(213,071)
Depreciation and amortisation	**14,235**	11,729
Foreign exchange gains	**(2)**	(611)
Amortisation of acquisition and bank facility fees	**273**	273
Proceeds from sale of property	**3,759**	–
Dividends and interest from associate	**–**	7,233
Disposal of intangible asset	**508**	1,332
Share-based payments	**3,267**	3,334
Acquisition costs	**14,717**	2,444
One Arrow costs	**9,039**	4,645
Adjusted EBITDA	**294,032**	230,616
Reconciliation of operating profit to adjusted EBITDA		
Profit for the year	**29,969**	39,915
Underlying finance income and costs	**48,134**	44,308
Taxation charge on ordinary activities	**10,022**	10,644
Share of profit on associate	**–**	(1,578)
Gain on sale of associate	**–**	(14,697)
Adjusting finance costs	**18,658**	27,352
Operating profit	**106,783**	105,944
Portfolio amortisation	**142,184**	94,293
Depreciation and amortisation	**14,235**	11,729
Foreign exchange gains	**(2)**	(611)
Profit on sale of property	**(731)**	–
Amortisation of acquisition and bank facility fees	**273**	273
Proceeds from sale of property	**3,759**	–
Share-based payments	**3,267**	3,334
Disposal of intangible asset	**508**	1,332
Dividends and interest from associate	**–**	7,233
Acquisition costs	**14,717**	2,444
One Arrow costs	**9,039**	4,645
Adjusted EBITDA	**294,032**	230,616

Glossary

'Adjusted EBITDA ratio' represents the ratio of Adjusted EBITDA to core collections. See page 31 for a reconciliation of the movement in portfolio investments under IFRS reconciled to cash ERC.

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

'APM' means alternative performance measures.

'AUM' means assets under management.

'Average net assets' is calculated as the average quarterly net assets from 2017 to 2018 as shown in the quarterly and half yearly statements. In comparative periods this was calculated as the average annual net assets.

'Cash interest cover' represents interest on senior secured notes, utilisation and non-utilisation revolving credit facility fees and bank interest to Adjusted EBITDA.

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

'CGU' means cash-generating unit.

'Collection activity costs' represent the direct costs of collections related to the Group's portfolio investments, such as salaries, commissions paid to third-party outsourced providers, credit bureau data costs and legal costs associated with collections.

'Core collections' or 'collections' means cash collections on the Group's existing portfolio investments including ordinary course portfolio sales and put backs. Core collections is a key metric as it represents the Group's most significant cash inflow. It is also a key component of adjusted EBITDA which is used to monitor the Group's leverage position.

'Cost income ratio' see 'total cost-to-income ratio'.

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

'Creditors' means financial institutions or other initial credit providers to consumers, certain of which entities choose to sell paying accounts or non-paying accounts receivables related to debt purchasers (such as the Group).

'CSA' means Credit Services Association.

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

'Defaulted debt' means a debt where a customer has breached the repayment terms governing that debt such that it is unlikely to be paid. Under the Consumer Credit Act 1974 there are specific legal obligations which require a customer to be sent the relevant statutory default notice(s) after which the customer's agreement may ultimately be terminated. Other types of debts may also be defined as defaulted in the event that they remain unpaid for a period of 90 days or more, if there is not an acceptable arrangement in place to bring the account back up to date, in which case the creditor or lender may reasonably believe that the relationship has broken down. Under the Data Protection Act 1990 it is a requirement that any organisation seeking to register a default with a credit reference agency must also send a notice of intention to file a default, this notice is very similar in nature to that required under the Consumer Credit Act both of which give the debtor 28 days to bring the account back up to date before action is taken.

'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.

'DSBP' means the Arrow Global deferred share bonus plan.

'EBITDA' means earnings before interest, taxation, depreciation and amortisation.

'EBT' means employee benefit trust.

'ECL' means expected credit losses.

'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.

'84-month ERC' and '120-month ERC' (together 'gross ERC'), mean the Group's estimated remaining collections on portfolio investments over an 84-month or 120-month period, respectively, representing the expected future core collections on portfolio investments over an 84-month or 120-month period (calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time).

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

'FCA' means the Financial Conduct Authority.

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

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

'GFC' means global financial crisis.

'Gross money multiple' means core collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, all divided by the purchase price for each portfolio, excluding REO purchases and purchase price adjustments relating to asset management fees.

'IB' means the Investment Business.

'IFRS' means EU adopted international financial reporting standards.

'Income from AMS' includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-group income for these services.

	2018 £000
Third party AMS Business income	91,661
Intra-group AMS income	40,645
AMS Business income	**132,306**

'IPO' means initial public offering.

'Leverage' is secured net debt over Adjusted EBITDA.

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

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

'Merger reserve' represents the reserve generated upon consolidation of the Group following the Group reconstruction as part of the IPO where Arrow Global became the parent company.

'NCI' means non-controlling interest.

'Net debt' means the sum of the outstanding principal amount of the senior secured notes, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of portfolio investments, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after taking out of the Group's assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt for the year ended 31 December 2018 is as follows:

	2018 £000	2017 £000
Cash and cash equivalents	(92,001)	(35,943)
Senior secured notes (pre-transaction fees net off)	935,567	779,347
Revolving credit facility (pre-transaction fees net off)	245,587	155,757
Secured net debt	**1,089,153**	899,161
Deferred consideration – portfolio investments	12,031	15,309
Deferred consideration – business acquisitions	59,922	15,200
Senior secured loan notes interest	5,542	6,670
Bank overdrafts	2,696	1,332
Other borrowings	11,635	10,724
Net debt	**1,180,979**	948,396

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

'NPL' means non-performing loan.

'OCI' means other comprehensive income.

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

'Own share reserve' comprises the cost of the Company's ordinary shares held by the Group. At 31 December 2018, the Company held 1,030,766 ordinary shares of 1p each, held in an employee benefit trust. This represents 0.6% of the Company share capital at 31 December 2018.

'Paying account' means an account that has shown at least one payment over the last three months or at least two payments over the last six months.

'Pay-out ratio' represents the total amount of dividends paid out divided by the underlying profit after tax.

'POCI' means purchased or originated credit impaired

'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.

'PwC' means PricewaterhouseCoopers.

'RCF' means revolving credit facility.

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

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

'Secured loan to value ratio' represents the drawn revolving credit facility, senior secured notes and bank overdrafts (all pre-transaction fees net off), less cash to 84-month ERC.

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

'Secured net debt' see table in 'net debt' definition.

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

'SMART' means aligning the leadership teams across the Group around our Mission, Vision and Strategy.

'SME' means small and medium-sized enterprises.

'SPPI' means solely payments of principal and interest.

'TCF' means the treating customers fairly FCA initiative.

'Total cost-to-income ratio' is total operating expenses over total income.

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

'TSR' means total shareholder return.

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

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

'Underlying return on equity' represents the ratio of underlying profit after tax attributable to equity shareholders, to average shareholder equity.

Shareholder information

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United Kingdom

Company secretary
Stewart Hamilton

Auditor
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Legal advisors
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London
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Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Financial calendar for 2019
- Announcement of 2018 full-year results
  28 February 2019
- Announcement of the 3 months to 31 March 2019 results
  9 May 2019
- Annual general meeting
  4 June 2019
- Ex-dividend date for 2018 final dividend
  6 June 2019
- Record date for 2018 final dividend
  7 June 2019
- Close of dividend reinvestment plan elections
  21 June 2019
- Payment date of 2018 final dividend
  12 July 2019
- Announcement of 2019 half-yearly results
  8 August 2019
- Announcement of the 9 months to 30 September 2019 results
  12 November 2019
- Full-year end
  31 December 2019

Annual general meeting
The forthcoming annual general meeting of the Company will take place at The Cavendish Hotel, 81 Jermyn Street, St. James, London, SW1Y 6JF, on Tuesday, 4 June 2019 at 9.30am. Notice of the annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appear in the document accompanying this annual report & accounts.

Shareholder information and website
Equiniti Limited is our registrar, and they offer many services to make managing your shareholding easier and more efficient. You can find out further information about the Group and view this annual report & accounts, results, other announcements and presentations, together with the latest share price information on the Group's website at www.arrowglobalir.net.

Shareview
If you wish to receive electronic communications and manage your shareholding online please visit the website of our Registrar, Equiniti Limited, at www.shareview.co.uk and click to register at the top of the page.

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

By phone:
UK: 0371 384 2030
From overseas: +44 121 415 7047
Lines are open from 08.30 to 17.30, Monday to Friday, excluding public holidays in England and Wales.

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