Annual Report and Accounts 2019

The Arrow *Advantage*

What culture means to me

"It's about tackling exciting challenges, knowing you have talented and supportive colleagues with you."

Louis Merle,
Senior partner manager, UK

"Arrow's culture is special. It's fast-paced and driven, but because of its entrepreneurial spirit, it feels like a family."

Francesco Ferraiuolo,
WhiteStar Asset Solutions S.r.l head of finance and Arrow Italy FP&A leader

“Collaborating with colleagues from across Europe means we are open to new ways of doing things and learning from one another.”

Remco Ooms,
Team lead collections and operational implementations, Vesting Finance, Netherlands

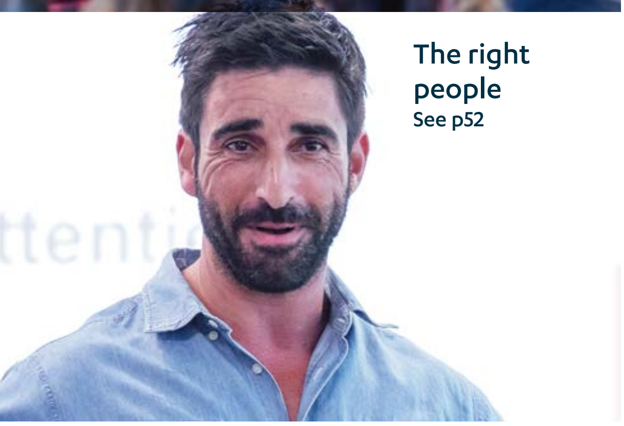
“Working together in a safe, supportive environment where we are allowed to experiment in the pursuit of innovation and change.”

Ana Semedo,
Legal manager, Whitestar, Portugal

“At Arrow, we don’t sit still. We constantly challenge ourselves to be better and more effective. Our customer is at the centre of everything we do in order to achieve results in the right manner.”

Tara Daly,
Team leader primary servicing, Mars Capital Finance, Ireland

Introduction and contents



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

We are evolving our model by developing a discretionary Fund Management business in order to capitalise on market opportunities. We are confident we will succeed because we have the right proposition, strategy, model, culture and people.

Financial highlights

Total income
£339.5m -6.2%
(2018: £361.8m)

Profit before tax
£51.3m +28.3%
(2018: £40.0m)

Basic earnings per share (EPS)
20.0p +17.6%
(2018: 17.0p)

Full-year dividend per share
13.1p +3.1%
(2018: 12.7p)

Asset Management and Servicing business EBITDA margin
23.9% +3.7ppts
(2018: 20.2%)

Leverage
3.4x
(2018: 3.7x)

84-month ERC
£1,817.9m +11.2%
(2018: £1,634.8m)

120-month ERC
£2,035.4m +3.2%
(2018: £1,972.1m)

Operational highlights

Funds Under Management (FUM)
€838.0m
(2018: nil)

Core collections
£442.3m +7.5%
(2018: £411.6m)

Free cash flow
£261.4m +13.3%
(2018: £230.7m)

Underlying cost: income ratio
60.9% +3.0ppts
(2018: 63.9%)

Underlying financial highlights

Underlying profit before tax
£78.1m -5.2%
(2018: £82.4m)

Underlying return on equity (ROE)
29.5% -5.3ppts
(2018: 34.8%)

Underlying basic earnings per share (EPS)
33.0p -10.8%
(2018: 37.0p)

Important notes:
IFRS, cash metrics and underlying results are important to understand the key drivers of the business. Reconciliations on pages 170 to 173 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 170 to 179.

The Arrow Advantage

The right model *See p22*

Structure: How we are optimally organised to deliver our strategy

The right people *See p52*

Values: What guides our individual decision making and behaviour

The right strategy *See p16*

Clear strategic priorities are detailed in our strategy

VALUES

We're Brave and Creative

We're Trusted and Valued

We do the Right Thing

We Succeed Together

STRUCTURE

Investment business | Asset Management and Servicing | Fund Management

Fund Management and Origination, Commercial and Asset Management, Operations and Asset Servicing, Group Functions

STRATEGY

1. Focus on strong consistent returns in the Investment business
2. To grow our specialist capital light Asset Management and Servicing business

CULTURE

Ambitious, Sustainable, Diverse, Collaborative, Personal Accountability Trust, Fast-paced

The right culture *See p40*

Our culture defines Arrow and our unique points of differentiation

The brands we trade under

capquest | Mars Capital | Erudio Student Loans | Bergen | drydensfairfax solicitors | Vesting Finance | Focum | Whitestar Asset Solutions

Arrow is a unique business. We have a compelling vision and a purpose that resonates with all our stakeholders. Our organisational structure will deliver our strategy and together this will ensure we deliver long-term sustainable growth. We are guided by our values and culture which provide consistency across the Group and help to make Arrow a great place to work.

The right proposition *See p10*

Purpose: What we are doing for all our stakeholders – it is our philosophical heartbeat. Our stakeholders include:

- Customers
- Shareholders
- Employees
- Clients
- Communities

Vision: An aspirational description of what we want to achieve in the future

PURPOSE

Building Better Financial Futures

VISION

The Innovative and Valued Partner in Credit and Asset Management

3. To be a leading player in our chosen markets
4. To transform the customer journey within our industry
5. To attract and retain talent

"We recognise that to be successful in the long-term we need to have the right approach in place that ensures that we continue to operate ethically, give back to local communities and help to safeguard the environment for future generations."

Evolving the strategy to position Arrow as a market leading integrated alternative asset manager

It is my great pleasure to introduce another set of annual report and accounts at such a pivotal time in Arrow's development. At the Group's Capital Markets day in November 2018, management set out our strategy for the next five years. One of the key targets was to double revenues from the business' capital light Asset Management and Servicing business (AMS). Developing the Group's nascent Fund Management business has formed a vital role in this. Since then, the Group has delivered this goal much faster than planned and raised €838.0 million in total capital commitments, with a target to reach total funds under management (FUM) of €2.0 billion by the end of 2020. This demonstrates the attractiveness of the asset class which the Group specialises in, as well as the strong track record Arrow has which showcases through-the-cycle returns that appeal to sophisticated investors.

Arrow's transition into the alternative asset management area represents a shift away from its traditional peer group and into a space where, as a true market leader, we can provide long-term attractive and sustainable return opportunities for its diverse investment client base. Given the commercial and regulatory pressure forcing the need for a vast array of assets to move from bank balance sheets and into the capital markets, I am confident that this move represents a long-term sustainable growth model that will prove rewarding for Arrow's shareholders.

Another year of financial delivery

Delivering the pivot into being a less capital-intensive business has required an immense amount of focus within the Group. Despite this, Arrow has achieved another good year of operational delivery within its core businesses, with increased cash generation resulting in finishing the year within the new lower leverage target range of 3.0x-3.5x. This was achieved whilst maintaining strong returns on equity during the period.

This year, the Group introduced a new dividend policy, increasing the threshold pay-out from 25%-35% of underlying net income to at least 35% of underlying net income. The Group believes that this better reflects the enhanced future cash generating ability of the business as it continues to shift to a more capital light model. As such, I am pleased to propose that shareholders receive a full year dividend of 13.1p, representing a 40.0% pay-out ratio.

Ensuring we have the right corporate culture

Arrow's management team understands the importance of how the right corporate culture drives employee engagement, satisfaction and productivity. Since joining Arrow our Group chief executive officer, Lee Rochford, has been focused on aligning the Group's culture with our strategy and has been committed to making Arrow a place where its people love to work. In 2019, the Group undertook a comprehensive country-wide programme to identify the behaviours that are essential for our new segmental structure to be successful. It's pleasing to see that these have been put right at the heart of everything we do, ensuring that an engaged and motivated employee base will help to deliver excellent customer outcomes and financial results – creating value for shareholders.

Arrow's Environmental, Social and Governance (ESG) programme

We recognise that to be successful in the long-term we need to have the right approach in place that ensures that we continue to operate ethically, give back to local communities and help to safeguard the environment for future generations. In 2019, Arrow formed a dedicated ESG working group led by our Group chief operating officer, Dave Sutherland. We are committed to enhancing our ESG performance and are developing a structured roadmap defining our key areas of focus and development. While we already

"Arrow's management team understands the importance of how the right corporate culture drives employee engagement, satisfaction and productivity."

Jonathan Bloomer
Chairman

report a set of Key ESG factors (see page 50), our roadmap intends to build on this platform, pinpointing specific areas of focus to deliver against internal and external expectations. Arrow's operations are intertwined with stakeholders across the financial services industry. The board is therefore focused on ensuring best practice across the entire range of the Group's activities. At the consumer level, this means placing strong emphasis on customer treatment and outcomes. We are committed to working closely with relevant regulatory bodies, including the FCA, to ensure that we continue to deliver best practice and favourable customer outcomes.

Experienced board and management team

The 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 it is exciting to see the pivot to become an integrated alternative asset manager being executed much faster, and at much greater scale, than originally planned. I am also delighted to welcome Matt Hotson, Group chief financial officer, to the board. Matt has experience of leading FTSE100 and FTSE250 finance functions and has already brought an increased focus on organisation and efficiency to the Group. His track record of driving value for shareholders at other highly cash generative companies is particularly apposite in light of the Group's shift to a more capital light model.

Lee continues to lead 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

It has been a pivotal year where Arrow took its first exciting steps to raise significant third-party funds to invest in its large and attractive market. This clearly marks an ambition to become an integrated asset manager, underlined by the target to reach €2.0 billion of total FUM – a highly ambitious size for a first-time fund raise. As funds under management continue to grow in the coming years, and the Group delivers an increasing proportion of its earnings from recurring capital light Fund Management and Asset Management and Servicing fees, this will drive significant value for shareholders.

Finally, I would like to thank my fellow board members, Arrow's senior leadership team and all of the Group's employees for the exceptional work they have done in 2019. Raising a first-time fund at such scale, in such a short time frame, is an impressive feat and one which marks the start of an exciting transformation for the Group. A transformation of this scale is designed to deliver significant benefits in the medium-term, and I appreciate the patience shown by our shareholders who share my view of the value accretion potential that the Group's pivot to a more capital light model will bring.

When viewed alongside the current strength of our balance sheet, the Group's progress in 2019 leaves us in a very strong position for 2020 and exciting prospects beyond that.

Jonathan Bloomer
Chair
12 March 2020

Delivering on our capital light strategy

Continuing to deliver against key operating metrics

The business performed well against its key operating metrics in 2019. Collections and returns in the Investment business remained strong and investment volumes were at record levels of £303.7 million. Revenues and margins in our Asset Management and Servicing business (AMS) also grew and margins have already reached our medium-term target of mid-20s percent. This solid operational performance helped increase our free cash flow generation by 13.3% to £261.4 million, continuing to allow us to strike the right balance between allocating capital to invest for future growth, paying dividends and deleveraging. We finished the year within our new lower leverage range of 3.0x-3.5x net debt to adjusted EBITDA and continue to target the lower end of this range over time. Profit before tax increased 28.3% to £51.3 million and it is proposed that shareholders receive dividend per share growth of 3.1% to 13.1p – the seventh consecutive year of progressive dividend delivery.

Executing the strategic pivot to a more capital light model

It has been a pivotal year for Arrow as we continue to focus on the business' shift to a more capital light alternative asset management model. Our vision is to be 'The Innovative and Valued Partner in Credit and Asset Management' and to build an alternative investment business that appeals to investors looking access high yielding assets. We have a long track record of investing our own, and our clients', capital into the assets we specialise in and have consistently grown the number of assets we service. The next logical step was to build a Fund Management business where we could invest third-party capital at scale, alongside Arrow's balance sheet on a discretionary basis into our large market opportunity. In December, we announced that we had raised an initial €838.0 million of total Fund Management capital commitments from a diverse range of investors, by both geography and investment style, signalling the first significant step on this journey. We have been hugely encouraged by the amount of investor demand we have encountered and are targeting €2.0 billion of total funds under management (FUM) by the end of 2020. When viewed in the context of our five-year targets, the growth of our Fund Management business reinforces the execution of a successful capital light strategy. This will see us drive gross AMS revenues, which include internal AMS revenues, from the current 36.4% of gross total revenues to towards 50.0%, as well as sustain gross AMS EBITDA margins of at least mid-20s percent, in line with our medium-term targets.

"It has been a pivotal year for Arrow as we continue to focus on the business shift to a more capital light model and evolution into a truly integrated asset management business."

Lee Rochford
Group chief executive officer

Restructuring the Group to accommodate the integrated asset management model

The Group is already well positioned to manage third-party funds, with many of the required personnel already in place. As a result, we have performed a predominantly internal restructuring process to ensure the Group is positioned to drive the capital light Fund Management strategy. Zach Lewy, our founder, will run the Fund Management business as its chief executive officer, while also remaining chief investment officer of the Group. Oliver Stratton, our Group chief commercial officer, will ensure that we deploy the most effective collections strategies and that our client relationships are well managed. Dave Sutherland, our Group chief operating officer will continue to manage the pan-European operations of the Group. Below the Group executive committee level, we have developed a streamlined reporting structure where senior members of the business with strong industry experience, are leading their respective origination, underwriting, analytics and servicing teams on a country basis. This has been implemented alongside the development of a robust Group-wide governance structure that ensures close alignment between Arrow and the Fund Management business.

A business model built to take advantage of the significant market opportunity

We have been extremely successful in putting in place the building blocks for our Fund Management vision. In recent years, we have positioned ourselves to capture the massive market opportunity we have by building two interdependent business lines – IB and AMS. They serve our wide client franchise and provide each other with off-market deals. We have carefully created this platform by acquiring twelve servicing businesses that enable us to target, and invest in, high margin niches in attractive markets. It is a highly efficient platform that gives us relevance, pricing power and off-market deal flow and I am particularly proud that over 70.0% of our deals were off-market in 2019 – a true testament to our differentiated business model and quite unique in financial services. The 'One Arrow' investment programme ensured that we successfully integrated these businesses, instilling the right culture, oversight, capability and resourcing at the centre necessary to turn our acquisitions into a single pan-European business capable of operating at scale.

Building a differentiated Fund Management business to capture more value

We are confident that we have a unique and compelling market offering for our Fund Management business. Importantly, we do not compete head-on with the large Global and European debt funds that are the most prolific purchasers of assets in this space. Given we originate more niche assets outside of these investors' very large target deal size and concentrated approach, many of these institutions like to co-invest with us on assets that we originate and are our clients. Furthermore, few institutional fund investors have our local presence. The combination of our local, in-market origination teams and our centralised structuring and investment team, combined with regulated, specialist servicing platforms on the ground, means we can originate smaller deals away from competitive auctions at higher returns. When combined with the significant market opportunity offered by our platform, there is clear demand from alternative asset investors to commit capital to our investment strategies.

The impact of rapidly building a Fund Management business and pivoting towards a more capital light model

I'm extremely proud of the transformation the business has undergone in 2019, the long-term value creation a more capital light model will bring is significant. Executing this pivot has not just involved raising a fund but building of an entirely new business line, at the same time as reconfiguring the rest of the business to support it. As we are still a relatively small business, we have had to prioritise building the Fund Management business over other activities that might have been more accretive to earnings in the short-term, sacrificing that short-term performance for the larger long-term prize. The demand placed on the wider Arrow team in order to achieve this in such a short time has demanded an enormous amount of dedication over and above their day-to-day roles. For this extra effort, I extend my sincere thanks to everyone at Arrow who has been involved.

Focus on risk management

We have built a robust business that has a strong counter-cyclical element to it and that can generate returns despite weaker economic environments. Execution is key and we are aware of the importance of delivering against our targets and building a Fund Management business that supports capital light revenue growth and deleveraging over the long-term. Regulation is clearly something we focus on and we look to maintain strong relationships with all the regulatory authorities in our countries of operation. While changes in regulation cannot be predicted with certainty, we have been careful to move into markets that we consider have more mature regulatory frameworks. We are also experts in managing our business to ensure the right customer outcomes and to deliver our goal of building better financial futures for all our stakeholders.

No impact from Coronavirus to date but active ongoing monitoring of the situation

We are closely monitoring the developing Coronavirus situation and it is currently too soon to say what impact this will have on the global economy and how long it may last. Our immediate focus is on the health and welfare of our colleagues, as well as ensuring continuity of service for our customers and clients. We have fully instituted our response plans and, at this stage, there has been no detrimental impact on our business. This includes Italy where, in February, collections were running ahead of target. Prudent management of our resources remains a priority and we are taking a cautious view of capital deployment and risk-adjusted pricing in the short term. With over 70% of our deals transacted off-market, we are in a good position to carefully evaluate the risks of any portfolio we underwrite and have flexibility around the timing of investments. Prior experience of operating during a downturn means we expect any impact on cashflows that we do see to be largely timing related rather than due to any ultimate loss. The benefit of having materially reduced our individual transaction sizes in recent years is that we are not over-exposed to any specific portfolio under-performing.

No material impact from Brexit

We continue to monitor the ongoing Brexit situation closely for any impact it may have on the Group's operations. As the majority of our revenues are in Euros and not Sterling, we remain relatively well insulated from any sudden foreign exchange impact related to the UK's departure from the European Union.

A message for the entire Arrow team

Businesses are only as good as their employees and I believe we have built a great team at Arrow. The external recognition we have received this year is testament to this. Our Portuguese servicing business, Whitestar, won 'Best Asset Management Service Provider Portugal 2019', as well as the 'Top Employer Portugal 2020' certification by the Top Employers Institute. Moreover, the Group was shortlisted for three awards at the 2019 Credit Strategy awards. A personal highlight for me has also been travelling round the business as part of our 'SMART story' roadshow, celebrating the successes of local teams and outlining the exciting journey the Group is embarking on as it transforms into an alternative asset manager.

Outlook

Arrow remains well positioned to react robustly to the fast-moving macro-economic environment in 2020. Our prudence in refinancing the balance sheet in recent years means we have long liabilities with no debt maturing before 2024. When combined with nearly €1 billion of freshly raised capital committed to our Fund Management business and ready to deploy, we remain optimistic for the business' prospects. We continue to target €2.0 billion of total FUM and welcome the significant operational and funding flexibility this provides moving forward. The market we operate in is large and becoming increasingly more active as European financial institutions are encouraged to deleverage and transfer assets off their balance sheets and into the capital markets. Our strong origination operation allows us to target the most attractive niches within this asset flow and that continues to translate into the strong returns that are attractive to both us and our fund investors. When I look further ahead over the next three years, I remain confident in our ability to continue to grow our FUM, deploy these funds at attractive IRRs and charge predictable Fund Management and AMS fees for our services. Successfully executing this will mean that the Group's transition to a more capital light business model will continue to accelerate, supporting the key elements of our five-year targets – to double AMS revenues, reduce leverage, increase cost efficiencies and grow returns to shareholders.

Lee Rochford
Group chief executive officer
12 March 2020

Creating a culture steering committee

Having the right culture in place is essential for long-term sustainable growth. Our Culture Steering Group was established as the central focus for all cultural activity, ensuring a positive correlation between our aspirational culture and strategy as well as an alignment of all systems and institutional practices.

The right proposition

The Arrow Advantage allows the Group to combine its strong investment expertise with its pan-European servicing platforms, unlocking value for a wide range of investors and enabling us to deliver better financial futures for all our stakeholders.

Delivering the Arrow Advantage for clients

"We aim to offer the best possible service for our clients, fulfilling their requirements by valuing and purchasing portfolios they need to divest and servicing their assets."

Richard Roberts,
Head of origination and corporate development

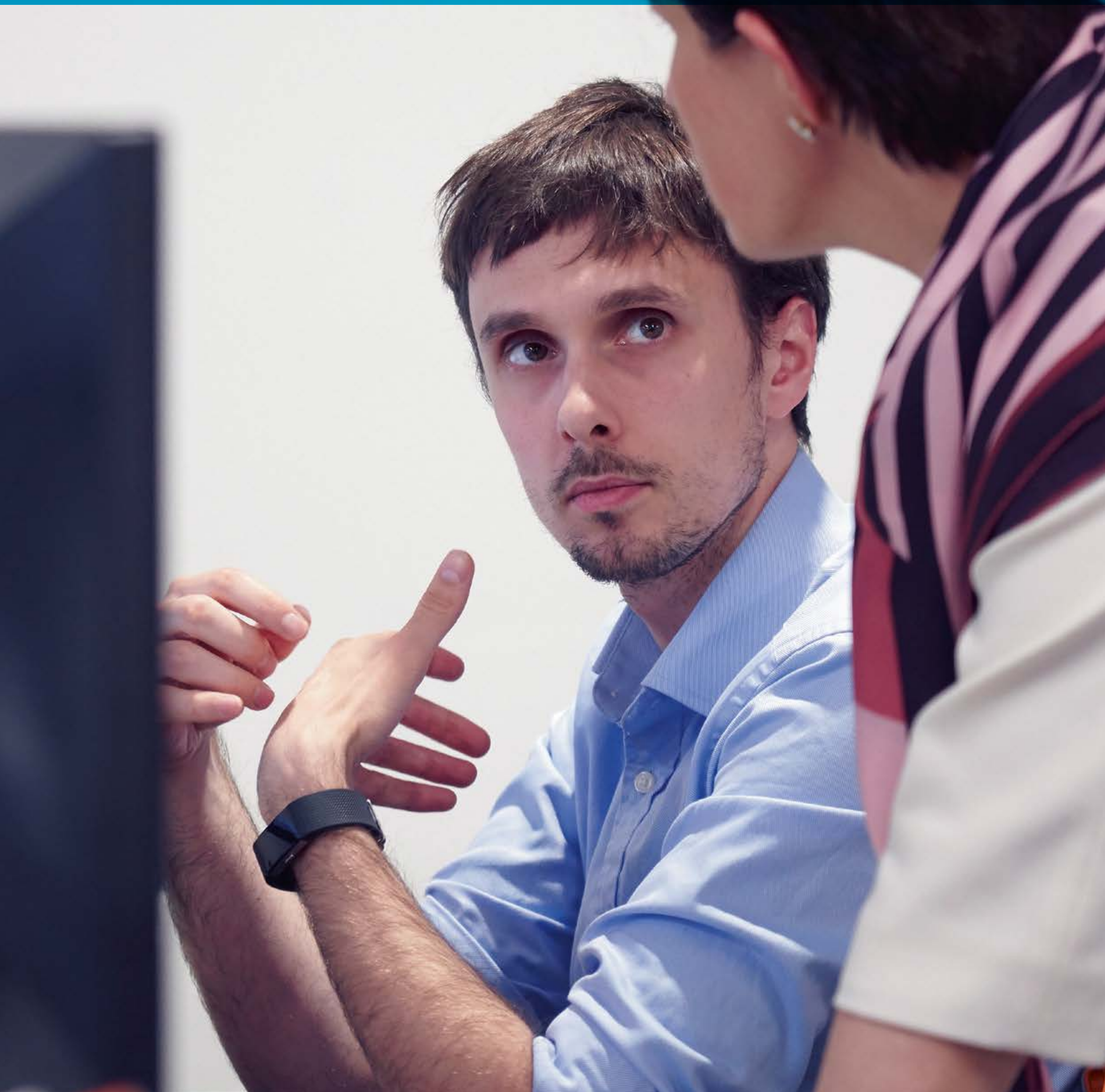
Delivering the Arrow Advantage for shareholders

"We create value for our shareholders by investing our capital at attractive returns and generating capital light revenue from the servicing of third-party assets and from Fund Management fee income."

Duncan Browne,
Head of investor relations

Arrow's proposition is orientated around our DNA as a long-term investor in the non-performing loan and non-core asset sector. Arrow's stakeholders benefit from our fifteen-year track record of investing our own capital across over 600 deals, with the ability to service both our own, and third-party assets, as well as the ability to increasingly deploy capital at attractive returns for sophisticated investors via our growing Fund Management business.

Arrow's local presence and expertise allows us to be a specialist in identifying attractive, granular assets in high-returns niches in our chosen geographies.

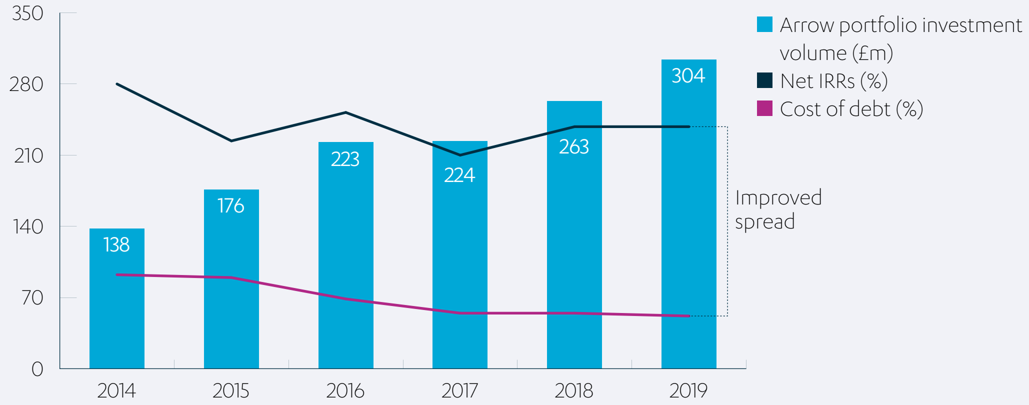


We are specialists in unlocking value from high-return niches

Arrow specialises in targeting high yielding and granular assets that are often smaller in size and therefore below the target volume thresholds of the largest credit funds investing in the sector.

- Arrow targets three core asset classes, comprising unsecured and secured non-performing, and performing portfolio investments
- Typical portfolio investments are granular, containing hundreds or thousands of loans, providing diversification within and across portfolio investments
- Portfolio investments typically require a significant amount of operational management expertise to efficiently convert from distressed state into beneficial cash-flowing assets
- Arrow's target assets can trade at high-teen gross returns – this can significantly increase when purchasing in a dislocated market

Arrow has increasingly co-invested with third-party capital to capture the full scale of market opportunity
Fund Management will enable Arrow to capture more of the market opportunity



Creating broad value for our stakeholders

Customers
Our goal is to deliver better financial futures for our customers by enabling them to service their debt in a more affordable way and to rebuild their credit score. Excellent customer outcomes are a core focus for the Group and contribute to how our staff get rewarded.

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 and in return we offer challenging and rewarding job opportunities and career paths alongside attractive remuneration.

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 , as well as a range of debt charities and advisory firms, including StepChange, Payplan and Christians Against Poverty.

Shareholders
By operating with integrity and striving to deliver against our plans and strategy, we aim to build long-term value for our investors.

Clients
We exist to help our clients create value. We enable our bank clients to transfer assets from their balance sheets into the capital markets – encouraging a stronger financial system – and assist our institutional clients with valuing and servicing the assets that they own, creating value for both us and them.

The Arrow DNA

Arrow has a track record of over 600 deals, generating attractive returns. Our deep local market connections provide prime access to off-market opportunities.

Investment business

Specialist debt investor

Arrow's investment strategy is highly differentiated from the typical large credit fund. Arrow's local operating platforms and operational expertise allow us to focus on smaller, high-return niches. This has resulted in the majority of Arrow's deals being executed outside of competitive auctions in off-market bilateral trades – in 2019, over 70% of Arrow's investments were transacted off-market. Arrow also has a track record of co-investing with investment clients to diversify risk.

Asset Management and Servicing

Rapidly growing capital light income

Arrow services a large amount of assets for both its own investment business and for its clients. Arrow's co-investment strategy with its investment clients means it increasingly services entire portfolios where it has only a small balance sheet equity exposure, earning servicing fees from other capital providers, which drives capital light revenues. In 2019, gross AMS revenue formed 36.4% of gross total Group revenue.

Fund Management

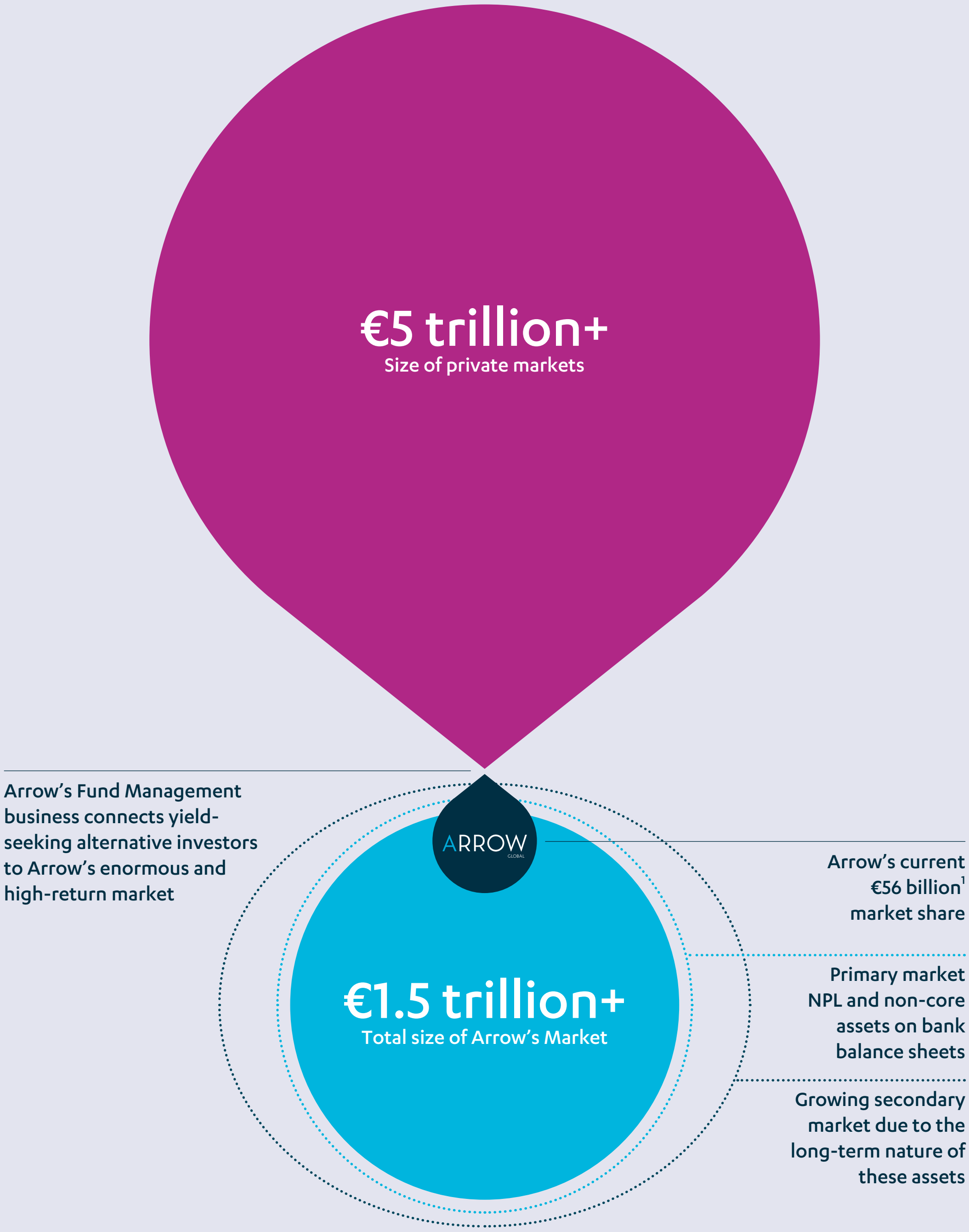
Developing the discretionary Fund Management business

With our strong track record of successfully investing our capital into assets and servicing assets on behalf of clients, developing a discretionary Fund Management business was the logical next step. Investor demand for the exposure that Arrow can provide to our specialist, high-return asset class is strong from a wide range of alternative investors. Arrow has already raised €838.0 million of total capital commitments, with a target to achieve €2.0 billion of total FUM by the end of 2020.

Read more about our specialist platform on p15

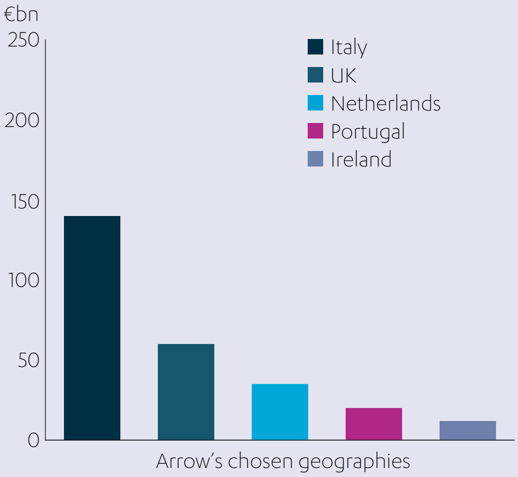
Arrow connects the large yield-seeking alternative investment sector to its enormous market of high return assets

Increasing regulatory and accounting pressure on EU banks is forcing the transfer of assets from bank balance sheets into capital markets. The subsequent future secondary trades and the formation of new stock through the regular credit cycles, means that Arrow has an enormous pipeline of investment opportunities to selectively choose from.

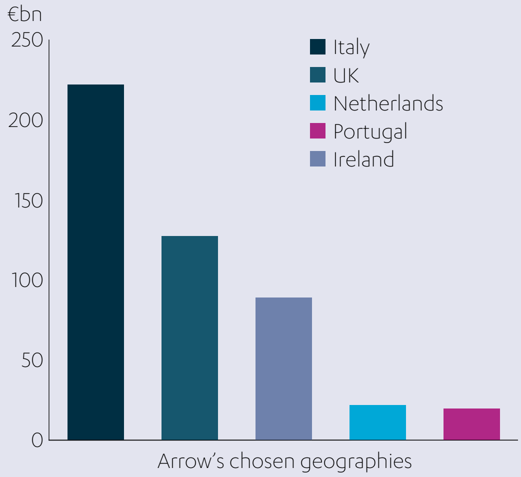


1. Gross Book Value of total assets currently on Arrow's platform, including third-party assets.

Euros of European NPLs in chosen markets[1] (€bn)



Completed deals by country since 2014[1] (€bn)



1. Sources: Deloitte deleveraging Europe 2019 report and European Banking Authority risk dashboard.

European banks remain under growing pressure

- Transformational restructuring of banks' balance sheets
- Strong regulatory tailwinds expected to drive an acceleration of asset sales in the coming years
- New requirements for minimum levels of impairment recognition

Our market provides a growing pipeline of opportunities

Highly active primary market:

- Over €1.5 trillion total European NPL and non-core credit market, with structural inefficiencies not present in more mature markets such as the US
- Arrow's target geographies provide circa €1 trillion addressable market of both primary and secondary sales – with the Arrow Platform ideally positioned to underwrite and service a wide range of asset classes
- Strong growth in new lending across Europe (mainly for mortgages and consumer credit) providing future NPL flow

Growing secondary market:

- Over €800 billion of portfolio sales acquired by global debt funds and European debt funds over the last six years
- Many debt funds will soon reach end of life, however NPL portfolios typically continue to collect far beyond many of these funds' distribution periods
- Arrow is well positioned to invest in this wave of secondary deal flow

Strong franchise – bank clients rely on Arrow's services

- Arrow is a reliable purchaser of assets that can be relied on to transact in good faith
- Arrow has strong customer culture, governance and oversight, which means, banks can have confidence that their customers will be treated fairly
- Arrow has established relationships with a wide range of clients meaning a high proportion of purchases can be off-market

Longer term outlook

EU banking market is large and fragmented

- EU banks significantly more capital-intensive than US counterparts
- Lack of consolidation in the EU market
- Heavy reliance on local and co-operative banks – typically overly reliant on interest margin

Transformational restructuring of bank balance sheets

- New requirements on minimum levels of impairment recognition
- Recent NPL backstop creates forced write-offs for the first time
- EU banks need to sell assets to comply with regulation, which should drive an expected acceleration of asset sales in the coming years
- €1.5 trillion assets need to leave European banks to meet capital ratios, cost-income ratios and returns on capital
- ECB's 'Asset Quality Review' encourages NPL sales even for strong banks given provisioning requirements and rating agency impact

When sold, European assets have to stay in regulated servicers

- Many assets are well-suited to local servicing platforms such as Arrow's – enables attractive returns from assets sold by banks and via secondary sales
- Arrow has the market positioning and operational capability to invest in these niche assets
- Regulated servicers have a structural advantage to be able to participate in the full asset life

We are specialists in unlocking value from high-return niches

Arrow specialises in targeting high yielding and granular assets that are often smaller in size and therefore below the target volume thresholds of the largest credit funds investing in the sector

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- Portfolio investments typically require a significant amount of operational management expertise to efficiently convert from distressed state into beneficial cash-flowing assets
- Arrow's target assets can trade at mid-teens net IRRs – this can significantly increase when purchasing in a dislocated market

The right strategy

The Arrow Advantage plays a key role in allowing us to implement the right strategy to drive sustainable shareholder value.

Delivering the Arrow Advantage for customers and employees

“Our goal is to transform the customer journey within our industry, using leading data and analytics to ensure excellent customer outcomes. To be best in class, we need the best people working for us. We look to attract talent with exciting career prospects and retain valued employees by providing a competitive package of pay and benefits.”

Lesley Peel,
Head of talent

Delivering the Arrow Advantage for shareholders

“We leverage our experience and expertise to generate strong returns in our Investment business and to grow capital light revenues by growing our Fund Management and Asset Management and Servicing businesses.”

Phil Shepherd,
Group treasurer

Arrow aims to be a leader in all of our chosen markets and to leverage our pan-European footprint to originate attractive assets and drive strong returns in our Investment business. The Group is also focused on increasing our capital light revenues by growing Asset Management and Servicing revenues. Growing FUM within our Fund Management business will grow management fee income and increase the volume of assets the Group services, both driving capital light revenues.

By striving to transform the customer journey within our industry, we ensure we have the right customer focus to drive positive outcomes for all of our stakeholders. When combined with our focus on attracting and retaining the best talent, Arrow's strategy is optimally positioned to deliver value.

The Arrow engine for growth

We believe we have the right strategy in place to drive growth and create value for our shareholders.

Strategic priorities

1. Focus on strong consistent returns in the investment business

2. To grow our specialist capital light Asset Management and Servicing business

3. To be a leading player in our chosen markets

4. To transform the customer journey within our industry

5. To attract and retain talent

Our approach	Progress in 2019	Key priorities in 2020
• Target high-return niches • Leverage expertise in granular asset classes • Use local knowledge and experience of our local in-country teams to drive performance • Maintain underwriting discipline • Maintain diversity by geography and asset class • Invest in a large number of smaller deals to mitigate concentration risk • Invest in assets that provide returns significantly above our cost of capital	• Maintained strong underwriting performance of 104% • Generated Net IRRs of 17.0%, significantly above our cost of debt of 3.7% • Created a diverse investment vintage by geography and asset class • £303.7 million invested at an average deal size of £3.9 million	• Continue to invest prudently alongside the Fund • Drive collections performance • Focus on generating mid-teens returns across a diversified vintage • Stay alert for signs of deterioration in the economies of any of our countries
• To increase capital light servicing revenues in our AMS business • To drive increased volumes from the capital provided by our Fund Management business through our servicing platforms, driving servicing revenues • To increase FUM in our Fund Management business, increasing recurring revenue from management fees • To manage the Fund Management business prudently over the long-term, resulting in performance fees • Ensure our servicing platforms provide value for us and our clients	• Gross revenues in our AMS business increased by 5.9% to £140.1 million • Announced our inaugural Fund launch with €838.0 million of capital commitments • Invested in our servicing platforms to maximise performance and efficiency	• Continue to grow AMS revenues supported by contracts from discretionary Fund Management business • Targeting €2.0 billion in total capital commitments by end 2020 • Maintain focus on offering our clients excellent service and solutions
• 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 • 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	• Purchased £303.7 million of portfolios at attractive returns • Invested in an efficiency programme to streamline our businesses and improve margins • Our Portuguese servicing business, Whitestar, won Best Asset Management Service Provider Portugal 2019 at the International Investor Magazine awards • Continued the integration of newer businesses into our pan-European platform	• Continue to drive operational excellence throughout the Group • Maintain strong relationships with regulatory bodies
• 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	• Shortlisted for three categories in the Credit Strategy 'Collections and Customer Service' awards 2019, including 'Best Customer Service Provider', 'Debt Purchaser of the Year', and 'Excellence in Training Award' • 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 • Customer engagement via digital routes continued to increase	• Continue to focus on excellent customer outcomes • Increase customers' digital interaction with us • Maintain staff incentives based on positive customer outcomes
• We understand that to be the best in one's industry it is vital to attract the best talent • We aim to attract talent with experience from other 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 • 80 winners of the employee recognition scheme for displaying the Group's values	• Continue to cultivate a culture orientated around our Group values that rewards positive customer outcomes and promotes an enjoyable working atmosphere • Reward highflyers 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

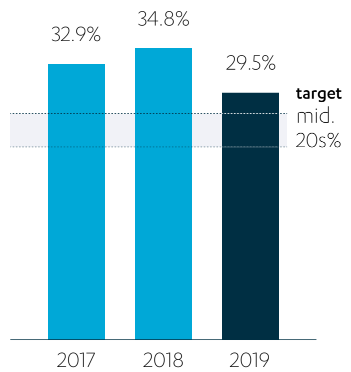
Measuring our performance

Our KPIs are linked to our long-term strategic goals and allow investors to track our performance.

Underlying ROE

29.5%

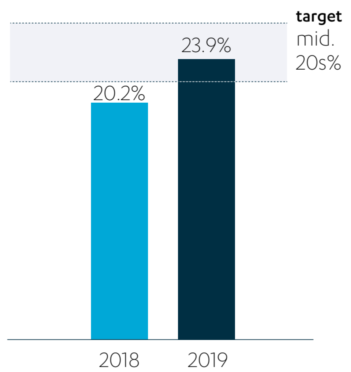
(2018: 34.8%)



AMS EBITDA margin

23.9%

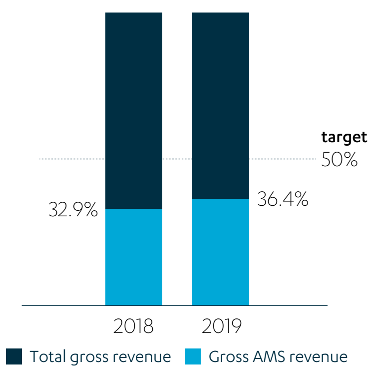
(2018: 20.2%)



Gross AMS revenue share

36.4%

(2018: 32.9%)



Description

Underlying ROE

- Arrow aims to achieve an underlying ROE in the mid-20s per cent through the cycle

AMS EBITDA margin

- Arrow has a five-year target from FY 2018 to increase AMS margins from a level of high-teens per cent to mid-20s per cent

Gross AMS revenue share

- Arrow also has a five-year target from FY 2018 to double the AMS business' share of the Group's total gross income to around 50.0%

Link to strategy

Underlying ROE

- Arrow's ability to source high return assets through its unique origination pipeline translates into strong earnings generation
- The capital light revenue from the AMS business and Fund Management business are also highly accretive to ROE and should benefit this metric over time
- All three of Arrow's business lines have strong counter-cyclical attributes which provides the confidence to give through-the-cycle guidance

AMS EBITDA margin

- Arrow sees significant potential for margin enhancement as we continue to grow our AMS and Fund Management businesses
- The Group's Fund Management is high margin and will contribute to margin expansion in the business as it grows and matures

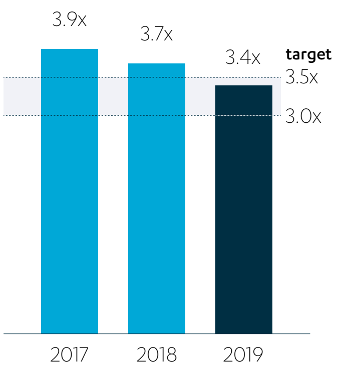
Gross AMS revenue share

- The Group has continued to increase the AMS business' share of total income in the year to 36.4%
- The growth of the Fund Management business is expected to accelerate this trend

Leverage ratio

3.4x

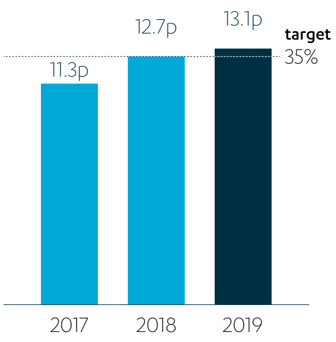
(2018: 3.7x)



Dividend paid

13.1p 40% pay-out ratio

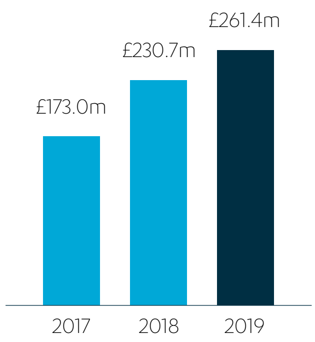
(2018: 12.7p, 35% pay-out ratio)



Free cash flow generation[1]

£261.4m

(2018: £230.7m)



1. Targeting £750.0m million of total FCF generation between 2019-2021.

- Arrow has a leverage target of 3.0x-3.5x Secured net debt to Adjusted EBITDA

- Arrow has a policy of paying out at least 35.0% of our underlying profit after tax as a dividend

- The Group targets the generation of free cash flow prior to investing in new portfolios

- Leverage forms a key part of the Group's view of capital allocation
- As the Group executes its pivot towards a more capital light business model, this will naturally lead to the Group moving towards the bottom end of the guided range
- Should the economic cycle turn and result in a greater number of higher yielding portfolio purchase options, the Group may take a different view on its leverage level

- Arrow recently took the decision to review its dividend policy increasing it to at least 35% of net underlying income. This is closely related to our expectation that the capital light AMS and Fund Management businesses will be the fastest growing parts of the Group over the long-term. As these businesses are both highly cash generative, the Group envisages a clear path to paying a larger dividend in the future once leverage targets have been met

- Arrow aims to generate cash from the assets it purchases
- Generating high levels of free cash flow is key for the strategic and operational performance of the business
- High levels of free cash flow provides the Group with optionality around capital allocation
- The Group has a prudent approach to capital allocation. Depending on cyclical conditions, the Group has a number of options to deploy its free cashflow, including: portfolio acquisitions, dividends, paying down debt and share buy backs

The right model

Arrow's model has three unique business lines which are highly synergistic.

Arrow's local presence and expertise allows us to be a specialist in identifying attractive, granular assets in high returns niches within our chosen markets. Arrow's origination and underwriting expertise allows the Investment business to identify and value attractive assets and for our Fund Management business to invest in them. Our servicing business provides us with the capability to manage these assets efficiently, generating capital light revenue for us and our third-party clients. As many of the assets on our servicing platforms are owned by institutional funds with a propensity to sell the asset over time, Arrow and its Fund Management business are often the preferred buyer, gaining exposure to an asset where the quality is already well known.

Our Fund Management business provides a wide range of alternative investors access to our proven track record, helping to drive capital light Asset Management and Servicing revenue. This provides a highly synergistic model where the three business lines feed each other with new opportunities.

Delivering the Arrow Advantage for customers and clients

"The Arrow model has enabled us to build a Fund Management business that can purchase assets that exist in our large primary market, as well as the assets already on the platform, driving higher quality capital light fee income and servicing revenue. The development of the Fund Management business also makes the model less reliant on current sources of funding."

Dan Perry,
Director of investments, analytics and performance

Delivering the Arrow Advantage for our Fund Management investors

"Arrow's model provides a full suite of solutions for clients who wish to sell their assets or extract more value from them via our sophisticated servicing techniques combined with local expertise. The development of the Fund Management business provides us with even more capability to assist clients with their balance sheets."

Richard Husk,
Head of investment

Our pan-European platform allows us to generate value for investors and stakeholders

Unique positioning

High-return niches
Arrow performed over 70.0% of its business off-market outside of competitive auctions in 2019. This is because the business targets smaller transactions in more sophisticated granular assets classes where our local knowledge gives us an edge.

Targeted geographies
Arrow has carefully selected geographies which we believe offer the most attractive opportunities. This is based on a number of factors, including the volume and type of asset classes, as well as confidence in the robustness of the local regulatory framework.

Regulatory parity
We are careful to ensure that our servicing platforms have regulatory conduct parity with banks and our wider client base. This ensures that we are able to transact with them seamlessly and guarantee that their customers receive excellent service and treatment.

The Arrow platform provides full coverage of targeted European credit asset niches

Niches by asset class	*UK*	*Portugal*	*Italy*	*Netherlands*	*Ireland*
Consumer	capquest	WHITESTAR ASSET SOLUTIONS	WHITESTAR ASSET SOLUTIONS	VESTING FINANCE	Mars CAPITAL
SME	Mars CAPITAL	WHITESTAR ASSET SOLUTIONS	EUROPA INVESTIMENTI	VESTING FINANCE	Mars CAPITAL
Mortgage	Mars CAPITAL	WHITESTAR ASSET SOLUTIONS	WHITESTAR ASSET SOLUTIONS	VESTING FINANCE	Mars CAPITAL
Real Estate	Mars CAPITAL	Norfin	EUROPA INVESTIMENTI	m seven REAL ESTATE[1]	Mars CAPITAL
Master servicing/ Securitisation/ Credit bureau	Mars CAPITAL	HEFESTOSTC	ZENITH SERVICE	FOCUM	Mars CAPITAL
Fund Management	ARROW GLOBAL	Norfin ARROW GLOBAL	SAGITTA ARROW GLOBAL	ARROW GLOBAL	ARROW GLOBAL

1. Strategic partner.

Expert platform

Harnessing the platform's synergies provides attractive investment opportunities and capital light income.

Generating strong returns

- Arrow's Investment business generates strong returns by investing capital at significantly higher returns than its cost of capital
- In 2019, Arrow achieved a blended Net IRR of 17.0% while cost of debt is only 3.7%

Recurring revenue

- Arrow's Fund Management Business generates recurring revenues through charging management fees
- Arrow's offer is highly attractive, providing investors with exposure to a high yielding asset class

Capital light revenue

- Arrow services assets on behalf of its clients
- Servicing fees are recurring and capital light, making this business highly accretive to ROE

Synergy

- Our AMS business services our own balance sheet investments as well as third-party client assets
- Third-party AMS assets provide a plentiful source of future investments for our Investment business and Fund Management business
- Our fifteen-year investment track record has enabled us to build a Fund Management business and our Investment business that will make all future investments through the Fund

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

Matt Hotson
Group chief financial officer

2019 was a pivotal year for Arrow

Total income
£339.5
-6.2%
(2018: £361.8m)

Basic EPS
20.0p
+17.6%
(2018: 17.0p)

Profit before tax
£51.3m
+28.3%
(2018: £40.0m)

Full-year dividend per share
13.1p
+3.1%
(2018: 12.7p)

I joined Arrow in the second half of 2019, and I am excited to be part of the business at such an interesting time as it transitions towards an increasingly capital light model. It was a key year for the Group, as we exerted significant time and resource into executing this pivot, culminating in a successful initial fund raise of third-party capital at notable scale.

Overview

On a statutory basis, profit before tax increased by 28.3% to £51.3 million (2018: £40.0 million), principally driven by the considerably lower level of refinancing charges. There were a number of adjusting items in relation to the launch of Arrow's Fund Management business and strategic simplification programmes throughout the year. It is not anticipated that any significant adjusting items will be incurred in 2020 in relation to these activities. Underlying profit before tax reduced 5.2% to £78.1 million (2018: £82.4 million), primarily driven by lower impairment gains.

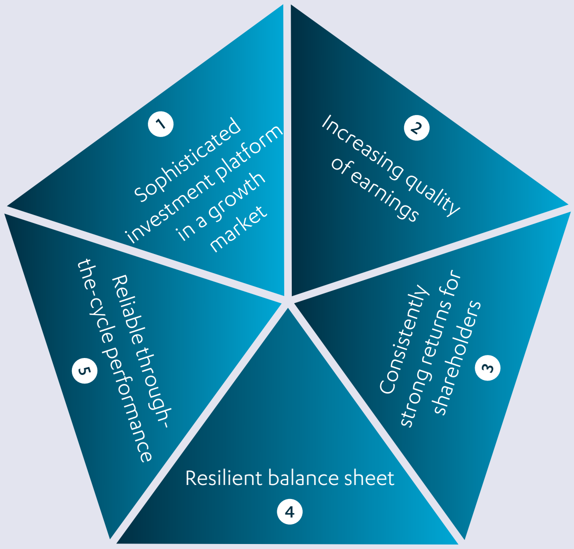
As we highlighted at the Interim and Q3 results, we are executing our strategic shift much faster, and at much greater scale, than initially guided at our Capital Markets Day in November 2018, where we set out the Group's five-year strategy. This accelerated speed of execution has meant that we have delayed or cancelled smaller scale strategies in both the Investment business and Asset Management and Servicing business (AMS), which would have yielded greater near-term EPS growth. Instead, we sacrificed these more immediate earnings streams to focus our time and resource on raising discretionary funds at scale at the Group level to accelerate towards our goal to become a fully integrated asset management business. We believe that rapid delivery against this objective will create significant shareholder value. Our strong investment track record appeals to investors seeking attractive yield and in December 2019, we announced a successful inaugural fund raise of €838.0 million of total capital commitments, with a target to manage €2.0 billion of funds under management (FUM) by the end of 2020.

Strong cash generation

One of the key performance metrics for the business is free cash flow generation. Arrow has an excellent track record of generating high levels of free cash flow and 2019 saw this increase by 13.3% to a record £261.4 million (2018: £230.7 million). This was driven by a 7.5% increase in core cash collections to £442.3 million (2018: £411.6 million) from the Investment business and a 2.9% increase in capital light third-party servicing revenues from the Asset Management and Servicing business to £94.4 million (2018: £91.7 million). The increase resulted in a 12.2% improvement in adjusted EBITDA to £330.0 million (2018: £294.0 million). The reconciliation for the year of profit after tax to the cash result, including a reconciliation to adjusted EBITDA, is provided on page 173. Adjusted EBITDA is a key indicator for the business's cash flow and allows the Group to monitor the operating performance, cash flow generation and leverage of the Group.

Investment case

Arrow's strong market positioning, balance sheet and access to multiple sources of capital means it can take advantage of opportunities to achieve strong, sustainable returns while also generating recurring, capital light revenue streams.



"The launch of Arrow's Fund Management Business will continue to fuel the growth we have seen in our AMS Business, providing scalable opportunities to grow capital light AMS revenues by offering AMS services to the Fund."

Investment business

Record investment volumes at consistent returns

Throughout 2019, the pricing environment and quantum of opportunities within our markets remained attractive, resulting in higher purchase volumes than previously guided.

In 2019, Arrow committed to investing a record £303.7 million in new portfolios, with £62.9 million of this payment deferred to 2020 (2018: £263.4 million purchased, with £12.0 million deferred). This meant we were able to prudently manage annual leverage in 2019, while also ensuring a robust flow of Investment business revenue into 2020, despite likely reduced balance sheet investment volumes due to the co-invest structure with the Fund Management business. This should help to support earnings while the business transitions to a more capital light model. Despite these record volumes, our returns remained stable at a 17.0% Net IRR and the average deal size onto our own balance sheet reduced by 41.8% to £3.9 million (2018: £6.7 million), further reducing our future concentration risk. The size of our portfolio investment, combined with the co-investment we receive from institutional fund clients, allowed us to continue to grow the funds under management on our servicing platform. This provides both increased Asset Management and Servicing revenues and future purchase opportunities for Arrow's Investment business and Fund Management business as the co-investment owners of those portfolios look to sell into the secondary market. Arrow is extremely well positioned to purchase these portfolios in bilateral trades at attractive returns given our experience of servicing them. The Group continues to take a prudent approach to its underwriting, targeting Net IRRs in the mid-teens.

Core cash collections – record performance with a changing shape expected over time

Core cash collections from our purchased portfolio asset base increased to £442.3 million (2018: £411.6 million), reflecting continued strong operational performance. Core cash collections continue to cumulatively outperform our underwriting expectations. As at 31 December 2019, we have cumulatively collected 104% of our initial underwriting expectation on all portfolios, consistent with the position as at 31 December 2018 reflecting our continued underwriting discipline. The Group continues to purchase an increasing proportion of secured assets, including real estate assets – as highlighted by the move at the 2019 Interim results to independently disclose real estate assets on our balance sheet given their growing materiality. Cash collections from unsecured assets – Arrow's original asset class – tend to be recognised on a more consistent basis quarter to quarter. Increasing cash collections from secured assets – where cash collections are more frequently realised at one point in time, rather than collected gradually over time – will result in greater quarterly variability of cash collections. The advantage of the secured collections profile is that the payback on these assets is generally faster than unsecured, but the timing can move between quarters. We therefore continue to encourage the market not to look at the Group's collections profile on a quarterly basis when performance is better reflected on an annualised basis.

"The launch of our Fund Management business is transformational for the Group as we continue to transition towards a more capital light integrated asset management model."

Income – lower levels of revaluations

While core cash collections in the Investment business increased by 7.5%, Investment business income decreased by 9.1% to £244.8 million (2018: £269.4 million). This was principally driven by a significant reduction in upwards revaluations of portfolios held on the balance sheet, along with increased amortisation as cash from secured and real estate assets was realised at a faster rate. Revaluations in 2018 had seen a positive impact from specific litigation work that was undertaken on the back book to drive cash collections from unpaying accounts. Lower levels of revaluations led to a 75.0% reduction in non-cash impairment gains to £12.7 million (2018: £50.7 million).

Arrow's Fund further evolves the purchase model and accounting

Arrow's new Fund is targeting FUM of €2.0 billion by the end of 2020. This includes a 24.9% commitment from Arrow and will form the majority of Arrow's future ordinary course of investment volume.

Moving forward, Arrow will continue to originate and underwrite assets before offering them to the Fund.

If the Fund decides to invest in the asset then Arrow will co-invest capital up to 24.9% of the transaction. This means the Group will likely invest its own balance sheet at a reduced rate in 2020 and onwards compared to recent years, depending on total Fund investment. Over time, this structure also means that an increasing proportion of our assets will be accounted for under fair value, rather than at amortised cost, simplifying our accounting.

Asset Management and Servicing business

Revenue and margins continue to improve

The Group's capital light AMS income has grown significantly in recent years and gross revenues increased by 5.9% to £140.1 million (2018: £132.3 million), constituting 36.4% of total Group revenue. Margins also improved by 3.7ppts. to 23.9%, in line with our 2023 target to grow EBITDA margins in the AMS business to the mid-twenties percent. Third-party fees (excluding internal fees for servicing the Investment business) increased 2.9% to £94.4 million (2018: £91.7 million). Our execution of the pivot to becoming more capital light by building a Fund Management business faster, and at greater scale, than originally planned had an impact on AMS revenue in 2019. Under the original strategy, smaller and faster to execute fund raises were envisaged at the local level in our Norfin and Sagitta businesses in Portugal and Italy, which would have driven AMS fees. More capital intensive strategies had also been assumed in the business plans relating to a number of the servicing businesses that also would have driven nearer term EPS accretion (but also leverage). While this has created a short-term headwind to AMS revenues, the opportunities and benefits that a scaled pan-European Fund Management business offers significantly outweigh this.

The Fund Management business will accelerate the growth and achievement of targets

The launch of Arrow's Fund Management business will continue to fuel the growth we have seen in our AMS business, providing scalable opportunities to grow capital light AMS revenues by offering AMS services to the Fund. Revenue from Fund Management activities will be incorporated in the AMS segment until it becomes large enough to be a separately reported segment. During 2020, the Group plans to present a Fund Management seminar to assist the market in modelling the impact of the Fund Management business on Arrow's performance in the coming years.

The financial benefits of raising this Fund are numerous, including:

- The accelerated achievement of five-year targets
- New capital light earnings streams from market standard management fees and performance fees payable to Arrow as manager of the Fund, resulting in further improvements in the quantum and quality of earnings in the medium-term
- A reduction in leverage due to lower absolute levels of Arrow balance sheet investment compared to recent periods as a result of the co-invest structure with the Fund
- Increased future flexibility around Arrow's capital structure
- A scalable opportunity to grow capital light AMS activities by offering AMS services to the Fund
- Continued attractive returns on capital from Arrow's co-investment alongside the Fund in portfolios

Underlying ROE

29.5%

-5.3ppts

(2018: 34.8%)

Statutory ROE

17.9%

-1.6ppts

(2018: 16.3%)

Costs

Focus on efficiency

The collection activity cost ratio improved by 4.1 ppts. to 24.8% (2018: 28.9%) as the Group continued to extract efficiencies within our servicing businesses and reduced the number of lower margin servicing contracts ahead of the expected volume relating to the Fund Management business.

Group overheads reduced from £136.0 million to £123.9 million. This reduction was primarily driven by the release of provisions held against the payment of deferred consideration against recent business acquisitions. This collectively totalled £21.1 million and the release is primarily driven by the accelerated strategic shift towards a capital light business comprising a larger Group level Fund Management offering. Under the previous strategy, management teams were incentivised on projects that no longer form part of the current strategy and their remuneration has been realigned to the Group's Fund Management strategy. Cash overheads remained broadly flat at £97.2 million (2018: £95.0 million).

Total adjusting items related to costs came in at £26.8 million, £3.8 million higher than guided. The cost of implementing the efficiency programme announced at the Interim results – representing an investment of £20.0 million to extract £20.0 million of run rate costs – was £15.2 million. Benefits for the programme have been reforecast at around £17.0 million, representing better returns on the investment than originally planned. The changes are due principally to higher than anticipated new business volumes in the UK. The UK business is already running at the improved efficiency levels we are targeting. Start-up costs relating to the launch of our Fund Management business were £10.1m as the size and scale of the launch of the business exceeded expectations. The remaining £1.5 million relates to the costs associated with the acquisition of Drydens.

All further spend on efficiency savings will be absorbed within business as usual cost, with no further adjusting items relating to this anticipated in 2020.

Finance costs and Tax

Net interest charges of £54.5 million were lower by 18.4% than 2018 as no bond refinancing costs were incurred during 2019. Underlying net interest charges of £54.5 million were up 13.2% on 2018 as a function of the unwind of the discount rate on deferred consideration, higher facility balances in the period and the impact of the adoption of IFRS 16 lease accounting.

The tax charge of £14.0 million represents an effective tax rate of 27.3% (2018: 25.1%) on profit before tax. The effective tax rate on underlying profit is 23.2% (2018: 22.2%) 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.

Robust balance sheet

Leverage continues to reduce

The Group continues to have significant liquidity headroom, with headroom as at 31 December 2019 of £153.0 million and no debt facilities maturing until 2024. This means that the Group's weighted average duration of its borrowing facilities is 4.8 years – longer than its weighted average asset life – representing a strong position for a financial services business.

On 30 April 2019, the Group further strengthened and diversified its funding structure by completing a securitisation of loan portfolios with a £100.0 million revolving commitment through an asset backed security funding structure at LIBOR + 3.1% per annum. Following this, Arrow's weighted average cost of debt has reduced to 3.7% (2018: 3.9%).

The Group's secured net debt position at the period end was £1,134.2 million (2018: £1,089.2 million) with the increase mainly relating to further portfolio purchases in the year. Leverage reduced to 3.4x (2018: 3.7x) as a result of the continued strong cash generation from the Investment and AMS businesses. We continue to target the lower end of the 3.0x-3.5x leverage range in the medium-term.

As part of the insourcing of litigation operations on 8 April 2019, the Group acquired Drydens Limited, a provider of legal services, broadening Arrow's UK range of servicing capabilities and skills across consumer and commercial litigation, probate and insolvency. The goodwill on acquisition of Drydens Limited amounted to £14.5 million.

Underlying basic EPS

33.0p
-10.8%
(2018: 37.0p)

Free cash flow

£261.4m
+13.3%
(2018: £230.7m)

Strong returns for shareholders

Statutory return on equity (ROE) was 17.9% (2018: 16.3%) and was impacted by the adjusting items in the period. Underlying ROE, one of the key performance metrics for the Group is 29.5% (2018: 34.8%) and continues to be well in excess of our mid-20s percent through-the-cycle target. Basic EPS is £0.20p (2018: £0.17p) with the increase largely relating to the lower levels of adjusting items incurred during the year.

Underlying basic EPS reduced by 10.8% to £0.33p (2018: £0.37p), impacted by the shift in operational focus referred to above, as well as higher finance costs, a higher tax rate and a one-off non-controlling interest charge.

The Group's dividend policy is to deliver a pay-out ratio of at least 35.0% of underlying profit after tax, reflecting our confidence that the shift towards a capital light business model will increase the scope to return capital to shareholders in the future. The Group proposes to pay an 8.7p final dividend, increasing the total declared and proposed dividends for the year to 13.1p (2018: 12.7p), representing an increase of 3.1% on 2018.

Summary and outlook

The Group has continued to deliver against its priorities in 2019 in what was a pivotal year for the Group's business model. Key operating metrics across the Group performed well and we achieved record free cashflow generation and record investment volumes while also maintaining returns at a consistently attractive level.

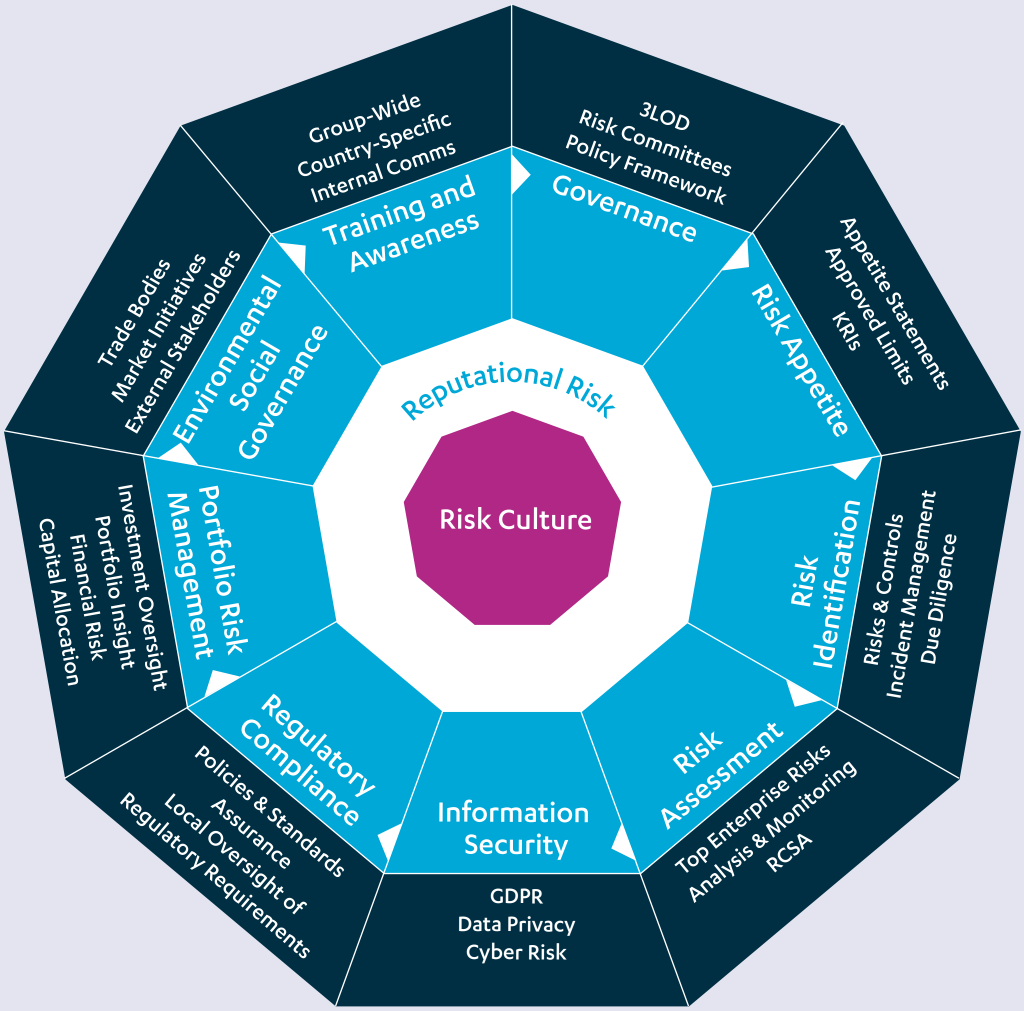
In the wider market, the geographic and asset class diversification of the Group means that we continue to find attractive investment opportunities exhibiting returns significantly in excess of our cost of capital. We remain vigilant for early signs of economic distress, particularly regarding COVID-19 and Brexit. However, economic dislocation potentially presents higher return purchasing opportunities and our back book has historically remained robust during distressed scenarios.

The launch of our Fund Management business is transformational for the Group as we continue to transition towards a more capital light integrated asset management model. While profitability was impacted by the speed of the pivot towards this model, and the time and resource that absorbed during the year, it leaves us in a very strong position moving forward. Increased cash generation will continue to enable us to deleverage, while access to such a large pool of third-party capital reduces our dependence on the bond market. While initial start-up costs mean the business will not contribute materially to the Group's profit in 2020, it will begin to do so from 2021 onwards. We will update the market on the economics of the business and its accelerated impact on Arrow's five-year targets later in 2020.

Matt Hotson
Group chief financial officer
12 March 2020

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.



"People and infrastructure commitments are in place to support key risk processes, creating greater consistency across the Group in support of the One Arrow model."

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 ten Group-wide risk appetite statements covering each of our three headline risk categories: strategic, financial and operational. Focus on strategic risk also encompasses significant external factors, allowing senior management to address risks and opportunities that are emerging or longer-term such as the macro and political factors that impact the countries in which we operate. Whilst Brexit has been a significant topic during 2019, a broader view is taken using external macroeconomic inputs and regular horizon scanning by the Group's risk and compliance teams.

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. The board risk committee sets the tone for our approach, tracking progress and challenging management to ensure that the Group is improving and embedding risk management processes to effectively identify, measure and manage risk. Country risk committees are run independently by each country risk leader, with the director of Group risk and compliance 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, having successfully embedded the asset and liability committee (ALCO) in 2019 to promote robust and efficient oversight and control across the balance sheet, funding and income in line with our risk appetite. A model risk committee has also been established which will provide more consistent oversight of the Group's key models.

Delivering on our commitments 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 are in place to support these processes, creating consistency across the Group. Our risk culture, which is aligned to Arrow's values, is a commercial differentiator and a fundamental driver of our success.

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. Notably, it provides transparency and allows for actions across all three lines of defence to be managed to completion via a single data source with oversight through the risk committee structure.

Three lines of defence

A three lines of defence model allows us to operationalise our approach, driving clear accountability into the first line. Senior leaders retain approved person status where applicable. This enables a formalised approach to responsibility and ensures embedded behaviours support the long-term sustainability of the business through increased accountability which is exercised within a framework of high governance standards.

The Group risk team and specialist teams maintain an overarching responsibility across key areas of the framework:

- Enterprise and Operational Risk
- Portfolio Risk
- Country Risk and Regulatory Compliance
- Environmental, Social and Governance (ESG)
- Cyber Risk, Information Security and Data Privacy

Our three lines of defence

First line business owners – Ownership and Accountability

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

Second line Risk and Compliance – Oversight and Challenge

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

Third line Internal Audit – Independent Assurance

- 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 is delivered by the Group head of internal audit with support from country audit teams and Deloitte LLP. Reporting to the board audit committee, the role also ensures a clear distinction between responsibilities in the second and third lines, as well as being an attendee at Group executive risk committee and the board risk committee.

Key considerations in 2019

Launch of the Fund Management business

Risk and Compliance teams were fully involved throughout the process of launching the Fund in line with the Group's stated ambition to realise opportunities to deploy third-party capital. Critical success factors included a board approved investment risk appetite and reporting process, ensuring regulatory compliance matters were addressed with internal and external experts working in tandem, updating of the existing policy suite to support the new organisational operating model, and ensuring governance and delegated authorities were re-structured to meet the new requirements. In addition, direct consideration was given to ensuring that the established Group-wide culture and values were extended to the Fund Management activities and where the risk committee can lead and support via consistent governance and risk management standards and practice. Embedding, updating and refining these operational protocols with appropriate second line oversight will remain in focus in 2020.

Brexit

Throughout the year, management have continued to monitor the risks and opportunities presented by Brexit with a range of actions prepared depending on the final outcome. This has been overseen by the director of Group risk and compliance, and subject matter experts from both within the UK business, Group functions and European colleagues as well as external advisors. Our focus, inevitably, is on our people, financial impacts and business processes, and we shall continue to monitor broader developments throughout 2020. Financial mitigation exists in the form of long-term funding and our balance sheet strength – both reducing exposure to any potential market risk in relation to funding. Geographic, regulatory and currency diversification, along with a strong balance sheet position, continue to leave the business well placed to negotiate a range of Brexit outcomes.

Arrow is well positioned post-Brexit given the operating licenses held by each of our businesses and strong ongoing relationships built across individual 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.

Regulatory Scrutiny

With diversification comes a greater spread of regulatory relationships. We are fully focused on our regulatory conduct responsibilities across all platforms. This includes the FCA in the UK, the Dutch Authority for Financial Markets, Banka D' Italia, Central Bank of Ireland and the Portuguese Securities Market Commission. The director of group risk and compliance, reporting to Group chief legal and risk officer, 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 customer treatment, as well as broader regulatory compliance, by blending our detailed country expertise with Group-wide standards. This is supported by the operational teams who use data from internal sources, as well as customer feedback surveys to facilitate customer experience forums which places the customer journey and customer outcomes at the heart of how we operate. 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.

In addition to existing practices within the UK business, the Senior Manager and Certification Regime was formally deployed and provided key inputs to updated target operating models and governance structures. This will continue to be monitored during 2020.

Following the launch of the Fund Management business, the Group is now engaged with a broader set of regulators to provide additional oversight of the expanded activities. We remain in frequent dialogue with our regulators and trade bodies across our markets and have no regulatory fines to report.

Information Security and Operational Resilience

A fundamental area of operational risk management and operational resilience is our approach to information security. Data is key to our value proposition and is therefore safeguarded for everyone's benefit including our colleagues, customers and 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, and we respond to this by investing in our people, processes and technology to protect our colleagues, customers and clients. This strengthens 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 and building our resilience.

Although cyber risk forms a critical component of our operational resilience and scenario testing, we acknowledge that it is not the only business disruptor that could have significant impact on how Arrow operates. We are building our business operating model capabilities encompassing our culture, behaviours, processes and systems to allow our business to deliver the Group strategy in the face of disruption – regardless of source. This will enable Arrow to anticipate, protect and plan for operational recovery at all times.

Principal risks

Principal risks are identified through the risk framework and tracked via our risk committees. The following table identifies key thematic risks and mitigants, alongside an indicative risk rating based on risk framework data, management oversight and areas of business activity.

Key risk	Key mitigating actions	Year on year movement
Strategic Risk		
A. Macro and Political	Geographic and asset class diversification, in-country expertise	Stable
B. Target Operating Model	Updated organisational design, re-alignment of senior roles and responsibilities, modernised Governance	Decreasing
Financial Risk		
C. Liquidity/Funding	Strong governance (ALCO), Fund Management business reduces bond market reliance	Decreasing
D. Risk/Return Assumptions	Strong governance and second line oversight, underwriting track record	Stable
Operational Risk		
E. Regulatory Scrutiny	Policy, processes and training, local expertise, stakeholder engagement	Stable
F. Operational Resilience	Testing, business continuity and disaster recovery plans, information security standards	Stable
G. Fund Management Execution	Organisational design, infrastructure, change management, process improvement, governance	New
H. Scalability	Targeted investment in people, processes and systems to support strategy	Increasing

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 25 to the financial statements.

Link to strategic priority

1 Focus on strong consistent returns in the Investment business

2 To grow our specialist capital light Asset Management and Servicing business

3 To be a leading player in our chosen markets

4 To transform the customer journey within our industry

5 To attract and retain talent

Read more on our strategic priorities on pages 18-19

Key risk	Description	Mitigating actions
Strategic Risk		
A. Macro and Political 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. 1	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, ensuring that procedural and strategic mitigants are in place.	Arrow's geographic and asset class diversification allows the Group to respond to market opportunities arising from possible disruption, including market downturn scenarios driven by macroeconomic factors. This is informed by in-country expertise across investments, operational execution and regulatory compliance, ensuring that both the opportunity pipeline and horizon scanning inform decision-making Group-wide. A Brexit Working Group made up of cross-functional senior management have continued to monitor Brexit-related risks in 2019, notably in case of a 'No Deal' Brexit scenario, ensuring that procedural mitigants in relation to people and data were addressed in addition to strategic planning. Whilst this risk is in part decreased, the Group will continue to monitor the transitional period alongside macro and political trends in the EU and globally, informed by external macroeconomic data sources and statutory and regulatory horizon scanning. This is overseen by the executive and board risk committees.
B. Target Operating Model The need to ensure enterprise-wide alignment of the updated model, including Fund Management capabilities, to prevent gaps between plans and performance. 2 3	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, all of which inform the necessary business structures and operating model. The next step in Arrow's corporate evolution is the addition of Fund Management operations as a core part of an enhanced offering to deliver the strategic vision.	The strategic plan has been supported by an organisation-wide review of the target operating model, the outputs of which are now being embedded through a series of initiatives including: i. updated organisational design of three distinct but interdependent business lines, supported by Central Functions; ii. re-alignment of senior leadership team roles and responsibilities and incentives; and iii. launch of a modernised Governance structure with clear linkages between localised and Group-wide policies, committees and delegated authorities. This remains underpinned by a common set of values and a Group-wide Culture statement which informs our performance management process.

Link to strategic priority

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Read more on our strategic priorities on pages 18-19

Key risk	Description	Mitigating actions
Financial Risk		
C. Liquidity/Funding Risk The risk that the Group is unable to meet its obligations as they fall due. 1 2	The Group is highly cash generative and has a strong focus on collections. Funding and liquidity risks are managed by the central treasury team, and the Group seeks to maintain minimum levels of liquidity headroom, leverage of between 3.0–3.5 times, diverse funding sources and a balanced maturity profile of its debt facilities.	Strong governance and alignment with risk appetite is managed via the ALCO committee, with regular reporting of the key metrics. Through the regular budgeting and forecasting processes, the Group continues to assess the required level of liquid resources, funding plans and risk appetite. At the year end, the liquidity headroom was £153 million, leverage was 3.4 times and, except for the amortisation of the asset backed securitisation, the Group has no contractual debt maturities until 2024. Going forward, the Group has increased flexibility regarding investment levels, as it is able to increase investments through third-party funds it manages. This enables the Group to curtail investment volumes funded by the Group and conserve liquid resources, without impacting the franchise of the businesses. Overall, the Group is well positioned given the term profile of its liabilities.
D. Risk/Return Assumptions The risk of returns adverse to forecast due to inadequate portfolio purchase analysis and consequent mispricing, or inadequate assessment of cost to collect and/or subsequent portfolio performance impacting estimated remaining collections. 1	Successful investments are the culmination of a series of activities spanning first and second line teams. Group risk provide a risk appetite framework, oversight of due diligence and challenge to models and assumptions to help accurately price new investment opportunities. Newly proposed investments are subject to second line oversight by Group risk, executive review through an investment committee process in accordance with agreed mandate levels prior to purchase. Similarly, an enhanced governance process has been deployed to further support the ongoing agreement and monitoring of servicing propositions.	A revised governance and delegated authority matrix has been specifically designed to balance effective business decision-making and appropriate oversight in line with stated risk appetite. The updated governance model applies equally to the new Fund Management operations with specific details defined for the Fund Manager such as risk appetite and KRIs. The addition of a second line chaired model governance committee, a sub-committee of the Group executive risk committee, will add a further layer of robust challenge to 1st line activity, taking a balanced, risk-based approach to the Group's suite of models. Increasingly, scenario analysis is used to further validate key assumptions for new portfolio acquisitions.

Key risk	Description	Mitigating actions
Operational Risk		
E. Regulatory Scrutiny Risk of non-compliance with regulatory obligations, increased regulatory scrutiny and inappropriate conduct and customer treatment. 3 4	We operate in increasingly highly regulated environments in both the UK and across our European locations, this having extended as a result of the launch of the Fund Management business. 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.	Regulatory conduct and Treating Customers Fairly (TCF) are at the heart of our business and Arrow has clearly defined, documented and communicated policies and procedures in place to guide colleagues on the required standards for customer outcomes. 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. Horizon scanning and industry body presence helps to influence best practice across the sector and ensures our internal practices and training are updated accordingly. We maintain increasingly proactive relationships with our key regulators in all locations. To further benefit from the increasing breadth and depth of expertise, the Group has developed pan-European Customer Experience Forums to allow for the exchange of best practice and are informed by customers.
F. Operational Resilience Risk that the business is unable to withstand significant business disruption that could pose a threat to customer outcomes, corporate reputation and/or financial performance. 3 4	The Group relies on core systems and processes 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.	Operational resilience and business continuity will be increasingly tested commensurate with the external and internal threats which exist, and the Group has recognised the importance of this through investment in associated programmes throughout 2019 and beyond. Our core systems and processes 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 deploying a One Arrow IT infrastructure, which will enable us to be more efficient, drive process automation and manage data more effectively and securely. This is governed at a Group level, with aligned strategies for IT, digital, security and data.

Link to strategic priority

1. Focus on strong consistent returns in the Investment Business
2. To grow our specialist capital light Asset Management and Servicing business
3. To be a leading player in our chosen markets
4. To transform the customer journey within our industry
5. To attract and retain talent

Read more on our strategic priorities on pages 18-19

Key risk	Description	Mitigating actions
Operational Risk *continued*		
G. Fund Management Execution Risk that poorly executed or misaligned operations processes result in reputational risk, financial loss and/or poor customer outcomes. 2 3	With the additional clarity of Arrow's evolved business line structure, comes the need to carefully design and execute on more efficient and cost-effective operational processes in all areas of the business. Whilst we 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, the increasing maturity of the business drives greater foresight and proactive management of process changes through initiatives such as LEAN and governance provided by both strategic change board and our risk and compliance committees.	In support of the Fund Management launch, Arrow focused significant senior management time on areas of organisational design, infrastructure, change management, process improvement and governance – including the roles, responsibilities and membership at executive committee level. Furthermore, objectives, incentives and governance routines have been aligned to ensure appropriate levels of oversight – from strategy and budget setting through to operational and financial performance – with delegated authorities in place to promote efficient and effective day-to-day operations. This includes the important relationships now established with third-parties who we have engaged to support specific parts of the Fund Operations process and oversight, with aligned reporting back to our existing business line and central function management teams.
H. Scalability Risk that the Group is unable to respond appropriately and efficiently to scaled opportunities as a result of the increased market opportunity arising from the Fund Management business . 1 2 5	The opportunity to grow volumes in line with the updated funding model presents a risk that the necessary people, processes and systems may not be available to maximise potential demand which in turn could lead to strategic, financial or operational risks that detract from the long-term success of the company.	The Group is focused on developing process and system capability to absorb new opportunities through deeper, broader and more consistent methodologies, including standardisation of data processing activities. Operational resilience is an enabler for scalability, alongside a strong risk-aware culture. This enables the Group to expand whilst deploying resource and infrastructure improvements to front line services to maximise commercial opportunities that align with customer, regulator and client expectations, whilst delivering on our financial commitments. There are increasing opportunities for professional development across the Group, alongside the growth of our talent pool, in the context of a values-led, professional culture.

Statement of viability

Provision 31 of the UK Corporate Governance code requires the board to make an assessment of the prospects of the Group over a period it has determined and why it considers that to be appropriate and explain how it has assessed the prospects of the company, taking account of the Group's current position and principal risks.

The board have considered the Group's viability in detail over a three-year period to December 2022, taking account of the current position of the Group and the Group's principal risks as detailed in the strategic report on pages 34 to 38.

The board has 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:

The Group has prepared a five-year forecast predicated on a detailed year one budget which has been approved by the board and extrapolated 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. The board has therefore concluded that the viability assessment should cover a period of three years.

The Group is highly cash generative, receiving consistent flows of cash in the form of collections from its customers. The Group recently launched its Fund Management business. This provided an acceleration towards the Group's capital light strategy and plans to de-lever over the short to medium-term. Furthermore, the Group has a long track record of generating predictable cash flows over many years via its interconnected Investment business and Asset Management and Servicing businesses. The Group has prudently managed the balance sheet with leverage at 3.4x and, aside from the amortisation under the asset backed security facility, the Group has no contractual debt maturities until 2024. The board has 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 of the Group's revolving credit facility is to maintain a leverage ratio below 4.4x, calculated as secured net debt divided by the 12-month rolling adjusted EBITDA. The covenant reduces to 4.3x from 1 January 2021 and 4.2x from 1 January 2022. The board 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 are happy that the projections show covenant compliance. Furthermore, based on the three- year forecast and funding plan, the Group will continue to comply across the assessment period.

In addition, the Group now has significant balance sheet flexibility with the launch of the third-party Fund Management business. The Group is now able to invest third-party managed funds with greater flexibility around whether to do so from its own balance sheet and therefore, the franchise is less reliant on either the external debt markets or its own balance sheet. This enables the Group to reduce portfolio purchases without impacting the underlying business franchises.

Several stress tests have been performed against the forecast. The tests selected consider the principal risks faced by the Group. The most material risk for the Group in relation to its liquidity headroom and leverage covenant, are reductions in expected cash collection levels. The group has utilised its IFRS9 severe downside scenario, which it considers severe but plausible, as the basis for its stress testing. Using this scenario, collections performance deteriorates from the base case ERC, resulting in lower cash generation. The Group leverage ratio remains below the minimum covenant level with significant liquidity headroom. The board also reviewed a reverse stress test scenario that outlined a more severe reduction in the collection profiles which was designed to cause a covenant breach. Several management actions were identified that the Group could deploy to avoid a covenant breach and to maintain sufficient levels of liquidity in the event of this scenario being realised.

As a result of the analysis performed on the forecast future position of the Group, the board has 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 2019 has been approved by the board and was signed on it's behalf by:

Lee Rochford
Group chief executive officer
12 March 2020

The right culture

To make Arrow an even better place to work for our people and to help to maximise our long-term potential, we have defined an aspirational culture that underpins everything we do. This culture shapes Arrow and is one of our unique points of differentiation.

Our aspirational culture statement

"Arrow is an ambitious company. Our determination to succeed is matched by our drive to do things the right way – ensuring we create a sustainable business that builds better financial futures for our stakeholders.

We are entrepreneurial, fast-paced and decisive. Proud of our family values, we cherish working together in a safe, supportive community. We trust our people to make the right decisions – and we back them all the way. We're also brave enough to acknowledge mistakes – and to learn from them. We celebrate success and reward those who take personal accountability to help us achieve exceptional long-term results.

We're open and eager to embrace new ways of working. Ours is a diverse community, enriched by our local identities, working collaboratively to build a powerful, unified and dynamic organisation."

This collective identity is One Arrow.

We understand that culture and strategy are mutually dependent and are both essential components of One Arrow. In 2019, the business identified the behaviours that we believe are essential for our new segmental structure to be successful, and we captured these in our new aspirational culture statement. The process by which we came to define our culture reflected the best of One Arrow as an inclusive, decisive and collaborative business.

Importantly, our new aspirational culture statement is the lens through which we will evaluate our own behaviours and decision making, and also our ways of working, processes and procedures. As well as being a powerful unifying force, our aspirational culture statement will, over time, see incompatible and isolated practices removed from our business in favour of better, more consistent ways of working. Whilst the Culture Steering Group is the ultimate custodian, we expect every employee to embrace our culture and its key attributes.

Delivering the Arrow Advantage for people

"We are open and eager to embrace new ways of working. We embrace diversity of thinking and are open to new ideas on building a better, more successful business."

Brigite Fernandes,
Compliance analyst, Whitestar, Portugal

Delivering on our commitments

"Delivering on our commitments is the basis of trust and in our new segmental structure with three interdependent businesses, personal accountability is essential."

Sanjot Gill,
Group head of analytics, UK

Responding to our stakeholders' needs

Our key stakeholders are those who impact our strategy materially or are impacted by it directly. As a responsible business building long-term shareholder value, we listen to our stakeholders regularly to help guide our strategy, and ensure we continue to deliver relevant services that meet the needs of our clients, investors and customers.

	Why we engage	Key areas of interest
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.	• 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	It is important to attract, retain and engage people who have the skills, values and expertise to implement our strategy, and ensure our clients and customers are serviced to the best of our ability. Engaged employees will make us more successful, more sustainable and act as business ambassadors.	• Professional development and career development • Recognition and fair reward • Diversity and inclusion • Transparent and timely communications • Clarity on Vision, Purpose, Values and Culture • Responsible and fair treatment of customers • Safe and productive working environment
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
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
Shareholders	As a publicly-listed organisation, we are required to provide fair, balanced and understandable information to enable both public investors and Fund limited partners to fully understand our business, so they may make an informed and educated investment decision.	• Strategy and performance • Risk management and corporate governance • Outlook • Executive remuneration • Dividend policy • Access to senior management • Site visits
Clients and Fund Investors	A deep understanding of our clients and the challenges they are facing is essential if we are to build sustainable partnerships. We use this understanding to inform our decisions, refine our solutions and differentiate ourselves from our competitors.	• Our capability and the solutions we can provide • How we treat our customers • Our understanding of the industry and the challenges the businesses within it are facing • Ability to demonstrate that our values are aligned with those of our clients • Investment in digital and new technologies

How we engage with our stakeholders

Customers

Our aim is to establish sustainable relationships with our customers through understanding their needs and delivering appropriate solutions tailored to their individual circumstances. This is a constantly evolving process, and one which secures better financial futures for our customers.

Better Customer Outcomes

Arrow operates a hybrid business model with an in-house collections operation complemented by a panel of Arrow 'Approved Partners'. This model allows Arrow to utilise the skills of market-leading specialist partners to provide a service, which supplements our internal capability. Understanding our customers' needs is vital for our operations. 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 in which we operate, 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.

Customer Voice

The introduction of the Customer Satisfaction Surveys (CSAT) across the Group in 2019 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. This service is currently being reviewed to make it easier for the customer to provide feedback and to provide further insight. These improvements will be made in H1 2020.

The Customer Journey

A project was held in the UK in Q2 2019 called Rapid Scans. The intention was to gain insight from a customer's perspective, to understand the processes, strengths and weaknesses, providing us with areas where we could improve the whole customer experience and how we engage both in traditional and digital ways. As an example, all customer communications have been thoroughly reviewed and amended to ensure they are easier to read, with concise and clearer calls to action; importantly, these improvements are applicable across all channels, including letters, text messages and online portals.

Customer Forums

With the UK customer experience forum firmly in place, the decision was made to roll this out across the Group. The first Group-wide customer experience forum was hosted in Dublin in August 2019 and similarly to the UK forum, this committee drives the delivery of customer outcomes throughout the organisation – not just in front-line areas. The committee is led by senior leaders within the Group, who can drive changes to ensure customers are treated fairly and responsibly, all strategies and processes are working correctly, that we are generating the right customer outcomes and that we are sharing all best practices throughout the Group. The second customer forum was held in Lisbon in December 2019.

The UK customer forum continues to evolve and has successfully driven improvements around implementation, strategies and customer touchpoints. Alongside the customer dashboard, key KPIs are measured, including customer satisfaction and complaint volumes. This also continues to provide key customer insight across UK business areas.

Employees

We have worked hard to maximise the value of our existing people development programmes, whilst challenging ourselves to innovate and embrace new ways of working.

Cultural alignment

The launch of our new aspirational culture statement at our Senior Leadership Conference and all-employee roadshow was pivotal to this new way of thinking, as was the creation of the culture steering group (CSG) that will act as the central forum for ensuring our culture provides a clear, supportive and productive environment for all our employees.

In particular, we have identified six cultural attributes and will introduce performance indicators in 2020 to help determine whether we are on the right track. Recognising that more diverse businesses are more successful, as well as an appreciation that it's the right thing to do, we also have worked hard to embed a diversity agenda across the Group, with Matt Hotson, Group chief financial officer, acting as our diversity and inclusion sponsor.

Strategic and leadership alignment

We continued the roll-out of our senior leadership development programme DIPS (Define, Insight, Practice, Sustain) that commenced in March 2018. To date, eighty of our most senior leaders have been through this programme, helping to align our senior leaders and their teams around our business strategy and preferred ways of working. Furthermore, we have taken the key leadership concepts from this into our wider management programmes to create a common language and alignment across the leadership pipeline.

Shanna Wallace, winner of Arrow's inaugural Group-wide Employee of the Year award. Recognised in Porto by Lee Rochford and Maria Luís Albuquerque for helping vulnerable customers.

Management Development

Our leaders play a critically important role in inspiring our teams, and 2019 saw Arrow continue its various management development programmes across the geographies to build capability and confidence.

In the Netherlands, we launched a new programme focusing on personal leadership insights, the ability to lead through complex change and our Lean efficiency programme that seeks to eliminate unnecessary waste and drive simplification and efficiencies – all of which are underpinned by our aspirational culture. This will be rolled out across the Group in 2020. In the UK, we continue to utilise the UK Government's apprenticeship levy to develop and accredit our first-line managers, as well as to support their professional development across our talent pipeline, from recruiting apprentices in IT and Finance with a view to developing the next generation of talent, through to a senior leader undertaking an MSc.

Consistent with other areas of the business, we will use technology – in the form of a new Learning Management System across the Group – to deliver faster, smarter and more bespoke learning applications. Technology is also helping to connect our employees on a single communications platform via Workplace (by Facebook), for the very first time, helping to drive collaboration and new ways of working. This empowerment is being further enhanced via Peakon, an online engagement and measurement tool that will help line managers make better-informed, data-driven decisions when it comes to acting on the voice of our employees and enable our leaders to drive engagement in their own teams.

As we move into 2020, our focus will be to ensure our people have the skills, cultural mindset and Group support to successfully embed our new segmental structure and realise our commercial ambitions.

Competitive Total Reward

Arrow delivers a reward and recognition structure that provides competitive remuneration which is fairly derived and incentivises high performance, with a suite of benefits that support our employees' short, medium and long-term personal goals and circumstances.

We deliver these items through:

- Competitive base salaries that are reviewed and appropriately adjusted on an annual basis
- Bonus schemes that focus on both 'what' is delivered and 'how' it is delivered in equal measure
- Long-term incentives to drive long-term engagement and retention of our most talented people
- Competitive benefits that provide employees the opportunity to select benefits that support their short, medium and long-term personal goals and circumstances
- 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 (ERS) where all employees can nominate and are eligible to win. In 2019, we celebrated the winners' achievements with a gala dinner at Old Trafford, home to Manchester United Football Club, and most recently, in January 2020, over 80 winners were celebrated in Porto.

Arrow is committed to building a diverse and inclusive workforce, and the treatment of reward and recognition is central to this commitment. Our entrepreneurial drive is complemented by a deep commitment to rewarding work done in the right way, the Arrow way.

952
ERS nominations

80
ERS winners

60
Values Champions

249
volunteers

3,194
students helped

Communities

Supporting our communities

Our Purpose is to Build Better Financial Futures, and it's what we do for all our stakeholders including the communities where we operate.

2019 was an important year, as we expanded our partnership with Junior Achievement Europe (JAE), Europe's largest non-profit provider of educational programmes for financial literacy and entrepreneurial skills for young people.

In 2019, we worked with JAE across six countries to deliver a number of innovative educational programmes, the core activities of which were anchored under the 'Learn to Earn' or 'Economics for Success' initiative. This programme, delivered in either classroom-based sessions or larger workshops, aims to inspire students and provides information on career options to help them make informed choices and prepare them for destinations and life beyond education. Students engage in a range of hands-on activities, including role-play interviews and a board game, to help them understand how education is key to their future success. With the help of our employees, students explored themes including career choices, personal skills, job interviews and financial planning and budgeting.

Across the Group, we directly helped 3,194 students, with 249 employees volunteering their time and commitment. This is a significant achievement for the business, and we would like to thank all our volunteers for their commitment to our Purpose.

In 2020, with the support of the board, we will continue to work alongside JAE and will see the programmes fully rolled out across the entire organisation, including our Dutch operations. We hope to expand our activities to reach more than 3,500 students and involve 300 volunteers.

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.

Collectively across the Group, we have a wide range of activities to support our local communities. Some recent examples include: our Italian business, Zenith S.p.A, running the Pittarosso Pink Parade, a marathon in support of breast cancer; our Vesting Finance business in the Netherlands collecting clothes and toys for Kwintes, an organisation supporting people with mental health issues, and our Portuguese business that provided goods for Casa da Criança, an institution for vulnerable children.

In Portugal, we also sponsor the Terry Fox Run, a marathon in support of cancer research. In the UK, across both Manchester and Glasgow our CSS (Charity, Social and Sports) teams run regular fundraising for good causes including Macmillan, The Christie Hospital, Food Banks and Children in Need.

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

"Teaching young people how to manage money effectively will help them make sound financial decisions in the future. Thanks to Arrow's financial support and volunteers' commitment, more than 3,000 students across Europe had access to financial literacy programmes and developed the skills and competences they will need growing up."

Salvatore Nigro
Chief executive officer of JA Europe

Regulators and Industry

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.

In 2019, we held a number of important industry positions, including board membership of the Credit Services Association (CSA). During the year, Arrow has actively contributed to varying initiatives across the collections and debt advice sectors. Through our involvement with the Federation of European National Collection Associations (FENCA), we have finalised a Code of Conduct for the EU General Data Protection Regulation (GDPR) which is currently undergoing approval within the European Data Protection Board.

"We value the support of our shareholders and want to ensure that we always make it possible to have an honest and open dialogue with them about the direction the business is going and where they think we can improve."

Also, through FENCA, we have been supporting the Non-Performing Loan Directive to ensure appropriate regulation of debt buyers and debt collections agencies across the EU, with authorisation and notification by competent authorities in each member state. This is to ensure a consistent approach to customer treatment.

We held a board position, then the role of Ambassador, 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 held the 2019 presidency of the prestigious International Collectors Group (ICG), organising the annual ICG conference in Portugal.

We have continued to actively engage with numerous trade bodies during 2019 and have a constructive and open relationship with the FCA and other European regulators, focusing in particular on conduct and vulnerable customer issues, where we remain fully committed to raising standards and promoting fairer practices in the collection of debt.

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.

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 where we fully support StepChange, Payplan and Christians Against Poverty by way of FairShare contributions.

Additionally, in Ireland, we maintain a proactive relationship with the Irish Mortgage Holders Organisation, a registered charity and the main customer advocate in Ireland. We also encourage customers in difficulties to approach Money Advice and Budgeting Service, a non-profit organisation which belongs to the State and provides a free and confidential service for people having problems with money management and debt.

Shareholders and investors

We take a highly structured and proactive approach to liaising with our shareholders and analysts. Arrow has a dedicated investor relations department which is fully available to analysts and investors daily, should they have queries or require a meeting. We report our financial results publicly at every quarter and consistently hold public calls and presentations to allow analysts and investors the opportunity to engage directly with management regarding the financial statements and any news flow they consider material. We also look to hold frequent Capital Markets Days where all investors and analysts are welcome to attend. These days are more operationally orientated than the management presentations given for results announcements. They also offer analysts and investors an excellent opportunity to meet and engage with members of the wider management team that liaise with the market less frequently. This will often involve divisional management teams presenting directly to analysts and investors on areas of the business specific to their roles and focus.

Outside of set-piece market announcements, we endeavour to hold a number of non-deal roadshows every year in order to provide our shareholders and investors with the opportunity to spend time with management on a one-to-one basis. Aware that we have a diverse range of investors spanning multiple geographies, we aim to conduct these roadshows across the countries where our investors are based. We also use this to provide new potential shareholders with an opportunity to meet the management team, which often forms an important part of their due-diligence process.

As well as liaising with the portfolio managers, we believe it is also important that investors' corporate governance teams are aligned with the Company strategy and policies. We therefore ensure that we engage proactively with investors' corporate governance departments, offering both regular meetings and the chance to comment on any suggested changes to Company policies.

Clients

Our clients are the lifeblood of our business and we depend upon them to be able to deliver the sustainable growth we forecast. We work hard to build strong relationships with our clients by taking the time to understand their businesses and by providing them with unique industry insights. We also learn from these relationships, and use their insights to inform our decisions and to help us to develop innovative solutions which address the challenges they're facing. This can, and does, lead to further investment in technology, and this year alone we have invested significantly in our core collections system and digital customer portal for the benefit of our clients.

Our clients expect us to demonstrate that our values are aligned, and in doing so we build their trust. This trust is essential if they are to allow us to represent their brand. It gives them confidence that we will treat their customers in a way that they and the regulators would expect.

We evidence this fair treatment of customers by providing regular call quality scoring reports and customer journey reviews. We actively encourage this oversight, as we are very proud of the standards we set and believe it to be another differentiator for us in the market.

We consider our clients to be invaluable partners and strive to ensure they view Arrow in exactly the same way. We hope that these partnerships will form the foundation of our success for years to come.

Section 172 Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

The directors of Arrow Global Group plc are fully aware of their responsibilities to promote the success of the Company in accordance with section 172. In discharging its duties, the board has considered the factors above as well as any other factors which they considered relevant to the decision being made.

The board's aim is to make sure that its decisions are consistent, by considering the Group's strategic priorities and having a governance framework in place for key decision-making that takes into account relevant stakeholders. Further details on how the Arrow board operates and the way in which it reaches decisions, including the matters discussed and debated during the year can be found in the Corporate Governance Report on pages 58 to 59.

Arrow's success depends on our ability to engage effectively with our stakeholders and this is consistent with the ethos of section 172. As a responsible business, we continually engage with our stakeholders to define and refine our strategy and to ensure that we deliver relevant services that meet the needs of our clients, our customers and our wider stakeholders. Although the majority of the business engagement is carried out by Arrow's commercial and functional business teams, the board has regular and direct engagement with employees and investors.

On pages 42 to 48 we report on how Arrow responds to its stakeholders' needs. In particular, we explain why we engage, the key areas of interest and the way in which we have had regard during the year to the need to foster the Group's business relationship with customers, suppliers and other stakeholders.

Environmental, Social and Governance report

Jonathan Bloomer
Chairman

"Arrow is fully committed to meeting our stakeholders' expectations on Environmental, Social and Governance issues."

Arrow's Environmental, Social and Governance (ESG) Programme

Arrow is committed to being a responsible business that actively engages with our stakeholders on related ESG issues. Arrow offers high-quality services to our customers, treats our employees and business parties with respect, upholds our legal obligations to human rights, serves the communities we operate in and is committed to improving our impact on the environment. As a responsible business, we take our responsibilities and duties under the UK Corporate Governance Code seriously. It is at the heart of our business philosophy and is embedded within the culture and conduct of our business. We are increasingly aligning our activity with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) addressing the following four areas:

Governance

We believe that by integrating ESG considerations into our investment and asset management practices, Arrow can enhance business performance, contribute to a more sustainable society and support the diverse communities within which we operate and thereby continue delivering our purpose of building better financial futures for all of our stakeholders. This includes having clearly documented ESG considerations in both our risk appetite and investment decision making processes and recognising ESG challenges and opportunities within our governance forums.

Strategy

We recognise that ESG issues are interconnected across the business, contributing to how we develop and implement our strategy, informing how decisions are taken based on relevant performance information, and how we approach risk management.

Our commitment to improve and measure our ESG performance is demonstrated by the formal launch, in 2019, of the Arrow ESG programme, an initiative sponsored by Arrow's Chairman, Jonathan Bloomer, and led by the Group chief operating officer, Dave Sutherland. Deloitte LLP were engaged to advise and assist the Group in developing this programme which includes an ESG working group, supported by formal terms of reference. Chaired by the enterprise and operational risk director, the working group has representatives from each function of our business, allowing us to address ESG principles with a One Arrow mindset and adopt practices in a proportionate manner,in response to external inputs including the United Nations Principles for Responsible Investment (UNPRI), Sustainable Accounting Standards Board (SASB) and TCFD.

Risk Management

To support the ESG working group a comprehensive and robust framework to identify and manage ESG issues will be deployed using our existing risk management framework. To successfully manage risks and opportunities, we must continue to raise awareness and react in a robust and coordinated manner. This will be supported through externally facilitated training sessions to educate and inform senior management across the organisation on ESG factors, and on the importance of responsible investing and sustainable business practices in enhancing investment performance and contributing to a more sustainable economy. Combining these actions with established risk management practices, governance and financial reporting disciplines will set the tone for our cultural adoption of ESG.

Metrics and targets

Looking to the future, we recognise that Arrow is on a journey. As our ESG programme evolves and environmental, social and governance factors become a fundamental part of our strategy we recognise that stakeholders need clear, relevant and consistent information. In the table overleaf we set out a number of Arrow's ESG focus areas in 2019. We shall continue to focus on enhancing disclosure, transparency and engagement, particularly on climate change and sustainability.

Dave Sutherland
Group chief operating officer

"As we continue developing our ESG journey, we have further invested in our approach with the use of industry benchmarking and through the creation of an ESG working group, of which I am proud to be the executive committee sponsor."

Key ESG factors

As part of our ESG journey, we are developing a structured roadmap, defining key areas for focus and mechanisms to enable us to monitor progress.

Factor / requirement	*Issue*
Environmental – being aware of our impact on the natural environment and our efforts to improve it	
Environmental matters	• Climate change
Social – understanding and responding to the needs of our stakeholders	
Customers	• Responsible financial services
Employees	• Diversity, Inclusion and Engagement • Well-being
Communities	• Helping local communities
Human rights	• Modern slavery
Suppliers	• Supply chain management
Governance – being a responsible business and investor	
Cybersecurity and data protection	• Privacy and security
Anti-bribery and corruption issues	• Transparency
Professional Integrity	• Culture, conduct and compliance
Responsible investment	• Business conduct

Our Business model can be found on pages 12 to 13.

Non-Financial Information Statement

Below you can find information relating to non-financial matters in our Strategic Report, in accordance with sections 414CA and 414CB of the Companies Act 2006. Information on our principal risks and uncertainties can be found on pages 34 to 38, information on our non-financial measures can be found in the table below and a description of our business model can be found on page 12. References to our policies, due diligence processes and information on how we are performing on various measures in these areas are contained throughout the Strategic Report.

For more information on our approach to ESG visit: www.arrowglobal.net

Relevant information	*Focus areas*
• Environmental policy and carbon reporting, pages 100 to 101 • GhG emissions, page 100	• Improving the measurement of our environmental footprint. Identifying and responding to emerging environmental considerations.
• Customer Satisfaction Surveys (CSAT), page 43 • Customer forums, page 44 • Vulnerable customers, page 47	• Best practice sharing, acting on customer feedback, improved operational KPIs and management oversight.
• Employee engagement, page 44 • Reward and recognition, page 45 • Fairness and inclusivity, page 45 • Diversity, page 44 • Employee consultation, page 100	• Strategy, objectives and measures overseen by the culture steering group – embedded into our operating rhythm and values. Metrics include turnover, employee engagement scores and gender balance and pay.
• Building financial literacy, page 46 • Supporting debt charities, page 47 • Helping our local communities, page 46	• Developing our network of Corporate Social Responsibility champions, ongoing financial support for debt charities, extensive internal communication to publicise colleague opportunities to participate in community volunteering.
• Supporting human rights, page 47 • Modern slavery statement: www.arrowglobal.net	• Annual update of Modern Slavery statement actions, senior leadership training and awareness targets.
• Wider stakeholder engagement, page 67	• Oversight and policy setting via the Group chief operating officer function to manage consistency.
• Data privacy and GDPR, page 46	• Investment in expertise, systems and management reporting on data breaches – including any customer or personally identifiable data incidents in line with our GDPR compliant Information Security policies.
• Bribery Act compliance, page 66 • Whistleblowing, page 100	• Group-wide training and awareness; board risk committee reporting and oversight.
• Regulatory and industry engagement, page 42 • Regulatory risk, page 77 • Taxation, page 131	• Internal expertise and third-party advisors; bespoke regulatory relationships in each jurisdiction.
• Due diligence, pages 65, 68 • Risk appetite, pages 32 to 33	• Embedding updated governance processes, risk management oversight, KRI's reported at risk committee.

The right people

We work hard to understand how we can work together to make Arrow a better place to work; one where each individual can express themselves freely and maximise their own potential.

We empower our people to drive change from the ground up.

In March 2019, we conducted a Group-wide engagement pulse. Over 75.0% of our employees made time to give us their feedback, and the results showed that the actions we have taken have started to have a positive impact. Our engagement scores increased significantly, the engagement index was up across the six categories surveyed, with the highest rated categories being Work/Life Balance, Performance Management and Collaboration. This improvement shows that with focused planning and a conscientious and disciplined delivery, we can collectively make Arrow a great place to work. This progress was recognised in January, when our Whitestar business was awarded as a Top Employer in Portugal. We have worked hard to give all of our employees a meaningful voice, keep them well-informed of our strategic initiatives and the reasons behind them and promoting the importance and benefits of diversity and inclusion. We have made sure our compelling Vision, Purpose and newly defined aspirational culture statement are clear in order to help guide our people's decisions. Moreover, regular engagement forums keep this topic at the centre of discussions and ensure that our employees' ideas are acted upon in order to improve our workplace.

Delivering the Arrow Advantage for people

"I was lucky enough to be invited to participate in the Leadership Development programme in Vesting Finance, and I'm excited by the learning opportunities on offer and how this will help my future career."

Gijs Smallenburg,
Transformation manager, Vesting Finance, Netherlands

Accessible leadership is key to our continued success

"I feel well connected to the business. In November, we had the strategy roadshow in Milan, and it was helpful to hear about our future plans and new segmental structure."

Alessandra Tubi,
Senior transaction lawyer, Arrow Italia

1 

1. Jonathan Bloomer MBE

Non-executive chair

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.

2 

2. Lee Rochford

Group chief executive officer

Appointment
3 January 2017

Committee membership
Disclosure (chair)

Skills and experience
Prior to joining Arrow, Lee was chief financial officer at Virgin Money between 2013 and 2015, seeing the Group through its successful IPO and subsequent Stock Exchange listing. Before 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.

3 

3. Matt Hotson

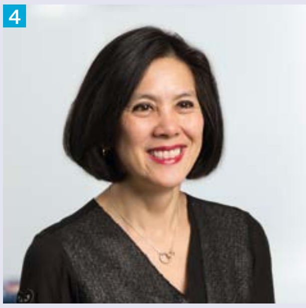
Group chief financial officer

Appointment
8 October 2019

Committee membership
Disclosure

Skills and experience
Matt is a highly experienced finance professional, having worked for more than twenty-five years at leading FTSE 100 companies. His experience spans core finance, strategy, investor relations and business leadership. In 2019, he joined Arrow from RSA Insurance Group plc, where he was chief financial officer, UK and International. Prior to this, Matt was at Cable and Wireless Worldwide plc, following fourteen years at Legal & General Group plc where he held a variety of senior finance and business roles. Matt holds Masters degrees in Natural Sciences from Cambridge University and Neuropharmacology at the Open University, and is currently studying for a PhD in Digital Economics at Exeter University.

External appointments
None.

4 

4. Lan Tu

Non-executive director

Appointment
9 March 2015

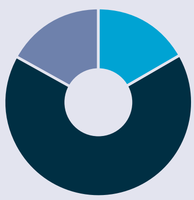
Committee membership
Remuneration (chair), Audit, Nomination and Risk

Skills and experience
Lan is currently chief executive officer of Virgin Money Unit Trust Managers, a joint venture between Virgin Money and Standard Life Aberdeen, having joined Standard Life Aberdeen as chief strategy officer in April 2016. Before this, she spent over ten years at American Express in a variety of senior leadership roles. 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 twelve years at McKinsey & Company, working primarily in the financial services sector.

External appointments
Lan is chief executive officer of Virgin Money Unit Trust Managers Limited and non-executive director of Kings College London.

Board gender diversity

Board tenure



Board balance

5. Maria Luís Albuquerque

Non-executive director

Appointment
7 March 2016

Committee membership
Audit, Nomination and Risk

Additional board role
Board representative for workforce engagement.

Skills and experience
Maria Luís was Portuguese minister of state and finance from 2013 to 2015, and deputy minister for treasury from 2011 to 2013. She has 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 rail infrastructure company. She is an economist who lectured in Universidade Lusíada of Lisbon from 1991 to 2006.

External appointments
Member of the European commission high-level forum on capital markets union. Chairs the sub-group focusing on the area of “Investment choice and accessibility to capital markets services to promote greater retail investors’ participation”. A member of the advisory board for INDEG-ISCTE executive education.

6. Andrew Fisher

Non-executive director

Appointment
9 December 2016 (Andrew Fisher became senior independent director on 28 May 2019)

Committee membership
Audit (chair), Risk (interim chair), Remuneration, Nomination and Disclosure

Skills and experience
Andrew, a chartered accountant, was the finance director of Provident Financial plc until he stepped down in December 2018. He has spent over twenty 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.

7. Stewart Hamilton

Company secretary, Group chief legal and risk officer

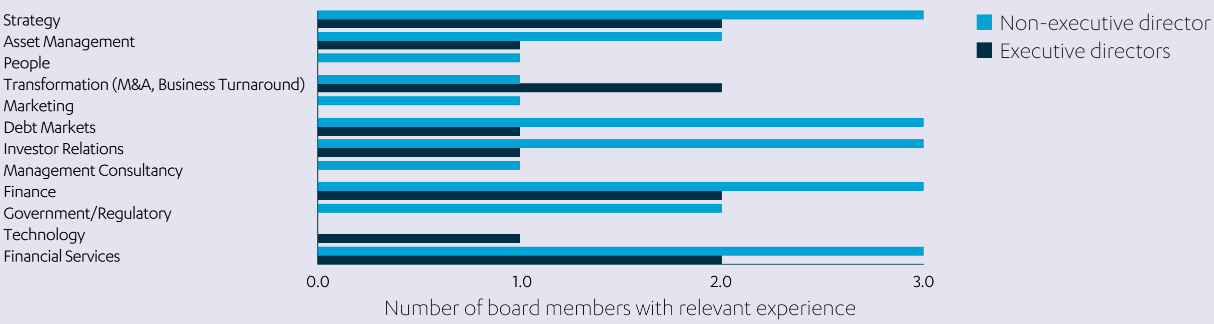
Appointment
24 September 2013

Committee membership
Disclosure

Skills and experience
Stewart has over seventeen 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
Stewart is a director of the Credit Services Association.

Areas of experience



1. Lee Rochford

Group chief executive officer

Skills and experience

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Group chief financial officer

Skills and experience

Matt is a highly experienced finance professional, having worked for more than twenty-five years at leading FTSE100 companies. His experience spans core finance, strategy, investor relations and business leadership. In 2019, he joined Arrow from RSA Insurance Group plc, where he was chief financial officer, UK and International. Prior to this, Matt was at Cable and Wireless Worldwide plc, following fourteen years at Legal & General Group plc where he held a variety of senior finance and business roles. Matt holds Masters degrees in Natural Sciences from Cambridge University and Neuropharmacology at the Open University, and is currently studying for a PhD in Digital Economics at Exeter University.

3. Zachary Lewy

Founder and Group chief investment officer

Skills and experience

Zachary Lewy is the Founder and Group chief investment officer of Arrow. Zachary was the chief executive officer of the business from its inception until 2011, when his focus changed to 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. Clare Dyer

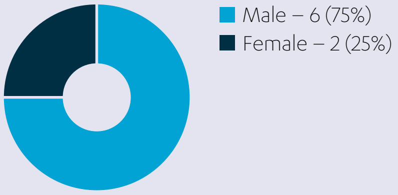
Group chief people officer

Skills and experience

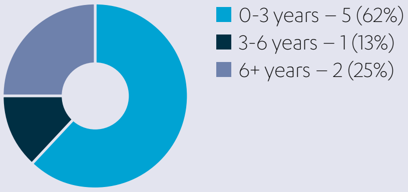
Clare is a highly experienced strategic and performance-focused HR director, with a proven track record within the digital technology and media sectors. With more than twenty years' experience, her expertise includes building agile, simple organisations that deliver purpose and meaning alongside profit and growth. Before joining Arrow in December 2019, Clare was the HR strategy and transformation director at BT, leading a number of enterprise-wide programmes to transform the organisation's operating model. Prior to BT, Clare was the chief people officer at KCOM.

Clare is an accredited executive coach with the International Coaching Federation, and is currently studying for a Post Graduate Certification in Coaching and Mentoring.

Executive management team gender diversity



Executive management team tenure



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5. Dave Sutherland

Group chief operating officer

Skills and experience

Dave has over twenty years of experience operating at board level as chief operating officer and managing director. Dave joined Arrow from a fast-growth SME financial services business, where he was managing director. Before this, he was the chief operating officer at TD Wealth International. Dave's experience includes banking and financial services, retail, operations, technology and process transformation. He was previously chief operating officer for Santander Cards UK, chief operating officer and transformation director of GE Money UK 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

Company secretary, Group chief legal and risk officer

Skills and experience

Stewart has over seventeen 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. Oliver Stratton

Group chief commercial officer

Skills and experience

Oliver has over seventeen years experience in financial services. He joined Arrow in 2013 and has held various operational and commercial leadership roles, including UK chief operating officer and UK country manager, before becoming Group chief commercial officer in 2019. Prior to Arrow, Oliver spent over ten years as an investment banker with Deutsche Bank and a corporate lawyer with Allen & Overy LLP in London, specialising in UK corporate finance and equity capital markets.

Oliver is a qualified solicitor, holds an LLB (Hons) from the University of Sheffield and the ICAEW's Corporate Finance Qualification, and is a member of the Chartered Institute of Securities and Investment.

Katie Hutchinson

Chief of staff

Role

Katie provides support and advice to the Group chief executive officer on strategic priorities and oversight of key cross-functional strategic projects.

Skills and experience

Katie has eight years experience of working in Financial Services. Her background is predominantly Finance where she has spent thirteen years working across a breadth of areas ranging from external audit to commercial finance. Prior to joining Arrow in September 2018, she worked for online retailer and financial services provider Shop Direct, and trained with KPMG.

Katie is a Chartered Accountant and a member of the ICAEW. She also holds a BSc (Hons) in Internal Management and Modern Languages (French) from the University of Bath.

"At Arrow, we recognise the importance of effective corporate governance in supporting the long-term success and sustainability of our business. It is critical to delivering our strategy, retaining our license to operate and in creating long-term value for our shareholders and our stakeholders generally."

Jonathan Bloomer
Chair

Corporate governance report

Chair's governance report

On behalf of the board, I am pleased to present the Group's governance report for the year ended 31 December 2019.

The last two years have witnessed wide-ranging changes for UK corporate governance. The Companies (Miscellaneous Reporting) Regulations 2018 and the 2018 UK Corporate Governance Code, both of which became effective for companies in 2019, put the relationships between companies, shareholders and stakeholders at the heart of long-term sustainable growth in the UK economy. The purpose of companies and their place in society is being redefined with a clear mandate for boards to demonstrate greater transparency about how their companies conduct their business, interact with stakeholders and take their views into consideration when formulating and executing their strategy.

At Arrow, we recognise the importance of effective corporate governance in supporting the long-term success and sustainability of our business. It is critical to delivering our strategy, retaining our license to operate and in creating long-term value for our shareholders and our stakeholders generally. Strong and effective corporate governance is at the heart of Arrow's business, it is embedded in our purpose, our values, our vision and above all, our culture. This commitment is further underpinned by the recent establishment of an Environmental, Social and Governance (ESG) working group, which I am the board sponsor for, and which is supported by formal terms of reference. More information on Arrow's ESG working group can be found on pages 50 to 51.

Statement of Compliance

This corporate governance report, together with the reports of the audit committee, risk committee, nomination committee and directors' remuneration report, explains how the main principles of the 2018 UK Corporate Governance Code (the Code), which applies to accounting periods beginning on or after 1 January 2019, have been applied by the Group in 2019. The Code is available on the Financial Reporting Council's website at www.frc.org.uk.

Since 2018, the Group has reviewed its governance initiatives and programmes and has been working towards compliance with the Code. During 2019, Group internal audit undertook a formal review of the Group's compliance with the relevant provisions of the Code. This review concluded that the Company has complied in full with the provisions of the Code with one exception. The Code states that there 'should be a means for the workforce to raise concerns in confidence and – if they wish – anonymously.' Although the Company's existing Whistleblowing Policy afforded an individual reporter confidentiality, it did not provide a mechanism for a concern to be raised directly and anonymously. Corrective action has been taken by management and a new externally supported Whistleblowing Reporting line has been implemented across the Group in accordance with the Code, with roll-out across the Group scheduled for 2020. Furthermore, Maria Luís Albuquerque, an independent non-executive director and member of the audit, nomination and risk committees, has been appointed as the board's whistleblowing champion, which the board considered aligned with Maria Luís's role as employee champion.

Stakeholder engagement and the board's duty

The board recognises the importance of our wider stakeholders in delivering our strategy and achieving sustainability within our business. We are always conscious of our responsibilities and duties to these stakeholders under section 172 of the Companies Act 2006. We have detailed our stakeholders, how Arrow engages with them and their importance to our business in the strategic report on pages 42 to 48. In the strategic report we include a statement, describing how the board has had regard to, and incorporated, the views of stakeholder groups into its decision-making during the year.

Following the 2019 annual general meeting, I joined the Chair of the remuneration committee, Lan Tu, in engaging with a number of institutional investors who had voted against the director's remuneration report to better understand their views and voting decisions. This dialogue demonstrated that the majority of our shareholders are very supportive of our approach to executive remuneration. Nevertheless, the board has carefully considered the feedback from this engagement, and we have sought to address a number of our investor's views in this year's directors' remuneration report, further details of which can be viewed on pages 80 to 97.

Workforce engagement

The board recognises that the Company's success depends on a fully engaged workforce and culture. In 2019, the board considered the provisions of the 2018 Code, and in particular, reviewed the three FRC recommended methods of workforce engagement. Following a detailed review of the board's existing mechanisms for engagement, it was felt that the appointment of a designated non-executive director for workforce engagement would build on the existing range of engagement activities that were already in place. In view of her experience of leading large teams and representing people's views in public-facing roles, such as being a member of the Portuguese parliament, Maria Luís Albuquerque, an independent non-executive director, was seen as the right director for this role. Maria Luís has already participated in a number of employee events and a busy programme of employee visits, forums, keynote events and online discussions are scheduled for 2020. More detail on Maria Luís engagement activities can be found on page 69.

Culture

As chair, promoting a culture of openness and debate in the boardroom is one of my key responsibilities, and as a board we play an important leadership role in promoting the desired culture throughout the organisation and in ensuring that we establish good governance to underpin a healthy culture. Our corporate culture defines who we are, what we stand for and how we do business. Maintaining the right culture across the organisation continues to be a priority for the board. This commitment is underlined by the establishment of a culture steering group which is led by our Group chief executive officer, Lee Rochford. Further detail on Arrow's culture journey can be viewed on pages 41.

Board changes, succession planning and diversity

There were a number of changes made to the composition of the board during the year. In March 2019, we announced that after six years on the board, Iain Cornish would step down as a non-executive director with effect from 30 April 2019. The search for a replacement for Iain is ongoing, and we hope to be in a position to update shareholders on the appointment of a new non-executive director in due course.

In August 2019 Paul Cooper stepped down as Group chief financial officer and was succeeded by Matt Hotson, who joined the board on 8 October 2019. Matt is a highly experienced finance professional having worked for more than 25 years in leading FTSE100 organisations. His extensive experience spans finance, investor relations and business leadership.

On behalf of my colleagues, I would like to thank Iain and Paul for their contributions and to welcome Matt in his new role at Arrow.

Biographical details of all of our directors, and of our executive management team, are set out on pages 54 to 57.

Succession planning and the development of our talent pipeline continues to be an area of focus for the board and the nomination committee to ensure we maintain an appropriate combination of skills, experience and knowledge to deliver our strategy and to ensure that plans are in place for an orderly succession to the board and senior management positions.

Our diversity and inclusion agenda, which is underpinned by our Diversity and Inclusion Policy, continues to progress. An inclusive and diverse culture across the business improves effectiveness, encourages constructive debate and supports good decision making. In 2019, management defined new gender diversity targets for 2023 for the senior leadership team, with 50.0% female representation being the aspirational goal and 40.0% the minimum threshold. These targets have been reviewed and are supported by the nomination committee. The board currently has two female non-executive directors, Lan Tu and Maria Luís Albuquerque, who together represent 33.0% (2018: 29.0%) female board membership, which aligns with the recommended target by the Hampton-Alexander Review for FTSE 350-listed companies. The executive committee has two female members, Clare Dyer (Group chief people officer) and Katie Hutchinson (chief of staff), representing 25.0% (2018: 29.0%) of the committee's membership.

You can read more on how we strive towards our diversity and inclusion objectives, and on our approach to talent management and succession planning in our nomination committee report on pages 78 to 79.

Board effectiveness review

The board carries out an annual evaluation of its effectiveness. Having undertaken an external evaluation in 2018, an internal evaluation was completed in 2019. The results of this review are set out on page 62.

Conclusion

We are committed to doing the right thing in line with our purpose, our culture, our values and our vision. We will continue to strengthen our governance processes over the coming year to ensure that we are aligned with best practice and the 2018 Code. The corporate governance report which follows details the Group's governance framework under the 2018 Code, the UK Listing Rules and the Disclosure Guidance and Transparency Rules. I hope that you will find the report informative and engaging.

Jonathan Bloomer
Non-executive chair
12 March 2020

How we are governed

The Board

The board is collectively responsible for the long-term success of the Group. With due regard to the views of shareholders and other stakeholders, it provides leadership and direction, including establishing the Group's culture, purpose, values and ethics, setting strategy and overseeing its implementation, ensuring only acceptable risks are taken and being responsible for corporate governance and the overall financial performance of the Group. The board's responsibilities include:

- approval of the Group's strategic aims and objectives;
- approval of the annual operating and capital expenditure budgets;
- reviewing and monitoring business performance;
- ensuring the Group maintains a sound system of internal control and risk management;
- reviewing the Group's overall corporate governance arrangements;
- ensuring adequate succession planning for the board and senior management;
- approval of the dividend policy;
- ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives;
- ensuring appropriate oversight of portfolio investments and disposals; and
- approval of external reporting.

Board composition and roles

Chair

Responsible for the leadership and management of the board. In doing so, the chair is responsible for promoting high ethical standards, ensuring the effective contribution of all directors and, with support from the company secretary, Group chief legal and risk officer, best practice in corporate governance.

The positions of the chair and Group chief executive officer are held by separate individuals.

Group chief executive officer

Responsible for the executive leadership and day-to-day management of the Group, to ensure delivery of the strategy agreed by the board.

Group chief financial officer

Responsible for providing strategic financial leadership of the Group and day-to-day management of the Group's finance function.

Independent non-executive directors

Responsible for contributing sound judgement and objectivity to the board's deliberations and overall decision-making process, providing constructive challenge, and monitoring the executive director's delivery of the strategy within the board's risk and governance structure.

Non-executive directors are appointed for periods of three years, subject to annual re-election by shareholders at the Company's annual general meeting. Terms in excess of six years are subject to a more rigorous review. The non-executive directors meet periodically without the executive directors present.

Senior independent director

Acts as a sounding board for the chair and serves as a trusted intermediary for the other directors, as well as shareholders as required.

Group executive directors

Responsible for executive leadership and day-to day management of relevant business units in support of the Group chief executive officer and delivery of the strategy agreed by the board.

Company secretary

Adviser to the chair and the board on matters of corporate governance, induction, training and efficient management of the board and committee meetings. Responsible for ensuring the effectiveness of Arrow's governance framework.

Read more about our committees:

Audit committee
See page 70

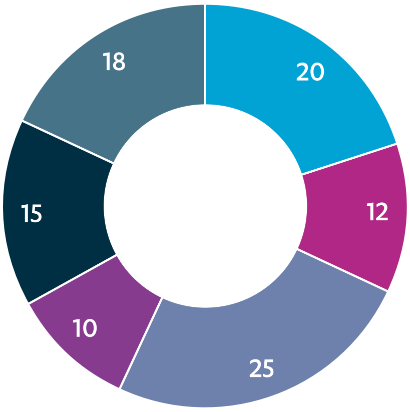
Nomination committee
See page 78

Risk committee
See page 76

Remuneration committee
See page 80

Your board in 2019

How the Board spent its time (%)



Board activity

During the year, the board considered a comprehensive and structured programme of matters covering operational and financial performance reporting, strategic reviews and updates, and a number of governance reports and matters seeking board approval.

In addition, the board and board committees undertook a programme of deep dives into specific operations and topics. These discussions included:

New business/Products

- Launch of NPL Fund and Fund Management business

Strategy

- Acquisition of Drydens Limited
- Oversight of a Group-wide cost efficiency programme
- Monitoring operational performance against 2019 strategic goals

Governance and risk framework

- Overview of Group compliance with new UK Corporate Governance Code
- Review and approval of committee terms of reference and matters reserved for the board
- Review of the implementation of the Senior Managers and Certification Regime
- Reviewing and approving the 2018 statement of compliance with the Modern Slavery Act
- Approval of notice for the 2018 annual report and associated documentation

Operational

- Implementation of a Group change programme
- Country deep dives
- Consideration of the Group customer agenda.

People

- Review of the Group's approach to diversity and inclusion.
- Talent and leadership reviews
- Review of the Company's culture and creation of a Group culture statement
- Review of the Group's approach to engaging with the workforce

Financial

- Approval of 2019 budget and consideration of 2020 budget
- Approval of the 2018 full year dividend and 2019 Interim dividend.
- Establishment of an asset-backed security facility

Attendance by board members and board and committee meetings is detailed below:

	Board		Audit		Risk		Nomination		Remuneration	
Director	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Jonathan Bloomer	10	10	N/A	4[1]	N/A	5[1]	5	5	3	3
Lee Rochford	10	10	N/A	4[1]	N/A	5[1]	N/A	3[1]	N/A	2[1]
Iain Cornish	4	4	1	1	2	2	1	1	1	1
Lan Tu	10	10	4	4	5	5	5	5	3	3
Maria Luís Albuquerque	10	10	4	4	5	5	0	5[1]	3	3
Andrew Fisher	10	10	4	4	5	5	5	5	3	3
Paul Cooper	7	7	N/A	3[1]	N/A	3[1]	N/A	N/A	N/A	1[1]
Matt Hotson	2	2	N/A	1[1]	N/A	2[1]	N/A	1[1]	N/A	N/A

1. Attended by invitation of the committee chair.

Board evaluation 2019

Review of the effectiveness of the board and its committees

The board recognises the importance and benefits that continually monitoring its performance can bring to the board's overall effectiveness. The performance and effectiveness of the board and its committees is formally reviewed on an annual basis. The Corporate Governance Code provides that FTSE 350 companies undertake an externally facilitated board review at least once every three years. In 2018, the evaluation of the board's effectiveness was facilitated by an external provider and the output of this process was distilled into a number of actions, all of which were addressed in 2019.

The 2019 board and committee effectiveness review were facilitated internally by way of a questionnaire. The process that was followed for this review and the actions flowing from it, are set out below.

Process

Stage 1

Each director and the company secretary completed a detailed online questionnaire prepared by the Group secretariat function. The questionnaire covered a number of key themes, including: strategy, stakeholder engagement, risk, board behaviours, culture, talent and succession.

Stage 2

Group secretariat collated and analysed the responses and a report was prepared and shared with the chair.

Stage 3

The results were presented and discussed with board members in November 2019. An action plan, detailing focus areas, was discussed and agreed.

Outcomes

The evaluation highlighted that the board works well together as a cohesive and dynamic team. There is a constructive relationship between the executive and non-executive directors, with appropriate levels of challenge and support in evidence when issues are debated in the boardroom. Board members acknowledged that as the Group continues to grow and diversify, particularly following the creation of the Group's Fund Management business, that the composition of the board may need to increase to ensure sufficient diversity of thinking and expertise.

The outcome of the board evaluation on strategic formulation and the translation of this into action was positive, it being acknowledged that a significant level of focus was placed on the launch of the Fund Management business in 2019.

When discussing the findings of the review, the board considered its performance generally and was particularly pleased with the work undertaken throughout the year on the development of the Group's culture statement, together with the increased levels of engagement with the wider workforce. The board concluded that the board and its committees continued to discharge their duties and responsibilities effectively.

The board identified a number of opportunities to improve the way it operates, some of which are detailed in the action plan for 2020.

Action plan

1. Continuing the review and enhancement of board papers and presentations to enable effective and high-quality debate, input and challenge at board meetings.

   Responsibility: Chair and Group chief legal and risk officer and company secretary

2. Regular reviews of the composition of the board, particularly following the development of the Company's Fund Management business, to ensure sufficient diversity of thinking and expertise on the board following the expansion of the Group.

   Responsibility: Chair and Group chief legal and risk officer and company secretary

3. Incorporating a programme of deep dive reviews into the board and committee work programme to ensure the board is focused on issues that are material to the Group.

   Responsibility: Chair and Group chief legal and risk officer and company secretary

Chair's performance

The Senior independent director, Andrew Fisher, led a meeting of the non-executive directors (without the chair being present) to appraise the chair's performance. Andrew then discussed the feedback and any areas of development with the chair.

Board contributions 2019

Directors delivering Arrow's success

Individual director contributions throughout the year are set out below. The chair held performance meetings with each director to discuss their individual contribution and performance over the year and their training and development needs. Following these meetings, the chair, on behalf of the board, has confirmed that 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 2020 annual general meeting in relation to the election and re-election of the directors.

Jonathan Bloomer MBE

Non-executive chair

Jonathan has led the board through a period of significant diversification, structural realignment and the launch of a Fund Management business. As chair of the nomination committee, Jonathan has overseen the development of the Group's aspirational culture statement and the review of the Group's diversity and inclusion policy, resulting in an increased target of 40% female representation within the senior leadership team by 2023. He also led a rigorous search and selection process leading to the appointment of Matt Hotson. Jonathan is the board's sponsor and oversees the Group's broad spectrum of Environment, Social and Governance initiatives.

Andrew Fisher

Non-executive director

Andrew's wealth of financial experience and strength of challenge continues to be invaluable to the board. During the year, Andrew was appointed as senior independent director, in which he acts as a sounding board for the chair and the other directors. Andrew also took on the role of interim chair of the risk committee in April 2019 following the departure of Iain Cornish and has led the committee in overseeing the embedding of new risk management systems across the Group that will provide a consistent approach to risk and control self-assessments and incident management , furthering the development of our risk culture across all three lines of defence. In his role as Chair of the audit committee, Andrew has led the committee through the review of the accounting for the acquisition of Drydens Limited, 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.

Lan Tu

Non-executive director

Lan led the remuneration committee throughout 2019 and was actively involved in the investor engagement programme following the 2019 annual general meeting. In conjunction with senior management, Lan has overseen the development of a programme to incentivise, motivate, reward and retain key talent within the Group. Lan also played a key role in setting the remuneration for the new Group chief financial officer, Matt Hotson, and in overseeing the exit arrangements in relation to his predecessor, Paul Cooper. She has also overseen the new compensation arrangements in respect of the Fund Management business and has led the committee through its review of the wider workforce pay arrangements.

Maria Luís Albuquerque

Non-executive director

Following her appointment as the board's employee engagement champion in 2019, Maria Luís has been active in ensuring that employees across the Group feel engaged with the Company and that their views are being listened to and understood by the board. This has included visiting the majority of the Group's businesses and leading engagement sessions with the board, as well as attending roadshows with the executive management team to discuss the aspirational culture of the Group. Maria Luís also represented the board at the Annual Gala Dinner in Porto, recognising winners of the Employee Recognition Scheme throughout 2019. These contributions underpin the board's people agenda in fostering an environment of continuous employee engagement and supports the Group's initiatives to ensure that the best talent is attracted and retained.

Lee Rochford

Group chief executive officer

Lee has led the Group through a significant year of change in terms of the reorganisation of the business structure and the launch of the new Fund Management business, including the successful first fund raising. As well as driving the strategic decision agenda, Lee has developed and implemented the Group's new aspirational culture statement throughout the business. This puts culture at the heart of the Group's strategy, and focuses on delivering positive customer outcomes, and creating an entrepreneurial environment where talented employees can thrive. Lee has also supported the Group's new chief financial officer, chief commercial officer and chief people officer in their integration into the organisation and the executive management team.

Matt Hotson

Group chief financial officer

Matt joined the business in July 2019 as Group chief financial officer. Since joining, Matt has driven the Group's cost efficiency programme and supported the Group chief executive officer in the development of the new Fund Management business. Matt initiated, and is now leading, a Group-wide finance and reporting transformation programme that will provide greater levels of insight, increased control and reduced reporting timelines through increased efficiency. This will support the delivery of the Group's strategy by strengthening the control environment and by producing higher quality information and analytics thereby enabling a better understanding of the commercial drivers of the business and enhanced strategic decision-making.

The board – Leadership

Board meetings

The board discharges its responsibilities through an annual programme of board and committee meetings which are held at various operational sites of the Company. In 2019, the board held 10 scheduled meetings and visited the Company's offices in London, Milan, Lisbon, Glasgow and Amersfoort. Ad hoc conference calls and meetings were also convened to deal with specific matters which required attention between scheduled meetings.

During the year, the non-executive directors, including the chair, met periodically without management 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 page 54. The board is satisfied that each non-executive director is able to dedicate the necessary amount of time to the Company's affairs.

Disclosure committee

The disclosure committee is made up of the Group chief executive officer, the Group chief financial officer, the senior independent director and the company secretary. The committee is chaired by the Group chief executive officer, however the senior independent director typically chairs committee meetings that consider the disclosure of the Company's financial results. 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 assist the Company and the Group in ensuring timely and accurate disclosure of all information where disclosure is required to meet legal and regulatory obligations.

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.arrowglobal.net).

Directors independence and conflicts

All of our non-executive directors are considered to be independent against the criteria in the Code and free from any business interest which could materially interfere with the exercise of their judgement.

In accordance with the Companies Act 2006, the Company's Articles of Association and Company policy, directors are required to report actual or potential conflicts of interest to the board for consideration and, if appropriate, authorisation. If such conflicts exist, directors recuse themselves from consideration of the relevant subject matter. The Group maintains a schedule of authorised conflicts of interest. See also related party transactions note 22.

Directors' induction

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. On completion of the induction programme, all new directors should have sufficient knowledge and understanding of the business to effectively contribute to strategic discussions and the oversight of the Group.

Matt Hotson undertook a thorough induction process leading up to his appointment to the board on 8 October 2019. The process included:

- a detailed handover from Paul Cooper (the outgoing Group chief financial officer);
- one-to-one meetings with the members of the executive committee to discuss the Group's business, strategy and operations;
- site visits were undertaken;
- meetings with the Group's key external advisors, including its external auditors, KPMG, and brokers, J.P. Morgan and Numis; and
- meetings were held with various senior managers across the Group and Matt spent a significant amount of time with the Group finance function and local finance leaders.

Continued professional development undertaken during the year

Ongoing training is provided for all directors, as necessary. This includes formal and informal briefings, meetings with management and visits to the Group's operations.

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.

Board diversity

Arrow recognises the benefits of diversity and inclusion in all its forms, at board level and throughout the Group.

As at 31 December 2019, 33.0% of the board were women, which aligns with the recommended target by the Hampton-Alexander Review for FTSE 350-listed companies and comprised directors with a wide range of backgrounds and experience. The Group supports the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity and is continuing to develop the skills, experience and knowledge of a diverse pipeline. Our nomination committee is committed to promoting a diverse blend of skills, backgrounds and perspectives on the board as well as ensuring that the best candidate for each position is appointed. Further details on the Committee's activities in this regard ,including the new gender diversity targets for the senior leadership team, are set out in the nomination committee report on pages 78 to 79.

Site visits

While the major part of the board's work is conducted around the boardroom table, directors recognise the importance and benefits to be gained by visiting the Group's operations. During 2019, the board visits included the Group's operations in Milan, Glasgow, Lisbon and Amersfoot. Each visit comprised a site tour, an employee engagement session, a presentation by local senior leaders followed by a board dinner.

Accountability

Adequacy of risk management and internal control systems

The board has overall responsibility for monitoring risk management and internal controls, and for reviewing their effectiveness and delegates certain responsibilities to the audit and risk committees. The Code requires that the board should, 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 Group's 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 the in-house internal audit function, and support provided by Deloitte LLP in specialist areas. During the year, the board, supported by the risk committee, carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These are documented on pages 31 to 38 of the strategic report, with an explanation of how these are being managed or mitigated.

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 £20.0 million in investment value are escalated to the board for approval. The processes and controls are documented in a governance and delegated authority manual.
- A strong risk and compliance framework supported by the enterprise wide risk management framework, risk committees and maintenance of the Group, country and departmental risk registers.
- Regular monitoring of portfolio performance, overseen by the portfolio review committees. This considers actual versus forecast results, focuses on significant individual portfolio variances, forecasts cash flows on a six-monthly basis, signs off the latest ERC forecast, assesses the carrying value of the portfolio assets and reviews revenue recognition.
- Internal controls exist over all key processes of the Group that have an impact on business operations, the treatment of customers, regulatory compliance, the Group's reputation and its 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 and received a report on the same from the head of internal audit. The assessment for 2019 involved oversight of the respective risk management and internal control systems from across the Group, including the Group's operating subsidiaries in the UK, Portugal, Italy, the Benelux countries and Ireland. There were no material failings or weaknesses identified following the committee's review. Based on the audit committee's recommendation, the Board concluded that, overall, the Group's risk management and internal control systems were adequately effective.

The board is satisfied that the Group's risk management framework provides assurance and evidence that the Group's principal and emerging risks are understood and are being appropriately managed, whilst acknowledging that with continued growth in existing geographic territories and the creation of the new Fund Management business, together with exposure to increasing levels of client expectation and regulatory scrutiny, the expected standards of risk management continue to increase.

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 and the level of non-audit fees and audit-related assurance services provided by the external auditor for the year can be seen in the audit committee report on page 70.

Internal audit function
The audit committee was responsible for monitoring and reviewing the effectiveness of internal audit activities in 2019. Further detail on the internal audit function and its activities can be found in the audit committee report on pages 72 to 75.

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 reviewed approximately 275 portfolios in 2019, with approximately 75 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 £10.0 million and any transaction over £20.0 million. Based upon recent performance, the board will be asked to consider circa four to five transactions per annum. In 2019, the board approved, amongst others, the acquisition of Drydens Limited.

Bribery Act compliance
The Group has anti-bribery and corruption policies and standards available to all its employees. There is a summary of the policy complying with the provisions of the UK Bribery Act available on the Company'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. Regular training on the policy and the principles outlined therein is provided to all staff.

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

Remuneration
In line with the Code and the 2013 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, details on remuneration including the annual report on remuneration to be approved at the 2020 annual general meeting, can be seen on pages 83 to 84.

Relations with shareholders
Management, together with members of the board, engaged with investors throughout the year in a number of ways as part of a comprehensive investor engagement programme. Key activity in the year included:

- results and marketing roadshows in the UK and internationally to meet current and prospective shareholders;
- an ongoing programme of one-to-one and Group investor and analyst meetings hosted by management and the head of investor relations;
- management and the head of investor relations attending industry conferences and presenting to investor audiences; and
- annual dinner hosted by the chair, with members of the executive management team in attendance, for the Group's major shareholders.

The views of these investors are communicated to the board by the chair and executive directors on a regular basis. Copies of analysts' and brokers' briefings, together with reports on institutional feedback on the Group and its performance, are circulated to the board. The chair is also 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.

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 102 for information on the 2020 annual general meeting. The notice of meeting and annual report will be sent out at least 20 working days before the meeting. The chairs of the audit, risk, remuneration and nomination committees attend and are available to answer questions.

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

Stewart Hamilton
Company secretary
12 March 2020

Wider stakeholder engagement statement

How the board discharges its duties under Section 172

The directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006.

Arrow's license to operate relies, to a large extent, on how the business is perceived by its stakeholders, and specifically its customers, its clients, its employees, the communities in which it operates, its regulators and the wider industry, and its shareholders. The board manages and maintains this license to operate by understanding and responding to its stakeholders' needs. Regular engagement with stakeholders enables the board to define and refine the Group's strategy and ensure that the Group delivers relevant services that meet the needs of its clients, its customers and its wider stakeholders, thereby supporting long-term value creation.

Fundamental to the board discharging its responsibilities under section 172 are the governance processes which support the board's decision-making. The chair, Group chief executive officer and the company secretary ensure that the board's decision making is sufficiently informed by section 172 factors. All board and committee papers and proposals include comprehensive discussion regarding section 172 factors and the board's debate and decisions are documented in the minutes of the meetings. Wherever possible, the board is provided with external assurance on the integrity of the information it receives on stakeholder engagement.

However, the board recognises that there is no room for complacency in this area. With this in mind, a review has been initiated by the company secretary to ensure that the board's reserved matters, and the terms of reference of each committee, capture the requirements of section 172 and that policies and practices are in place to ensure that any decisions delegated by the board, via the delegated authority framework, give sufficient consideration to section 172 factors. Refresher training for the board and senior management on directors' duties under section 172 is also scheduled for later in the year and it is planned to extend this education programme across the Group.

Stakeholder interests are at the heart of every strategic and operational decision taken by the board. For example, the need to foster the Company's business relationships with its suppliers is evidenced by the board's detailed review and approval of the Company's 2018 Modern Slavery Act (MSA) Statement. The board reviewed the MSA Statement in April 2019 and considered that the actions being taken by the Group to identify and/or address any potential modern slavery or human trafficking within its supply chain to be appropriate in ensuring that any risks are highlighted and mitigated accordingly. This includes assessing the practices of the Group's existing supply chain and providing training to our employees to assist with the identification of slavery-related risk factors. The board is pleased to report that the assessments undertaken in respect of the Group's supply chain to date have not identified any modern slavery or human trafficking activity.

Set out below are examples of how the directors have had regard to the matters set out in section 172 when discharging their duties, and the impact of this regard on the board's decision-making.

Considering stakeholders in decision making

Acquisition of Drydens Limited

In reviewing a proposal to acquire Drydens Limited (DL), a specialist litigation and insolvency advisory firm, the board considered the strategic fit with Arrow, the history of DL, its product offering, its client base, the migration plan, its operational capabilities, its relationship with the Solicitors Regulation Authority and the Financial Conduct Authority as its joint regulator and the opportunities for efficiencies and savings. Arrow has been a client of DL since 2006.

The risks and opportunities associated with the transaction were discussed. The board considered the impact of the proposed acquisition on a number of stakeholders, including clients, employees and Arrow's UK panel solicitor firms who would be affected by the in-sourcing of accounts.

A comprehensive account migration plan to mitigate these stakeholder risks and impacts was reviewed and agreed by the board.

The board also recognised that DL complemented the overall Arrow customer journey ensuring consistent policies, processes and outcomes within the UK market. The consolidation of all the Group's UK activity into one firm, owned by the Group, ensured a much more transparent and well controlled approach to managing the risks around litigation and ensuring consistency of treatment for customers in the litigation process.

The board concluded that DL was a well-respected brand in debt recovery, litigation and insolvency, with a broad range of capabilities, a diverse client base, a motivated workforce, and a scalable platform. The board was also satisfied that all potential and relevant stakeholder issues and impacts had been considered and appropriate mitigating actions put in place. The transaction, which would benefit clients and employees and be value accretive for Arrow and its shareholders, was approved.

Considering stakeholders in decision making

Fund raising for inaugural pan- European Non-Performing Loan (NPL) Fund

In December 2019, the board approved the launch of a €838.0 million pan-European NPL Fund, with €628.5 million of the total sum subscribed by third-party investors. This represents a key achievement in the development of Arrow's Fund Management capabilities and is central to the Group's strategy of transforming the business towards a more capital light model. The Fund launch is expected to generate the following benefits for Arrow and its stakeholders:

- Fund Management businesses are high margin and capital light delivering strong recurring revenues;
- The Fund launch will accelerate the achievement of Arrow's five-year targets while also providing investors with access to a specialist and attractive asset class through Arrow's leading pan-European platform;
- Faster reduction in leverage as a result of the co-invest structure of the Fund;
- Increased future flexibility around Arrow's capital structure; and
- A scalable opportunity to grow capital light asset Asset Management and Servicing activities by offering these services to the Fund.

In advance of the Fund launch, the board undertook extensive financial, operational and governance-related due diligence on the proposed transaction. In addition, the interests of a variety of stakeholder groups (including potential investors, employees and shareholders) were considered.

For example, when reviewing the design of the governance structure for the Fund, the board recognised the need for sensitivity in respect of the required separation of the Investment Management business and the interests of the Limited Partners as investors in the Fund. The importance of ensuring that the governance framework surrounding the Fund provides the requisite comfort for investors and regulators was also viewed as imperative by the board.

The impact of the Fund launch on employees, particularly personnel employed by an Arrow entity who would perform a dual role by also supporting Fund entities, was also taken into account.

In addition, the board discussed at length the interests of Arrow shareholders and, through scenario analysis and modelling, assessed the potential impact of the Fund launch on the Arrow share price.

Considering stakeholders in decision making

Implementation of a Group Change Programme

The board recognised the need to simplify Arrow's operations after a series of acquisitions and the importance of realigning the geographic cost base to future market opportunities. In addition, the board acknowledged that in order to scale the business to an institutional standard there was a need to drive accountability into the business and adjust central oversight accordingly.

Therefore, a key priority for the board during the year was to oversee the planning and implementation of a change programme (the Programme) across the Group's businesses in the UK, Ireland, the Netherlands, Italy and Portugal, the overriding objectives of which are to:

- Design and deliver a more effective operating model for the Group based around pan-European business functions, moving away from country and entity specific businesses;
- Establish clear accountability for all business and central support activities, with a performance driven focus and streamlined governance and decision making;
- Create the conditions to drive more effective collaboration, co-ordination and consistency across the Group with an inherently interdependent organisational design;
- Enable the scaling of the Group in a well controlled and managed way to meet the future demands of Arrow's new Fund Management activities and the needs of third-party investors;
- Streamline and improve the effectiveness and efficiency of the central support functions, removing duplication and improving standards; and
- Create opportunities for talented individuals across the Group to take new roles with wider remits.

The board received regular updates throughout the year on the Programme. In addition to reviewing the expected performance and efficiency benefits, the board considered at length the potential impact that the Programme would have on all stakeholders including the Group's employees, regulatory bodies and wider communities in which Arrow operates.

The internal communications plan supporting the Programme was also regularly reviewed and adapted to ensure clear, concise messages were conveyed to all stakeholder groups across multiple different formats.

The cultural and behavioural elements of the Programme were key focus areas for the board. The importance of fostering a 'One Arrow' culture and at the same time promoting performance-orientated and collaborative behaviours across the organisation were acknowledged by the board to be key drivers of the Group's long-term success.

Following a series of discussions and presentations, the board concluded that the Programme is integral to the Group's SMART Strategy and building a differentiated business model.

Considering stakeholders in decision making

Building Better Financial Futures for our Customers

The board considered updates on the Arrow customer experience in order to assess the Group's progress in meeting its ambition of creating better financial futures for its customers and improving the Group's commercial results. In particular, the board discussed:

- The initiatives and measures being developed across the Group to improve the outcomes for customers and the Company;
- The opportunities to improve the customer experience;
- The opportunities to implement best practice initiatives consistently across all of the Arrow Group geographies;
- A new Customer Policy requiring all Arrow businesses to adopt a clear road map to adhere to standards and commitments to customers and guiding principles for collections activity;
- A set of key customer-focused actions that had been agreed in the Arrow customer forum; and
- The implementation and monitoring of new customer outcome key performance indicators to ensure that Arrow performs against its customer ambitions. The board was very supportive of the initiatives underway to improve the Arrow customer experience. In addition to these measures, management was requested to:
- Provide quarterly updates to the board on progress achieved against the roadmap of customer initiatives together with the improvements to the customer experience that flow from it;
- Deliver greater consistency and automation around customer affordability checks; and
- Consider how the Group can further promote and develop financial literacy among its customers.

In concluding its review, the board reiterated its commitment to building better financial futures for its customers and in treating customers fairly since this would, at the same time, deliver the right commercial outcomes for Arrow.

"Making sure our employees have an independent voice at the board is my privilege, and I'm delighted with my appointment."

Maria Luís Albuquerque,
Non-executive director

Employee Engagement Mechanism: Hearing the employee voice in the boardroom

I am delighted to be appointed as the board's lead on employee engagement. My previous experience in leading large teams, as well as in public-facing roles, (including as a Member of the Portuguese Parliament), means I'm well acquainted with representing different perspectives and continue to have open dialogue with employees around the Group.

In September 2019, I attended our Senior Leadership Conference (SLC) in Dublin, alongside our chair, Jonathan Bloomer, and spent time engaging with our 100 most senior leaders. Jonathan took this opportunity to speak about the importance of culture and why it is a priority for the board. Following the SLC, a SMART roadshow was subsequently rolled out across the Group, hosted by the executive team, covering eight locations, 12 presentations and 2,500 employees. I attended the Manchester and Lisbon roadshows, which gave me the opportunity to meet our dedicated Values Champions and understand important issues that were highlighted for the board's attention. Common themes included how our values remain central to our decision making and the importance of sharing best practices to enable us treat customers fairly.

Our newly formed culture steering group, and our Customer Forum are great examples of teams coming together with a common aim – to improve customer service. I would like to thank our dedicated Values Champions for promoting our values, which they do in addition to their day jobs.

Most recently, I attended WhiteStar's Christmas Gala in Lisbon and our annual Values Gala dinner in Porto, where we celebrated the behaviours that have made our business successful and meeting 80 ERS winners and 60 Values Champions during the occasion. During these events what struck me most, apart from the dedication of our people, was their openness and their willingness to raise issues that are important to them, including vulnerable customers, recognition and professional development.

During each visit to an Arrow operation, I chair a session attended by Arrow's non-executive directors (NEDs) and employee representatives to enable NEDs to better understand the views and of employees. At the board meeting that follows, I brief the board on the issues raised and a broad discussion of the key themes occurs. Feedback is then provided by the board to local senior management who are tasked with considering how the issues raised by their employees might be best addressed. On a periodic basis, I revisit these operations to assess how the issues are progressing. Issues raised at engagement sessions to date include future business strategy, the implications of Brexit, intra-group secondments and employee remuneration.

Future plans include visiting overseas sites, learning more about our employee engagement forums, attending keynote engagement events and working hard to ensure the board continues to have an open dialogue with employees from around the Group.

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

Andrew Fisher
Chair of the audit committee

Audit committee report

Members

Andrew Fisher (Chair)
Lan Tu
Maria Luís Albuquerque

Progress in 2019

- Accounting for the acquisition of Drydens Limited
- Embedding and expansion of the in-house internal audit function

Focus for 2020

- Accounting judgements linked to the Fund Management business
- Embedding new controls and processes related to the Fund Management business

Dear Shareholder

I am pleased to provide a report of the audit committee's activities in 2019.

The principal issues on which the committee focused in 2019 are set out in this report. They include the measurement of purchased asset portfolios and investments based on estimated future cash flows, a review of the acquisition accounting of Drydens Limited (including the fair value of net assets acquired), the valuation of goodwill, the continued embedding of IFRS 9 and implementation of IFRS 16.

In addition to its ordinary course of work programme, the committee has overseen the Company's engagement with the Financial Reporting Council (FRC) following receipt of a notification that the Group's annual report and accounts made up to 31 December 2018 had been selected as one of the entities which would be reviewed as part of the FRC's ongoing programme of work in this area. Further detail on this can be found on page 71.

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.

The committee's effectiveness was considered as part of the board evaluation process, further detail of which can be found on pages 62 to 63, and I am pleased to report that the committee was viewed as operating effectively throughout the year and no significant areas of concern were identified.

Responsibilities of the audit committee

The committee's principal responsibility is to monitor the Group's financial reporting process and the integrity of the Group and Company financial statements and reviewing any significant financial reporting judgements contained therein. In addition, the committee also reviews the effectiveness of the Group's internal controls and risk management systems, and the role and effectiveness of the Group internal audit function and the external auditor.

The committee is also responsible for (amongst other things):

- Oversight and approval of the scope and fee for the audit and monitoring the Group's compliance with the non-audit fees policy;
- Assisting the board in assessing the Group's ongoing viability, including the basis of the assessment and the period of time covered;
- Approving the Group internal audit plan on an annual basis; and
- Assessing the independence and objectivity of the external auditor.

Composition of the audit committee

For meetings held in 2019, the committee was comprised of the following members: Andrew Fisher as chair, Lan Tu, Maria Luís Albuquerque and Iain Cornish who resigned on 30 April 2019. The committee met four times in 2019 at the appropriate times in the financial reporting and audit cycle. The attendance of our members is shown in the table.

During 2019, the committee also met separately with representatives of the external auditor, KPMG LLP, and the head of the internal audit function without any management present.

Committee members	Eligible to attend	Attended
Andrew Fisher (chair)	4	4
Lan Tu	4	4
Maria Luís Albuquerque	4	4
Iain Cornish[1]	1	1

1. Iain Cornish resigned as a member of the committee on 30 April 2019.

The members of the committee are all independent non-executive directors and the board has determined that Andrew Fisher has recent and relevant financial experience, together with competence in both accounting and auditing. All committee members have extensive general business and management experience, which can be seen from their biographies set out on pages 54 to 57, and the board has determined that the committee, as a whole, has competence relevant to the sector in which the Group operates.

Regulatory Oversight

During the period, the Group received communication from the FRC, which stated that they had chosen to perform a review of the Group's annual report and accounts made up to 31 December 2018, and that they had a number of questions for the Group in order to help them understand how the relevant reporting requirements had been satisfied. The FRC notes that its review was based on the Group's 2018 annual report and accounts only and does not benefit from detailed knowledge of the Group's business or an understanding of the underlying transactions.

The questions raised by the FRC included the following key areas: interests in unconsolidated structured entities; disclosures under IFRS 7 – Financial Instruments; disclosures; intercompany balances; investment in subsidiaries and goodwill; estimation uncertainty disclosures; and contingent consideration. Management provided a detailed response to these questions and have also responded to a small number of follow up questions, which the committee reviewed, with a focus on the accuracy and balance of the response. Certain disclosure enhancements committed to in our response have been made in the 2019 annual report and accounts, including note 27 to the accounts, relating to unconsolidated structured entities and the associated accounting judgements made, additional disclosures in relation to our portfolio assets held at amortised cost, enhancements to the descriptions of accounting policies and additional commentary where appropriate.

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 judgemental 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 2019:

- 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 the Group internal audit function, and KPMG as external auditor.

External auditor

Appointment and effectiveness of the external auditor

KPMG, the Group's external auditor, was appointed in July 2014 following a comprehensive and competitive tender, the lead audit partner is Alexander Simpson who was appointed in September 2018. It is the Group's policy to ensure that at least once every ten years the external audit contract is put out to tender to enable the committee to compare the quality and effectiveness of the services provided by the incumbent external auditor with those of other external audit firms. The reappointment of the external auditor is considered by the committee annually, which includes an assessment of its performance in the previous year, together with the independence of the external auditor.

Independence and objectivity

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 committee has assessed the performance and independence of the external auditor and recommended to the board the re-appointment of KPMG.

Non-audit services

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. 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.

External auditor *continued*

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 70.0% 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.

The policy was last reviewed in November 2019.

The fees paid to KPMG LLP for non-audit work during the year were £227,000, comprising £100,000 for the Interim accounts review, £54,000 related to specific structured entity process assurance in Italy, £53,000 related to compliance and monitoring agent work in Portugal and £20,000 for work relating to the asset-backed securitisation transaction. The ratio of non-audit fees to the average of the last three years' audit fees during the year was 19.5%.

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

Group internal audit

The Group has operated an in-house Group internal audit function since January 2019 that is managed by the Group head of internal audit who was appointed in November 2018. The Group head of internal audit reports to the committee on the work of the Group internal audit function at each meeting of the committee, and reports directly to the chair of the committee whom he meets not less than six times per year. In 2019, the committee carried out the following:

- 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 Group internal audit's self-assessment of their performance during the year;
- reviewed Group internal audit's opinion on risk management and internal control effectiveness;
- reviewed the assurance map to ensure there is clear and comprehensive risk and assurance coverage; and
- met with the lead partner of the firm supporting the Group internal audit function on four occasions.

The committee also maintained oversight of other important accounting matters and judgements, as well as oversight of the financial reporting process.

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 58 to 69 of the corporate governance report relating to the Group's systems of internal control and its management of risk are appropriate.

As part of the review of the effectiveness of the internal audit function, the committee reviewed the department's resources, work programme and management's implementation of required actions, The head of internal audit provided an overview of the internal audit team's performance during the year to the committee, which detailed performance against key performance indicators and highlighted certain areas for improvement with actions to address these. The committee concluded that the internal audit function was effective.

Significant issues considered by the committee

The committee, in conjunction with management and the Group's external auditor, considered the following significant issues in relation to the financial statements and how these were addressed.

Estimation of future cash collections from portfolio investments	**Reporting matter** The estimation of remaining collections from portfolio investments is complex and requires management to make significant judgments in relation to expected life, probability and value of related cash flows for each loan. **Role of the committee** 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. **Conclusion/action taken** Having reviewed the key assumptions alongside historical collections data, and having considered the forecast impact of changes in collection strategies, the committee agreed that the overall forecast remaining collections from debt portfolios was an appropriate estimate.
Value of portfolio investments and setting of the EIR	**Reporting matter** On acquisition of portfolio investments, the initial EIR is set based upon the initial best estimate of future cash flows arising from the portfolios. **Role of the committee** 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 audit review of this. **Conclusion/action taken** The committee considered the expected life used by management in the setting of the EIR for portfolios, and concluded that this was appropriate given historical collections data, as well as in the context of industry practice. Regarding impairment gains/losses, in addition to the committee's review of estimated future cash flows, specific focus was given to the review of how management have continued to ensure multiple economic scenarios were incorporated into the forward-looking view of cash flow forecasts.
Fair value of net assets acquired as part of business combinations	**Reporting matter** During the year, the board completed the acquisition of Drydens Limited in the UK. The fair value of the opening balance sheet acquired, including any customer intangibles in existence, was an area of judgment which impacted upon the goodwill which was recognised on this acquisition. **Role of the committee** The committee considered the appropriateness of the valuation of the opening balance sheet, with particular focus on the value of the customer intangible asset which was recognised, alongside the fair value of the consideration paid. **Conclusion/action taken** Upon reviewing the two key judgement areas in relation to this matter, being the fair value of the consideration paid and the appropriate customer intangible value to be recognised, the committee concluded that the approach taken by management to calculate the value of both of these items was reasonable and in line with the relevant IFRS guidance.
Implementation of IFRS 16	**Reporting Matter** IFRS 16 – Leases became effective on 1 January 2019, replacing the previous standard on this topic. The primary impact of this change for the Group was to bring operating leases, which were previously expensed through the income statement only, onto the balance sheet. **Role of the committee** The committee considered the appropriateness of the approach taken by Management to bring the opening balance position onto the Group's balance sheet as at 1 January 2019, including any practical expedients used and accounting choices made. The appropriateness of the discount rate used by Management on transition was also an area which the committee specifically considered. **Conclusion/action taken** The committee concluded that all practical expedients employed and accounting choices were appropriate for the Group to apply and in line with IFRS 16 requirements. The committee reviewed the methodology used to calculate the transitional discount rates used, and concluded that it was reasonable and in line with IFRS 16 requirements.

Other areas of consideration by the committee

The Group's external auditor considered the following significant issues in relation to the financial statements and how these were addressed.

Goodwill impairment review	The year-end balance sheet includes goodwill of £267.7 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.
Going concern and viability reporting	Each year the board must make an assessment of whether or not the Group is expected to continue as a going concern for at least 12 months following the issuance of the annual report and accounts. As in previous years, the directors have made such an assessment and the committee has reviewed this assessment, with particular focus on the robustness of the assumptions underlying the forecasts, the impact of any stresses applied to such forecasts, and the reasonableness of any proposed management actions which would be taken in a stress scenario. In addition to the statement on going concern, the board is required to make an assessment on its longer-term viability which requires the application of a number of judgements and estimates. The committee has reviewed management's assessment of the prospects of the Group for the three years from 31 December 2019, which is considered a reasonable period for the assessment of key risks.
Other	The committee received reports on the Group's continued embedding of IFRS 9, covering the classification and measurement of the loan portfolios and determination of loan portfolio impairment provisions.

Other areas of consideration by the committee

Work of the committee

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

Reporting	• Monitoring 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 • Reviewing the continuing appropriateness of and changes to accounting policies and the use of estimates and judgements as noted in the Group's report and accounts • Reviewing key judgements and estimates included in the preparation of the financial statements	• Assessment of going concern review and approval of longer-term viability statement for recommendation to the board • Assessment of fair, balanced and understandable concept in respect of the 2019 report and accounts • Reviewed accounting in respect of a corporate acquisition completed in the year • Review and monitoring of continued embedding of IFRS 9 and IFRS 16 implementation plan and approval of methodologies and judgements
External audit	• Review and approval of KPMG's annual external audit plan review • Reviewing the 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 • 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 • Assessing the impact of new accounting standards • Reviewing the supply of non-audit services by the external auditor to avoid any threats to auditor objectivity and independence and ensuring compliance with the non-audit services 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. Recommending the approval of statements regarding effectiveness to the board for inclusion in the annual report	• 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 Company's prospects
Internal audit	• Review of the Group's internal audit charter which sets out the objectives, accountability and independence, authority, responsibilities, scope of work, and standards and performance for internal audit • Assessing the adequacy of the internal audit programme over the Group's processes and controls, including coverage, prioritisation and allocation of resource	• Reviewing 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 • Reviewing status reports on the implementation and follow-up of internal audit recommendations • Assessing the effectiveness of the internal audit function
Other	• Oversaw the Company's engagement with the FRC regarding their review of the annual report and financial statements for the year ended 31 December 2018 • Considered the appointment and the procedures to be undertaken by advisors to provide relevant assurance to the satisfaction of the lenders regarding the entry into an asset- backed security facility.	• Reviewing the effectiveness of the committee • Reviewing the committee's terms of reference and work programme • Reviewing and recommending to the board the adoption of a new Group tax policy • Reviewing current and future funding structures

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

Andrew Fisher
Chair of the audit committee
12 March 2020

“The Group continued to invest in strengthening and developing its risk management culture and framework in 2019, in line with the growing scale, diversity and complexity of the business.”

Andrew Fisher
Interim chair of the risk committee

Risk committee report

Members

Andrew Fisher (Interim chair)

Lan Tu

Maria Luís Albuquerque

Progress in 2019

- Risk management was central to strategic decision-making, driving business evolution and our culture
- The risk system (RADAR) provided a consistent approach to risk assessments and incident management

Focus for 2020

- Risk management processes in support of the Fund Management business
- Operational Resilience framework
- Ensuring SMCR is embedded in the UK, and oversee operational resilience planning as well as broader conduct related matters

Dear Shareholder

I am pleased to provide a report of the risk committee’s activities in 2019.

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, given that I have chaired both committees for the majority of 2019, facilitating effective communication between committees. Usually, the chairs of the audit and risk committees would be a member of the other committee. During the year, I chaired the audit committee as well as being appointed interim chair of the risk committee. The committee also works with the remuneration committee, of which I am also a member, to ensure that risk is appropriately considered when setting the Group’s remuneration policy.

The Group continued to invest in strengthening and developing its risk management culture and framework in 2019, in line with the growing scale, diversity and complexity of the business. This year, the risk and legal teams have been brought together under the leadership of Stewart Hamilton, company secretary and Group chief legal and risk officer, which has further enhanced the close relationship between the legal, regulatory and compliance aspects of the critical activities of underwriting and origination. Additionally, the risk system (RADAR), including incident management, has been implemented in four of the five geographies in which we operate in order to manage and resolve incidents more effectively. This also provides functionality for risk and control self-assessments and will be implemented in the Netherlands in 2020. Greater transparency around incident management is providing the committee with insight into root cause and subsequent prioritisation of effort on a risk-based approach to drive appropriate mitigating actions. This is particularly pertinent for any actions which can improve customer outcomes, ensure our commitment to treating customers fairly is maintained, allowing us to focus on fulfilling duties to our regulators while remaining alert to areas of operational stretch.

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 framework 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, as well as, considering the risk management oversight required for the new Fund Management business. The committee visited the Group’s operations in the UK, Italy 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 across sites scheduled in 2020.

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.arrowglobal.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.

Biographies of the members of the committee are set out on pages 54 to 57.

The committee met five times in 2019. Committee membership and attendance of our members is shown in the table opposite.

Committee members	Eligible to attend	Attended
Iain Cornish (chair)[1]	2	2
Lan Tu	5	5
Maria Luís Albuquerque	5	5
Andrew Fisher (Interim chair)[2]	5	5

1. Iain Cornish resigned from the Board on 30 April 2019.
2. Andrew Fisher was appointed interim chair of the risk committee upon the resignation of Iain Cornish.

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 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 the money laundering reporting officer, including reports on protecting against fraud and other forms of financial crime • Systemised support for the Incident Management and Risk and Control Self-Assessment processes • Emerging risks were considered throughout the year, with specific focus on the operational risks associated with business expansion and scalability
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 committee effectiveness including forbearance, the General Data Protection Regulation and the Senior Managers and Certification Regime
Fund Management implementation	• Oversight of updated governance approach – Fund Management is an integral part of the Company, and is subject to the same level of scrutiny as any other part of the business • Board and the risk committee have overseen the progress throughout the set-up of Fund Management capabilities with the risk function having been heavily involved in developing the application of the risk framework into the Fund Management business • Update of investment risk appetite for the Fund Management business
Italy integration	• Oversight of the integration of Parr and Europa Investimenti • Consideration of the risks that exist in Italy and the Group's response to them
Portugal integration	• Oversight of the integration of Norfin Investimentos • Consideration of the risks that exist in Portugal and the Group's response to them
New acquisitions	• The acquisition of Drydens Limited
Political risks	• Consideration of Brexit and the possibility of leaving the European Union without an agreement ,and/or any other changes to the European and Global political landscape which may provide opportunities or challenges for the business

Governance

In addition to the risks and mitigants already noted, the Committee also ensured governance protocols were followed during 2019, including a review of committee effectiveness, annual approval of the committee's terms of reference, and work programme and ongoing oversight of the development of the Group-wide risk management framework.

Overview of committee's activities for 2020

In 2020, the committee will work on ensuring that the acquisition of Drydens Limited is fully incorporated into the Group's risk management framework and will continue to develop a robust fund risk management framework. It will also oversee the embedding of the new Senior Managers and Certification Regime, and receive further themed analyses of key risks in the business, as well as monitoring the firm's response to its operational resilience planning. Finally, the committee will continue to ensure good customer outcomes in an environment of increasing regulatory scrutiny.

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

Andrew Fisher
Interim chair of the risk committee
12 March 2020

"The board recognises the benefits and importance of succession planning, talent management and diversity."

Jonathan Bloomer
Chair of the nomination committee

Nomination committee report

Members

Jonathan Bloomer (Chair)

Andrew Fisher

Lan Tu

Maria Luís Albuquerque

Progress in 2019

- Appointment of Matt Hotson as Group chief financial officer
- Setting of new gender diversity targets within the senior leadership team for 2023

Focus for 2020

- Appointment of new board member to chair the risk committee
- Continued monitoring of progress toward gender diversity targets within the senior leadership team
- Searching for a new non-executive director

Dear Shareholder

I am pleased to provide a report of the nomination Committee's activities in 2019. It has been a busy year for the committee where we have focused on the appointment of a new Group chief financial officer and our search for a new non-executive director following the resignation of Iain Cornish, in addition to our usual role of overseeing succession planning, talent management and diversity.

The committee has continued to work closely with the board and plays an important role in ensuring that the Group operates effectively in the context of our strategic objectives.

We announced in March 2019 that Iain Cornish would be stepping down as a non-executive director and chair of the risk committee, with effect from 30 April 2019 after almost six years in the role. The search for a replacement is progressing, and we hope to be in a position to update you on the appointment of a new non-executive director shortly.

We were delighted to announce the appointment of Matt Hotson as the Group's new chief financial officer in June 2019. Matt formally joined the board on 8 October 2019, and the committee was closely involved in his recruitment and appointment process, further detail of which is provided in the remainder of this report.

The board recognises the benefits and importance of succession planning, talent management and diversity, and the impact this can have on the long-term success of the business, which have continued to be key focus areas for the committee in 2019.

The committee was engaged in reviewing the Group's revised Diversity and Inclusion policy, together with setting ambitious targets on gender balance in the Group's senior leadership team by 2023.

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

Committee membership and meetings

I chair the nomination committee and I was regarded as independent on appointment. I will not chair the committee when it is dealing with the matter of succession to the chairmanship of the board. The committee also comprises three other independent non-executive directors, Andrew Fisher, Lan Tu and Maria Luís Albuquerque. The committee recommended the appointment of Maria Luís Albuquerque as a member of the committee to the board in November 2019, which the board unanimously approved. The composition of the committee is compliant with the provisions of the Code as all the committee members are independent non-executive directors.

Committee membership and meetings continued

Biographies of the members of the committee are set out on pages 54 to 55.

The committee held three scheduled meetings during the year and two ad-hoc meetings. 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)	5	5
Iain Cornish[1]	1	1
Andrew Fisher	5	5
Lan Tu	5	5
Maria Luís Albuquerque	0	5[2]

1. Stepped down from the board on 30 April 2019.
2. Maria Luís Albuquerque was invited to attend meetings of the committee by the chair prior to her appointment as a member of the committee in November 2019.

Role

The committee's responsibilities are set out in its terms of reference. They include responsibility for:

- regularly reviewing the structure, size and composition of the board compared with its current position and making recommendations to the board with regard to any changes;
- giving full consideration to a diverse pipeline for succession planning for directors and other senior executives; and
- overseeing the development of key talent in the business as whole.

The work of the committee in 2019 has included:

- overseeing the search and recruitment of the Group chief financial officer and recommending to the board the appointment of Matt Hotson to the role;
- recommending to the board that Maria Luís Albuquerque and Andrew Fisher be invited to serve additional three-year terms following the expiry of their initial three-year tenure in accordance with the terms of their appointments to the board;
- 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 Group's commitment to diversity and reviewing the Group's diversity targets; and
- monitoring and overseeing the 2019 board evaluation.

Succession planning

Recruitment of Group chief financial officer

The committee oversaw the search and appointment of Matt Hotson as the Group chief financial officer who joined the board on 8 October 2019 as successor to Paul Cooper. The appointment of Matt Hotson followed an extensive search and rigorous selection process. For the position, the committee assessed the skills and experience required to fulfil the role and a role description detailing the capabilities required for the appointment was prepared accordingly. The executive search firm Heidrick and Struggles was retained in relation to the appointment of Matt Hotson and does not have any other connection with the Company or the individual directors.

The recruitment process for the role of Group chief financial officer resulted in suitable candidates being shortlisted for interview. Interviews with candidates were conducted by me and the executive and non-executive directors. A number of informal meetings, conference calls and discussions also took place between committee members, search consultants and potential candidates throughout the recruitment process.

The committee unanimously approved the recommendation of the appointment of Matt Hotson as the Group's chief financial officer to the board. The board unanimously approved Matt Hotson's appointment, which was announced on 28 June 2019. Matt formally joined the board on 8 October 2019.

Talent management

The board recognises the strategic importance of effective and pragmatic succession planning and talent development as an important contributory factor to the Group's long-term success. The committee, in conjunction with the board, continues to take an active interest in monitoring talent development and receives reports on a biannual basis on talent progression opportunities and initiatives via the Group HR function. This year the Group appointed Oliver Stratton from UK country head to the executive management team as Group chief commercial officer, evidencing the commitment to internal talent management.

Diversity and inclusion

The board and the business recognise the importance of diversity and the purpose of the Group's diversity and inclusion strategy, as reflected in the Group's culture statement, is to ensure the Group is 'a diverse community, enriched by our local identities, working collaboratively to build a powerful, unified and dynamic organisation'. To ensure this ethos is reflected in the Group's day-to-day activities, the business, in conjunction with the committee, undertook a review of its Diversity and Inclusion Policy and defined new gender diversity targets for 2023 for the senior leadership team, with 50.0% female representation being the aspirational goal and 40.0% being the minimum threshold. The committee will continue to monitor progress toward these targets in 2020.

The board currently has two female non-executive Directors, Lan Tu and Maria Luís Albuquerque, who together represent 33.0% (2018: 29.0%) female board membership, which aligns with the recommended target set by the Hampton-Alexander Review for FTSE 350-listed companies. The executive committee has two female members, Clare Dyer (Group chief people officer) and Katie Hutchinson (chief of staff), representing 25.0% (2018: 29.0%) of the committee's membership. The direct reports to the executive committee comprise 33.0% female membership.

Board evaluation and committee effectiveness

A detailed review of the board evaluation can be found on page 62. The committee's effectiveness was reviewed as part of the board evaluation process and I am pleased to report that the committee was found to be operating effectively throughout the year.

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

Jonathan Bloomer
Chair of the nomination committee
12 March 2020

"The business is well placed to maximise opportunities for growth and to create value for all our stakeholders."

Lan Tu
Chair of the remuneration committee

Directors' remuneration report

Members

Lan Tu
Andrew Fisher
Jonathan Bloomer

Progress in 2019

- The committee progressed the remuneration policy agenda in close engagement with our institutional shareholders.
- Organisational transformation and culture were key topics on the committee agenda in 2019.

Focus for 2020

- Embedding the Group's aspirational cultural characteristics through a clear link between high quality behaviour, high performance and reward.
- Delivering a compelling remuneration policy for the triennial policy approval from shareholders.

Dear Shareholder,

The report complies with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), the 2018 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 2019. This report is split into three sections: an at a glance summary of the remuneration arrangements for our executive directors; the annual report on remuneration; and relevant extracts from the directors' remuneration policy approved at the 2018 annual general meeting. The directors' remuneration report will be subject to an advisory vote at the 2020 annual general meeting.

Listening to our shareholders

At our 2019 annual general meeting, the directors' remuneration report received support from a majority of shareholders, with 73.9% of the votes cast in favour of the resolution. The committee however acknowledges that 26.1% of the votes cast opposed the resolution. The committee was disappointed with this level of support, which does not reflect the historically high levels of support shown by shareholders for our executive remuneration arrangements. As a result, we have augmented our regular interaction with shareholders and proxy advisory bodies: the chair of the Company, Jonathan Bloomer and I, have met many of our institutional shareholders to understand more fully their views and the rationale behind their votes regarding the 2018 directors' remuneration report.

This engagement has assured the committee that most shareholders support our remuneration approach. However, we received comments on the balance of metrics for the 2019 LTIP awards, and some shareholders would like to see greater levels of disclosure for the annual bonus out-turns.

The committee is grateful for the feedback received from investors, and in response we have sought to significantly enhance the level of disclosure provided on the annual bonus to provide shareholders with more context on the achievements in the year and the corresponding bonus amounts earned by the executive directors. We intend to re-balance the LTIP metrics for the 2020 award such that each metric (underlying ROE, underlying FCF and relative TSR) are equally weighted (subject to further consideration on the impact of Covid-19, as set out below). The committee strongly believes that the three metrics are integral to aligning the executives with the delivery of the Company's long-term strategic priorities[1].

The committee is mindful of external developments linked to Covid-19. None of us are currently certain on what the impact will be, nor how long it will be felt. As such, the committee has considered it appropriate to delay the grant of the 2020 LTIP awards and the setting of performance targets relating to this award. We will proceed with great care in determining the timing, quantum, underlying performance conditions and targets for the awards to ensure that they are appropriate in the context of all relevant factors. Details will be included in the regulatory announcement that accompanies the grant of the awards[1].

1. On 24 March 2020 the remuneration committee met to consider arrangements in light of Covid-19 and the content of this paragraph was amended subsequent to the date of signing of this report, but before its publication.

Context of business performance and incentive out-turns

As set out in page 6 of the report, 2019 represented another year where Arrow performed well against its key operating metrics, with cash collections and returns in the Investments business remaining strong on record investment volumes and improving revenues and margins in the Asset Management and Servicing business. This performance helped increase free cash flow allowing the business to invest for future growth, pay dividends and deleverage.

This performance was achieved, whilst the business delivered a transformational change, with Arrow accelerating its strategic shift towards a more capital light model, which culminated in the successful initial fund raise of €838.0 million. Arrow's transition into alternative asset management represents a shift into a space where, as a true market leader, it can provide opportunities for attractive and sustainable long-term return. In the context of this strategic transformation and a highly competitive market, the board is pleased with the Group's results and believes the business is well placed to maximise opportunities for growth and to create value for all our stakeholders.

The build of the Fund Management business, which is centred on delivering long-term shareholder value however, meant the delay of smaller scale strategies which would have delivered shorter-term profit performance.

Notwithstanding the excellent progress made in delivering this strategic transformation, the hurdle for the 2019 profit after tax element under the bonus was not met and therefore no bonuses were earned by executive directors in respect of this metric (weighted at 50.0% of the bonus).

The remainder of the bonus (weighted at 50.0%) is structured by the committee to reflect that the business is in a transformative stage of its development and therefore the committee considers it important to incentivise the executives to deliver against strategic objectives which will ultimately deliver long-term shareholder value. Performance against long-term shareholder value creation metrics and key strategic metrics (which are centred on Customer, Employee and Community and Organisation objectives) exceeded the stretching targets set, with details on key achievements in the year set out on pages 88 to 89. In this context, the committee has approved bonuses of 46.3% of maximum for the Group chief executive officer and Group chief financial officer respectively. The committee believes that the level of pay-out is reflective of the overall performance of the Group in the year, and appropriate in the context of the shareholder experience.

Over the three-year performance period for the 2017 LTIP, the Group delivered EPS growth of 6.98% per annum.; an average ROE of 32.4% and total shareholder return of below median. Based on performance against the stretching targets attached to the award, this resulted in 25.0% of the 2017 award vesting.

Board changes

In 2019, the committee determined the termination arrangements for Paul Cooper, the former Group chief financial officer, who stepped down from the board and left the business in August 2019. No exit payments were made to Paul Cooper upon his departure from the Group. The committee determined that Paul Cooper's 2018 and 2019 LTIP awards would lapse, along with his 2019 DSBP award. As detailed further in the report, clawback provisions were applied to the buy-out awards that had already vested and his 2018 and 2019 buy-out awards lapsed. Paul Cooper's 2018 bonus deferral was forfeited, and he had no further deferred amounts. Paul Cooper did not qualify for a bonus payment for the 2019 financial year.

Following the departure of Paul Cooper, we were delighted to welcome Matt Hotson to the Company as Group chief financial officer. On appointment, Matt Hotson's remuneration was set as follows:

- Base salary: £350,000, which has been set at discount to the 'market rate' for the role, reflecting that this was his first appointment as the Group chief financial officer of a listed company. The committee intends to keep Matt Hotson's salary under review over the coming years.
- Pension: 5.0% of salary, in line with the contribution rate for the wider workforce.
- Annual bonus: 125.0% of base salary.
- LTIP: 175.0% of base salary, in line with the proposed award level for the previous CFO

Iain Cornish stepped down from the board, and as a member of the committee, with effect from 30 April 2019. Details of Mr Cornish's remuneration throughout the year can be found in the remuneration report on page 90. Andrew Fisher agreed to take on the role of interim chair of the risk committee and details of his additional compensation is also set out on page 90.

Remuneration in 2020

The base salary for the Group chief executive officer and Group chief financial officer will be increased by 2.0%, in line with the average increase for the wider UK workforce.

Details on the wider package, including details on the performance metrics[1], are set out on page 83.

Responding to the 2018 UK Corporate Governance Code

During the course of 2019, the committee carefully considered the requirements of the Code in relation to executive remuneration at Arrow. Following its review, two changes have been made to ensure that the Company's remuneration arrangements reflect best practice and are compliant with the Code requirements.

- Pension contributions for new executive directors will be set in line with the wider workforce rate (as demonstrated on the appointment of Matt Hotson); and
- A post cessation shareholding policy has been developed, the details of which can be found on page 84.

Role of the committee throughout the year and strategic alignment of pay

The role of the Committee is ensuring that the board and executive committee are appropriately rewarded for their performance throughout the year, by setting and implementing the Company's remuneration policy, determining each executive director's total individual remuneration package and setting the performance measures for performance-related pay.

These decisions are considered carefully in context of the Group's strategic goals, culture and wider workforce remuneration. The committee's aim is to ensure that remuneration and incentives adhere to the principles of good corporate governance, support good risk management practice and promote long-term sustainable Company performance.

The committee is fully committed to ensuring that the Company's remuneration policy and out-turns are fully aligned to its culture and values. 'What' has been achieved is equally balanced with 'How' this has been executed in the committee's considerations of performance, remuneration out-turns and use of discretion in the committee's decision-making. The approach is holistic and extends from the Company's board right through the wider workforce.

1. On 24 March 2020 the remuneration committee met to consider arrangements in light of Covid-19 and the content of this paragraph was amended subsequent to the date of signing of this report, but before its publication.

Wider workforce pay arrangements

In 2019, in addition to the focused review on executive director performance and remuneration, the committee has carefully reviewed the performance out-turn and pay arrangements for the following groups of colleagues:

- Group executive committee and senior managers on an individual basis
- Performance out-turns and pay arrangements for wider workforce on an aggregate basis

The committee is pleased that across the Group executive committee and senior management there is consistency in the distribution of pay arrangements with the Company's executive directors. The average bonus as a percentage of maximum for high performing colleagues in these populations is 62.75%, with an appropriate range around this to reflect individual achievements in the year. This reflects a strong pay for performance culture and the strategic transformation achieved during the year.

As a Company, we also strongly believe in promoting alignment between employees and shareholders through the operation of Share Incentive Plan (SIP). The remuneration committee is pleased to note that 45.0% of eligible colleagues are participating in the Share Incentive Plan (SIP).

This year, for the first time, we have disclosed the comparison of our chief executive officers's single figure with those of our 25th, 50th and 75th percentile employees. The median chief executive officer pay ratio is 31:1, and more information can be found on pages 85 to 90.

In 2020, the Company will be undergoing a formal benchmarking review of the wider workforce pay arrangements. We will also be undertaking a review of remuneration policy ahead of the triennial policy renewal at the annual general meeting next year.

Gender pay

On 2 April 2019, the board reviewed and approved the April 2019 Gender Pay report. The board are satisfied that Arrow is making progress in closing the Gender Pay Gap, although Arrow is mindful that there is no room for complacency in this regard.

In the publicised April 2019 Gender Pay report, the committee was pleased to report on the progress that had been made in both median and mean reporting for pay and for bonus. The April 2020 Gender Pay report continues to demonstrate progress in the median and mean gender pay gap for bonus. The gender pay gap for pay has increased at the median point but decreased at the mean point. On balance, the committee is confident that the gender pay agenda at the Group continues to progress positively.

Further detail on gender pay can be found in the remuneration report on page 85.

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 2019, we believe that the remuneration of the executive directors and wider workforce in respect of 2019 continues to reflect our success in the delivery of our strategy and the drive for profitable and sustainable long-term growth for our shareholders.

Lan Tu
Chair of the remuneration committee
12 March 2020

Our remuneration at a glance and how we propose to apply the remuneration policy in 2020

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 short-term and 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 and how we propose to apply the policy in 2020. The committee is not considering any material changes to our remuneration policy during 2020 other than improvements to ensure further alignment with the Code. During 2020, the committee will review that policy in advance of seeking approval from shareholders for a new policy at the 2021 annual general meeting.

Application of our remuneration policy

	Our approach to executive remuneration	Our approach in 2020
Salaries	Base salaries are positioned within a broad range around the mid-market opportunity for the role, to ensure that the majority of the overall remuneration package is performance related. Any increases take into account the individual's performance, the business performance and market conditions, and are normally aligned with the range of increases awarded to the wider workforce.	Salaries have been increased by 2.0% in line with the average increase awarded to the wider workforce. • Lee Rochford: £459,901 • Matt Hotson: £357,000
Pension and benefits	Executive Directors receive a contribution to a defined contribution pension or a cash equivalent. Benefits are provided that are appropriate to the role and which take into account typical practice.	The current application of executive pension contribution is compliant with the Code. The maximum contribution of 15.0% of base salary is awarded to Lee Rochford. Ahead of the policy renewal at the annual general meeting in 2021, the committee will continue to review and consider evolving market practice and investor views with regards to the existing contractual pension arrangements for Lee Rochford (who was appointed in December 2016). Matt Hotson receives a pension contribution of 5.0% of salary, in line with the wider workforce. Going forward, the pension contribution for new recruits (in line with the approach for Matt Hotson) will be in line with the wider workforce. No changes to the type or value of benefits provided is expected for 2020.
Annual bonus	Bonuses are only earned for the achievement of stretching performance measures. We balance profit growth with other key longer-term strategic financial and non-financial targets, and specific, personal objectives linked to our strategic goals of protecting and enhancing our market-leading position, transforming the business, delivering strong risk-adjusted investment returns and developing our customer proposition. We ensure that the personal objectives are specific, measurable and fairly assessed. 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.	Maximum bonus opportunity: • Lee Rochford: 140.0% of salary; Matt Hotson: 125.0% of salary Performance measures will continue to be balanced between a profit measure (50.0%) and a balanced range of other long-term shareholder value measures (25.0%) and strategic objectives (25.0%). The targets are commercially sensitive but will continue to be disclosed on a retrospective basis. 40.0% of any bonus earned by Lee Rochford and 33.0% of any bonus earned by Matt Hotson will be deferred into shares for two years.

	Our approach to executive remuneration	Our approach in 2020
LTIP[1]	The LTIP is designed to encourage behaviours which facilitate delivery of the sustainable growth of the business, whilst delivering value to stakeholders and promoting the long-term success of the Group. In line with best practice, LTIP awards granted to our executive directors in 2019 were 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. The Group's strategy to move to a deleveraged and capital light model was carefully considered in setting the Average RoE and Underlying FCF targets.	Maximum LTIP opportunity: • Lee Rochford: 200.0% of salary • Matt Hotson: 175.0% of salary As set out in the statement from the committee chair, the committee is mindful of external developments linked to Covid-19. None of us are currently certain on what the impact will be, nor how long it will be felt. As such, the committee has considered it appropriate to delay the grant of the 2020 LTIP awards and the setting of performance targets relating to this award. Details will be included in the regulatory announcement that accompanies the grant of the awards[2].
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 200.0% of salary. The executive has five years from appointment to build up a shareholding with a market value equivalent to 150.0% and must achieve 200.0% as soon as possible thereafter. The Group will retain 50.0% of all vested LTIP awards, on behalf of the executive, until the agreed threshold has been reached.	During 2019, and in line with the Code, we adopted a post-employment shareholding requirement which requires shares up to the value of the shareholding requirement to be held for one year post cessation of employment and 50.0% of the requirement to be held for two years post cessation of employment.
Non-executive director fees	Fees are set at a level which enables the Group to attract high calibre non-executive directors.	The base fee for non-executive directors is set at £55,000. An additional amount of £10,000 is due to those who chair a committee. An additional amount of £10,000 is also provided for the Senior Independent Director.
Non-executive chair	Fees are set at a level which enables the Group to attract a high calibre non-executive chair.	The base fee for the non-executive chair is £170,000.

1. As set out in the committee chair's cover statement, the LTIP weightings for the 2020 award were revised to reflect shareholder feedback.
2. On 24 March 2020 the remuneration committee met to consider arrangements in light of Covid-19 and the content of this paragraph was amended subsequent to the date of signing of this report, but before its publication.

Wider workforce remuneration

Fundamentally the structure of remuneration is consistently applied throughout the wider workforce, although alternative incentive arrangements may be offered to reflect market practice (e.g. within the Fund Management Business or to comply with geographical market norms). The approach to annual bonus performance outcomes is consistently applied across our executive directors and the wider workforce, with a balanced split to account for financial performance and individual performance against our strategic objectives.

Arrow's purpose is to build better financial futures for our stakeholders. We believe that to succeed as a business, our colleagues need to be from a diverse range of backgrounds and work as part of an inclusive culture. Our aim is to attract and retain the best talent. We want to offer all of our colleagues the opportunity to develop their careers with us, as well as the flexibility to achieve what's important to them, both in and outside of work. We have shared on the next page two core metrics which reflect the firm's position in regards to wider workforce remuneration; the 2019 chief executive officer to wider workforce pay ratio and a summary of our 2019 Gender Pay Gap Report.

Group chief executive officer to wider workforce pay ratio

The table below compares the 2019 Single Total Figure of Remuneration for the Group chief executive officer with that of employees who are paid at the 25th percentile, 50th percentile and 75th percentile of the Group's employee population, and also shows the total pay and benefits at quartile points. The salary and benefits data is the median and percentiles of all of the Group's employees.

Year	Method	25th Percentile Pay Ratio	Median Pay Ratio	75th Percentile Pay Ratio
2019 – Single Total Figure Remuneration	Option A	44:1	31:1	18:1

	CEO	25th Percentile Pay Ratio	Median Pay Ratio	75th Percentile Pay Ratio
Salary	£448,694	£20,000	£27,867	£48,000
Total Pay	£931,067	£21,150	£29,539	£50,400

To calculate the ratio in accordance with the regulations, we ranked all our UK employees by their annualised full-time equivalent Single Figure Total Remuneration (SFTR) as at 31 December 2019. From this we identified the three individuals at the 25th, 50th and 75th percentiles (known as P25, P50 and P75, respectively). We elected to use Option A as it provides the most meaningful comparison. This methodology is supported by stakeholders and institutional investors and compares the single figure of remuneration for the chief executive officer with the full-time equivalent remuneration for all UK employees.

For the purpose of calculating the total pay figure for our UK employees we have excluded taxable benefits (other than the chief executive officer) as it would be too time consuming to collate taxable benefits data and they are considered immaterial to the chief executive officer pay ratio calculation.

The committee considers that the median pay ratio is consistent with the relative roles and responsibilities of the chief executive officer and the identified employee and with the pay, reward and progression policies for the Group's UK employees taken as a whole. The Group chief executive officer's remuneration package is weighted towards variable pay (including the annual bonus and LTIP) due to the nature of the role, and this means the ratio is likely to fluctuate depending on the outcomes of incentive plans in each year.

2019 Gender Pay Report

The table below compares the mean and median gender pay and bonus gaps including the movements from the first publication in April 2018.

Measure	2018 Report (Tax Year 2016/2017)	**2019 Report (Tax Year 2017/2018)**	YoY Change	**2020 Report (Tax Year 2018/2019)**	YoY Change
Mean Gender Pay Gap	40.8%	33%	+7.8%	**32.8%**	+0.2%
Median Gender Pay Gap	27.9%	23%	+4.9%	**28.2%**	-5.21%
Bonus Mean Gender Pay Gap	79.2%	73%	+6.2%	**68.6%**	+4.4%
Bonus Median Gender Pay Gap	64.6%	60%	+4.6%	**49.5%**	+10.5%

In the April 2019 Gender Pay report the committee was pleased to report on the progress that had been made in both median and mean reporting for both pay and bonus. The April 2020 Gender Pay report continues to demonstrate progress in the median and mean gender pay gap for bonus. The gender pay gap for pay has increased at the median point but decreased at the mean point. On balance the committee is confident that the gender pay agenda of the Group continues to progress positively.

Alignment with the key factors set out in the Corporate Governance Code 2018

Code provision	Approach at Arrow
Alignment to culture	The committee is focused on ensuring a healthy culture exists across the entire Group and believe that the executive directors and the whole of the leadership team set the standards for behaviour and conduct across the Group. Executive directors are rewarded on both what they deliver and how that is delivered. The launch of Arrow's culture statement in 2019 was pivotal to ensuring cultural alignment, as was the Culture Steering Group (CSG) that will act as the central governance forum for ensuring the Arrow culture provides a clear, supportive and productive environment for all stakeholders.
Simplicity and clarity	The remuneration framework at Arrow is made up of three key elements: fixed pay (including base salary, pension and benefits); annual bonus and a separate long-term incentive. The structure is simple to understand for both participants and shareholders, and is aligned to the strategic priorities for the business.
Risk	Variable remuneration targets are set at levels which reward high performance, but which do not encourage inappropriate business risk. Annual bonus payments are determined by reference to the performance measures which are subject to a review of the executive's 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.
Predictability	The range of possible rewards for 2018 to individual executive directors in position at the start of 2018 are set out in the scenario charts on page 76 of the 2017 annual report.
Proportionality	A significant proportion of an executive's reward is linked to performance through the incentive framework, with a clear line of sight between performance and the delivery of long-term shareholder value. Performance measures and the underlying targets are regularly reviewed by the committee to ensure that they are directly aligned to the Group's strategic priorities, and targets are calibrated to reward executives for strong performance over the course of the respective performance period. Executives are also required to build material shareholdings in the Group (200.0% of base salary) and, going forward will be subject to a post cessation shareholding requirement which will ensure that they are aligned to the Group's performance for two years post cessation of employment.

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		Recovery £000[5]		Total compensation £000	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Director														
Lee Rochford	**449**	436	**4**	4	**292**	506	**120**	–	**67**	65	**–**	–	**932**	1,011
Paul Cooper[6]	**223**	365	**2**	3	**-**	260	**-**	426	**34**	55	**(426)**	–	**(167)**	1,109
Matt Hotson[7]	**164**	–	**–**	–	**102**	–	**–**	–	**9**	–	**–**	–	**275**	–
Rob Memmott[8]	**–**	53	**–**	–	**–**	–	**–**	–	**–**	8	**–**	–	**–**	61
Total	**836**	854	**6**	7	**394**	766	**120**	426	**110**	128	**(426)**	–	**1,040**	2,181

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 2019 is provided on pages 87 to 90.
3. Long-term incentives reflect the value of the awards vesting by reference to performance where the performance period ended in the relevant year. The value of the LTIP for 2017 reflects the LTIPs scheduled to vest in March 2020 based on performance over the three years to 31 December 2019. Further information is provided on page 90.
4. Each executive received a monthly cash allowance in lieu of participation in a pension arrangement (15% in the case of Lee Rochford and Paul Cooper and 5% in the case of Matt Hotson). The cash allowance is not included in the annual bonus or LTIP allocation.
5. In the 2018 Directors' Remuneration Report, long-term incentives figure for Paul Cooper were included, these were the value of his buy-out awards granted on 18 June 2018 (£426,000). In connection with Paul Cooper's resignation, the awards that vested in 2018 and 2019 were subject to clawback and the awards which were due to vest in 2020 and 2021 lapsed. The recovered value set out above is calculated as: in the case of the awards which had not been exercised (over 145,540 shares in aggregate): £375,493 (based on a share price of £2.58 on 8 August 2019, the day before Paul Cooper left the business resulting in the lapse of his awards); and in the case of the award which had been exercised (over 18,089 shares): £21,762 (being the value repaid by Paul Cooper of the after tax number of shares (9,587) multiplied by the share price of £2.27 on 28 June 2019).
6. Paul Cooper resigned as Group chief financial officer and left the business on 9 August 2019. The values in respect of 2019 in the table above reflect remuneration earned to that date (and the value recovered from him in respect of his buy-out awards as described above).
7. Matt Hotson was appointed as Group chief financial officer on 8 October 2019, but his remuneration in the table above is from the date on which he joined the business 15 July 2019).
8. Rob Memmott stepped down from the board on 1 January 2018. His LTIP award granted in 2016 and 2017 lapsed in 2018 when he left the business.

Additional information in respect of variable remuneration earned in 2019

2019 annual bonuses (audited information)

For 2019, Lee Rochford was eligible for an annual performance-related bonus of up to 140.0% of salary and Matt Hotson was eligible for a bonus of up to 125.0% of salary, subject to meeting stretching performance targets. To encourage behaviours that facilitate continued profitable growth and future development of the business, the 2019 annual bonus was based on the following:

- 50.0% of the bonus was based on Group underlying profit after tax for the year;
- 25.0% of the bonus was based on performance against strategic objectives linked directly to long-term shareholder value creation; and
- 25.0% of the bonus was based on a balanced range of strategic objectives linked to Customer; Employee and Community; and Organisation.

Details on how the elements of the bonuses have been earned are shown below:

Underlying profit condition (50.0%) – out-turn

The financial element of the 2019 annual bonus was based on achieving underlying profit after tax for the year, in accordance with the schedule below. The committee reviewed the vesting schedule for the financial element of the bonus for the executive directors and as the threshold target has not been achieved, the committee has not awarded any bonus attributable to this element of the bonus.

The decision to prioritise the build out of the Fund Management business in the second quarter of 2019 has meant that the business has delayed or cancelled smaller scale strategies in both the Investment business and Asset Management and Servicing businesses. This could have yielded greater near-term profits at the expense of delivering on the medium-term strategy, therefore compromising shareholder value in the longer term.

	Threshold[1]	Stretch Target[1]	Maximum vesting target	Actual[2]
Performance level	£62.9m	£68.0m	£71.2m	£58.0m
Vesting (% of financial element)	20.0%	75.0%	100.0%	0.0%

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

Strategic objectives (50.0%) – out-turn

This element of the bonus was measured on achievement of clear strategic objectives of the business linked to long-term shareholder value creation; and a range of objectives that will evolve the strategy to position Arrow as a market leading alternative asset manager, including customer, employee, community and organisational objectives.

The following factors were considered in the round by the committee in determining the executive directors' level of performance in 2019 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 2019; and
- the views of the Group chief legal and risk officer and the risk committee chair on the effectiveness of the executives' management of conduct and risk during the year.

The objectives, targets and relevant achievements are summarised below.

	Weighting				Out-turn	
Element	CEO	CFO	Objective	Key achievements	CEO	CFO
Long-term Shareholder value	25.0%	25.0%	• Deliver return on equity in the mid-20s through the cycle. • Deliver long-term AMS EBITDA margins in the mid-20s. • Progress towards doubling AMS revenue growth over the five-year period from FY 2018. • Maintain Group leverage of between 3x to 3.5x secured net debt to adjusted EBITDA. • Delivery of dividend policy (pay-out ratio of at least 35% of underlying profit after tax)	• 2019 has been a transformational year for Arrow, as the business continues to focus on the shift to a more capital light model and the evolution into a truly integrated asset management business, which will serve to enhance long-term shareholder value. • Key highlights of performance delivered in the year against pre-determined financial targets, which were all assessed to be above and beyond expectations in 2019 include: • Underlying ROE at 29.5% continues to exceed our target to deliver in the mid-20's through the cycle. • Gross AMS revenue formed 36.4% of total Group revenue, delivering long-term AMS EBITDA margins of 23.9%. The Group therefore remains well on track to meet its five-year target to double gross AMS revenues to form 50.0% of total Group revenues and is well ahead of its five-year target to increase AMS margins into the mid-20's percent from their starting point of high-teens percent. • Strong operational performance in the Investment Business and Asset Management and Servicing business meant that free cash flow generation increased significantly by over 13.3% to £261.4 million. This meant that leverage finished the year within the Group's new lower leverage range of 3.0x-3.5x at 3.4x. • The Group operates a progressive dividend policy and has grown the dividend every year since its IPO in 2013. As a result of confidence in the Group's cash generation, the dividend pay-out ratio policy was increased in 2019 to be at least 35.0% of net underlying income. The board is recommending a dividend of 13.1p at 40.0% in line with our targets.	85.0%	85.0%
Strategic Objectives	**25.0%**	**25.0%**			**100.0%**	**100.0%**
Strategic Objectives – Organisation			• Implement the new operating model and organisational design by launching Fund Management in line with capital light strategy • Full review of cost and overhead base to ensure all areas of the business are operating efficiently and are operationally ready to service Fund Management activities	• This year, the Group's focus has been on building a Fund Management business. In 2019, the Group announced it had received total capital commitments of €838.0 million, with a plan to achieve €2.0 billion of total funds under management by the end of 2020. This is an outstanding result and unprecedented size for a first-time fundraise. As funds under management continue to grow in the coming years, this will drive significant value for shareholders, as the Group delivers an increasing proportion of its earnings from capital light fund management and Servicing fees. • Following a root and branch cost review, the Group has taken significant steps to re-shape the organisation to ensure business readiness in anticipation of scaled activities as a result of the fund and is on track to remove annual costs of £16.7 million.		
Strategic Objectives – Customer			• Ensure consistency in principles of customer treatment, and regulatory approach; with servicing capability aligned to the needs of the Group's customer base	• The business reputation for treating customers fairly and responsibly has been enabled with excellent progress made, including the launch of a new customer policy, customer satisfaction scores being measured across all jurisdictions and customer engagement forums have been established for best practise sharing. • Excellence in servicing capability is a key capability to ensure the fair treatment of customers aligned with efficient operations across the Group. Continuous improvement principles have been rolled out across the Group.		

Element	Weighting CEO	Weighting CFO	Objective	Key achievements	Out-turn CEO	Out-turn CFO
Strategic Objectives – Employee and Community			• Exceptional delivery of "One Arrow" – transforming Group wide culture and behaviours aligned to the Group's strategy to drive a high performance culture	• Exceptional progress on the delivery of the "One Arrow" strategy has been made in all geographies and functions supported by the launch of the Group culture statement and a CSG to monitor progress. The Group wide leadership programme 'DIPS' continued to be rolled out to the top 100 leaders. • The talent strategy (including Diversity and Inclusion agenda) has been accelerated with high calibre hires including Group chief finance officer, Group chief people officer, head of portfolio risk and Fund chief financial officer increasing Arrow's leadership bench strength and Fund Management capability. • In 2019, Junior Achievement Europe (JAE) became Arrow's preferred partner for financial education across the Group. This year over 3,000 young people and over 250 colleagues have participated.		

Based on performance set out above, the following table sets out an overview of bonus pay-outs in respect of the year

Individual	Underlying profit element (50%)	Strategic objectives – long-term shareholder value (25%)	Strategic objectives – Organisation, Customer, Employee and Community (25%)	% of salary	% of maximum opportunity	£
Lee Rochford	0.0%	85.0%	100.0%	64.75%	46.25%	292,000
Matt Hotson[1]	0.0%	85.0%	100.0%	57.81%	46.25%	101,200

1. Matt Hotson joined Arrow on 15 July 2019 and his bonus out-turn is based on his pro-rata opportunity

The committee strongly believes that the level of pay-out is reflective of the overall performance of the Group in the year, and is appropriate in the context of the shareholder experience (including but not limited to the appreciation in the share price during the year).

For Lee Rochford, 40.0% of the bonus earned will be deferred into shares for a period of three years. For Matt Hotson, 33.0% of the bonus earned will be deferred into shares for a period of three years.

Vesting of 2017 LTIP (audited information)

LTIP awards were granted on 31 March 2017, which are scheduled to vest on 31 March 2020. The performance conditions, performance achieved and vesting outcomes are summarised below.

Performance condition	Threshold target (25% of element vests	Maximum target (100% of element vests)	Actual performance	Actual vesting
Growth in underlying basic EPS (50% of the award)	10.0% per annum	20.0% per annum	6.98%	0.0%
Underlying ROE (three-year average) (25% of the award)	20.0%	26.0%	32.4%	100.0%
TSR relative to the FTSE 350 (excluding investment trusts) (25% of the award)	Median	Upper quartile	Below median	0.0%
Overall 2017 LTIP vesting				25.0%

Following a review of performance against the underlying targets and the wider performance of the Group, the committee approved the level of vesting as set out above.

Lee Rochford was granted an award of 184,248 shares, which are expected to vest in respect of 46,062 shares. In the single figure table above, in accordance with the applicable regulations, the value is calculated as the number of shares that are expected to vest multiplied by the average share price over the three-month period ending 31 December 2019 (£2.60), plus the value of dividends to be paid to Lee Rochford in respect of the period from grant to vesting (£16,029.57). The share price at the date of the grant was £3.46. The LTIP award granted to Lee Rochford included a tax advantaged option of 8,670 shares at a per share exercise price of £3.46. The option was subject to the same performance conditions as applied 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; accordingly, the tax-advantaged option is ignored when calculating the single figure value.

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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Director												
Jonathan Bloomer	**170**	170	**–**	–	**–**	–	**–**	–	**–**	–	**170**	170
Iain Cornish[1]	**25**[1]	75	**–**	–	**–**	–	**–**	–	**–**	–	**25**	75
Lan Tu	**65**	65	**–**	–	**–**	–	**–**	–	**–**	–	**65**	65
Maria Luís Albuquerque	**55**	55	**–**	–	**–**	–	**–**	–	**–**	–	**55**	55
Andrew Fisher	**77**[2]	65	**–**	–	**–**	–	**–**	–	**–**	–	**77**	65
Total	**392**	430	**–**	–	**–**	–	**–**	–	**–**	–	**392**	430

1. Iain Cornish stepped down from the board on 30 April 2019 and his salary is pro-rated.
2. Andrew Fisher's fees are pro-rated based on his appointment as interim chair of the risk committee and senior independent director on 28 May 2019. The above figure is rounded to the nearest thousand. The actual figure is £76,974.

In 2019, Andrew Fisher's non-executive director fees increased to reflect his appointment as interim chair of the risk committee and the role of senior independent director.

2019 LTIP awards (audited information)

The table below outlines LTIP awards made to executive directors during 2019:

Date of grant	Participant	Basis of award	Number of shares	Face value of award £[1]	Performance period
20 June 2019	Lee Rochford[1]	200.0% of salary	390,780	901,764	1 January 2019 to 31 December 2021
20 June 2019	Paul Cooper[2]	150.0% of salary	237,259	547,499	1 January 2019 to 31 December 2021

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 £2.3076
2. Paul Cooper's award lapsed on his departure from the business.

The performance conditions attaching to the 2019 LTIP awards are summarised below. The 2019 LTIP awards will not receive a dividend equivalent.

Measure and alignment with strategy and shareholder value creation	Weighting		Performance target	Vesting level (% of maximum)
Underlying ROE (three-year average)	50.0%	Threshold	24.0%	18.75%[2]
		Maximum	30.0%	100.0%
Underlying FCF[1] (three year cumulative)	25.0%	Threshold	£715m	18.75%[2]
		Maximum	£757m	100.0%
TSR relative to FTSE 350	25.0%	Threshold	Median	18.75%[2]
(excluding investment trusts)		Maximum	Upper quartile	100.0%

1. Cash from operations after interest and taxes, but before exceptional business disposals and excluding adjusted items and subject to such other adjustments as the committee determines.
2. The 18.75% vesting at threshold is the threshold vesting for Lee Rochford's award and reflects the increase in his award to 200.0% of salary. Had Paul Cooper's award not lapsed, 25.0% of it would have vested for threshold performance.

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 Group over the performance period having regard to such factors as the Committee considers, which may include, but are not limited to, objective measurement of other financial metrics, customer satisfaction, assessment of regulatory compliance and assessment of risk management.

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).

Each executive director is required to acquire and retain shares with a value equal to 200.0% of salary, and until such time as the required holding has been achieved, the executive director must retain 50.0% 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 2019 are: 212.7% of salary for Lee Rochford and 0.0% of salary for Matt Hotson (given his recent appointment to the board); Paul Cooper's shareholding at the date at which he stepped down from the board (9 August 2019) is also stated.

a. Executive directors – share ownership

Director	Shares owned	Shares owned – value £[1]	% of salary[2]
Lee Rochford	374,352	959,089	212.7
Matt Hotson	–	–	–
Paul Cooper	159,179	407,817	111.7

1. Based on the closing share price on 31 December 2019 of £2.562.
2. Based on the salary applying as at 31 December 2019.

b. Executive directors – share plan interests

Matt Hotson was not granted any share plan awards in 2019.

In line with the applicable regulations, Paul Cooper's share interests are stated at the date at which he left the business (9 August 2019).

Director	Plan	Award date	Number of shares at 1 January 2019	Granted during the year	Lapsed during the year	Exercised during the year	**Number of shares at 31 December 2019 (or if earlier date of leaving the business)**	Status	Performance period
Lee Rochford	LTIP	31 March 2017[1]	184,248	–	–	–	**184,248**	Unvested, subject to performance condition[2]	1 January 2017 – 31 December 2019
	LTIP[5]	27 June 2018	263,598	–	–	–	**263,598**	Unvested, subject to performance condition	1 January 2018 – 31 December 2020
	LTIP[5]	20 June 2019	–	390,780	–	–	**390,780**	Unvested, subject to performance condition	1 January 2019 – 31 December 2021
	DSBP	26 March 2018	43,205	–	–	–	**43,205**	Unvested	N/A
	DSBP	26 March 2019	–	93,198	–	–	**93,198**	Unvested	N/A
	SIP[3]	–	1,974	1,662	–	–	**3,636**	Unvested	N/A
Paul Cooper	LTIP	27 June 2018[4]	219,791	–	219,791	–	**0**	Lapsed[5]	N/A
	LTIP	20 June 2019	–	237,259	237,259	–	**0**	Lapsed[5]	N/A
	Buy-out award	18 June 2018	31,862	–	31,862	–	**0**	Lapsed[5]	N/A
	Buy-out award	18 June 2018	70,098	–	70,098	–	**0**	Lapsed[5]	N/A
	Buy-out award	18 June 2018	25,491	–	25,491	–	**0**	Lapsed[5]	N/A
	DSBP	26 March 2019	–	39,539	39,539	–	**0**	Lapsed[5]	N/A
	SIP[6]	–	1,068	986	1,027	–	**1,027**	Matching shares forfeited. Partnership shares which had been purchased were transferred to Paul Cooper in accordance with the plan rules.	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. This award is scheduled to vest on 31 March 2020.
3. 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 Group 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. 238 shares have been allocated to Lee Rochford under the SIP, from 1 January 2020 to 12 March 2020.
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. Each of these awards lapsed in connection with Paul Cooper leaving the business.
6. 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 gave Paul Cooper one matching share for each Partnership share bought on his behalf. The matching shares were forfeited on Paul Cooper's departure from the business due to the three-year forfeiture period.

c. Non-executive directors – share ownership

Non-executive directors	Shares owned
Jonathan Bloomer	50,896
Lan Tu	23,309
Maria Luís Albuquerque	0
Andrew Fisher	40,000
Iain Cornish[1]	0

1. Iain Cornish stepped down from the board on 30 April 2019 and the number of shares owned is stated as of that date.

There were no changes in the interests of executive or non-executive directors between 31 December 2019 and 12 March 2020, other than the SIP allocation to Lee Rochford under his monthly allocation for January and February 2020 as referred to on page 91.

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

Paul Cooper stepped down from the board and left the business on 9 August 2019. His remuneration between 1 January 2019 and 9 August 2019 is disclosed in the single figure table on page 93.

As set out in the section 430 (2B) statement on stepping down, which can be found on the Company's website (www.arrowglobal.net), in accordance with the rules of the LTIP and the Deferred Bonus Share Plan all outstanding awards made to Paul in 2018 and 2019 lapsed in full. In addition, the buy-out award made to Paul in 2018 was conditional upon him remaining in employment for a period of two years from the award being made. As Paul left within this period, the committee has applied clawback to awards that have already vested (with details set out in the single figure table) and awards due to vest in 2020 and 2021 lapsed in full.

Paul Cooper has not received and will not receive any remuneration payment beyond his remuneration for the period to 9 August. Paul Cooper has not received and will not receive any payment for loss of office.

TSR performance

The graph below shows TSR performance of the Company from IPO to 31 December 2019 compared with the FTSE SmallCap index. Throughout the year ended 31 December 2019, 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. Chief executive officer remuneration for previous years

The table below sets out the total pay of the 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.

	CEO single figure £000	CEO bonus (as a % of maximum) £000	CEO LTIP vesting (as a % of maximum)
2019 (Lee Rochford)	932	46.25	25
2018 (Lee Rochford)	1,011	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.

b. Percentage change in chief executive officer remuneration

The table below shows how the percentage change in the chief executive officer's salary, taxable benefits and annual bonus pay-out between 2018 and 2019 compared with the percentage change in the average of each of those components for the workforce as a whole.

	% change in salary and fees	% change in performance-related bonus
Chief executive officer	3.0%	(42.3%)
Workforce	4.7%	(1.0%)

Relative importance of spend on pay

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

	Total employee remuneration[1] £000	Shareholder distributions £000
2019	98,931	23,062
2018	94,446	21,158
Difference	4,485	1,904

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
Matt Hotson	15 July 2019	N/A	12 months
Jonathan Bloomer	7 October 2013[1]	5 October 2022*	1 month
Lan Tu	2 March 2015[3]	8 March 2021*	1 month
Maria Luís Albuquerque	7 March 2016[4]	7 March 2022*	1 month
Andrew Fisher	9 December 2016[2]	9 December 2022*	1 month

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

1. As amended by extension letter dated 2 October 2019.
2. As amended by extension letter dated 28 January 2020, effective from 9 December 2019.
3. As amended by extension letter dated 23 February 2018.
4. As amended by extension letter dated 2 April 2019.

The remuneration committee

Throughout the year, the committee consisted of Lan Tu (as chair) and Andrew Fisher, each of whom is an independent non-executive director. The Company chair, Jonathan Bloomer, who was considered independent on appointment, is a member of the committee. Iain Cornish was a member of the committee until he stepped down from the board on 30 April 2019.

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[1]	1	1
Andrew Fisher	3	3

1. Stepped down as Non-executive director on 30 April 2019.

The terms of reference of the committee are on the Company website at www.arrowglobal.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 £51,700 for the year ended 31 December 2019. Deloitte LLP also provided advice in relation to internal audit services, taxation and share plans 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 has also attended committee meetings to provide advice and respond to specific questions but is not in attendance when his own remuneration is discussed. The company secretary acts as secretary to the committee and is similarly not in attendance when his own remuneration is discussed.

Statement of shareholder voting

At the 2019 annual general meeting, the annual report on remuneration (excluding the directors' remuneration policy) was approved by shareholders with the following votes:

% of votes for	% of votes against	Number of votes withheld
73.86%	26.14%	13,732,439

Details of the actions taken by the committee in response to the vote are set out in the committee chair's statement.

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

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 Company's website (www.arrowglobal.net).

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 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.

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity
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 it remains 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. • Update agreed during 2019 – Pension contributions for new executive directors will be set to be in line with the wider workforce rate (currently 5.0% of 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 would have been paid over the period to 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 below this table.	• Maximum bonus opportunity of 140% of annual base salary per year. • 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.
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.	• 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 FCF, ROE and TSR. • 25% of award vests for threshold performance rising to 100% for maximum performance.

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity
Share incentive plan (SIP) Promotes alignment with shareholders across the 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 (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 (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 20.0% 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 Company, as well as specific strategic objectives which are aligned to delivering the overall business strategy and to encourage behaviours which facilitate profitable growth and the future development of the business.

The precise choice of measures and the weightings between them will be reviewed by the committee year-on-year. Performance targets will be set at the beginning of each year, and bonus pay-outs are determined by the 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 free cash flow, 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 and 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 and Customs qualifying plans) operated by the Group.

Clawback will apply to HM Revenue and Customs qualifying plans to the extent permitted by HM Revenue and 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
12 March 2020

Report of the directors

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2019. The corporate governance report set out on pages 58 to 66 forms part of this report. The risks to which the Group is subject, and the policies in respect of such risks, are set out on pages 31 to 38. The Company's principal subsidiaries are listed in note 23.

The following information is set out in the strategic report on pages 1 to 53:

- 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 Chair's statement, Group chief executive officer's review and Group chief financial officer's review on pages 4, 6 and 26 respectively, which are incorporated into this report by reference.

Consideration of the Company and the Group as a going concern can be seen on page 39. 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 2018 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 finance team 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.

So far as the board is aware, there is no relevant audit information of which the auditors are unaware and the board has taken all reasonable steps to ascertain any relevant audit information and ensure the auditors are aware of such information.

Dividends

The directors recommend the payment of a final dividend of 8.7p per ordinary share for the financial year ended 31 December 2019 (2018: 8.7p) to be paid (assuming shareholder approval is obtained) on 17 July 2020 to ordinary shareholders on the register on 12 June 2020. The ex-dividend date for the final dividend is 11 June 2020 and the dividend reinvestment plan election date is 26 June 2020.

The recommended final dividend, together with the interim dividend of 4.4p per share (2018: 4.0p) paid on 11 October 2019, brings the total dividend declared and proposed for the year to 13.1p per share (2018: 12.7p).

The Company held £152.5 million distributable reserves at 31 December 2019, sufficient to pay the dividend.

Share capital

As at 31 December 2019, the Company had 176,858,244 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 19 to the Group financial statements on page 138. 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 2019 annual general meeting, shareholders authorised the Company to make market purchases of up to 17,626,334 ordinary shares representing 10.0% of the Company's issued share capital at that time, and to allot shares in the Company up to an aggregate nominal amount of £587,544.48 These authorities expire at the 2020 annual general meeting. During the year ended 31 December 2019, no shares were repurchased. Resolutions to renew these authorities will be proposed at the 2020 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 Group 2016 Employee Benefit Trust (the "Estera Trust"). On 10 April 2019, 594,901 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 10 April 2019. 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 Equiniti, the Group's share plan administrator, to satisfy DSBP and LTIP awards and to the trustee of the Arrow Share Incentive Plan (SIP) to satisfy awards of shares to participating employees under the SIP.

As at 31 December 2019, the Estera Trust held 628,874 ordinary shares (2018: 1,030,766 shares) representing 0.36% (2018: 0.58%) of the Company's issued share capital. The Trust deed contains a dividend waiver provision in relation to these shares.

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 make 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 2019, the Company had been notified under Rule 5 of the Disclosure, Guidance and Transparency Rules of the Financial Conduct Authority, of the following holdings representing 3.0% or more of the voting rights in its shares:

Shareholder	No. of ordinary shares/ voting rights notified	% of ordinary share capital/ voting rights notified
Jupiter Asset Management Limited	17,487,837	9.88%
Fifth Street Station LLC	16,139,622	9.13%
Schroders Plc	17,477,696/15,098,415[1]	8.62%
M&G Plc	9,327,549	5.27%
Devon Equity Management Limited	8,170,851[2]	4.62%
Legal and General Investment Management Ltd	5,414,829	3.07%
Odin Fortvaltning AS	5,272,421	3.01%

1. The number of shares and voting rights notified for this shareholder are different.
2. The number of ordinary shares and voting rights were not disclosed in the last TR-1 notification.

The following changes to the above voting rights have been notified to the Company under Rule 5 of the Disclosure, Guidance and Transparency Rules from 1 January 2020 up until 12 March 2020:

Shareholder	No. of ordinary shares/voting rights notified	% of ordinary share capital/voting rights notified
Devon Equity Management Limited	N/A[1]	5.25%
Blackrock Inc	9,295,000	5.46%
M&G Plc	8,064,850	4.56%

1. The number of ordinary shares and voting rights were not disclosed in the TR-1 notification submitted on 2 March 2020.

Directors

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

Director	Position	Service in the year ended 31 December 2019
Jonathan Bloomer	Non-executive chair	Served throughout the year
Lee Rochford	Group chief executive officer	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	Senior Independent non-executive director	Served throughout the year
Matt Hotson	Group chief financial officer	Appointed on 8 October 2019
Iain Cornish	Senior independent non-executive director	Resigned on 30 April 2019
Paul Cooper	Group chief financial officer	Resigned on 9 August 2019

Biographical details of the directors of the Company during the year and to the date of this report can be seen on pages 54 to 55.

Directors continued

Further details relating to board and committee composition are disclosed in the corporate governance report and committee reports on pages 58 to 97.

The directors are aware of the provisions in the Code that all directors should be subject to annual re-election and having adopted these provisions, all directors will offer themselves for election and re-election at the 2020 annual general meeting.

Directors' interests

The directors' interests in the share capital of the Company at 31 December 2019 are set out on pages 90 to 92.

Directors' indemnities

During the financial year ended 31 December 2019 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 2020 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.arrowglobal.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 2019 annual report and notice of annual general meeting 2020 will be distributed electronically again and via the Company's website to shareholders who have consented or deemed to have consented to receive electronic communications. Shareholders who have requested shareholder information in hard copy form will continue to receive this.

Employee consultation

Further information concerning employees is given on page 44.

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, employee engagement sessions with the board, use of the employee engagement forum, the distribution of a weekly newsletter, focus group meetings, employee surveys and regular Group-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. More information on workforce engagement by our non-executive director Maria Luis Albuquerque can be found on page 69.

Employees are encouraged to be involved in the Company's performance via the SIP, the detail of which is set out at note 28.

The Group also has a whistleblowing policy and employees are made aware of this at induction and through regular ongoing refresher training. An anonymous, externally facilitated whistleblowing helpline has also been implemented to listen to the concerns of employees and to help to enhance a culture of openness.

Disabled persons

The Group adopts a consistent, non-discriminatory approach to all applicants during both the recruitment and the on-boarding process, 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. 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.

Policies and Practices on Payments to Creditors

We recognise the importance of good supplier relationships to the overall success of our business. We publish key statistics and other information on our payment practices in line with the Duty to Report on Payment Practices and Performance on the Department for business, Energy and Industrial Strategy's Website. Information is published on a six-monthly basis. For the six months to 31 December 2019, our average time taken to pay invoices was 27 days; in the previous six months it was 33 days.

Environmental policy

Due to the nature of its business activities, the Group's environmental impact is considered minimal. An environmental policy, as part of the Group's corporate social responsibility 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 by using electronic alternatives 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 2019) and the Group's carbon reporting falls under three scopes:

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

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

Activities that the Group was responsible for led to 2,859.9 tonnes of annual CO_2 emissions in 2019 (2018: 2,450.5 tonnes) as documented below:

Scope	**CO_2 emissions (tonnes) per annum 2019**	CO_2 emissions (tonnes) per annum 2018
1	**485.2**	465.3
2	**1,499.1**	1,403.1
Total scope 1 and 2	**1,984.3**	1,868.4
3	**875.6**	582.1
Total	**2,859.9**	2,450.5
Tonne of CO_2 per employee (using average number of employees for the year)	**1.2**	1.4

Branches outside of the UK
The Company has no overseas branches. The Company's subsidiaries are detailed in note 23 to the financial statements.

Risk management
Please refer to the strategic report, on pages 31 to 33.

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
The process for evaluation of board effectiveness is detailed in the Corporate Governance report on page 58.

Disclosures required under Listing Rule 9.8.4R

In accordance with Listing Rule 9.8.4R, the Company is required to disclose certain information within the Directors' Report or advise where such relevant information is contained. The information required to be disclosed, where applicable to the Company, can be located in the Annual Report and Accounts at the references set out below:

Topic	Location in Annual Report	Page Numbers
Interest capitalised	Not applicable	–
Publication of unaudited financial information	Additional information (unaudited)	170
Details of long-term incentive schemes	Remuneration Report	80
Waiver of emoluments by a director	Not applicable	–
Waiver of future emoluments by a director	Not applicable	–
Non pre-emptive issues of equity for cash	Not applicable	–
Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings	Not applicable	–
Parent participation in a placing by a listed subsidiary	Not applicable	–
Contracts of significance	Not applicable	–
Provision of services by a controlling shareholder	Not applicable	–
Shareholder waivers of dividends	Report of the Directors	98
Shareholder waivers of future dividends	Report of the Directors	98
Agreements with controlling shareholders.	Not applicable	–

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 2 June 2020 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.arrowglobal.net.

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

Stewart Hamilton
Company secretary
12 March 2020

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent 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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- 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 of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, 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 and directors' report include 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.

Matt Hotson
Group chief financial officer
12 March 2020

Lee Rochford
Group chief executive officer
12 March 2020

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 2019 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 2019 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 6 financial years ended 31 December 2019. 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	£3.0m (2018:£3.3m) 5.0% (2018: 4.4%) of normalised profit before tax	
Coverage	100% (2018:100%) of group profit before tax	
Key audit matters		**vs 2018**
Event driven	The impact of uncertainties due to the UK exiting the European Union on our audit	◄►
Recurring risks	Estimation of future cash collections from portfolio investments	◄►
	Fair value of intangible assets acquired as part of business combinations	◄►
	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 judgement, 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.

Key audit matter	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 35 (principal risks), page 39 (viability statement), page 76 (Risk Committee Report).*	**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 its effects are subject to unprecedented levels of uncertainty of consequences, 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 we considered all of the Brexit related disclosures 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 of the impact of uncertainties due to the UK exiting the European Union and disclosures in relation to going concern 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: including our assessment of risks of material misstatement (cont.)

Key audit matter	The risk	Our response
Estimation of future cash collections from portfolio investments (£1,163.6 million; 2018: £1,087.0 million) *Refer to page 70 (Audit Committee Report), page 118 (accounting policy) and page 145 (financial disclosures).*	**Forecast based valuation:** The Group's estimate of the remaining future cash collections (ERCs) from portfolio investments is the key variable in determining the portfolio carrying amount and any subsequent revenue adjustments. Portfolio investments comprise of amortised cost portfolios, fair value portfolios and real estate owned inventories. 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 ERCs 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 observed performance against previous forecasts. Given the diverse nature of the Group's Portfolio Investments, estimation of future cash collections for more bespoke assets involves a greater degree of management judgement. Dependent on the level of complexity of the asset, management use various forecasting models to derive the ERCs. 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. The effect of these matters is that, as part of our risk assessment, we determined that estimation of future cash collections from Portfolio Investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: — **Controls design:** We assessed the design, implementation and operating effectiveness of 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 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 cover the outputs of the models and manual adjustments to inform the extent of our substantive testing. — **Methodology implementation:** We assessed the methodology and implementation of the cash flow forecasting models used in valuing the portfolio investments, incorporating our own IT, modelling and valuation specialists to consider the appropriateness of the most significant models, review model code and challenge certain specific inputs into the forecasting models; — **Critical assessment of cash flows:** Informed by our assessment of the controls and models noted above, we assessed the modelled cash flows by portfolio to identify those portfolios where more judgement may have been exercised (for example due to changes in approach by management to managing the portfolios) and/or where we consider greater risk may exist (for example due to under/over-performance against historic forecasts). Taking into account these risk factors and our cumulative audit experience, we undertook a risk based selection process to critically assess the cash flow forecasts and any manual adjustments made by the Group with reference to actual historic collections and our understanding of the Group; and — **Assessing transparency:** We critically assessed the adequacy of the disclosures regarding the degree of estimation uncertainty involved in arriving at the valuation and the accounting judgements made in determining the measurement basis and valuation. **Our results** — We found the resulting forecast based valuation to be acceptable (2018 result: acceptable).

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

Key audit matter	The risk	Our response
Fair value of intangible assets acquired as part of business combinations (£0.7 million; 2018: £1.9 million) *Refer to page 70 (Audit Committee Report), page 124 (accounting policy) and page 165 (financial disclosures).*	**Forecast based valuation:** On 8 April 2019, the Group acquired Drydens Limited in the UK for £10.2m, 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 a discounted cash flow model to arrive at its estimates of the acquired intangible assets including customer contracts. This required the Group to exercise 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 Group's accounting policy against the requirements of the relevant accounting standard including the acquisition date and the recognition of intangible assets; — **Our sector experience:** We challenged the completeness of the acquired net assets and associated assumptions with reference to our business understanding of the acquired entity 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 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 and judgement involved in arriving at the fair value. **Our results** — We found the fair value of the acquired intangible assets to be acceptable (2018 result: acceptable).
Recoverability of parent company's investment in subsidiaries and intra-group debtor balance due from Group entities (Investment in subsidiary £307.5 million; 2018: £307.5 million) (Intra-group debtors £212.5 million; 2018: £222.3 million) **Parent only** *Refer to page 70 (Audit Committee Report), page 117 (accounting policy) and page 141 (financial disclosures).*	**Low risk, high value:** The carrying amount of the parent company's investment in subsidiaries and intra-group debtor balance due from Group entities represents 100% (2018: 100%) of the company's total assets. Their recoverability does not contain an inherent 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: — **Test of detail:** We compared the carrying amount of the investments, representing 100% (2018: 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 risk 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 relied upon 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 cash flows of the underlying subsidiaries. **Our results** — We found the parent company's assessment of the recoverability of the their investment in subsidiaries and intra-group debtor balances to be acceptable (2018 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 £3.0m (2018: £3.3m), determined with reference to a benchmark of profit before tax normalised to provide a more stable measure year on year by excluding £1.5m acquisition costs and £6.9m in relation to the expansion of the fund management business (2018: profit before tax normalised to exclude £14.7m of costs in relation to acquisitions and £18.7m in relation to the Group's bond finance), of which it represents 5.0% (2018: 4.4%).

Materiality for the parent company financial statements as a whole was set at £1.9m (2018: £1.6m), determined with reference to a benchmark of company total assets, of which it represents 0.4% (2018: 0.4%).

We agreed to report to the audit committee any corrected or uncorrected identified misstatements for the Group financial statements exceeding £150,000 (2018: £165,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

How we scoped our audit

Of the group's 3 (2018: 10) reporting components, we subjected 3 (2018: 6) to full scope audits for group purposes.

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.

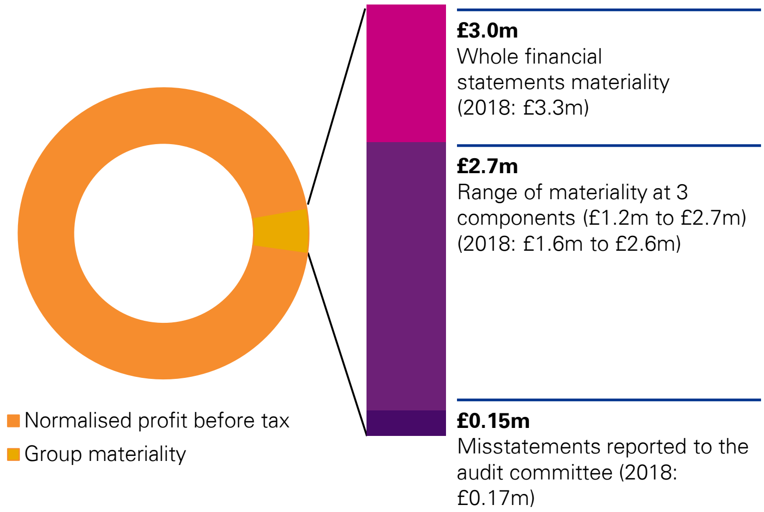
The Group team approved the component materialities, which ranged from £1.2m to £2.7m (2018: £1.6m to £2.6m), having regard to the mix of size and risk profile of the Group across the components.

The work on the overseas components was performed by overseas component auditors. The audit of the UK component (including the audit of the parent company), was performed by the Group team.

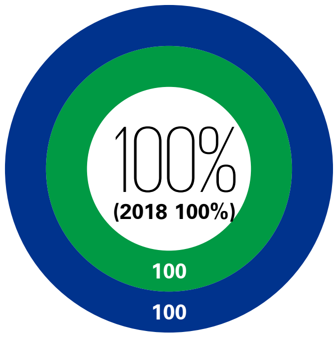
The Group team visited the 3 (2018: 3) key overseas locations, being Portugal, Italy and the Netherlands (2018: Portugal, Italy and the Netherlands) to assess the audit risk and strategy. Telephone conference meetings were also held with the overseas component auditors throughout the audit. During these visits and meetings, the findings reported to the Group team were discussed in more detail, key audit working papers were reviewed, and any further work required by the Group team to be performed by the component auditor was instructed.

Normalised profit before tax
£59.7m (2018: £73.4m)

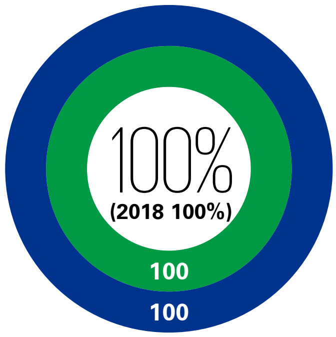
Group Materiality
£3.0m (2018: £3.3m)



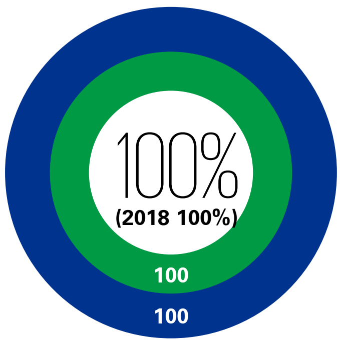
Group revenue



Group profit before tax



Group total assets



Full scope for group audit purposes 2019

Full scope for group audit purposes 2018

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 3 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 102 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, on page 39, 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 and uncertainties 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.

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

We have nothing to report in these respects.

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 103, 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, certain aspects of company legislation and 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. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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
12 March 2020

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Income from portfolio investments at amortised cost	24	**199,094**	193,932
Fair value gain on portfolio investments at FVTPL	24	**32,397**	24,745
Impairment gains on portfolio investments	24	**12,714**	50,727
Income from real estate inventories	24	**561**	–
Total income from portfolio investments		**244,766**	269,404
Income from asset management and servicing	6	**94,360**	91,661
Profit from sale of property		**–**	731
Other income		**392**	–
Total income		**339,518**	361,796
Operating expenses:			
Collection activity costs	10	**(109,798)**	(119,041)
Other operating expenses	10	**(123,902)**	(135,972)
Total operating expenses		**(233,700)**	(255,013)
Operating profit		**105,818**	106,783
Finance income	7	**61**	76
Finance costs	8	**(54,559)**	(66,868)
Profit before tax		**51,320**	39,991
Taxation charge on ordinary activities	11	**(14,033)**	(10,022)
Profit after tax		**37,287**	29,969
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
FX translation difference arising on revaluation of foreign operations		**(7,077)**	1,370
Movement on hedging reserve		**161**	(241)
Total comprehensive income		**30,371**	31,098
Profit after tax attributable to:			
Owners of the Company		**35,223**	29,969
Non-controlling interest		**2,064**	–
		37,287	29,969
Comprehensive income attributable to:			
Owners of the Company		**28,307**	31,098
Non-controlling interest		**2,064**	–
		30,371	31,098
Basic EPS (£)	12	**0.20**	0.17
Diluted EPS (£)	12	**0.19**	0.17

The parent company's profit after tax for the year was £11,897,000 (2018: £154,298,000).

Consolidated and parent company statement of financial position

As at 31 December 2019

	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Assets					
Cash and cash equivalents		**88,765**	92,001	**18**	8
Trade and other receivables	16	**75,094**	94,206	**212,717**	222,579
Portfolio investments – amortised cost	24	**932,199**	869,056	**–**	–
Portfolio investments – FVTPL	24	**169,799**	217,974	**–**	–
Portfolio investments – real estate inventories	24	**61,626**	–	**–**	–
Property, plant and equipment	15	**24,521**	7,761	**–**	–
Intangible assets	14	**38,159**	44,264	**–**	–
Deferred tax asset	11	**10,759**	8,113	**–**	–
Investment in subsidiary undertakings	23	**–**	–	**307,500**	307,500
Goodwill	13	**267,700**	262,679	**–**	–
Total assets		**1,668,622**	1,596,054	**520,235**	530,087
Liabilities					
Bank overdrafts	29	**1,386**	2,696	**–**	–
Revolving credit facility	29	**230,963**	242,121	**–**	–
Derivative liability	26	**509**	502	**–**	–
Trade and other payables	17	**223,001**	197,657	**2,007**	2,251
Current tax liability		**7,645**	7,915	**697**	697
Other borrowings	29	**3,672**	11,635	**–**	–
Asset-backed loans	29	**84,077**	–	**–**	–
Senior secured notes	29	**897,875**	926,340	**–**	–
Deferred tax liability	11	**17,637**	14,930	**120**	–
Total liabilities		**1,466,765**	1,403,796	**2,824**	2,948
Equity					
Share capital	19	**1,769**	1,763	**1,769**	1,763
Share premium	19	**347,436**	347,436	**347,436**	347,436
Retained earnings		**129,240**	116,589	**174,012**	183,740
Hedging reserve		**(423)**	(584)	**–**	–
Other reserves		**(280,630)**	(273,547)	**(5,806)**	(5,800)
Total equity attributable to shareholders		**197,392**	191,657	**517,411**	527,139
Non-controlling interest		**4,465**	601	**–**	–
Total equity		**201,857**	192,258	**517,411**	527,139
Total equity and liabilities		**1,668,622**	1,596,054	**520,235**	530,087

Note – the balance sheet has been re-presented on a reducing liquidity basis and portfolio investments have been split out into their constituent parts. Prior periods have been re-presented accordingly on this basis.

Approved by the board of directors on 12 March 2020, signed and authorised for issue on its behalf by:

Matt Hotson
Group chief financial officer

Lee Rochford
Group chief executive officer

Company number: 08649661

Financial statements

Consolidated and parent company statement of changes in equity

For the year ended 31 December 2019

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 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 losses – 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
Share-based payments net of tax	–	–	3,267	–	–	–	–	3,267	–	3,267
Shares issued	10	–	–	–	–	–	–	10	–	10
Repurchase of own shares	–	–	–	–	(2,509)	–	–	(2,509)	–	(2,509)
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
Impact of adopting IFRS 16	–	–	(947)	–	–	–	–	(947)	–	(947)
Balance post IFRS adjustments at 1 January 2019	1,763	347,436	115,642	(584)	(5,800)	9,214	(276,961)	190,710	601	191,311
Profit after tax	**–**	**–**	**35,223**	**–**	**–**	**–**	**–**	**35,223**	**2,064**	**37,287**
Exchange differences	**–**	**–**	**–**	**–**	**–**	**(7,077)**	**–**	**(7,077)**	**–**	**(7,077)**
Recycled to profit after tax	**–**	**–**	**–**	**7**	**–**	**–**	**–**	**7**	**–**	**7**
Net fair value gains – cash flow hedges	**–**	**–**	**–**	**187**	**–**	**–**	**–**	**187**	**–**	**187**
Tax on hedged items	**–**	**–**	**–**	**(33)**	**–**	**–**	**–**	**(33)**	**–**	**(33)**
Total comprehensive income for the year	**–**	**–**	**35,223**	**161**	**–**	**(7,077)**	**–**	**28,307**	**2,064**	**30,371**
Shares issued	**6**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**–**	**6**
Repurchase of own shares	**–**	**–**	**–**	**–**	**(6)**	**–**	**–**	**(6)**	**–**	**(6)**
Share-based payments net of tax	**–**	**–**	**1,437**	**–**	**–**	**–**	**–**	**1,437**	**–**	**1,437**
Dividend paid	**–**	**–**	**(23,062)**	**–**	**–**	**–**	**–**	**(23,062)**	**–**	**(23,062)**
Non-controlling interest on acquisition	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,800**	**1,800**
Balance at 31 December 2019	**1,769**	**347,436**	**129,240**	**(423)**	**(5,806)**	**2,137**	**(276,961)**	**197,392**	**4,465**	**201,857**

1. Other reserves total £280,529,000 deficit (2018: £273,547,000 deficit).

Company	Ordinary shares £000	Share premium £000	Retained earnings £000	Own share reserve £000	Total £000
Balance at 1 January 2018	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
Impact of adopting IFRS 16	–	–	–	–	–
Balance post IFRS adjustments at 1 January 2019	1,763	347,436	183,740	(5,800)	527,139
Profit after tax	**–**	**–**	**11,897**	**–**	**11,897**
Total comprehensive income for the year	**–**	**–**	**11,897**	**–**	**11,897**
Shares issued	**6**	**–**	**–**	**–**	**6**
Repurchase of own shares	**–**	**–**	**–**	**(6)**	**(6)**
Share-based payments	**–**	**–**	**1,437**	**–**	**1,437**
Dividend paid	**–**	**–**	**(23,062)**	**–**	**(23,062)**
Balance at 31 December 2019	**1,769**	**347,436**	**174,012**	**(5,806)**	**517,411**

Consolidated and parent company statement of cash flows

For the year ended 31 December 2019

	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Net cash generated by/(used in) operating activities	31	**20,516**	(19,021)	**23,072**	23,656
Investing activities					
Purchase of property, plant and equipment	15	**(1,269)**	(2,367)	**–**	–
Purchase of intangible assets	14	**(11,830)**	(11,077)	**–**	–
Proceeds from disposal of intangible assets and property, plant and equipment		**18**	3,759	**–**	–
Acquisition of subsidiaries, net of cash acquired	30	**(2,850)**	(57,022)	**–**	–
Movements in deferred consideration related to subsidiary acquisitions		**(12,004)**	(11,612)	**–**	–
Net cash used in investing activities		**(27,935)**	(78,319)	**–**	–
Financing activities					
Movements in other banking facilities		**(7,499)**	90,621	**–**	–
Proceeds from senior notes (net of fees)		**–**	345,847	**–**	–
Redemption of senior notes		**–**	(203,467)	**–**	–
Early repayment of bond		**–**	(13,623)	**–**	–
Proceeds from ABS issuing		**85,604**	–	**–**	–
Increase in non-controlling interest on acquisition		**1,800**	471	**–**	–
Repayment of interest on senior notes		**(35,870)**	(36,522)	**–**	–
Repurchase of own shares		**(6)**	(2,509)	**(6)**	(2,509)
Issue of share capital		**6**	10	**6**	10
Bank interest received	7	**61**	76	**–**	–
Bank and other similar fees paid		**(8,452)**	(6,248)	**–**	–
Finance lease payments	21	**(5,061)**	–	**–**	–
Payment of dividends		**(23,062)**	(21,201)	**(23,062)**	(21,158)
Payment of deferred interest		**–**	(257)	**–**	–
Net cash flow generated by/(used in) financing activities		**7,521**	153,198	**(23,062)**	(23,657)
Net increase/(decrease) in cash and cash equivalents		**102**	55,858	**10**	(1)
Cash and cash equivalents at beginning of year		**92,001**	35,943	**8**	9
Effect of exchange rates on cash and cash equivalents		**(3,338)**	200	**–**	–
Cash and cash equivalents at end of year		**88,765**	92,001	**18**	8

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, which is the Company's functional currency. All amounts have been rounded to the nearest thousand except when otherwise indicated.

The Company's subsidiaries, both direct and indirect, at 31 December 2019 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 2019 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 the new standards 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 2019:

- IFRS 16 Leases;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards; and
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

The Group also chose to early adopt the 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7' in the period.

During 2019, these new standards and interpretations had an insignificant effect on the consolidated financial statements, apart from IFRS 16 which is discussed in note 2.1.

2.1 IFRS 16 'Leases'

IFRS 16 replaces the previous standard IAS 17 'Leases', bringing a number of leases on balance sheet, which were previously off-balance sheet and accounted for as operating leases under IAS 17.

As lessee, under IFRS 16, in respect of leased properties previously accounted for as operating leases the Group now recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. Lease payments are allocated between the liability and finance cost.

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with leases with a lease term of twelve months or less and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis.

The Group is not required to restate comparatives on the initial adoption of IFRS 16, and has applied the modified retrospective approach. The Group has applied exemptions where appropriate for short-term leases of twelve months or less and low value assets to be expensed and has also applied 'grandfathering' to all IAS 17 judgements previously made, including lease terms. The incremental borrowing rates used to measure lease liabilities at initial application ranged between 4.2% and 7.2%, with a weighted average of 5.8%.

Transition to this new standard has led to a one-off opening 2019 reserves reduction of £0.9 million, a right-of-use asset disclosed in property, plant and equipment of £23.7 million and a lease liability of £27.3 million and a release of lease accruals of £2.6 million, both of which are classified in trade and other payables.

2.2 Standards issued but not yet adopted

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 as they do not have a material effect on the Group's financial statements.

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3); and
- IFRS 17 Insurance Contracts.

3. Significant accounting policies

Basis of preparation and consolidation

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 accounting for other financial assets and liabilities.

The Group has elected to present the statement of financial position on a liquidity basis. Assets and liabilities have been presented in order of liquidity as this method of presentation is more relevant to the sector which the Group operates within.

3. Significant accounting policies *continued*

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss.

Contingent consideration

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2019 and the comparative period.

'Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. 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).

Securitisation vehicles

Securitisation vehicles in which the Group holds an economic interest are usually operated according to predetermined criteria that are part of the initial design of the vehicles. The Group is exposed to variability of returns from the vehicles through its holding of various securities in the vehicles.

Outside the day-to-day servicing of the receivables (which may be carried out by the Group under a servicing contract), key decisions are usually required only when the intent of the participants regarding the design of the economic structure or the strategy for the collection of the underlying assets changes.

In assessing whether it has control, the Group considers whether it manages the key decisions that most significantly affect these vehicles' returns, alongside its total variability related to its economic interests in the vehicles. As a result, the Group has concluded that it controls some of these vehicles, but not all (for more information on consolidated vehicles, see Note 27).

Investment funds

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund manager. For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager without cause.

Given the low number of investors who are required to act together to remove the Group as Fund manager without cause, despite the Group's aggregate economic interest is some cases being above 30% (depending on which items are included/excluded), the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

For further disclosure in respect of unconsolidated securitisation vehicles and investment funds in which the Group has an interest or for which it is a sponsor, see Note 27.

i. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

ii. Transactions eliminated upon consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 in the statement of viability.

In scenarios considered to be reasonable by management, as well as 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.

3. Significant accounting policies *continued*

Foreign Currency

i. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the spot exchange rates at the date of the transactions. The functional currency of the Group is pounds sterling, which is also the presentational currency of the Group.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the carrying amount in the foreign currency, translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss.

ii. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into sterling at the monthly average exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the foreign currency translation reserve (translation reserve).

When a foreign operation is disposed of in such a way that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation whilst still retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

Interest

i. Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. This is the case for all the Group's portfolio investments held at amortised cost, recognised since the introduction of IFRS 9.

Additionally, for such assets, the future cash flows are forecast across the next 84 months following the balance sheet date. This is the point by which substantially all of the cash flows will have been received from a normal portfolio investment, and the point at which the Group is comfortable in forecasting to.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability, such as legal and due diligence fees.

ii. Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation, using the effective interest method, of any difference between that initial amount and the expected cash flows and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance. However, for amortised cost portfolio assets the concept of a separable expected credit loss allowance is not applied, because due to the nature of the portfolio assets, expected cash flows are forecast including an estimate of expected credit losses, including multiple economic scenarios.

iii. Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, which includes all of the Group's portfolio investments held at amortised cost, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in fair value gains on portfolio investments at FVTPL.

Fair value gains on portfolio investments at FVTPL

Fair value gains on portfolio investments at FVTPL represents all of the income and expenses relating to the Group's portfolio investments which are classified as FVTPL. The line item includes fair value changes, interest and dividends.

3. Significant accounting policies *continued*

Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in fair value gains on portfolio investments at FVTPL or other income based on the underlying classification of the equity investment.

Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

i. Group acting as a leasee
Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on, or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the shorter of its useful economic life and the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The adjustment is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'trade and other payables' in the statement of financial position.

ii. Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

iii. Policy applicable before 1 January 2019
For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

iv. Group acting as a lessor
None of the arrangements which the Group has entered into have been determined to constitute the Group acting as a lessor under the definitions of IFRS 16.

Taxation

i. Income tax
Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised the related expenses in 'other expenses'.

3. Significant accounting policies *continued*

ii. Current tax

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

iii. Deferred tax asset

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Group.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Financial assets and financial liabilities

i. Recognition and initial measurement

The Group initially recognises portfolio investments, debt securities issued and other financial liabilities on the date on which they are acquired. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. No such elections have been made by the Group.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or as at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. No such designations have been made by the Group.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

3. Significant accounting policies *continued*

- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Group's portfolio investments are comprised of various types of underlying credit positions. These investments are held by the Group for the primary purpose of collecting the underlying cash flows to the fullest extent possible. Sales of such portfolio investments are not a common occurrence and are not part of management's strategy for such investments when they are purchased.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Equity and similar instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

Contractually linked instruments

The Group has some investments in securitisations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

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 of 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 profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. 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.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

3. Significant accounting policies *continued*

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

i. Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. The gain or loss is presented as interest income calculated using the effective interest rate method.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as a derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

ii. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

iii. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

iv. Impairment

The Group recognises loss allowances for ECL on financial assets that are debt instruments, and that are not measured at FVTPL. No impairment loss is recognised on equity investments. The Group has not taken the low credit risk exemption for any of its financial assets.

The Group measures loss allowances at an amount equal to lifetime ECL, except for financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (excluding credit-impaired assets), for which they are measured as 12-month ECL.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

3. Significant accounting policies *continued*

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date, except POCI financial assets: as the difference between the gross carrying amount and the present value of estimated future cash flows; or
- POCI financial assets: the ECL is incorporated into the estimated future cash flows, therefore it is not possible to separate this from a 'gross carrying amount' of these assets. As such, although ECL is incorporated into the carrying amount, a separate loss allowance is not held for POCI financial assets. The only material assets in this category are the portfolio investments held at amortised cost.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate; or
- lease receivables: the discount rate used in measuring the lease receivable.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; or
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Designation at fair value through profit or loss

The Group has not designated any financial assets or liabilities as FVTPL in either the current or previous periods.

Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Derivatives held for risk management purposes and hedge accounting

All derivatives are measured at fair value in the statement of financial position. The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. For a cash flow hedge of a forecast transaction, the Group makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Other assets

No ECL has been recognised for intercompany loans, cash and cash equivalents or trade and other receivables, on the basis that the ECL on such items is deemed to be immaterial.

3. Significant accounting policies *continued*

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a CCP by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised within other income in profit or loss.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property and equipment for the current and comparative periods are as follows:

Furniture	five years
Computer equipment	three years
Leasehold improvements	five years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets and goodwill

i. Software licences and IT platforms

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software, such as IT platforms, is recognised as an asset when the Group is able to demonstrate that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development.

The capitalised costs of internally developed software include all costs directly attributable to developing the software plus capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

Software, including IT platforms, is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to ten years. Amortisation is disclosed within other expenses within the statement of profit and loss.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

ii. Customer intangibles

When the Group acquires businesses which have material ongoing customer relationships, whether they are contractual or not, the principles of IFRS 3 dictate that the fair value of such customer relationships must be estimated and recognised on the balance sheet at the acquisition date. The impact of this is to effectively reduce the goodwill recognised on acquisition.

Subsequent to the initial recognition of such assets, they are amortised over the expected life of the customer relationships with the Group. This amortisation is recognised within operating expenses.

The useful lives and carrying values of customer intangibles are reviewed at each reporting date and adjusted if appropriate.

iii. Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

3. Significant accounting policies *continued*

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future post-tax cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

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 with an outflow of economic resources. 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.

Employee benefits

i. Share-based payment transactions

Share-based payment 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'.

ii. 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.

iii. 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.

Inventories

As part of the Group's investment activities, it sometimes acquires real estate positions as part of a transaction. Where such real estate is acquired for the purposes of immediate resale, or where a sale will immediately follow a period of time where capital expenditure is being applied to the asset, such investments fall under the scope of IAS 2 – Inventories.

In line with IAS 2, all assets classified as inventories are held at initial cost, plus any subsequent cost of capital expenditure. Such assets are held at the lower of cost and net realisable value, but apart from this, no gain or loss will be taken on the value of the assets until the point at which they are sold, or partially sold.

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.

Share capital and reserves

i. Share capital

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

ii. Other reserves

Other reserves include the own share reserve, the translation reserve and the merger reserve. These reserves are further explained in note 19.

3. Significant accounting policies *continued*

Intercompany receivables

The Company holds material intercompany receivables within its statement of financial position. These have been assessed under the IFRS 9 ECL criteria, measuring expected losses over the longest contractual period the Company is exposed to credit risks. The Company has concluded that these assets have no material ECL.

Operating expenses

Operating expenses relate to administration and costs associated with collection activities. All operating costs are accounted for on an accruals basis.

Earnings per share

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Group's other components, whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Group's Board (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Deferred and contingent consideration

During the normal course of business, the Group enters in agreements with third-parties to purchase portfolios of financial assets, and the consideration paid may include an element of deferred consideration. Such consideration is discounted at the Group's weighted average cost of debt to its present value at the point of initial recognition of the acquired portfolio asset, and this discounted amount is included within the purchase price of the portfolio asset. A liability for the discounted amount of deferred consideration is also recognised at this time. Subsequent to this, the discount taken from the gross deferred consideration payable to the initial present value is recognised in the income statement as a finance cost over time.

Usually as part of business acquisitions, the Group also enters into arrangements with third-parties to pay amounts in the future which are contingent on the outcome of a future event, such as the acquired business meeting certain operational or financial targets. In such instances, the Group forms an initial estimation of the fair value of such consideration by assessing the likelihood of paying out a range of amounts, and using this analysis to calculate the probability-weighted average expected pay out. This amount is then discounted at the Group's cost of debt to bring it to its present value at the point of acquisition. An assessment is made at this point as to whether the payments constitute a post-employment benefit arrangement with former owners, or not. If this is not the case, the present value is included within the consideration paid to acquire the business and within goodwill, if relevant. Each period the discount is unwound to the income statement as a finance cost, and the liability is remeasured to its current fair value at that point in time.

4. Critical accounting judgements and estimates

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

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is set out below.

i. Classification of amortised cost financial assets

The Group holds the majority of its portfolio investments at amortised cost, due to the fact that management have determined that these assets that meet the SPPI criteria, and are held in a 'hold to collect' business model. The SPPI criteria for each portfolio are assessed at the point each portfolio is being approved for purchase, and are based on the nature of the underlying loans which are being purchased. This determination is made for each purchase individually, unless it is a follow-on purchase of the same or very similar assets, which have already been assessed.

Regarding the 'hold to collect' business model, the Group has determined that this is the most appropriate IFRS 9 business model classification for its general portfolio holding activities, as although in the past a small number of portfolios have been sold outright to a third-party, such sales do not comprise a material component of the Group's ERC at any point in time. Therefore, such infrequent sales activity is not deemed to invalidate the 'hold to collect' business model which the Group employs for the vast majority of its portfolio assets.

Another judgement which has been made regarding the Group's amortised cost portfolio assets is that they all fall within the POCI classification for IFRS 9 impairment measurement purposes. This judgement has been made by the Group, based upon the fact that historic purchase history and the current composition of the amortised cost portfolio investments shows that such assets tend to be bought at a point in time where they are credit impaired in some manner. This is supported by not only the nature of the assets, but by the fact that they are usually purchased at a deep discount, which is reflective of their incurred credit losses to date.

4. Critical accounting judgements and estimates *continued*

ii. Determination of control over investees

Arrow holds an economic interest in a number of entities which it has been deemed to not control. As such, these entities are not consolidated into the Group's financial statements, but rather, the investment in such entities is recognised as a single asset within the appropriate balance sheet classification, usually within portfolio investments. Conversely the Group also consolidates entities into its financial statements which it does not have 100% ownership of, but the Group has been judged to control such entities regardless.

The judgement as to whether or not the Group has control over an entity is taken on a case-by-case basis by management, and is firstly based upon whether the Group can exercise any power over the relevant activities of the entity, and if this is the case, whether there is deemed to be a link between such power and the variability of the Group's returns which arise from the entity.

In many cases the determination of control is clear. Cases where management must apply more judgement can occur where the Group holds a minority equity-level financial interest in a structured entity, as well as providing various services to these entities in a typical supplier-customer relationship capacity. In these cases, the Group mainly assesses the relative share of marginal variable returns which flow to third-parties versus the share which flows to the Group as a primary indicator of whether the Group is exercising any power it may have to influence the variable returns of the structured entity primarily for its own benefit, or for the benefit of third-parties in the structure. In the case of the former fact pattern, the entity will usually be consolidated, whereas under the latter, the entity will usually not be consolidated.

Assumptions and estimation uncertainties

i. 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 net assets acquired. 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 judgement, 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 of amounts 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 ii. below. Note 30 provides further detail on acquisitions in the period and the net assets acquired on each.

ii. Carrying value of portfolio investments

The carrying value of portfolio investments is £1,163,624,000 at 31 December 2019 (2018: £1,087,030,000). The majority of these portfolio investments are measured at amortised cost. 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 number of FVTPL portfolios where it is necessary to forecast cash flows over a 120-month period to capture all of the material cash flows. The 84-month period is deemed to be the most appropriate time frame over which expected cash flows are measured, as this is the point that modelling accuracy begins to fall below a supportable threshold.

The cash flow (ERC) forecasts are generated using a mixture of asset-specific forecasts and 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, which may include placing these accounts into litigation. Operational factors that may impact future estimated ERCs 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 bench-marked 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 also include specific consideration of multiple economic scenarios and the impact these are likely to have on collections in the future. For further information on this please see note 25.

The estimated future cash flows generated by the above process are the key estimate/judgement in these financial statements. Flexing the expected future gross cash flows by +1/-1% would impact the closing carrying value of the amortised cost and FVTPL portfolio investments as at 31 December 2019 by +/- £11,020,000 (2018: +/- £10,870,000). The forecasting period over which ERCs are calculated is also a key estimate/judgement in these financial statements. Adding or removing six months to the cash flow forecasting period would increase/(reduce) the closing carrying value of the portfolio investments as at 31 December 2019 by £12,453,000/(£17,326,000) (2018: £13,796,000/(£16,360,000)). Note that there are a large number of inputs which are used to derive the ERC and hence the carrying value of portfolios. However, many of these are factual historical data points which do not individually involve significant estimation uncertainty, and as such, an overall combined sensitivity has been provided.

iii. Impairment assessment of goodwill balances

The carrying amount of goodwill is £267,700,000 at 31 December 2019. 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 2019. 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

The Group reports under three separate reportable segments. Segmental information has been provided in line with what is reviewed on a regular basis by the chief operating decision maker (CODM), which is the board of directors collectively, as defined in IFRS 8. The principal business categories are as follows:

Investment Business (IB)	All portfolio investments that the Group owns, and the income and costs associated with them
Asset Management and Servicing Business (AMS)	Income and costs associated with managing debt portfolios on behalf of the Group and external servicers. Our Fund Management business is reported under this segment.
Group functions	Costs not directly associated with either the Investment or Asset Management and Servicing Business, but relevant to overall oversight and control of the Group's activities

These segments represent how the Group manages the wider business, and the organisational structure is aligned to these segments. Therefore, this has been deemed to be the appropriate level of disaggregation to provide information to the CODM. Further granularity, such as type of AMS contract, or type of IB portfolio, is not how the business is managed or organised, and hence such further detail has not been presented to the CODM, or in the segmental disclosures.

The intra-segment elimination column below removes charges made from the AMS business segment to the IB 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. For further information on adjusting items, please see the additional information section.

2019	Investment business £000	AMS business £000	Group functions £000	Intra-segment elimination £000	Adjusting items	Total 2019 £000
Total income	**244,766**	**140,054**	**392**	**(45,694)**	**–**	**339,518**
Collection activity costs	**(92,682)**	**(62,495)**	**(315)**	**45,694**	**–**	**(109,798)**
Gross margin	**152,084**	**77,559**	**77**	**–**	**–**	**229,720**
Gross margin %	**62.1%**	**55.4%**				
Other operating expenses excluding depreciation, amortisation and forex	**(24,339)**	**(44,155)**	**(9,166)**	**–**	**(26,789)**	**(104,449)**
EBITDA	**127,745**	**33,404**	**(9,089)**	**–**	**(26,789)**	**125,271**
EBITDA margin %	**52.2%**	**23.9%**				
Depreciation, amortisation and forex	**–**	**–**	**(19,453)**	**–**	**–**	**(19,453)**
Operating profit	**127,745**	**33,404**	**(28,542)**	**–**	**(26,789)**	**105,818**
Net finance costs	**–**	**–**	**(54,498)**	**–**	**–**	**(54,498)**
Refinancing costs	**–**	**–**	**–**	**–**	**–**	**–**
Profit before tax	**127,745**	**33,404**	**(83,040)**	**–**	**(26,789)**	**51,320**

2018	Investment business £000	AMS business £000	Group functions £000	Intra-segment elimination £000	Adjusting items	Total 2018 £000
Total income	269,404	132,306	731	(40,645)	–	361,796
Collection activity costs	(94,617)	(63,989)	–	40,645	(1,080)	(119,041)
Gross margin	174,787	68,317	731	–	(1,080)	242,755
Gross margin %	64.9%	51.6%				
Other operating expenses excluding depreciation, amortisation and forex	(20,715)	(41,613)	(36,733)	–	(22,676)	(121,737)
EBITDA	154,072	26,704	(36,002)	–	(23,756)	121,018
EBITDA margin %	57.2%	20.2%				
Depreciation, amortisation and forex	–	–	(14,235)	–	–	(14,235)
Operating profit	154,072	26,704	(50,237)	–	(23,756)	106,783
Net finance costs	–	–	(48,134)	–	–	(48,134)
Refinancing costs	–	–	–	–	(18,658)	(18,658)
Profit before tax	154,072	26,704	(98,371)	–	(42,414)	39,991

Total income includes income from portfolio investments, asset management and servicing and other income.

5. Segmental reporting *continued*

2019 Geographical information	UK and Ireland £000	Portugal £000	Italy £000	Netherlands £000	Intra-Group trading £000	Total £000
Total Income	**134,066**	**100,722**	**84,077**	**66,347**	**(45,694)**	**339,518**
Income from AMS contracts with customers	**35,261**	**34,201**	**34,632**	**35,960**	**(45,694)**	**94,360**
Non-current assets	**114,110**	**74,535**	**82,226**	**59,509**	**–**	**330,380**

2018 Geographical information	UK and Ireland £000	Portugal £000	Italy £000	Netherlands £000	Intra-Group trading £000	Total £000
Total Income	139,990	117,971	64,712	79,768	(40,645)	361,796
Income from AMS contracts with customers	30,593	27,153	30,041	44,519	(40,645)	91,661
Non-current assets	82,419	69,686	77,927	84,672	–	314,704

Income from contracts with customers has been disaggregated on a geographical basis, as a similar set of services are provided to customers across the geographies, and therefore this was deemed to be the most appropriate level of disaggregation for this disclosure.

Non-current assets are assets with a useful life of more than one year with the exception of deferred tax which has been excluded.

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

	2019 £000	2018 £000
Third-party AMS Business income	**94,360**	91,661
Intra-Group AMS income	**45,694**	40,645
Gross AMS income	**140,054**	132,306
Investment business Income	**244,766**	269,404
Other income	**392**	731
Gross income	**385,212**	402,441

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

6. Income from asset management and servicing

Income from Asset Management and Servicing (AMS) contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it satisfies a performance obligation related to a service it has undertaken to provide to a customer.

Asset management and servicing income

Servicing income makes up the majority of AMS income, and in itself comprises a broad range of services, including secured and unsecured collection activity, real estate asset realisation, legal title holding, due diligence activities, initial platform migration and on-boarding activities, securitisation vehicle set-up and ongoing management activities, new origination activities, litigation and court process management and third-party sub-servicer management.

In all material cases, the services are provided at a point in time which corresponds to the satisfaction of the related performance obligations. As such, revenue arising from servicing income is normally recognised as the services are provided to the customer, with no deferral or acceleration of revenue across the life of the contract.

Fund management income

Fund management income encompasses services provided in relation to the discretionary and semi-discretionary allocation and management of third-party capital. Fees for fund management services are normally calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a regular basis. Revenue from fund management services is recognised over time as the services are provided.

Contract balances

At 31 December 2019, the Group had assets relating to contracts with customers in the amount of £3.1m (31 December 2018: £nil). These assets relate to up-front costs which were incurred to acquire customers, and will be released to the income statement across the same period as the associated revenue will be recognised. The weighted average life remaining on these contract balances is 8 years (31 December 2018: n/a). None of the contract balances have impacted the Group's income to date.

7. Finance income

	2019 £000	2018 £000
Bank interest	61	76
Total finance income	**61**	76

8. Finance costs

	2019 £000	2018 £000
Interest and similar charges on bank loans	8,028	7,168
Interest and similar charges on senior secured notes	38,232	37,458
Interest and similar charges on asset backed securitisation	2,509	–
Interest rate swap and forward exchange contract hedge costs	515	1,568
Lease liability interest	1,395	–
Other interest	3,880	2,016
Bond refinancing costs	–	18,658
Total finance costs	**54,559**	66,868

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.

9. Auditor's remuneration

The analysis of auditor remuneration is as follows:	2019 £000	2018 £000
Fees payable for audit services – Company	55	55
Fees payable for audit services – subsidiaries	1,420	1,072
Total fees payable for audit services	**1,475**	1,127
Fees payable for audit-related assurance services	100	88
Fees payable for other assurance services	107	209
Total fees payable for assurance services	**207**	297
Fees payable for transaction services	20	100
Total fees payable for non-audit services	**227**	397
Total fees payable	**1,702**	1,524

10. Collection activity costs, other operating expenses and staff costs

Collection activity costs	Note	2019 £000	2018 £000
External collection costs		31,490	40,417
Staff costs	10.b	42,789	41,100
Direct temp labour		4,807	5,347
Direct operating costs		15,057	13,876
Legal disbursements		14,416	15,348
Other collection activity costs		1,239	2,953
Total collection activity costs		**109,798**	119,041

Other operating expenses	Note	2019 £000	2018 £000
Staff costs	10.b	56,142	53,346
Other staff related costs		11,591	8,625
Premises		5,401	8,242
IT		13,830	11,520
Depreciation and amortisation		18,435	14,235
Write off of PPE and intangible assets		6,377	–
Net foreign exchange losses/(gains)		1,018	(2)
Acquisition related expenses		1,457	14,717
Deferred consideration release		(21,119)	–
Other operating expenses		30,770	25,289
Total other operating expenses		**123,902**	135,972

In 2019, £8,817,000 of the other staff-related costs relates to temporary labour, recruitment and training (2018: £7,537,000).

10. Collection activity costs, other operating expenses and staff costs *continued*

b. Staff costs

	2019 £000	2018 £000
Wages, bonuses and salaries	**77,698**	73,749
Pension costs	**2,833**	2,595
Social security costs	**12,576**	10,126
Share-based payments	**1,437**	3,267
Staff restructuring	**4,387**	4,709
	98,931	94,446

The total executive and non-executive directors' remuneration during the year was £1,432,000 (2018: £2,611,000), including £110,000 in relation to pension costs (2018: £128,000). See the remuneration report for further disclosures relating to directors' remuneration.

The average monthly number of employees (including executive directors) are analysed below:

	2019	2018
Operations and asset servicing	**1,707**	1,207
Commercial asset management	**217**	154
Finance	**197**	140
Fund management and origination	**142**	101
Legal and risk	**105**	74
HR and communications	**58**	41
Management and support	**15**	13
	2,441	1,730

The Group restructured its business units during the year. The prior year average employees have been updated in line with the new structure.

11. Taxation

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax.

a. Amounts recognised in profit and loss	2019 £000	2018 £000
Current tax expense		
Tax charge at standard UK corporation tax rate	**14,152**	13,328
Changes in estimate related to prior years	**1**	(849)
Total current tax expense	**14,153**	12,479
Deferred tax expense		
Origination and reversal of temporary differences	**(1,332)**	(2,373)
Adjustment in relation to prior years	**2,421**	(84)
Recognition of previously unrecognised tax losses	**(1,209)**	–
Total deferred tax expense	**(120)**	(2,457)
Total income tax expense	**14,033**	10,022

The differences in the effective tax rate for the period and the standard rate of corporation tax in the UK at 19% (2018: 19%) are as follows:

b. Reconciliation of effective tax rate	2019 £000	2018 £000
Profit before tax	**51,320**	39,991
Tax charge at standard UK corporation tax rate	**9,751**	7,598
Effect of tax rates in foreign jurisdictions	**2,052**	2,606
Expenses not deductible for tax purposes	**(358)**	768
Changes in corporate tax rates in the year	**(1,209)**	(17)
Movements in unrecognised deferred tax	**1,376**	–
Changes in estimate relating to prior years	**2,421**	(933)
Total income tax expense	**14,033**	10,022

	2019			2018		
c. Amounts recognised in OCI	Before tax £000	Tax (expense)/ benefit £000	Net of tax £000	Before tax £000	Tax (expense)/ benefit £000	Net of tax £000
Items that are/may be reclassified to profit or loss						
Movement in hedging reserve:						
Effective portion of changes in fair value	**187**	**(33)**	**154**	(291)	50	(241)
Net amount reclassified to profit or loss	**7**	**–**	**7**	–	–	–
Total movement in hedging reserve	**194**	**(33)**	**161**	(291)	50	(241)

11. Tax *continued*

The rate of UK corporation tax, as enacted under previous Finance Acts, was expected to reduce to 17% from 1 April 2020. Although the UK Government has announced its intention to pass revised legislation under which the rate would remain at 19%, no legislation has been introduced at the balance sheet date and therefore deferred tax balances in relation to the UK have been calculated using a rate of 17%.

In December 2019, a new corporate tax law was enacted in the Netherlands. Consequently, as of 1 January 2020, the corporate tax rate in the Netherlands will be reduced from 25% to 21.7%. This change resulted in a gain of €1,147,000 related to the remeasurement of deferred tax assets and liabilities of the Group's Dutch subsidiaries being recognised during the year ended 31 December 2019.

Deferred tax

The Group has not recognised a deferred tax asset in respect of £2,560,000 (2018: £859,000) 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. There are no unrecognised deferred tax liabilities.

Movement in deferred tax balances

	2019								
	Net balance 1 January £000	Recognised in profit or loss £000	Recognised in OCI/ equity £000	Opening reserves £000	Transferred in on acquisition £000	Foreign exchange £000	Net balance 31 December £000	Deferred tax assets £000	Deferred tax liabilities £000
Fixed assets	**463**	**(9)**	**–**	**–**	**273**	**–**	**727**	**727**	**–**
IFRS transitional adjustments	**(1,416)**	**252**	**–**	**–**	**–**	**8**	**(1,156)**	**–**	**(1,156)**
Share schemes	**704**	**285**	**(121)**	**–**	**–**	**–**	**868**	**868**	**–**
Hedging reserve	**120**	**–**	**(33)**	**–**	**–**	**–**	**87**	**87**	**–**
Other temporary differences	**828**	**329**	**–**	**–**	**–**	**(436)**	**721**	**721**	**–**
Losses	**5,682**	**486**	**–**	**–**	**–**	**185**	**6,353**	**6,353**	**–**
Fair value and IFRS 9 adjustments	**(13,198)**	**(1,383)**	**–**	**–**	**(693)**	**636**	**(14,638)**	**1,843**	**(16,481)**
IFRS 16 transitional adjustments	**–**	**160**	**–**	**–**	**–**	**–**	**160**	**160**	**–**
	(6,817)	**120**	**(154)**	**–**	**(420)**	**393**	**(6,878)**	**10,759**	**(17,637)**

	2018								
	Net balance 1 January £000	Recognised in profit or loss £000	Recognised in OCI/ equity £000	Opening reserves £000	Transferred in on acquisition £000	Foreign exchange £000	Net balance 31 December £000	Deferred tax assets £000	Deferred tax liabilities £000
Fixed assets	303	160	–	–	–	–	463	463	–
IFRS transitional adjustments	(1,748)	332	–	–	–	–	(1,416)	–	(1,416)
Share schemes	1,225	(328)	(193)	–	–	–	704	704	–
Hedging reserve	70	–	50	–	–	–	120	120	–
Other temporary differences	750	523	–	–	(310)	(135)	828	1,144	(316)
Losses	5,432	(796)	–	–	1,004	42	5,682	5,682	–
Fair value and IFRS 9 transitional adjustments	(20,192)	2,566	–	3,000	1,305	123	(13,198)	–	(13,198)
	(14,160)	2,457	(143)	3,000	1,999	30	(6,817)	8,113	(14,930)

Fair value of net assets acquired as part of business combinations is considered in note 4.

Tax impact of the UK giving notice to withdraw from the EU

Given that the UK has now exited the EU (at 31 January 2020), the Group has considered the impact of Brexit from a tax perspective. The UK is in a transition period until 31 December 2020, during which time all EU directives will continue to be in force. As such, no impact to the Group's tax position is expected in 2020.

It is too soon to know what the arrangements may be with the EU from 1 January 2021 onwards, however the Group does not expect there to be any significant impact from a tax perspective.

Uncertainty over income tax treatments

The current tax liability of £7,645,000 represents the amount of income taxes payable in respect of current and prior year periods, including a provision in relation to uncertain tax positions.

As for most multinationals, the current tax environment is creating increasing levels of uncertainty and the Group is potentially subject to tax audits in many jurisdictions. By their nature, these are often complex and could take a significant period of time to be agreed with the tax authorities. The Group estimates and accrues taxes that will ultimately be payable when reviews or audits by tax authorities of tax returns are completed. The levels of risk arising from tax audits may change as a result of legislative change, tax authority guidance or practice and correspondence with the tax authorities during a specific audit. It is not possible to quantify the impact that such future developments may have on the tax positions taken in the financial statements.

12. Earnings per share (EPS)

	2019 £000	2018 £000
Profit after tax attributable to shareholders	**35,223**	29,969
Weighted average ordinary shares	**175,859**	174,939
Potential exercise of share options	**4,942**	4,515
Weighted average ordinary shares (diluted)	**180,801**	179,454
Basic earnings per share (£)	**0.20**	0.17
Diluted earnings per share (£)	**0.19**	0.17

Refer to table of alternative performance measures in the 'additional information' section for details of underlying earnings per share.

13. Goodwill

	£000
Cost	
At 1 January 2018	155,088
Additions	107,984
Exchange rate differences	1,916
At 31 December 2018	264,988
Additions[1]	14,519
Adjustment of the discounted value of deferred consideration paid for EI	462
Modification to Drydens' opening balance sheet fair value post-acquisition	693
Exchange rate differences	(10,653)
At 31 December 2019	**270,009**
Amortisation and impairment	
At 31 December 2018 and 31 December 2019	**2,309**
Net book value	
At 31 December 2019	**267,700**
At 31 December 2018	262,679

The following table provides a breakdown of goodwill acquired during the current and prior year:

	£000
Goodwill on acquisition	
At 1 January 2018	155,088
Parr Credit s.r.l.	22,533
Europa Investimenti S.p.A (EI)	48,219
Norfin Investimentos S.A. (Norfin)	31,335
Bergen Capital Management Limited (Bergen)	5,164
Modification to EI opening balance sheet fair value post-acquisition	733
Exchange rate differences	1,916
At 31 December 2018	264,988
Drydens Limited (Drydens)[1]	14,519
Exchange rate differences and goodwill adjustments	(9,498)
At 31 December 2019	**270,009**

1. See note 30 for a detailed analysis of additions to goodwill during the year.

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).

Goodwill CGU allocation

In relation to goodwill, the four CGUs identified are UK and Ireland, comprising all Group companies acquired in the Capquest acquisition, Arrow Global Receivables Management Limited, Mars Capital, Bergen and Drydens; 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 and 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 structure and operating model of the Group, it has been deemed appropriate to combine a number of CGUs for impairment testing purposes. 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.

13. Goodwill *continued*

The discount rate was a post-tax rate based on the yield of average European 10-year government bonds, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific CGU.

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined as the lower of the nominal GDP rates for the countries in which the CGU operates and the long-term compound annual profit before taxes, depreciation and amortisation growth rate estimated by management.

Budgeted profit before taxes, depreciation and amortisation were based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated growth for the next five years.

The key assumptions described above may change as economic and market conditions change. The Group estimates that likely possible changes in these assumptions would not cause the recoverable amount of any CGU to decline below the carrying amount.

The Group's goodwill balance has been assessed and no part of the overall balance is deemed to be deductible for tax purposes.

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

	2019 £000	2018 £000
UK and Ireland	**79,476**	64,312
Portugal	**69,156**	73,061
Benelux	**40,824**	43,132
Italy	**78,244**	82,174
	267,700	262,679

An impairment review was carried out at 31 December 2019 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 were as follows:

	2019				2018			
	UK and Ireland	Portugal	Benelux	Italy	UK and Ireland	Portugal	Benelux	Italy
Discount rate %	**8.6%**	**9.0%**	**8.2%**	**9.0%**	8.5%	8.9%	8.2%	8.9%
Growth rate used to extrapolate forecasts	**2.0%**	**2.2%**	**2.0%**	**1.7%**	2.0%	2.2%	2.0%	1.7%

Discount rates

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

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

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

The Group has conducted a sensitivity analysis on the impairment test of the CGU's carrying value. The CGUs would become impaired based on a net post-tax cash flow reduction set out below, or based on an increase in the discount rate noted below:

	A cash flow reduction of	A discount rate increase of
UK and Ireland	**58%**	**11%**
Portugal	**41%**	**5%**
Benelux	**23%**	**2%**
Italy	**59%**	**8%**

14. Intangible assets

	Customer intangibles £000	Contractual rights £000	IT platform[1] £000	Software licences £000	Total £000
Cost					
At 1 January 2018	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
Assets acquired on acquisition of a subsidiary	688	–	–	–	688
Exchange differences	(1,372)	(79)	(705)	(269)	(2,425)
Additions	117	6	8,706	3,001	11,830
Reclassifications	–	–	–	–	–
Disposals	–	–	–	(273)	(273)
At 31 December 2019	**27,119**	**1,412**	**46,227**	**13,664**	**88,422**
Accumulated amortisation					
At 1 January 2018	7,998	485	7,347	7,139	22,969
Exchange differences	151	(3)	35	31	214
Amortisation charge for the year[2]	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
Exchange differences	(768)	(47)	(153)	(239)	(1,207)
Amortisation charge for the year[2]	4,694	244	4,879	1,821	11,638
Reclassifications	–	–	–	–	–
Write-off	–	–	5,769	(6)	5,763
Disposals	–	–	–	(269)	(269)
At 31 December 2019	**17,195**	**895**	**22,114**	**10,059**	**50,263**
Carrying amount					
At 31 December 2019	**9,924**	**517**	**24,113**	**3,605**	**38,159**
At 31 December 2018	14,417	787	26,607	2,453	44,264

1. An intangible asset relating to a software upgrade in the is included within IT Platforms. The asset has a carrying value of €6,000,00 and a remaining amortisation period of 10 years.
2. Amortisation is shown within the other operating expenses line of the consolidated statement of profit or loss.

15. Property, plant and equipment

	Land and Buildings £000	Leasehold improvements £000	Computer equipment £000	Furniture £000	Vehicles £000	Right-of-use asset[1] £000	Total property, plant and equipment £000
Cost							
At 1 January 2018	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
Reclassifications	–	–	–	–	–	–	–
Disposals	(2,987)	(128)	(43)	(604)	–	–	(3,762)
At 31 December 2018	–	7,249	5,107	1,940	204	–	14,500
Assets acquired on acquisition of a subsidiary	–	118	244	14	–	578	954
Adoption of IFRS 16 as at 1 January 2019	–	–	–	–	–	26,386	26,386
Exchange differences	–	(227)	2	12	17	–	(196)
Additions	–	385	338	42	120	384	1,269
Reclassifications	–	–	–	–	–	–	–
Disposals	–	–	(292)	(9)	(42)	(674)	(1,017)
At 31 December 2019	**–**	**7,525**	**5,399**	**1,999**	**299**	**26,674**	**41,896**
Accumulated depreciation							
At 1 January 2018	63	2,020	2,081	1,005	1	–	5,170
Exchange differences	2	14	11	7	1	–	35
Disposal	(111)	(106)	(36)	(481)	–	–	(734)
Reclassifications	–	–	–	–	–	–	–
Charge for the year	46	1,050	780	386	6	–	2,268
At 31 December 2018	–	2,978	2,836	917	8	–	6,739
Adoption of IFRS 16 as at 1 January 2019	–	–	–	–	–	3,199	3,199
Exchange differences	–	(79)	210	28	78	(15)	222
Charge for the year	–	920	811	290	66	4,710	6,797
Reclassifications	–	–	–	–	–	–	–
Write-off leasehold improvements	–	509	–	104	–	–	613
Disposal	–	–	(168)	(6)	(21)	–	(195)
At 31 December 2019	**–**	**4,328**	**3,689**	**1,333**	**131**	**7,894**	**17,375**
Carrying amount							
At 31 December 2019	**–**	**3,197**	**1,710**	**666**	**168**	**18,780**	**24,521**
At 31 December 2018	–	4,271	2,271	1,023	196	–	7,761

1. See note 21 for a detailed analysis of right of use assets.

16. Trade and other receivables

	Group		Company	
Current	2019 £000	2018 £000	2019 £000	2018 £000
Trade receivables	**31,748**	45,436	**–**	–
Other receivables	**10,839**	2,672	**182**	–
Due from subsidiary undertakings	**–**	–	**212,535**	222,371
Prepayments	**5,896**	5,427	**–**	208
Bank balances not classified as cash and cash equivalents	**26,611**	40,671	**–**	–
	75,094	94,206	**212,717**	222,579

Other receivables includes contract balances of £3.1 million and £3.4 million of receivables related to contracts with customers. Bank balances not classified as cash and cash equivalents are those cash balances which, while controlled by the Group, are not readily available for immediate use by the Group. This is usually because the cash payments are subject to constraints regarding when the balance can be remitted, such as in a securitisation structure awaiting a payment date.

17. Trade and other payables

Current	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Trade payables	**15,635**	24,133	**489**	198
Deferred consideration on acquisition of subsidiaries	**11,332**	11,119	**–**	–
Deferred consideration on portfolio investments	**62,944**	12,031	**–**	–
Taxation and social security	**356**	163	**–**	–
Due to subsidiary undertaking	**–**	–	**1,518**	2,053
Accruals	**35,006**	53,954	**–**	–
Other liabilities	**19,495**	43,781	**–**	–
Lease liability	**5,312**	–	**–**	–
	150,080	145,181	**2,007**	2,251
Non-current				
Trade payables	**15,278**	3,673	**–**	–
Deferred consideration on acquisition of subsidiaries	**19,040**	48,803	**–**	–
Other liabilities	**20,411**	–	**–**	–
Lease liability	**18,192**	–	**–**	–
	72,921	52,476	**–**	–
Total trade and other payables	**223,001**	197,657	**2,007**	2,251

Deferred consideration on acquisition of subsidiaries has reduced as amounts were repaid in the period, alongside remeasurements of deferred contingent consideration liabilities in the period which reduced their value. Deferred consideration on portfolio investments have increased in the period as significantly more portfolio acquisitions had an element of deferred consideration outstanding at 31 December 2019 than 31 December 2018.

Included within other liabilities is €2,463,000 (£2,095,000) (31 December 2018: €1,970,000 (£1,771,000)) relating to deferred pay for the Italian employees. The employees 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 at a future date, when the employees leave employment. The liability is included within trade and other payables on the statement of financial position and is calculated by an independent expert through an actuarial valuation, the key assumptions used are detailed below:

	2019	2018
Discount rate	**0.67% to 1.5%**	1.3% to 1.6%
Annual inflation rate	**1.0% to 1.5%**	1.5%
Wage inflation	**2.0% to 3.0%**	2.0% to 3.5%
Probability of leaving employment for reasons other than retirement (employees aged 18-60)	**2.3% to 10.0% per annum**	2.6% to 10.0% per annum

18. Contingent liabilities

Through the ordinary course of business, the Group exposes itself to potential liabilities which at present it is not aware of, and may or may not arise in the future. As such, it would not be practical to try and quantify their future financial impact. However, set out below are broad areas of the Group's ordinary business activities which may in the future lead to potential claims or liabilities being incurred by the Group.

Conduct and regulatory compliance

Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies, the media and politicians, there is a possibility that certain aspects of the current or historic business, including, amongst other things, collections practices and general treatment of customers, may be determined by the FCA and other regulatory bodies or the courts as, in their opinion, not being conducted in accordance with applicable laws or regulations, or fair and reasonable treatment.

Contractual disputes

In carrying out its ongoing business, the Group enters into numerous contracts in any given year with a various third-party entities. There is always a risk that a contractual dispute may arise in the future, which may lead to a claim against the Group in respect of any damages or losses incurred by the third-party.

19. Share capital and reserves

Share capital and share premium

Issued, fully paid and authorised	2019 £000	2018 £000
176,858,244 (2018: 176,263,343) ordinary shares of 1p each	**1,769**	1,763
Offset by own shares	**(6)**	(10)
	1,763	1,753

Total consideration for the shares was £349,180,000 (2018: £349,180,000), giving rise to a share premium of £347,436,000 (2018: £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 an equal right to receive dividends and repayments of capital paid by the Company. There are no restrictions on the repayment of capital.

The shareholders have the right to receive notice of, and to attend and vote at all general meetings of the Company.

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The Company has an employee benefit trust for the granting of shares to applicable employees.

Own shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to retained earnings. No gain or loss is recognised in the financial statements on transactions in treasury shares.

Issued, fully paid and authorised	2019 £000	2018 £000
1,030,766 (2018: 257,377) opening own shares of 1p each	**10**	3
Changes in the period	**(4)**	7
628,874 (2018: 1,030,766) closing shares of 1p each	**6**	10

Nature and purpose of reserves

Hedging reserve

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

Own share reserve

The own share reserve comprises the cost of the Company's ordinary shares held by the Group. At 31 December 2019, the Company held 628,874 ordinary shares of 1p each (2018: 1,030,766 ordinary shares of 1p each) held in an employee benefit trust. This represents 0.4% of the Company's share capital as at 31 December 2019.

Translation reserve

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

Merger reserve

The merger reserve represents the reserve generated upon consolidation of the Group following the Group reconstruction as part of the IPO where Arrow Global became the parent company.

20. Dividends

The following dividends were recognised as distributions to owners during the year ended 31 December 2019:

	2019 £000	2018 £000
Interim dividend 2019: 4.4p per ordinary share (2018: 4.0p)	**7,751**	7,002
Final dividend 2018: 8.7p per ordinary share (2017: 8.1p)	**15,311**	14,156
	23,062	21,158

The 2019 interim dividend was declared at 50% of the 2018 final dividend. A final dividend for 2019 has been proposed of 8.7p, bringing the total dividend for the year to 13.1p being 40% 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 ex-dividend date for the final dividend is 11 June 2020, with a record date of 12 June 2020 and a payment date of 17 July 2020. 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 26 June 2020. The dividend has not been recognised as a liability and there are no tax consequences.

21. Leases

The Group has leases for offices and production vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 15).

Leases of vehicles are usually limited to a lease term of two to four years. Leases of property generally have a lease term ranging from five years to ten years. Lease payments are generally fixed, however there are a limited number of property leases where rentals are linked to annual changes in an index (either RPI or CPI).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

Right-of-use assets

Right-of-use assets relate to leased office premises and vehicles that are presented within property, plant and equipment (see note 15).

	Office premises £000	Vehicles £000
Adoption of IFRS 16 as at 1 January 2019	**23,401**	**2,985**
Adoption of IFRS 16 as at 1 January 2019 depreciation	**(1,409)**	**(1,790)**
Depreciation charge for the year	**(4,060)**	**(650)**
Additions	**962**	**–**
Disposals	**(674)**	**–**
Exchange differences	**13**	**2**
Balance at 31 December 2019	**18,233**	**547**

Maturity analysis – contractual undiscounted cash flows

See note 25 for maturity analysis of lease liabilities as at 31 December 2019.

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 £000
Less than one year	3,517
Between one and five years	15,032
More than five years	9,440
	27,989

The primary difference between the total future minimum lease payment as at 31 December 2018 and the opening right of use assets recognised on adoption to IFRS 16 relates to the phasing of the IAS 17 charge, including recognition of rent-free periods over the lease term, as opposed to the straight line depreciation of an opening right of use balance, which was determined by discounting the future lease payments at the incremental cost of borrowing relating to a particular lease. This resulted in a timing difference on the recognition of the lease expense between IAS 17 and IFRS 16.

Amounts recognised in profit or loss

During 2019 the following leases-related expenses were recognised under IFRS 16 in the profit or loss:

	2019 £000
Interest on lease liabilities	**1,395**
Depreciation charge for the year on right of use assets	**4,710**
Expenses relating to short-term leases	**76**

During 2018 the following leases were recognised under IAS 17 in the profit or loss:

	2018 £000
Lease expense	5,354

Amounts recognised in statement of cash flows

During 2019 the following lease payments were recognised in the statement of cash flows:

	2019 £000
Total cash outflow for leases	**5,061**

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 2019 and 2018:		
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.

Summary of transactions

Key management, defined as permanent members of the board plus all non-executive directors, were awarded the following compensation for the financial year:

Remuneration	2019 £000	2018 £000
Salaries and performance-related bonus	**1,628**	2,057
Pension-related benefits	**110**	128
Share based payments	**(306)**	426
	1,432	2,611

The number of key management during the year was 6 (2018: 7).

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 2019					
Due from subsidiary undertakings	**–**	**–**	**212,495**	**40**	**212,535**
Due to subsidiary undertakings	**(1,367)**	**(151)**	**–**	**–**	**(1,518)**
	(1,367)	**(151)**	**212,495**	**40**	**211,017**

	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

The material receivable balance due from subsidiary undertakings from Arrow Global One Limited relates primarily to final dividends declared by Arrow Global One Limited in 2018. In the current period, the movement in this balance relate primarily to the partial settlement in cash of this receivable. 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.

As a loan repayable on demand, expected credit losses were estimated on the assumption that repayment of the loan is demanded at the reporting date. It was assessed that loan was not in default as (i) the repayment had not been demanded, and (ii) the subsidiary was considered to be performing.

The maximum period over which expected impairment losses were measured was the period needed to transfer the cash once demanded. As at 31 December 2019, Arrow Global One Limited could repay the outstanding balance of the receivable within six months, with the majority of the payment being received immediately. Therefore, the expected credit loss was limited to the effect of discounting the amount due on the balance over this period. As the expected repayment schedule is short, discounting at the receivable's effective interest rate did not result in a material expected credit loss.

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 2019 are as follows:

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Agenda Management Services Limited	UK – England and Wales	Note 1	100	Trading	DFS
AGG Capital Management (Holdco) Limited (ACM(H)L)	UK – England and Wales	Note 2	100	Trading	AGGP
AGL Fleetwood Limited	UK – England and Wales	Note 2	100	Trading	AFTL
AGL Fleetwood Topco Limited (AFTL)	UK – England and Wales	Note 2	100	Trading	AGIHL
Arrow Global (Holdings) Limited (AG(H)L)	UK – England and Wales	Note 2	100	Trading	AGIHL
Arrow Global Accounts Management Limited	UK – England and Wales	Note 2	100	Trading	AGL
Arrow Global Adviser Limited	UK – England and Wales	Note 2	100	Trading	AGIHL
Arrow Global Europe Limited	UK – England and Wales	Note 2	100	Trading	AGIHL
Arrow Global Finance Plc	UK – England and Wales	Note 2	100	Trading	AGIHL
Arrow Global Guernsey Limited	UK – England and Wales	Note 2	100	Dormant	AG(H)L
Arrow Global Investments Holdings Limited (AGIHL)	UK – England and Wales	Note 2	100	Trading	AGGHL
Arrow Global Legh Limited	UK – England and Wales	Note 2	100	Dormant	AG(H)L
Arrow Global Limited (AGL)	UK – England and Wales	Note 2	100	Trading	AG(H)L
Arrow Global Luna Limited	UK – England and Wales	Note 2	100	Trading	AG(H)L
Arrow Global Management Limited	UK – England and Wales	Note 2	100	Dormant	AG(H)L
Arrow Global Massey Limited	UK – England and Wales	Note 2	100	Dormant	AG(H)L
Arrow Global One Limited (AGOL)	UK – England and Wales	Note 2	100	Trading	AGGP
Arrow Global Portugal Investments Limited	UK – England and Wales	Note 2	100	Trading	AGL
Arrow Global Portugal Limited	UK – England and Wales	Note 2	100	Trading	AG(H)L
Arrow Global Receivables Management Limited	UK – England and Wales	Note 2	100	Trading	AG(H)L
Arrow SMA LP Limited	UK – England and Wales	Note 2	100	Trading	AGIHL
Bergen Capital Management Limited	UK – England and Wales	Note 2	100	Trading	MAL
Capquest Asset Management Limited	UK – England and Wales	Note 2	100	Dormant	CGL
Capquest Debt Recovery Limited (CDRL)	UK – England and Wales	Note 2	100	Trading	CGL
Capquest Debt Recovery Services Limited	UK – England and Wales	Note 2	100	Dormant	CGL
Capquest Group Limited (CGL)	UK – England and Wales	Note 2	100	Trading	QNL

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
Capquest Investments 2 Limited	UK – England and Wales	Note 2	100	Dormant	CGL
Capquest Investments Limited	UK – England and Wales	Note 2	100	Trading	CGL
Capquest Limited	UK – England and Wales	Note 2	100	Dormant	CGL
Capquest Mortgage Servicing Limited	UK – England and Wales	Note 2	100	Trading	CGL
Capquest UK Limited	UK – England and Wales	Note 2	100	Dormant	CGL
Care Debt Management Limited	UK – England and Wales	Note 2	100	Dormant	CGL
Data Verification Services Limited	UK – England and Wales	Note 2	100	Dormant	CGL
Drydens Limited (DFS)	UK – England and Wales	Note 1	100	Trading	AGL
Erudio Customer Management Limited	UK – England and Wales	Note 2	100	Dormant	AG(H)L
Mars Acquisition Limited (MAL)	UK – England and Wales	Note 2	100	Trading	AGIHL
Mars Capital Finance Limited	UK – England and Wales	Note 2	100	Trading	MAL
Mars Capital Management Limited	UK – England and Wales	Note 2	100	Trading	MAL
Quest Bidco Limited (QBL)	UK – England and Wales	Note 2	100	Trading	QTL
Quest Newco Limited (QNL)	UK – England and Wales	Note 2	100	Trading	QBL
Quest Topco Limited (QTL)	UK – England and Wales	Note 2	100	Trading	AGIHL
Western Acquisition Holdings Limited	UK – England and Wales	Note 2	50	Trading	AGL
Mars Capital Management Ireland DAC	Republic of Ireland	Note 3	100	Trading	MAL
Mars Capital Finance Ireland DAC	Republic of Ireland	Note 3	100	Trading	MAL
Arrow Global Debt Limited (AGDL)	Guernsey	Note 4	100	Dormant	AGGHL
Arrow Global Guernsey Limited	Guernsey	Note 4	100	Dormant	AGIHL
Arrow Global Guernsey Holdings Limited (AGGHL)	Guernsey	Note 4	100	Trading	AGOL
Arrow Global Guernsey Management Limited	Guernsey	Note 4	100	Dormant	AGDL
AGG Capital Management Limited (ACML)	Jersey	Note 5	100	Trading	ACM(H)L
Arrow Global Investments Holdings Italia S.R.L. (AGIHIS)	Italy	Note 6	100	Trading	AGIHL
Zenith Service S.p.A. (ZSS)	Italy	Note 6	100	Trading	AGIHIS
Structured Finance Management – Italy S.R.L.	Italy	Note 6	50	Trading	ZSS
Arrow Global Italia S.R.L. (AGIS)	Italy	Note 6	100	Trading	AGIHL
VAR Reoco S.R.L.	Italy	Note 6	100	Trading	AGIS
Europa Investimenti Spa (EIS)	Italy	Note 7	71.80	Trading	AGIS
Europa Investimenti Trading S.R.L. (EITS)	Italy	Note 7	100	Trading	EIS
Fieramosca Dieci S.R.L.	Italy	Note 7	100	Trading	EIS
Sagitta SGR Spa	Italy	Note 7	95.64	Trading	EIS
Europa Investimenti Aziende S.R.L. (EIAS)	Italy	Note 7	100	Trading	EIS
Europa Investimenti Gestione Attivi S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Due S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Cinque S.R.L.	Italy	Note 7	100	Trading	EIS
Europa Investimenti Corporate Finance S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Diciannove S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Quattordici S.R.L.	Italy	Note 7	51	Trading	EIS
Lanzone Dodici S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Ventidue S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Quindici S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Ventuno S.R.L.	Italy	Note 8	100	Trading	EIS
Whitestar S.R.L (WS)	Italy	Note 9	100	Trading	AGIS
New Call S.R.L.	Italy	Note 9	100	Trading	WS

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
Giardini di Sacro Monte Eco-Immobiliare S.r.l.	Italy	Note 6	100	Trading	AGIS
Etna SPV S.R.L	Italy	Note 6	0	Trading	N/A
Forest SPV S.R.L	Italy	Note 6	0	Trading	N/A
Haywave SPV S.R.L	Italy	Note 6	0	Trading	N/A
Leonardo Investment Opportunities	Italy	Note 11	0	Trading	N/A
SPV Project 156 S.R.L	Italy	Note 12	0	Trading	N/A
SPV Project 158 S.R.L	Italy	Note 11	0	Trading	N/A
SPV Project 1608	Italy	Note 11	0	Trading	N/A
SPV Project 1713 S.R.L	Italy	Note 11	0	Trading	N/A
Vulcan SPV S.R.L	Italy	Note 11	0	Trading	N/A
Zeus Finance S.R.L	Italy	Note 10	0	Trading	N/A
PARR SH. P.K.	Albania	Note 13	20	Trading	WS
Strzala Sp. z o.o.	Poland	Note 14	100	Dormant	AG(H)L/AGL
Capquest Debt Recovery S.A (pty) Limited	South Africa	Note 15	100	Dormant	CDRL
AGHL Portugal Investments Holdings, S.A. (AGHLPIH)	Portugal	Note 16	100	Trading	AGIHL
Redrock Capital Partners, S.A.	Portugal	Note 17	100	Trading	AGHLPIH
Sandalgreen, Assets, S.A.	Portugal	Note 16	100	Trading	AGHLPIH
Whitestar Asset Solutions, S.A.	Portugal	Note 16	100	Trading	AGHLPIH
Hefesto STC, S.A.	Portugal	Note 16	100	Trading	AGHLPIH
Norfin Investimentos, S.A.(NISA)	Portugal	Note 18	100	Trading	AGHLPIH
Norfin SGFII	Portugal	Note 18	100	Trading	NISA
Norfin – Serviços, S.A	Portugal	Note 18	100	Trading	NISA
Sucesso Delicado, S.A.	Portugal	Note 16	100	Trading	AGHLPIH
Transitorysphere – Unipessoal LDA	Portugal	Note 16	100	Trading	AGHLPIH
Benefitpossibility – Unipessoal LDA	Portugal	Note 16	100	Trading	AGHLPIH
Every Possibilities – Unipessoal LDA (EPUL)	Portugal	Note 16	100	Trading	AGHLPIH
Esfera Civilizada SA	Portugal	Note 16	100	Trading	EPUL
Amstelveste Vastgoed B.V.	the Netherlands	Note 19	100	Trading	AGIHB/VFS
Arrow Global Investments Holdings Benelux B.V. (AGIHB)	the Netherlands	Note 19	100	Trading	AGIHL
Focum Groep B.V. (FG)	the Netherlands	Note 19	100	Trading	AGIHB
Focum Solutions B.V.	the Netherlands	Note 19	100	Trading	FG
Fiditon Holding B.V. (FH)	the Netherlands	Note 19	100	Trading	AGIHB
Focum Commerce B.V.	the Netherlands	Note 19	100	Trading	FG
Focum Finance B.V.	the Netherlands	Note 19	100	Trading	FG
Incassobureau Fiditon B.V.	the Netherlands	Note 19	100	Trading	FH
Universum Inkasso B.V. (UI)	the Netherlands	Note 19	100	Non-Trading	AGIHB
Vesting Finance Detachering B.V.	the Netherlands	Note 19	100	Trading	VFH
Vesting Finance Holding B.V. (VFH)	the Netherlands	Note 19	100	Trading	AGIHB
Vesting Finance Incasso B.V.	the Netherlands	Note 19	100	Trading	VFH
Vesting Finance Servicing B.V. (VFS)	the Netherlands	Note 19	100	Trading	AGIHB
Arrow Global Benelux (Holdings) B.V. (AGBH)	the Netherlands	Note 19	100	Trading	AGIHB
Spark Hypotheken B.V.	the Netherlands	Note 19	100	Trading	AGLH
KU88 B.V.	the Netherlands	Note 19	100	Trading	AGLH
Arrow Global Luxembourg (Holdings) S.á.r.l. (AGLH)	Luxembourg	Note 20	100	Trading	AGBH
Bow Advisers S.á r.l	Luxembourg	Note 21	100	Trading	ACML
Bow (SMA)Advisers S.á r.l	Luxembourg	Note 21	100	Trading	ACML
Bow (Co-invest)Advisers S.á r.l	Luxembourg	Note 21	100	Trading	ACML
Focum Belgium (BVBA)	Belgium	Note 22	100	Trading	AGIHB/FG

23. Investments in subsidiaries and associate *continued*

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 entity. The Group at times, must exercise judgement as to whether the combination of control and exposure to variability of returns arising from an entity means it is acting primarily as an agent, or as a principal for its own interests and should therefore consolidate the entity into the results of the Group. There have been no instances in the period where significant judgement was applied to reach a conclusion over whether or not an entity should be consolidated or not. The Group did not consolidate any entity which individually had material non-controlling interest balances, and as such, no further disclosure on non-controlling interests have been provided in this note.

Financial support given to structured entities

During the year, the Group issued no guarantees (2018: nil) to holders of notes issued by structured entities that the Group consolidates.

Notes	Registered addresses
Note 1	4th Floor, Fairfax House, Merrion Street, Leeds, LS2 8BX
Note 2	Belvedere, 12 Booth Street, Manchester M2 4AW
Note 3	Grand Canal House, 1 Grand Canal Street Upper, Dublin 4 D04 Y7R5
Note 4	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey
Note 5	27 Esplanade, St Helier, Jersey, JE1 1SG
Note 6	Via V. Betteloni 2, 20131 Milan
Note 7	Via Lanzone 31, 20123 Milan
Note 8	Via Niccolo Tommaseo 68, 35131 – Padova
Note 9	Via Pieve Torina, 44–46/a, 00156 Rome
Note 10	Foro Bonaparte 70, 20121 Milan
Note 11	Via A.Pestalozza 12/14, 20131 Milan
Note 12	Via G.Fara 26, 20124 Milan
Note 13	Kryqezimi i Rruges Irfan, Tomini me Bulevardin, Gjergj Fishta – Tirana
Note 14	Al. Jerozolimskie nr 148, 02–326, Warszawa
Note 15	Office Suite 15, Canal Edge 1, Tyger Waterfront, Carl Cronje Drive, Bellville, Western Cape, 7530, South Africa
Note 16	Edifício D. Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, 2770 203 Paço de Arcos, Portugal
Note 17	Edifício Q54 D. José, Rua Quinta do Quintã, nº1,Piso 0, Fracção B, Quinta da Fonte, Oeiras, Portugal
Note 18	Avenida da República, nº 35, 4º, 1050–186, Lisboa–Portugal
Note 19	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands
Note 20	15 Boulevard Friedrich Wilhelm Raiffeisen, L–2411 Luxembourg
Note 21	6D, route de Treves, L-2633 Senningerberg, Grand Duchy of Luxembourg
Note 22	Nijverheidsstraat 70, 2160 Wommelgem

Company: investment in subsidiaries	Arrow Global One Limited £000	Total £000
At 31 December 2018 and 31 December 2019	**307,500**	**307,500**

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

24. Portfolio investments

Split of portfolio investments by period:

	2019 £000	2018 £000
Expected falling due after one year	**916,123**	841,890
Expected falling due within one year	**247,501**	245,140
Total	**1,163,624**	1,087,030

Purchased portfolio investments

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

The movements in portfolio investments were as follows:

As at 31 December 2019

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

Transfer between categories represents positions where the Group has originally held one type of instrument relating to a portfolio, and subsequently increased or changed its interest in the portfolio, leading to the requirement to consolidate the underlying structure onto the Group's balance sheet. This leads to a change in the classification of the portfolio investment held. The 'portfolio restructure' represents the restructure of a leveraged structured deal to move to a de-levered position, and hence change the nature of the holding whilst extinguishing related liabilities. Note that for real estate inventories, which are not financial instruments, the collections figure above is analogous to total sales of inventories, and the net of collections and income from portfolio investments – real estate inventories, is analogous to cost of sales of inventories. Sales of inventories are accounted for as revenue under IFRS 15, as they are not financial instruments, but are presented alongside the other portfolio investments for ease of reference.

As at 31 December 2018

	Financial instruments			
	Amortised cost £000	FVTPL £000	Real estate inventories £000	Total £000
As at the year brought forward	920,578	30,889	–	951,467
Impact of adopting IFRS 9 at 1 January 2018	(93,734)	76,734	–	(17,000)
Brought forward after impact of adopting IFRS 9 opening adjustment	826,844	107,623	–	934,467
Portfolios purchased during the year	169,514	93,836	–	263,350
Portfolio additions from acquired entities	3,339	8,514	–	11,853
Collections in the year	(387,699)	(23,889)	–	(411,588)
Income from portfolio investments at amortised cost	188,862	5,070	–	193,932
Fair value gain on portfolio investments at FVTPL	–	24,745	–	24,745
Net impairment gain	50,727	–	–	50,727
Exchange and other movements	17,469	2,075	–	19,544
As at the year end	869,056	217,974	–	1,087,030

The impact of IFRS 9 shown above is pre-tax. The post-tax impact is £14,000,000. 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.

The estimated future cash flows generated by portfolio investments are the key estimates/judgements 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 2019 by £11,020,000 (31 December 2018: £10,870,000). Note that this sensitivity applies only to 'Amortised Cost' and 'FVTPL' portfolio investments, as this is not a critical estimate for Real Estate portfolio assets.

25. Risks arising from financial instruments

Risk management

Credit risk

The Group's principal activity is the acquisition and management of non-performing and non-core consumer and commercial unsecured, 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 ERCs 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 of debt types, also factoring in sale recoveries from collateral held on the secured portfolios. Further details of the forecasting process are given in note 4.ii.

A pricing credit committee is in place which includes at least two members of the executive committee 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.

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.

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.

Credit quality analysis

The Group's purchased portfolio investments have been classified as purchased or originated as credit impaired (POCI) as they include financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses (ECL) against POCI exposures are always calculated on a lifetime basis (cumulative changes in ECL since initial recognition), and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, any changes in lifetime ECL after initial recognition are recognised in profit or loss. The 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, interest rates 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 judgement 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'.

25. Risks arising from financial instruments *continued*

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.

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated the amounts in the table represent gross carrying amounts.

	Stage 1- 3 £000	POCI £000	Total £000	2018 £000
Portfolio investments – amortised cost	–	932,199	932,199	869,056
Loss allowance	–	N/A	N/A	N/A
Carrying amount	–	932,199	932,199	869,056

The following table sets out a geographical analysis of all portfolio investments:

All portfolio balances	2019 £000	2018 £000
UK and Ireland	452,584	468,786
Netherlands	157,350	168,025
Portugal	295,695	304,893
Italy	257,995	145,326
Total	1,163,624	1,087,030

The following table sets out further credit analysis for portfolio investments measured at amortised cost:

Amortised cost portfolio balances	Secured £000	Unsecured £000	Total £000	2018 £000
UK and Ireland	55,348	352,028	407,376	403,138
Netherlands	1,989	64,820	66,809	75,421
Portugal	87,506	162,388	249,894	300,694
Italy	95,244	112,876	208,120	89,803
Total	240,087	692,112	932,199	869,056

Portfolio balances are based on the customer's country of domicile.

The Group's maximum exposure to credit risk on portfolio investments is considered equal to the current carrying balance of such portfolio investments.

Information on collateral held against amortised cost secured loans

The following table stratifies credit exposures from secured portfolio investments held at amortised cost by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral is based on the most recent appraisals. LTV stratification is deemed a more relevant measure of the value of collateral held against secured loans than gross collateral values held, which may include an amount which is not due to the Group upon realisation. Comparative information for 2018 was not available in a comparable format.

LTV Ratio	2019 £000
Less than 50%	**89,119**
51-70%	**21,796**
71-90%	**16,986**
91-100%	**12,263**
More than 100%	**99,923**
Total	**240,087**

Other types of credit enhancements

In addition to the collateral included in the tables above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available

Assets obtained by taking possession of collateral

There have been no instances of financial or non-financial assets obtained by the Group during the year by taking possession of collateral held as security against portfolio investments.

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operation.

25. Risks arising from financial instruments *continued*

Significant increase in credit risk

There are no significant increases or decreases in credit risk since origination as all portfolio investments have been deemed to be purchased or originated credit impaired on initial recognition.

Cash and cash equivalents

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 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:

	2019 £000	2018 £000
Cash and cash equivalents	**88,765**	92,001

The table represents a worst-case scenario of the counterparty risk that the Group is exposed to. The 31 December 2019 balance is spread across a number of counterparties with the top five accounting for 57% of the total (2018: 72%). The maximum exposure to one counterparty is £16 million (2018: £47 million).

The cash and cash equivalents are held with banks and financial institution counterparties whose external credit ratings, by either S&P Global Ratings or Moody's Investor Service, are as follows:

	2019 %	2018 %
AA	**23**	–
A	**34**	59
Below A	**43**	41
Total cash and cash equivalents	**100**	100

Incorporation of forward looking information

Note 4 includes a description of how the future cash flows are estimated for the Group's portfolio investments. Additionally, the Group incorporates forward looking information in the measurement of portfolio investments held at amortised cost. The Group formulates six economic scenarios: a base case, which is the central scenario, developed based on consensus forecasts, and five less likely scenarios – two upside, one stagnation and two downside scenarios.

These scenarios are calculated by an external and independent macroeconomic forecasting company, and are reviewed internally before being used in the Group's models. To derive these scenarios, multiple sources of information are considered, including economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund, and selected private-sector and academic forecasts.

The Group has identified and documented key drivers of credit risk for its portfolio investments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key drivers for credit risk for portfolio investments are: CPI growth, price indices, unemployment rates and interest rates. For exposures to specific regions, the key drivers also include relevant real estate prices.

The Group estimates each key driver for credit risk over the active forecast period of four years. This is followed by a period of mean reversion of three years. A limitation of the approach which has been taken by the Group in estimating the impact of multiple economic scenarios is that the correlations between macro-economic variables and credit risk have been calculated using UK macro-economic data and UK historic portfolio performance but applied to the wider population of amortised cost portfolios held across Europe. The exception to this is in Portugal for secured assets, where specific correlations between Portuguese HPI and credit risk have been calculated and used. Despite such limitations, the Group believes that this approach provides a materially correct estimate of the impact of future economic scenarios across the Group.

25. Risks arising from financial instruments *continued*

The economic scenarios used as at 31 December 2019 included the following key indicators for the UK (unemployment rates, interest rates, CPI growth, HPI growth) and Portugal (house prices) for the years ending 31 December 2019 to 2023.

UK	Scenario	Probability	2019	2020	2021	2022	2023
Unemployment rates	Base	50%	**3.8%**	3.8%	3.7%	3.7%	3.6%
	Upside	10%	**3.8%**	3.3%	2.4%	2.0%	1.9%
	Mild upside	10%	**3.8%**	3.7%	3.3%	3.3%	3.2%
	Stagnation	10%	**3.8%**	4.5%	5.2%	5.8%	5.8%
	Downside	10%	**3.8%**	4.5%	5.3%	6.0%	6.0%
	Severe downside	10%	**3.8%**	4.6%	5.6%	6.3%	6.4%
Interest rates	Base	50%	**0.8%**	0.7%	1.0%	1.2%	1.5%
	Upside	10%	**0.8%**	1.4%	2.1%	2.5%	3.0%
	Mild upside	10%	**0.8%**	1.1%	1.6%	2.0%	2.3%
	Stagnation	10%	**0.8%**	0.5%	0.4%	0.8%	1.0%
	Downside	10%	**0.8%**	0.3%	0.3%	0.5%	0.8%
	Severe downside	10%	**0.8%**	0.2%	0.1%	0.1%	0.3%
CPI growth	Base	50%	**1.8%**	1.6%	1.5%	1.8%	1.9%
	Upside	10%	**1.8%**	2.4%	3.1%	2.9%	1.9%
	Mild upside	10%	**1.8%**	2.1%	2.4%	2.5%	1.8%
	Stagnation	10%	**1.8%**	1.1%	0.5%	1.3%	1.8%
	Downside	10%	**1.8%**	0.9%	0.1%	1.1%	1.8%
	Severe downside	10%	**1.8%**	0.6%	(0.5%)	0.8%	1.9%
HPI growth	Base	50%	**1.0%**	2.0%	2.5%	3.1%	3.4%
	Upside	10%	**1.0%**	10.6%	8.1%	11.1%	3.0%
	Mild upside	10%	**1.0%**	7.0%	5.6%	8.4%	3.1%
	Stagnation	10%	**1.0%**	(4.3%)	(3.8%)	(1.3%)	3.8%
	Downside	10%	**1.0%**	(7.1%)	(6.5%)	(4.0%)	4.0%
	Severe downside	10%	**1.0%**	(11.6%)	(11.6%)	(9.4%)	4.4%
Portugal			2019	2020	2021	2022	2023
House prices	Base	50%	**9.6%**	2.8%	2.2%	2.3%	2.4%
	Upside	10%	**9.6%**	13.8%	7.7%	6.6%	2.0%
	Mild upside	10%	**9.6%**	9.8%	5.8%	5.1%	2.1%
	Stagnation	10%	**9.6%**	(1.7%)	(0.4%)	0.1%	2.5%
	Downside	10%	**9.6%**	(4.1%)	(2.0%)	(1.3%)	2.7%
	Severe downside	10%	**9.6%**	(8.2%)	(4.7%)	(3.8%)	2.9%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 years. Where correlations have not been calculated for a specific country in which the Group operates, the closest comparable correlation from another country is used.

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 Asset and Liability committee, which is chaired by the Group chief financial officer, and is empowered to take decisions within that delegated authority. Treasury activities and compliance with treasury policies are reported to the board on a regular basis and are subject to periodic independent reviews and audits, both internal and external. Treasury policies are designed to manage the main financial risks faced by the Group in relation to funding and liquidity risks, counterparty credit risk and market risks being interest rate risk and foreign currency risk. This is to ensure the Group is properly funded, that financial counterparties are of appropriate credit quality and that interest rate and currency risks are 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 2019 (2018: £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.

25. Risks arising from financial instruments *continued*

Liquidity risk *continued*

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 and cash and cash equivalents to meet contractual maturities on borrowing facilities plus an operational headroom. In addition, the Group aims to ensure that leverage is within the target range of 3.0 to 3.5 times, there is an appropriate refinancing profile with phased maturity dates and it has diversified funding sources with no over-reliance on a single or small group of lenders or type of funding. At 31 December 2019, the Group's senior secured notes, revolving credit facility and asset backed security transaction had an average period to maturity of 4.8 years (2018: 5.8 years). Total cash and undrawn facilities as at 31 December 2019 were £153 million (2018: £131 million).

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 regular cash receipts and portfolio purchases (except forward flows) are discretionary, which helps to mitigate liquidity risk.

The key measure used by the Group for managing liquidity risk is liquidity headroom, which includes cash and cash equivalents and the headroom under the two committed facilities, being the revolving credit facility and the asset backed security facility. Details of the liquidity headroom as at the reporting date and during the reporting period were as follows.

	2019 £000	2018 £000
At 31 December	**152,874**	131,000
Average for the period	**138,061**	184,000
Maximum for the period	**198,888**	273,000
Minimum for the period	**109,257**	130,000

Maturity analysis

The table below sets out the remaining contractual maturities of the Group's financial liabilities and financial assets and includes both interest and principal cash flows, payable over the contractual life of the non-derivative financial liabilities.

Group As at 31 December 2019	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	**21,037**	**123,922**	**31,206**	**23,413**	**1,018**	**200,596**
Lease liabilities	**23**	**5,194**	**4,347**	**9,267**	**5,029**	**23,860**
€400 million secured senior note (2.875% plus 3-month EURIBOR)	**842**	**9,103**	**9,918**	**29,780**	**341,840**	**391,483**
€285 million secured senior note (3.75% plus 3-month EURIBOR)	**–**	**9,242**	**9,217**	**27,676**	**253,126**	**299,261**
£320 million secured senior note (5.125%)	**–**	**16,445**	**16,400**	**363,763**	**–**	**396,608**
Revolving credit facility[1]	**498**	**5,385**	**5,867**	**246,409**	**–**	**258,159**
Asset-backed securitisation	**276**	**2,979**	**15,071**	**78,393**	**–**	**96,719**
Other borrowings	**–**	**2,695**	**41**	**936**	**–**	**3,672**
Bank overdrafts	**1,386**	**–**	**–**	**–**	**–**	**1,386**
Total financial liabilities	**24,062**	**174,965**	**92,067**	**779,637**	**601,013**	**1,671,744**
Financial asset by type:						
Cash and cash equivalents	**88,765**	**–**	**–**	**–**	**–**	**88,765**
Portfolio investments (excluding REOs)	**31,420**	**339,856**	**324,294**	**691,327**	**324,406**	**1,711,303**
Total financial assets	**120,185**	**339,856**	**324,294**	**691,327**	**324,406**	**1,800,068**

1. Reflects all drawings at 31 December 2019 being held to the facility maturity date of 4 January 2024.

25. Risks arising from financial instruments *continued*

Group As at 31 December 2018	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	–	145,181	26,255	12,426	13,795	197,657
Lease liabilities	–	–	–	–	–	–
€400 million secured senior note (2.875% plus 3-month EURIBOR)	890	9,676	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
Other borrowings	–	8,978	2,978	–	–	11,956
Bank overdrafts	2,696	–	–	–	–	2,696
Revolving credit facility[1]	743	8,703	10,195	268,317	–	287,958
Total financial liabilities	4,329	198,738	78,595	411,498	1,013,048	1,706,208
Financial asset by type:						
Cash and cash equivalents	92,001	–	–	–	–	92,001
Portfolio investments (excluding REOs)	16,834	199,371	198,339	285,807	934,434	1,634,785
Total financial assets	108,835	199,371	198,339	285,807	934,434	1,726,786

1. Reflects all drawings at 31 December 2018 being held to the facility maturity date of 2 January 2023.

The above tables includes a maturity analysis for financial assets that it holds as part of managing liquidity risk – e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities – to enable the user to evaluate the nature and extent of the Group's and the Company's liquidity risk

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents which can be readily used to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with other banks.

The non-derivative financial liabilities and financial assets are calculated based upon the undiscounted cash flows, which include estimated interest payments. 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.

Company As at 31 December 2019	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	489	1,518	–	–	–	2,007
Total financial liabilities	489	1,518	–	–	–	2,007
Financial asset by type:						
Cash and cash equivalents	18	–	–	–	–	18
Total financial assets	18	–	–	–	–	18

Company As at 31 December 2018	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	–	2,251	–	–	–	2,251
Total financial liabilities	–	2,251	–	–	–	2,251
Financial asset by type:						
Cash and cash equivalents	8	–	–	–	–	8
Total financial assets	8	–	–	–	–	8

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 into certain forward flow agreements to which it has committed to pay an estimated £24,600,000 (2018: £6,257,000) over the next five years.

25. 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:

	2019		2018	
	Outflow £000	Inflow £000	Outflow £000	Inflow £000
Not later than one month	**84**	**–**	63,392	63,512
Later than one month and not later than six months	**135**	**–**	48,254	48,224
Later than six months and not later than one year	**217**	**–**	57	5
Later than one year and not later than two years	**79**	**–**	4	3
Later than two years and not later than five years	**–**	**–**	–	–
	515	**–**	111,707	111,744

The above table shows the gross contractual undiscounted cash flows receivable and payable on the derivative financial instruments.

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 derivative financial instruments are held across a number of counterparties; the largest net cash flow exposure to a single counterparty at 31 December 2019 is £0.2 million (2018: £0.3 million).

Financial assets pledged as collateral

On 30 April 2019, the Group entered into a £100 million non-recourse committed asset backed securitisation facility with an advance rate of 55% of 84-month ERC.

On the same date, the Group sold £137 million of ERC into AGL Fleetwood Limited, a wholly owned Arrow Global Group subsidiary, and borrowed an initial amount of £75 million non-recourse funding at Libor plus 3.1%, under the facility. The assets of AGL Fleetwood Limited are pledged as security against the non-recourse funding.

On 31 July 2019, the Group sold a further £44 million of ERC into AGL Fleetwood Limited and subsequently borrowed an additional £25 million non-recourse funding on the same terms under the facility. The facility has a five year term comprising an initial two year revolving period followed by a three year amortising period with an option to extend the revolving period by one year, subject to lender consent.

As at 31 December 2019, the Group had pledged £94.2 million (2018: £nil) of portfolio investments as security in connection with the non-recourse committed asset backed securitisation.

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 and are considered further below. Note that the Group does not hold any trading portfolios for the purposes of these disclosures.

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:

	2019 £000	2018 £000
Fixed-rate instruments		
Financial liabilities	**320,000**	320,000
	320,000	320,000
Variable-rate instruments		
Financial assets	**(88,765)**	(92,001)
Financial liabilities	**912,855**	861,153
Effect of interest-rate swaps	**(340,237)**	(453,811)
Net-variable rate	**483,853**	315,341

If interest rates across all countries of operation increased by 50 basis points this would have the following impact:

	2019 £000	2018 £000
Increase in fair value of derivatives taken to equity	**470**	1,134
Reduction in profit before taxation	**(1,369)**	(849)

25. Risks arising from financial instruments *continued*

This sensitivity analysis is based on the following assumptions:

- the change in market interest rates occurs in all countries where the Group has borrowings and/or derivative financial instruments;
- where financial liabilities are subject to fixed interest rates or have their interest rate fixed by hedging instruments it is assumed that there is no impact from a change in interest rates; and
- changes in market interest rates affect the fair value of derivative financial instruments.

Currency risk

The Group is subject to three types of currency risk: cash flow exposure, net asset exposure and income statement exposure.

Cash flow exposure

The Group is subject to currency risk in respect of future cash flows which are denominated in foreign currency. The policy of the Group is to hedge a large proportion of this currency risk in respect of cash flows which are highly likely 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. This risk is managed by the Group matching Euro asset purchases with Euro funding wherever possible, to achieve an element of natural hedging.

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	2019 £000	2018 £000
Currency		
Euro (EUR)	**21,380**	10,097
	21,380	10,097

Net profit	2019 £000	2018 £000
Currency		
Euro (EUR)	**9,800**	6,837
	9,800	6,837

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	2019 £000	2018 £000
Currency		
Euro (EUR)	**(17,493)**	(8,621)
	(17,493)	(8,621)

Net profit	2019 £000	2018 £000
Currency		
Euro (EUR)	**(8,018)**	(5,594)
	(8,018)	(5,594)

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).

25. Risks arising from financial instruments *continued*

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 but seeks to maintain leverage (calculated as Secured Net Debt over Adjusted EBITDA) of between 3.0 and 3.5 times.

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 cash, cash equivalents debt and equity.

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 2019 was:

	2019 £000	2018 £000
Ordinary share capital and premium	**349,205**	349,199
Other reserves excluding opening IFRS 9, IFRS 15 and IFRS 16 adjustments	**(150,866)**	(143,343)
Impact of adopting IFRS 9	**–**	(14,000)
Impact of adopting IFRS 15	**–**	(199)
Impact of adopting IFRS 16	**(947)**	–
Total equity and reserves	**197,392**	191,657

26. Financial assets and liabilities

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. The Group does not apply 'offsetting' to any of its financial assets and liabilities.

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

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

26. Financial assets and liabilities *continued*

	Mandatorily at FVTPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Total fair value £000
Portfolio investments	217,974	–	869,056	1,087,030	1,100,001
Cash and cash equivalents	–	–	92,001	92,001	92,001
Trade and other receivables classified as financial assets	–	–	88,779	88,779	88,779
Total financial assets	217,974	–	1,049,836	1,267,810	1,280,781

2018	Mandatorily at FVTPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Total fair value £000
Senior secured notes	–	–	941,109	941,109	864,835
Revolving credit facility	–	–	245,587	245,587	245,587
Bank overdrafts	–	–	2,696	2,696	2,696
Other borrowings	–	–	11,635	11,635	11,635
Derivative liability	502	–	–	502	502
Trade and other payables classified as financial liabilities	38,455	–	105,085	143,540	143,540
Financial liabilities	38,957	–	1,306,112	1,345,069	1,268,795

Fair value estimation

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For instruments that trade infrequently and have little price transparency, fair value is less objective, and required judgement 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 the differences between the instruments.

Application to the Group's financial assets and liabilities

The fair value of amortised cost portfolio investments has been calculated by observing the compression in market yields over time and applying the difference between current average market IRRs for the Group's most recent vintage, and applying this as a premium or discount to prior years' vintages. This approach takes into account changes in market pricing factors over time, while retaining the consideration of the individual characteristics of each portfolio. As this calculation is based on unobservable inputs, these fair values would be categorised as level 3 values. The primary unobservable input to which this valuation is sensitive to is the current market rates for portfolios. A 1% rise/fall in this rate would lead to an uplift/reduction in fair value of £20,251,000/(£19,438,000).

The fair value of cash and cash equivalents and the revolving credit facility are deemed to be equal to their carrying amount, and is considered a level 1 fair value.

The carrying value of other receivables and payables classified as financial assets/liabilities is deemed to be a good approximation of their fair value, due to their short maturity and low credit risk. These would be considered as a level 3 fair values.

The carrying value of asset-backed loans is deemed to be a good approximation of their fair value. Given the significant collateral underpinning the asset-backed loans, it is deemed appropriate to not adjust the carrying value for expected credit losses when deriving the fair value of the loans. Additionally, the market rate is not deemed to have materially changed since the issuance of the asset-backed loans. The fair value would be categorised as a level 3 value.

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.

26. Financial assets and liabilities *continued*

Financial instruments measured at fair value – fair value hierarchy

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

Level 2	2019 £000	2018 £000
Liabilities:		
Foreign currency contracts	–	(294)
Interest rate swaps	**509**	796
	509	502
Level 3		
Assets:		
Portfolio investments	**169,799**	217,974
	169,799	217,974
Liabilities:		
Contingent consideration	**(12,549)**	(38,455)
	157,250	179,519

There have been no transfers between level 2 or level 3. However, in the year it has been determined that contingent consideration liabilities qualify as level 3 financial liabilities held at FVTPL. As such, they are now included within this disclosure.

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 2019.

Total gains on portfolio investments recognised at FVTPL have been presented in the income statement as 'Fair value gains on portfolio investments at FVTPL'. The fair value of portfolio investments recognised as FVTPL has been calculated by using a discounted cash flow model. The significant unobservable inputs used in the calculation of portfolio investments categorised as Level 3 In the fair value hierarchy are estimated future cash flows (ERCs), derived from management forecasts and the discount rate appropriate to the investment and the anticipated rate of return.

The total 84 month ERC value for the Group's portfolio investments held at FVTPL is £255,844,000, with an average discount rate of 12.4%. An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at FVTPL of £1,698,000/(£1,698,000). An increase/decrease in the discount rate of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at FVTPL of (£5,325,000)/£5,637,000.

The total ERC value for the Group's portfolio investments held at amortised cost is ££1,428,163,000, with an average discount rate of 22.9%. An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at amortised costs of £9,322,000/(£9,322,000). An increase/decrease in the discount rate of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at amortised of (£14,114,000)/£14,613,000. A full reconciliation between the opening and closing portfolio investments held at FVTPL has been provided in note 24. For a fuller description of how the future cash flows are estimated, please refer to note 4.

Reconciliation of Level 3 fair values – contingent consideration

Contingent consideration – Level 3	2019 £000	2018 £000
As at the year brought forward	**38,455**	18,502
Additional liabilities entered into in the period	**4,300**	20,130
Fair value adjustments	**(21,119)**	(167)
Consideration repaid in the year	**(8,678)**	–
Foreign exchange gain	**(409)**	(10)
	12,549	38,455

Contingent consideration has arisen as a result of business combinations in the prior periods. In the current period, the contingent consideration was remeasured, partly due to the renegotiation of the terms of the deferred consideration in the period. Of the closing balance, €10 million relates to the acquisition of Norfin and has a minimum/maximum pay-out of €5 million/€10 million. The remainder relates to the acquisition of Drydens, with a minimum/maximum pay-out of £nil/£5 million.

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.

26. Financial assets and liabilities *continued*

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts and exposure to currency rate fluctuations. The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2019 is £nil (2018: £35,300,000). As at 31 December 2018, these comprise foreign currency contracts to sell Sterling and purchase Euros for a total notional of £35,300,000 and had maturity dates to March 2019. These contracts were designated and were effective as cash flow hedges under IFRS 9 and, accordingly, the fair value thereof was deferred in equity and the fair value recycled to the statement of profit or loss and other comprehensive income during 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. During the year, £8,000 (2018: £1,202,000) 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 and an amount of £100,000 has been charged to equity for the Group in the period in respect of cash flow hedges (2018: £291,000).

Level 3	2019 £000	2018 £000
Assets:		
Portfolio investments – amortised cost	**932,199**	869,056
Total assets	**932,199**	869,056

There have been no transfers in or out of level 3. However, in the year it has been determined that deferred consideration liabilities qualify as level 3 financial liabilities held at amortised cost. As such, they are now included within this disclosure. 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 internal model. For a fuller description of how the future cash flows are estimated, please refer to note 4. Following acquisition, the fair value will move directionally in line with carrying amount but may deviate as market conditions change.

The Group has an established control framework covering the measurement of portfolio investment carrying 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 24.

The Company did not hold any other financial instruments not measured at fair value for which a fair value needs to be calculated (2018: none).

Derivatives designated as cash flow hedges

	2019		2018	
Instrument type	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate derivatives	–	**509**	–	796
Foreign exchange contracts	–	–	294	–
Total derivatives designated as cashflow hedges	–	**509**	294	796

Interest rate hedging

The Group has Euro interest rate swaps, which hedge floating 3 month Euribor with a zero percent floor to a fixed rate and have been designated as cash flow hedges, in place for a Sterling equivalent notional amount of £340,237,000 (2018: £453,811,000). In 2018 and 2019, these interest rate swaps covered current borrowings, being the floating rate senior secured Euro notes. An amount of £286,000 has been credited to equity for the Group in the period in respect of cash flow hedges (2018: £291,000 charge). All hedge relationships have been effective in the year and are expected to maintain effectiveness.

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 and no charge has been made to the statement of profit or loss and other comprehensive income in the year (2018: no charge). No re-classifications into or out of the hedging reserve were made in relation to interest rate swaps.

The Company did not hold any interest rate swaps at 31 December 2019 (31 December 2018: £nil). No charge has been made to the Company's equity.

The calculation methodology of Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority granted authorisation with respect to Euribor under the European Union Benchmarks Regulation. This allows market participants to continue to use Euribor after 1 January 2020 for both existing and new contracts. The Group expects that Euribor will continue to exist as a benchmark rate for the foreseeable future. The Group does not anticipate changing the hedged risk to a different benchmark. For these reasons, the Group does not consider its cash flow hedges of the Euribor benchmark interest rate to be directly affected by the interest rate benchmark reform at 31 December 2019. No hedge relationships have any exposure to LIBOR.

26. Financial assets and liabilities *continued*

At 31 December 2019, the Group held the following instruments to hedge exposures to changes in interest rates.

Interest rate risk	Less than 1 year	1-5 years
Interest rate swaps		
Nominal amount (£000)	187,130	153,107
Average fixed interest rate	0.19%	0.05%

Reconciliation of components of equity

Reconciliation of components of equity	Hedging reserve £000	Translation reserve £000
Balance at 1 January 2019	**(584)**	**9,214**
Cash flow hedges		
Effective portion of changes in fair value:		
Interest rate risk	287	–
EUR foreign currency risk	(100)	–
Related tax	(33)	–
Net amount reclassified to profit or loss:		
EUR foreign currency risk	8	–
Related tax	(1)	–
Foreign currency translation differences for foreign operations	–	(7,077)
Balance at 31 December 2019	**(423)**	**2,137**

27. Unconsolidated structured entities

Unconsolidated structured entities are all structured entities that the Group has an interest in, but does not control. The Group uses structured entities in the normal course of business to facilitate acquisitions of portfolios in accordance with local law, to allow co-investment with other parties, or to implement the financing required to acquire portfolios.

In addition to exposures to unconsolidated structured entities, the Group also undertakes Asset Management and Servicing activities for certain structured entities in which the Group has no other interests. Such activities are charged at a market rates, on terms normal for the industry, and are considered to be a typical customer/supplier relationship per the meaning of this term set out in 'IFRS 12 – Disclosure of Interests in Other Entities'.

Nature and risks associated with Group interests in unconsolidated structured entities:

Geography of operations

Underlying asset type	UK and Ireland	Portugal	Italy	Netherlands
Loan receivables	1	6	5	4
Real estate	–	1	–	2
Number of entities as at 31 December 2019	**1**	**7**	**5**	**6**

Portfolio investments	UK and Ireland	Portugal	Italy	Netherlands
FVTPL	4,203	18,864	12,070	89,451
Amortised cost	–	2,976	6,080	2,008
Total assets as at 31 December 2019	**4,203**	**21,840**	**18,150**	**91,459**
Total liabilities as at 31 December 2019	**–**	**–**	**–**	**–**

The maximum exposure to loss is the carrying value of the instruments summarised above, due to the nature of the Group's holdings at the fact that no additional support has been provided or committed to the vehicles.

Unconsolidated structured entities in which the Group holds an interest are typically financed by a form of junior profit participation note, and in some instances also have senior secured or senior unsecured liabilities to which the junior positions are subordinated.

2018 Comparative:

Geography of operations

Underlying asset type	UK and Ireland	Portugal	Italy	Netherlands
Loan receivables	1	4	5	4
Real estate	–	–	–	2
Number of entities as at 31 December 2019	**1**	**4**	**5**	**6**

27. Unconsolidated structured entities *continued*

Portfolio investments	UK and Ireland	Portugal	Italy	Netherlands
FVTPL	3,504	3,899	12,202	88,021
Amortised cost	–	25,170	7,472	4,492
Total assets as at 31 December 2019	**3,504**	**29,069**	**19,674**	**92,513**
Total liabilities as at 31 December 2019	**–**	**–**	**–**	**–**

28. Share-based payments – Group and Company

Share incentive plan (SIP)

In 2019 (and previously April 2018, 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 in 2017, with restrictions attached to these shares ceasing to have effect from the vesting date.

Long-term incentive plan (LTIP)

On 20 June 2019, nil-cost share options were granted to eligible employees based on a maximum of 200% of base salary. The LTIP awards vest at the end of three years subject to the achievement of performance conditions. On the same dates, tax-qualifying options were granted as part of the LTIP awards ('CSOP options') to eligible UK employees.

On 27 June 2018, 31 March 2017, 8 April 2016 and 19 May 2016, 30 June 2015 and 15 June 2015, nil-cost share options were granted to eligible employees based on a maximum of 150% of base salary. The LTIP awards vest at the end of three years subject to the achievement of performance conditions. On the same 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. Awards granted on or after 27 June 2018 awards do not include the right to receive a dividend equivalent.

2019 LTIP award criteria

For each eligible employee, 50% of the LTIP awards are subject to the following ROE criteria:

Performance condition	Percentage vesting
Less than 24% Average ROE over three performance years	0%
24% average ROE over the three performance years (threshold performance)	25%
30% average ROE over the three performance years (maximum performance)	100%
Between 24% and 30% average ROE over the three performance years	Between the threshold performance and maximum performance on a straight line basis

For each eligible employee, 25% of the LTIP awards are subject to the following total shareholder return criteria, being share price growth plus the value of dividend. The Group is compared against the FTSE 350 Index.

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

For each eligible employee, 25% of the LTIP awards are subject to the following FCF performance conditions:

Performance condition	Percentage vesting
Between 24% and 30% average ROE over the three performance years	0%
£715 million cumulative FCF over the three performance years (threshold performance)	25%
£757 million cumulative FCF over the three performance years (maximum performance)	100%
Between £715 million and £757 million cumulative FCF over the three performance years	Between the threshold performance and maximum performance on a straight line basis

28. Share-based payments – Group and Company *continued*

LTIP Awards 2015, 2016, 2017 and 2018 criteria

For each eligible employee, 50% of the LTIP awards are subject to the following underlying basic EPS growth criteria:

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

LTIP Awards 2015, 2016, 2017 and 2018 continued

For each eligible employee, 25% of the LTIP awards are subject to the following total shareholder return criteria, being share price growth plus the value of dividend. The Group is compared against the FTSE 350 Index.

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

For each eligible employee, 25% of the LTIP awards are subject to the following ROE criteria:

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

For each eligible employee, 25% of the LTIP awards are subject to the following ROE criteria:

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

Restricted share awards

Restricted share awards were made on 10 May 2019 and 10 May 2018. These awards vest on 10 May 2021 and 10 May 2020 respectively, subject to continuity of employment. Awards made on 31 March 2017, 19 May 2016 and 15 June 2015 vested on 31 March 2019, 19 May 2018 and 11 May 2017 respectively.

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 26 March 2019, 27 March 2018, 31 March 2017, 8 April 2016 and 9 April 2015. See page 89 for details of the bonus delivered in the form of deferred shares for the financial year 2019.

The deferred shares granted on 9 April 2015 and 8 April 2016 vested on 9 April 2018 and 8 April 2019 respectively.

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, in connection with Paul Cooper's resignation the awards which were due to vest in 2020 and 2021 lapsed.

28. Share-based payments – Group and Company *continued*

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 – SIP	Equity	16,676	3 years (rolling)	May-June 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 – DSBP	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 – LTIP	Equity	2,107,612	3 years	22 June 2022
Equity settled award – restricted	Equity	359,934	2 years	10 May 2021
Equity settled award – SIP	Equity	103,981	3 years rolling	May-June 2022
Equity settled award – DSBP	Equity	132,737	3 years	26 March 2022

28. Share-based payments – Group and Company *continued*

The following table shows the weighted average exercise prices (WAEP)/fair values (FV) and number of options movements during the year.

	2019		2018	
	WAEP/FV	Number of options	WAEP/FV	Number of options
Outstanding at the beginning of the year	**2.88**	**5,177,072**	£2.90	4,076,095
Granted during the year	**2.24**	**2,704,265**	£2.73	2,350,193
Forfeited during the year	**2.68**	**(1,265,351)**	£2.88	(436,320)
Exercised during the year	**2.86**	**(975,199)**	£2.59	(812,896)
Expired during the year	**2.66**	**(206,981)**	–	–
Outstanding at 31 December	**2.63**	**5,433,806**	£2.88	5,177,072
Exercisable at 31 December	**2.62**	**677,859**	£2.53	718,631

The weighted average price of shares exercised in the year was £2.12 (2018: £2.54). The share options outstanding at 31 December 2019 have a weighted average contractual life of 1.4 years (2018: 1.3 years) and an exercise price in the range of £1.84 to £2.57. The weighted average fair value of options granted during the year was £2.15 (2018: £2.61). The majority of options granted to date are nil-cost options (2018: 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	20 June 2019	10 May 2019	10 May 2019	26 March 2019
Expected life of options (years)	**3**	**2**	**3**	**3**
Share prices at date of grant	**£2.31**	**£1.94**	**£2.17**	**£2.04**
Expected share price volatility (%)	**43.1%**	**n/a**	**n/a**	**n/a**
Risk free interest rate (%)	**0.5%**	**n/a**	**n/a**	**n/a**

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

	2019 £000	2018 £000
Equity settled share-based payment expense spread across vesting period	**1,558**	3,267
Total equity settled share-based payment expense recognised in the statement of comprehensive income	**1,437**	3,267

Please see the directors remuneration report for further information about directors' share options.

29. Borrowings and facilities

	2019 £000	2018 £000
Senior secured notes net of transaction fees of £12,780,000 (2018: £14,769,000)	**897,875**	926,340
Revolving credit facility net of transaction fees of £3,720,000 (2018: £3,466,000)	**230,963**	242,121
ABS Loan net of transaction fees of £1,658,000 (2018: £nil)	**84,077**	–
Bank overdrafts	**1,386**	2,696
Other borrowings – Non-recourse facility	**3,672**	11,635
	1,217,973	1,182,792
Total borrowings:		
Amount due for settlement within 12 months	**257,500**	259,045
Amount due for settlement after 12 months	**960,473**	923,747

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.

The Euro senior notes and Sterling senior notes are secured by substantially all of the assets of the Group.

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.

On 26 February 2019, the revolving credit facility was extended to 2024, with no change in margin.

Asset backed securitisation

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

On 31 July 2019, the Group sold a further £44 million of ERC into AGL Fleetwood Limited and subsequently borrowed an additional £25 million non-recourse funding on the same terms under the facility. The facility has a five year term comprising an initial two year revolving period followed by a three year amortising period with an option to extend by one year, subject to lender consent.

29. Borrowings and facilities *continued*

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Senior secured notes £000	Asset backed-loans £000	Revolving credit facility £000	Lease liabilities £000	Deferred and contingent consideration £000	Other borrowings £000	Total liabilities relating to cash flow from financing activity £000
Balance at 31 December 2018	926,340	–	242,121	–	71,953	14,833	1,255,247
Changes from financing cash flows							
Net repayments on loans	–	–	(2,017)	–	–	(5,482)	(7,499)
Proceeds from issued notes (net of fees)	–	100,000	–	–	–	–	100,000
Redemption of issued notes	–	(14,396)	–	–	–	–	(14,396)
Repayment of interest on issued notes	(33,553)	(2,317)	–	–	–	–	(35,870)
Payments on finance leases	–	–	–	(5,061)	–	–	(5,061)
Banking facility interest and other fees paid	–	–	(6,705)	–	–	(1,747)	(8,452)
Total changes from financing cash flows	**(33,553)**	**83,287**	**(8,722)**	**(5,061)**	**–**	**(7,229)**	**28,722**
Liability-related							
Interest expense on issued notes	36,071	2,274	–	–	–	–	38,345
Amortisation of capitalised transaction fees	2,161	235	876	–	–	–	3,272
Banking facility interest and other fees	–	–	6,976	–	–	(61)	6,915
Interest rate swap and hedge costs	–	–	–	–	–	515	515
Other interest including on finance leases	–	–	–	1,395	2,307	1,749	5,451
Total interest and similar charges	**38,232**	**2,509**	**7,852**	**1,395**	**2,307**	**2,203**	**54,498**
Recognition on initial application of IFRS 16	–	–	–	27,300	–	–	27,300
The effect of changes in foreign exchange rates	(32,971)	–	(8,414)	(130)	(1,806)	(318)	(43,639)
Other borrowings restructure	–	–	–	–	–	(13,161)	(13,161)
Capitalised transaction fees	–	(1,719)	(1,127)	–	–	–	(2,846)
Acquisition of subsidiary – other borrowings acquired	–	–	–	–	–	6,122	6,122
Impact of consolidation of subsidiary in the period – other borrowings	–	–	–	–	–	3,623	3,623
Revaluation of contingent consideration	–	–	–	–	(21,119)	–	(21,119)
Net deferred consideration commitments	–	–	–	–	41,981	–	41,981
Other changes	(173)	–	(747)	–	–	(506)	(1,426)
Total liability-related changes	**(33,144)**	**(1,719)**	**(10,288)**	**27,170**	**19,056**	**(4,240)**	**(3,165)**
Balance at 31 December 2019	**897,875**	**84,077**	**230,963**	**23,504**	**93,316**	**5,567**	**1,335,302**

The tables above and below have been represented to show additional detail, and to more easily allow reconciliation of the information to the cash flow statement, income statement and the opening and closing balance sheet.

Other borrowings

	2019 £000	2018 £000
Other borrowings	**3,672**	11,635
Bank overdrafts	**1,386**	2,696
Derivative liability	**509**	502
	5,567	14,833

30. Acquisition of subsidiary undertaking

Current year acquisitions

a. Drydens Limited (Drydens)

On 8 April 2019, the Group acquired 100% of the share capital of Drydens. Drydens is a provider of legal services, the acquisition of which will broaden the Group's UK range of servicing capabilities and skills across consumer and commercial litigation, probate and insolvency. The total undiscounted consideration for the acquisition is £11,115,000 including deferred and contingent consideration.

Contingent consideration is payable at various times within two years from completion of the transaction upon the satisfaction of three mutually exclusive conditions which are based upon the business achieving certain targets around future volumes and the successful migration of Group accounts. The targets for contingent consideration are not linked to the post-acquisition employment status of the sellers, and is not considered to be a post-employment benefit arrangement with the former owners.

Of the £4,262,000 contingent consideration the gross undiscounted amounts are made up as follows:

- Up to £2,000,000 is contingent upon the successful migration of Arrow accounts. The payment range could be anywhere between £nil and £2,000,000 with the final amount to be agreed upon in April 2020;
- Up to £2,000,000 is contingent upon the performance of Arrow placed accounts against the jointly agreed business plan. The payment range could be anywhere between £nil and £2,000,000 with the final amount to be agreed upon in April 2021; and
- £1,000,000 is contingent upon winning Proceeds of Crime Act servicing deal from the UK Government before 8 April 2020. If the deal is not won the payment is forfeited.

Effect of the acquisition

The fair values of the identifiable assets acquired and liabilities assumed are as set out in the table below. Acquisition related costs are expensed in the profit or loss in the reporting period:

	Total £000
Property, plant and equipment	954
Intangible assets	688
Deferred tax asset	146
Cash and cash equivalents	15
Trade and other receivables	1,983
Trade and other payables	(723)
Deferred tax liability	(131)
Current tax liability	(277)
Provisions	(59)
Lease liability	(760)
Loan liability	(6,122)
Total identifiable net liabilities	**(4,286)**
Goodwill on acquisition	14,519
	10,233
Consideration:	
Cash	2,865
Deferred consideration	3,106
Contingent consideration	4,262
	10,233
Cash impact of acquisition in the period:	
Cash consideration	2,865
Cash and cash equivalents acquired	(15)
	2,850

An intangible asset of £688,000 has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from existing customer relationships. The gross contractual outstanding amounts of 'trade and other receivables' was materially equal to their carrying amount, with no material balances not expected to be collected upon.

Goodwill of £14,519,000 was created as a result of this acquisition. The primary reason for the acquisition was to broaden the Group's range of servicing capabilities in the UK.

In the period from acquisition to 31 December 2019, Drydens contributed income of £3,650,000 and profit after tax contribution of £1,165,000 to the consolidated results for the period. If the acquisition had occurred on 1 January 2019, Group total income would have been higher by an estimated £1,167,000 and profit after tax would have been lower by an estimated £24,000.

30. Acquisition of subsidiary undertaking *continued*

Prior 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 liablilities	**(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

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. The gross contractual outstanding amounts of 'trade and other receivables' was materially equal to their carrying amount, with no material balances not expected to be collected upon.

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.

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
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. The gross contractual outstanding amounts of 'trade and other receivables' was materially equal to their carrying amount, with no material balances not expected to be collected upon.

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 funds under management (FUM) growth and margins achieved in the business by the end of 2020. If such targets are met, a share of the FUM over the performance threshold will be paid as contingent consideration in the first half of 2021.

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
Intangible assets	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 (£31,335,000) 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. The gross contractual outstanding amounts of 'trade and other receivables' was materially equal to their carrying amount, with no material balances not expected to be collected upon.

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*

The gross contractual outstanding amounts of 'trade and other receivables' was materially equal to their carrying amount, with no material balances not expected to be collected upon. 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.

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. Certain adjustments in respect of the fair value of the opening balance sheets acquired and the discounted fair value of consideration paid on EI and Norfin have been made in the period (see note 13). If any additional changes are required within this measurement period, these will be reflected in the 2020 half year results of the Group.

31. Notes to the statement of cash flows

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Profit after tax	**37,287**	29,969	**11,897**	154,298
Adjusted for:				
Collections in the year	**442,311**	411,588	**–**	–
Income from portfolio investments	**(199,655)**	(193,932)	**–**	–
Fair value gain on portfolios	**(32,397)**	(24,745)	**–**	–
Net impairment gain	**(12,714)**	(50,727)	**–**	–
Deferred consideration release	**(21,119)**	–	**–**	–
Depreciation and amortisation	**18,435**	14,235	**–**	–
Loss/(profit) on write off and disposal of property, plant and equipment	**1,419**	(731)	**–**	–
Loss on write off and disposal of intangible assets	**5,766**	508	**–**	–
Net interest payable	**53,103**	66,792	**–**	–
Lease liability interest	**1,395**	–	**–**	–
Foreign exchange gains/(losses)	**1,018**	(2)	**–**	–
Equity settled share-based payment expenses	**1,437**	3,267	**–**	–
Tax expense	**14,033**	10,022	**–**	–
Operating cash flows before movement in working capital	**310,319**	266,244	**11,897**	154,298
Decrease/(increase) in other receivables	**15,800**	(28,132)	**26**	(91)
Decrease/(increase) in amounts due to/from subsidiary undertakings	**–**	–	**10,858**	(130,029)
Increase in trade and other payables	**12,120**	15,645	**291**	198
Cash generated by operations	**338,239**	253,757	**23,072**	24,376
Income taxes and overseas taxation paid	**(14,036)**	(9,428)	**–**	(720)
Net cash flow from operating activities before purchases of portfolio investments	**324,203**	244,329	**23,072**	23,656
Purchase of portfolio investments	**(303,687)**	(263,350)	**–**	–
Net cash generated by/(used in) operating activities	**20,516**	(19,021)	**23,072**	23,656

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, as determined by management, 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. Judgement has been applied in determining which items are considered as 'adjusting' for the purpose of this metric.

	31 December 2019			31 December 2018		
	Reported £000	Adjustments £000	Underlying £000	Reported £000	Adjustments £000	Underlying £000
Income	**339,518**	**–**	**339,518**	361,796	–	361,796
Operating expenses						
Collection activity costs	**(109,798)**	**–**	**(109,798)**	(119,041)	1,080	(117,961)
Other operating expenses	**(123,902)**	**26,789**	**(97,113)**	(135,972)	22,676	(113,296)
Total operating expenses	**(233,700)**	**26,789**	**(206,911)**	(255,013)	23,756	(231,257)
Operating profit	**105,818**	**26,789**	**132,607**	106,783	23,756	130,539
Finance income	**61**	**–**	**61**	76	–	76
Finance costs	**(54,559)**	**–**	**(54,559)**	(66,868)	18,658	(48,210)
Underlying profit before tax	**51,320**	**26,789**	**78,109**	39,991	42,414	82,405
Taxation charge on underlying activities	**(14,033)**	**(4,056)**	**(18,089)**	(10,022)	(8,275)	(18,297)
Underlying profit after tax before non-controlling interest	**37,287**	**22,733**	**60,020**	29,969	34,139	64,108
Non-controlling interest	**(2,064)**	**–**	**(2,064)**	–	–	–
Underlying profit after tax	**35,223**	**22,733**	**57,956**	29,969	34,139	64,108
Underlying basic EPS (£)			**0.33**			0.37
Underlying tax rate			**23.2%**			22.2%

2019 adjusting items

Of the £26,789,000 adjusting items total in 2019, £15,220,000 relates to the Group's strategic simplification programmes, £10,112,000 relates to the expansion of the Group's Fund Management business, and £1,457,000 relates to costs incurred to facilitate the acquisition of Drydens Limited.

The Group's simplification programmes are considered to be adjusting items, as they comprise a series of actions which have incurred costs in the current period, which are not expected to recur in future periods. As such, they are not considered as part of the underlying performance of the Group. Of the £15,220,000 of spend related to the Group's strategic simplification programmes:

- £6,398,000 relates to the accelerated write-off and decommissioning of IT-related intangible assets;
- £3,459,000 relates to the costs of exiting employees from certain functions across the Group, including staff restructuring;
- £2,641,000 relates to the costs of exiting particular sites and small business lines across the Group;
- £1,567,000 relates to employee costs (including allocations of existing employees' costs) of executing and delivering the programme; and
- £1,155,000 relates to third-party advisory costs and other costs of delivering the programme.

The costs incurred in the expansion of the Group's Fund Management business are considered to be adjusting items, as a lot of this activity is being undertaken for the first time in the period, but is not expected to recur in future periods. As such, this expenditure is not considered representative of the underlying performance of the Group. Of the £10,112,000 of spend related to the expansion of the Group's Fund Management business:

- £6,897,000 relates to third-party advisory fees and sundry materials costs; and
- £3,215,000 relates to employee costs (including allocations of existing employees' costs) of working on this project.

Additional information (unaudited) *continued*

2018 adjusting items

Collection activity cost adjusting items relate to 'One Arrow' costs incurred during 2018.

Of the £42,414,000 adjusting items total in 2018, £18,658,000 related to bond refinancing costs, £14,717,000 were acquisition related costs, and £9,039,000 related to 'One Arrow' costs.

Of the £18,658,000 related to bond refinancing costs:

- £13,623,000 costs related to the call premium; and
- £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 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 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.

IFRS to cash result reconciliations

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.

As part of the Group's Investment Business, 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, and therefore 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.

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 applicable rate is the year-end carrying value of the portfolio investments. This movement of the portfolio investments is reflected as revenue 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.

Additional information (unaudited) *continued*

Movement in portfolio investments under IFRS reconciled to cash ERC

Total portfolio investments	IFRS £000	ERC 84-month £000	ERC 120-month £000	
Brought forward	1,087,030	1,634,786	1,972,130	ERC brought forward
Portfolios acquired during the year[1]	303,687	479,783	513,766	ERC acquired during the year
Collections in the year[2]	(442,311)	(442,311)	(442,311)	Collections in the year
Income from portfolio investments at amortised cost[3]	199,094	–	–	
Fair value gain on portfolio investments at FVTPL[4]	32,397	–	–	
Net impairment gain[5]	12,714	–	–	
Net income from real estate inventories	561	–	–	
Portfolio restructure	(13,161)	–	–	
Exchange and other movements	(16,387)	–	–	
		145,682	(8,164)	ERC roll forward and reforecast[6]
		1,817,940	**2,035,421**	**ERC carried forward**
Effect of discounting[7]		(654,316)		
Carried forward 31 December 2019	**1,163,624**	**1,163,624**		

Portfolio investments – amortised cost	IFRS £000	ERC 84-month £000	ERC 120-month £000	
Brought forward	869,056	1,391,786	1,606,329	ERC brought forward
Portfolios acquired during the year[1]	248,470	359,124	391,905	ERC acquired during the year
Collections in the year[2]	(390,734)	(390,734)	(390,734)	Collections in the year
Income from portfolio investments at amortised cost[3]	199,094	–	–	
Net impairment gain[5]	12,720	–	–	
Transfer between categories	11,483	12,570	12,570	
Portfolio restructure	(13,161)	–	–	
Exchange and other movements	(4,729)	–	–	
		53,770	(11,622)	ERC roll forward and reforecast[6]
		1,426,516	**1,608,448**	**ERC carried forward**
Effect of discounting[7]		(494,317)		
Carried forward 31 December 2019	**932,199**	**932,199**		

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 1 in the reconciliation of profit after tax to the cash result on page 173 for more detail on total income.
4. Fair value gain on portfolio investments at FVTPL represents net increases to carrying values, discounted to calculate the market interest rate of portfolio investments held at FVTPL as a result of reassessments to their estimated future cash flows.
5. Net impairment gain represents net increases to carrying values, discounted at the credit-adjusted EIR rate, of portfolio investments held at amortised cost as a result of reassessments to their estimated future cash flows.
6. The ERC roll forward and reforecast reflects management's updated estimation of future collections. It takes account of updated information on specific portfolios, the latest exchange rate and rolls forward the 84-month and 120-month forecast collection period.
7. Under IFRS, the carrying value of portfolio investments primarily includes 84-months of discounted cash flows, however we expect to see cash flows beyond this period and report a 120-month ERC also, as is customary for the industry.

Additional information (unaudited) *continued*

Reconciliation of profit after tax to the cash result

	Reported profit £000	Adjusting items[4] £000	Underlying profit after tax £000	Other items £000	Cash result £000	
Income from portfolio investments	199,655	–	199,655	242,656	442,311	Collections in the period
Fair value gains portfolio investments at FVTPL	32,397	–	32,397	(32,397)	–	
Net impairment gains	12,714	–	12,714	(12,714)	–	
Income from asset management and servicing	94,360	–	94,360	–	94,360	Income from asset management and servicing
Other income	392	–	392	–	392	
Total income[1]	339,518	–	339,518	197,545	537,063	
Total operating expenses	(233,700)	26,789	(206,911)	(102)[2]	(207,013)	Cash operating expenses
Operating profit	105,818	26,789	132,607	197,443	330,050	Adjusted EBITDA[5]
Net finance costs	(54,498)	–	(54,498)	12,936[3]	(41,562)	
Profit before tax	51,320	26,789	78,109	210,379	288,488	
Taxation charge on ordinary activities	(14,033)	(4,056)	(18,089)	4,053	(14,036)	
Profit after tax	37,287	22,733	60,020	214,432	274,452	
					(13,099)	Capital expenditure
					261,353	**Free Cash Flow**[7]
					(176,064)	Replacement rate[6]
					85,289	**Cash result**[4]

1. 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.
2. Includes non-cash items including depreciation and amortisation, share-based payment charges and FX.
3. Non-cash amortisation of fees and interest.
4. The cash result is viewed on an underlying basis which excludes certain items. See underlying profit after tax table on page 170. 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 on page 170.
5. 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 174 for detailed reconciliations of adjusted EBITDA.
6. Replacement rate is the rate of portfolio investments purchases, at our target portfolio returns, required during the next 12 months to maintain the 84-month ERC as at 31 December 2019.
7. Free cash flow is the adjusted EBITDA after the effect of capital expenditure and working capital movements.

Reconciliation of net cash flow to adjusted EBITDA	31 December 2019 £000	31 December 2018 £000
Net cash flow used in operating activities	**20,516**	(19,021)
Purchases of portfolio investments	**303,687**	263,350
Income taxes paid	**14,036**	9,428
Working capital adjustments	**(27,920)**	12,487
Amortisation of acquisition and bank facility fee	**127**	273
Proceeds from sale of property	**–**	3,759
Write off and disposal of intangible asset and property plant and equipment	**(7,185)**	–
Acquisition costs	**–**	14,717
'One Arrow' costs	**–**	9,039
Adjusting items	**26,789**	–
Adjusted EBITDA	**330,050**	294,032
Reconciliation of core collections to adjusted EBITDA		
Income from portfolio investments including fair value and impairment gains	**244,766**	269,404
Portfolio amortisation	**197,545**	142,184
Core collections (includes proceeds from disposal of portfolio investments)	**442,311**	411,588
Other income	**94,752**	91,661
Operating expenses	**(233,700)**	(255,013)
Depreciation and amortisation	**18,435**	14,235
Foreign exchange losses/(gains)	**1,018**	(2)
Amortisation of acquisition and bank facility fees	**127**	273
Proceeds from sale of property	**–**	3,759
Deferred consideration release	**(21,119)**	–
Disposal of intangible asset	**–**	508
Share-based payments	**1,437**	3,267
Acquisition costs	**–**	14,717
'One Arrow' costs	**–**	9,039
Adjusting items	**26,789**	–
Adjusted EBITDA	**330,050**	294,032
Reconciliation of operating profit to adjusted EBITDA		
Profit after tax for the year	**37,287**	29,969
Underlying finance income and costs	**54,498**	48,134
Taxation charge on ordinary activities	**14,033**	10,022
Adjusting finance costs	**–**	18,658
Operating profit	**105,818**	106,783
Portfolio amortisation	**197,545**	142,184
Depreciation and amortisation	**18,435**	14,235
Foreign exchange losses/(gains)	**1,018**	(2)
Profit on sale of property	**–**	(731)
Amortisation of acquisition and bank facility fees	**127**	273
Proceeds from sale of property	**–**	3,759
Share-based payments	**1,437**	3,267
Disposal of intangible asset	**–**	508
Deferred consideration release	**(21,119)**	–
Acquisition costs	**–**	14,717
'One Arrow' costs	**–**	9,039
Adjusting items	**26,789**	–
Adjusted EBITDA	**330,050**	294,032

Glossary of Key Performance Indicators (KPIs)

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

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

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

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

Leverage ratio
The Group's leverage ratio is calculated by dividing the secured net debt outstanding at the end of the period by the LTM (12 months' rolling average) Adjusted EBITDA. The leverage ratio presented in the Annual report and Accounts is calculated on the same basis as the financial covenant stipulated within the Group's revolving credit facility provided by a syndicate of banks. As at 31 December 2019, the actual leverage was 3.4 times against the bank covenant of 4.4 times and a management target of between 3.0 to 3.5 times.

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

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

Glossary of alternative performance measures

APM	Definition	Why is the measure used?	Reconciliation to the financial statements
Adjusted EBITDA	The Adjusted EBITDA figure represents the Group's earnings before interest, tax, depreciation and amortisation, adjusted for any non-cash income or expense items. Any impact on EBITDA of 'adjusting items' (see below for definition) is also removed for the purposes of calculating adjusted EBITDA.	Adjusted EBITDA is an approximate measure of the underlying cash EBITDA of the Group. In addition, the leverage ratio of the Group is calculated as the ratio of secured net debt to Adjusted EBITDA. This makes the Adjusted EBITDA figure a key component of this metric, which also features in the Group's banking covenant measures.	Page 174
Adjusting items	Adjusting items are those items that by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered by the Board to be representative of the ongoing performance of the Group and are therefore excluded from underlying profit after tax.	Adjusting items are used to calculate various 'underlying' metrics, to provide information about the performance of the Group without the impact of such items included.	Page 170
Cash result	The cash result represents current cash generation on a sustainable basis and is calculated as Adjusted EBITDA less cash interest, income taxes and overseas taxation paid, purchase of property, plant and equipment, purchase of intangible assets and average replacement rate.	The cash result provides a measure of how much cash the Group generates across the reporting period which it can utilise on a discretionary basis, whilst maintaining the size of its current investment portfolio.	Page 173
Core collections/ collections	Core collections or collections represent cash collections on the Group's existing portfolio investments including ordinary course portfolio sales and put-backs.	Core collections is a key metric as it represents the Group's most significant cash inflow. It is also a key component of Adjusted EBITDA which is used to calculate the Group's leverage position.	Page 173
Leverage	Leverage is calculated as secured net debt over Adjusted EBITDA.	The leverage metric provides an indication of the level of indebtedness of the Group, relative to its underlying cash earnings.	Pages 174 and 178
Underlying profit before/after tax	Underlying profit before/after tax means profit for the period after tax adjusted for the pre-tax/ post-tax effect of certain adjusting items, as defined above, as well as adjustments to remove profits due to non-controlling interests.	The Group presents underlying profit before/ after tax because it excludes the effect of items which are not considered representative of the Group's ongoing performance, on the Group's profit or loss for a period.	Page 170
Underlying return on equity	Underlying return on equity represents the ratio of underlying profit after tax, to average shareholder equity over a 12-month period.	Underlying return on equity provides a measure of the underlying returns generated by the Group on the average shareholder capital deployed in the period.	Page 170
Underlying basic EPS	Underlying basic EPS represents earnings per share based on underlying profit after tax, excluding any dilution of shares.	Underlying basic EPS provides a metric of underlying profit after tax on a per-share basis, which is a consideration in the valuation of individual shares, amongst other items.	Page 170

Glossary of terms

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

'APM' means alternative performance measure.

'Average net assets' is calculated as the average quarterly net assets from 2018 to 2019 as shown in the quarterly and half yearly statements. In comparative periods this was calculated as the average annual net assets.

'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.

'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 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.

'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' or 'FCF' means Adjusted EBITDA after the effect of capital expenditure and working capital movements.

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

'FUM' means funds under management.

'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.

'IPO' means initial public offering.

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

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

'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 2019 is as follows:

	2019 £000	2018 £000
Cash and cash equivalents	**(88,765)**	(92,001)
Senior secured notes (pre-transaction fees net off)	**902,656**	935,567
Revolving credit facility (pre-transaction fees net off)	**234,683**	245,587
Asset-backed loans (pre-transaction fees net off)	**85,604**	–
Secured net debt	**1,134,178**	1,089,153
Deferred consideration – portfolio investments	**62,944**	12,031
Deferred consideration – business acquisitions	**30,372**	59,922
Senior secured loan notes interest	**7,999**	5,542
Bank overdrafts	**1,386**	2,696
Other borrowings	**3,672**	11,635
Net debt	**1,240,551**	1,180,979

'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.

'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.

'Portfolio amortisation' represents total collections plus income from portfolio investments.

'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.

'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 2018 to 2019 as shown in the quarterly and half yearly statements. In the comparative period this is calculated as the average annual equity attributable.

'Secured net debt' see table in 'net debt' definition.

'SIP' means the Arrow 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.

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Financial calendar for 2020
- Announcement of 2019 full-year results 12 March 2020
- Announcement of the 3 months to 31 March 2020 results 14 May 2020
- Annual general meeting 2 June 2020
- Ex-dividend date for 2019 final dividend 11 June 2020
- Record date for 2019 final dividend 12 June 2020
- Close of DRIP elections 26 June 2020
- Payment date of 2019 final dividend 17 July 2020
- Announcement of 2020 half-yearly results 11 August 2020
- Announcement of the 9 months to 30 September 2020 results 12 November 2020
- Full-year end 31 December 2020

Annual general meeting
The forthcoming annual general meeting of the Company will take place at The Cavendish London, 81 Jermyn Street, St James's, London, SW1Y 6JF on Tuesday, 2 June 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 and 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 and accounts, results, other announcements and presentations, together with the latest share price information on the Company's investor relations website (www.arrowglobal.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.

By post:
Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

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