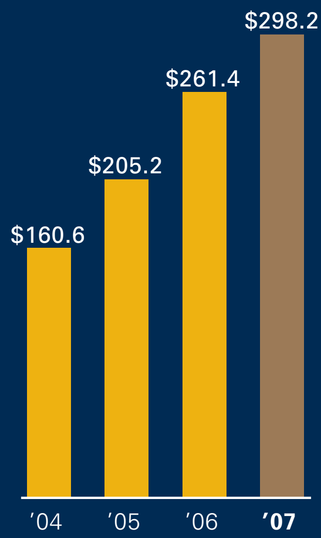
PORTFOLIO RECOVERY ASSOCIATES, INC.

INVESTING FOR THE FUTURE

2007 ANNUAL REPORT

CASH RECEIPTS
($ in millions)

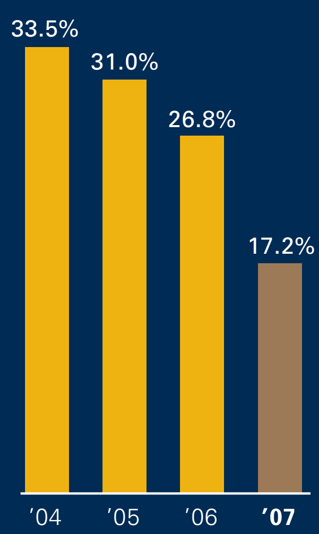


RETURN ON EQUITY
(in percent)

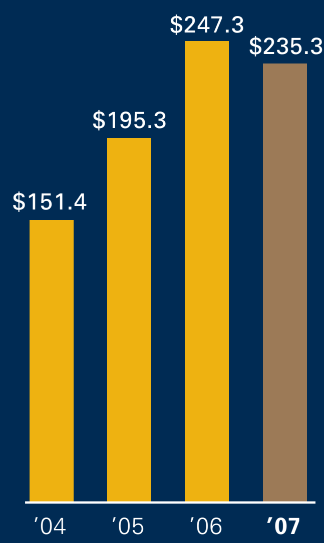
NET FINANCE RECEIVABLES
($ in millions)

NET INCOME
($ in millions)

ANNUAL REVENUE GROWTH
(in percent)



STOCKHOLDERS' EQUITY
($ in millions)



FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)	**2007**	2006	2005
Revenues	**$220,748**	$188,322	$148,525
Operating income	**$ 81,184**	$ 72,000	$ 59,600
Net income	**$ 48,241**	$ 44,490	$ 36,772
Diluted earnings per share	**$ 3.06**	$ 2.77	$ 2.28
Weighted-average shares (diluted)	**15,779**	16,082	16,149
Operating margin	**36.8%**	38.2%	40.1%
Net margin	**21.9%**	23.6%	24.8%
Return on average equity	**19.8%**	19.9%	21.1%
Working capital	**$ 10,827**	$ 18,981	$ 6,062
Finance receivables, net	**$410,297**	$226,447	$193,645
Total assets	**$476,307**	$293,378	$247,772
Total debt	**$168,103**	$ 932	$ 16,535
Stockholders' equity	**$235,280**	$247,278	$195,322

Portfolio Recovery Associates, Inc. and its subsidiaries purchase and manage portfolios of defaulted consumer receivables and provide a broad range of accounts receivable management services to lenders, service providers, governments, and others. The Company combines a disciplined approach to portfolio acquisitions with a long-term view of collections and a commitment to continuous innovation. We have created a rewarding organization for our employees, who produce exceptional results for our investors and clients alike.

PRA began operations in 1996 and has been a public company since November 2002. Since our initial public offering, our purchased portfolio has increased from $5.1 billion to $35.2 billion in face value, and our earnings have increased from $0.94 to $3.06 per diluted share. At year end 2007, we employed 1,677 people in six office locations from Virginia to Nevada.

INVESTING FOR THE FUTURE

PRA's success is a product of its people: great collectors, motivating managers, and talented analysts and underwriters. Featured in this report are newer members of the executive team and several of our front-line employees. They exemplify the quality people we have recruited and developed throughout our organization.

At PRA, succession planning is a critical part of each executive's mandate. Last year we continued to build great bench strength at all levels through internal development of current high-potential employees, supplemented with strategic outside hiring. We feel that bringing together and nurturing an exceptional group of employees is essential to our ability to create sustainable best-in-class results.

Our success largely depends on our collectors' ability to provide solutions for our customers' financial needs. Since each customer's financial situation is unique, our collectors act like detectives—asking questions that ultimately enable them to tailor payment plans to the customers' budgets. Unlike other debt buyers, we pursue voluntary repayment options first, saving firmer tactics such as litigation for customers that are able to pay but won't. It is a core belief of ours that treating our customers well is not just the right thing to do, it is good business. Respected, well-handled customers are paying customers. Customers that are berated, belittled, threatened, or abused are not likely to be payers. We invest in our people and promote good behavior and compliance in order to perpetuate the kind of employee action that drives optimal collection results.

"Truly, 2007 was a year of investing for the future. The important actions we took— repurchasing shares, leveraging our balance sheet, aggressively adding collectors, and buying record amounts of debt—will affect the long-term success of the Company…I am confident…that our decisions will result in strong returns for those shareholders who are owners for the longer term, the very group for whom we are managing the Company."

Steve Fredrickson
Chairman, President & Chief Executive Officer

DEAR FELLOW SHAREHOLDERS:

It is always a challenge to distill a year of operations into a few pages. The difficulty this time is more daunting than usual, since 2007 was an especially eventful year. The decisions we made were profound and will affect the Company significantly in the years to come. In the following pages I will describe these decisions and the reasons we made them. I hope what you read will give you a renewed sense of excitement about the bright future ahead for PRA.

I will acknowledge that our 2007 financial results, relative to those of prior years, were not as exciting as some may have anticipated. While earnings per diluted share increased more than 10% to $3.06 and return on equity remained at 20%, our growth in profit was hampered, in part, by net interest expense that increased $3.5 million from 2006. Our growth was also hampered by diminished collection productivity that was due to the rapid expansion of our collector workforce, especially in our new Jackson, TN call center.

Yet I feel the moves we made during the year, particularly our investment in people, portfolios, and infrastructure, will lead to very profitable growth for our company. Let me explain to you in detail how 2007 was truly a year of "Investing for the Future."

Investing in Portfolios

During 2007 we invested a record amount—$264 million—in portfolios of charged-off debt. This was more than double the $112 million we invested in 2006 and far beyond our previous record of $150 million, set in 2005. The debt-sale market turned favorable for us in the second half of 2007, reversing a trend of pricing increases that began several years ago. We took advantage by investing confidently in portfolios that presented attractive return potential; many of them were similar to portfolios we had previously purchased. The graph on the following page shows our annual investment in new portfolios of charged-off debt for each year going back to 1996.

17%

Total revenue increased to $220.8 million during 2007, up from $188.3 million in 2006.

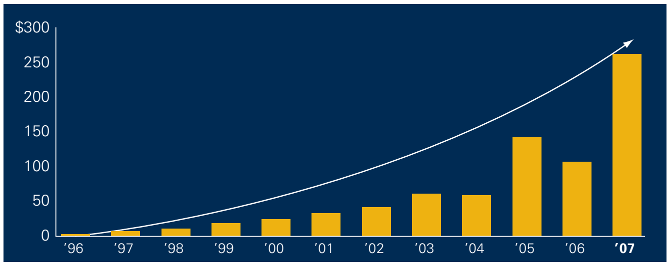
Total revenue consists of cash collections reduced by amounts applied to the Company's owned debt portfolios plus commissions from its fee-for-service businesses.

Net income grew 8% to $48.2 million, or $3.06 per diluted share.

$48.2 Million

44%

The Company's fee-for-service revenue increased by 44% in 2007 to $36.0 million, from $25.0 million in 2006.



PORTFOLIO PURCHASES BY YEAR *($ in millions)*

Core Portfolio Acquisitions

We refer to the purchase of non-bankrupt, charged-off consumer accounts as our core business. During 2007 we invested $181 million to purchase approximately $9.9 billion in face value of such charged-off accounts. Once we purchase these accounts, we score them, sort them, and attempt collection using a variety of techniques. We optimize our collections by using our own call centers, third-party agencies, third-party collection lawyers, and even our own in-house collection attorneys.

Our core portfolios tend to have long lives, typically liquidating over seven or more years. Proper underwriting of these portfolios is difficult, requiring extensive knowledge of the characteristics that predict cash flow, applied to virtually every possible combination of customer demographic variables. Highly experienced statisticians and analysts estimate the liquidation of each account using models based on the performance of over 1,000 purchased portfolios, some dating back more than ten years. PRA has developed an enviable track record over the years of being able to accurately forecast account liquidation results. This ability gives us a competitive edge in pricing portfolios and helps us to minimize unnecessary portfolio write-downs based on performance deviation. Mispricing portfolios is the primary reason that many competitors have stumbled and some have even failed.

Bankruptcy Portfolio Acquisitions

The acquisition of bankrupt accounts is the other piece of our debt-purchase business. These accounts are typically included in an active bankruptcy case and are therefore barred from receiving any proactive collection effort. Instead, customers with bankrupt accounts typically liquidate their obligations by making payments to a U.S. bankruptcy trustee. Once we establish our claim on these accounts, the bankruptcy trustee directly remits the customer's payments to us as a creditor of the customer. We receive, audit, and process the payments using highly automated and proprietary processes.

To price these types of portfolios, we use data-intensive techniques (developed by our actuaries and statisticians) that calculate estimated cash flow on an account-level basis, and then we apply an appropriate risk-based return hurdle. We believe that few competitors can price core paper as well as we can. Even fewer can accurately price bankruptcy portfolios, due to the complexity of interpreting the extensive data sets that are involved.

Portfolio Classifications and Purchasing Mix

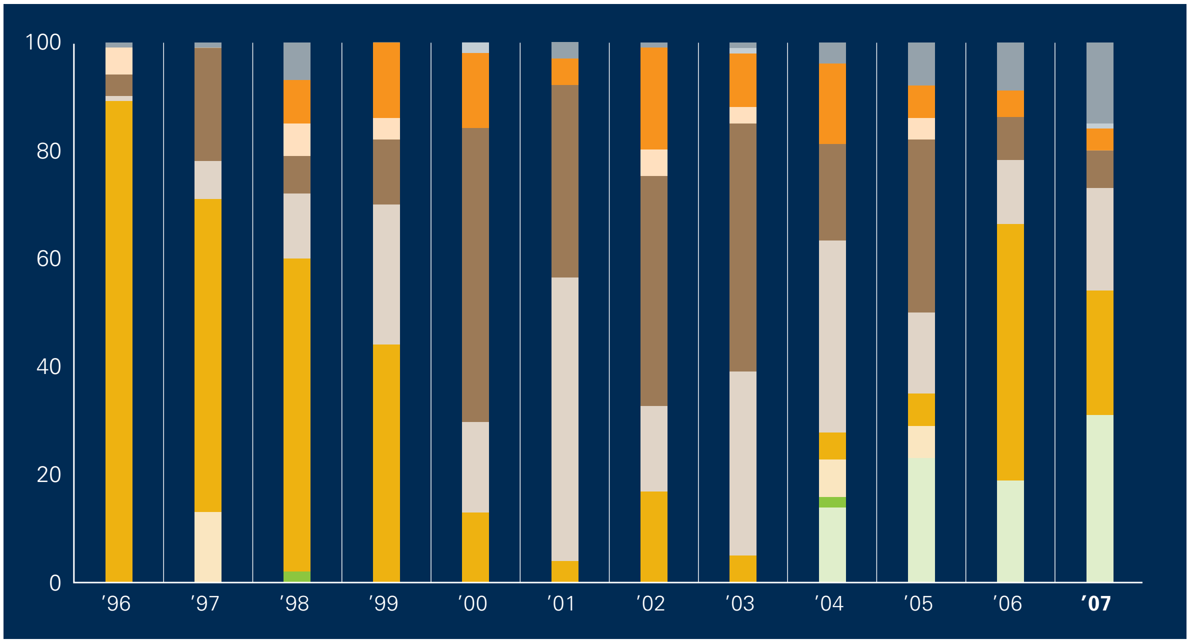
When we buy a bankruptcy portfolio, the accounts generally come in fairly homogeneous packages, but when we buy a core portfolio, accounts can be packaged according to a range of seller-selected criteria. The package types are as follows:

- Fresh: These are accounts that have recently been charged off by the issuer (usually at 150–210 days past due). Prior to being sold to PRA, they typically had not been worked by a collector post-charge-off.
- Primary Recall: These are accounts that the creditor retained for further collection work after the point of charge-off. They were then subjected to typically 5–9 months of collection effort by either the creditor or a third-party collection agency working on behalf of the creditor.
- Secondary Recall: These accounts were recalled from the primary collection agency after 5–9 months and then placed with one additional collection resource for another 6–9 months.
- Tertiary Recall: These are accounts the creditor placed with a third collection agency after having recalled them from two previous agencies.
- Warehouse: A term used for accounts typically placed with more than three agencies after charge-off, then recalled and set aside for a period of time prior to sale.

Of these five standard classifications, Fresh accounts tend to be priced at the highest rate, followed by Primary, Secondary, Tertiary, and then Warehouse. Beyond those five, there are three other specialized categories that we occasionally see:

- Paying: A portfolio that contains an unusually high proportion of accounts for which payments were made in the 30 to 60 days prior to the sale. These accounts tend to be priced higher than standard Fresh accounts due to the recent payment activity.
- Legal/Judgment: Accounts for which a legal judgment had been received, or accounts that had been placed with a third-party collection attorney and were going through the legal collection process.
- Bankruptcy: Accounts tied to customers who had declared bankruptcy, usually under Chapter 13, and sometimes under Chapter 7. PRA manages these accounts in accordance with the bankruptcy laws, relying on the trustees overseeing the bankruptcy cases to remit any payments due to creditors.

The chart below shows, for each year since the Company's founding, our relative investment in the paper types just described. It should be noted that our buying can vary dramatically from year to year, depending on where we see the most value. One year the market pricing of Fresh accounts may provide the most attractive returns, while the next year Secondary Recall may provide the highest value. We have the expertise to underwrite accurately and collect effectively across the spectrum, and we use that competitive advantage as markets ebb and flow. During 2007 we conducted very diversified buying: About 30% of our investment went to bankruptcy accounts; 25% to Fresh paper; 20% to Primary Recalls; 10% to a combination of Secondary and Tertiary Recalls; and 15% to Warehouse paper.



INVESTMENT PERCENTAGE BY PAPER TYPE

Warehouse
Tertiary
Secondary
Fresh
Legal/Judgment
Quad
Mixed
Primary
Paying
BK Trustees

Investing in Infrastructure

PRA employs an integrated business model. As a debt buyer, we want to be able to underwrite accurately and then collect the bulk of our purchased accounts using our own call centers. This internal collection capability offers us several competitive advantages. First, it lets us retain the profit that would be required by any competent outsourced collection operation. In highly competitive pricing environments, this edge can be huge. Second, by running our own call centers, we can tightly control the quality and type of work effort that is directed at collections. In turn, we can better control costs, identify the reasons certain approaches don't work, and closely oversee regulatory compliance and customer service issues. Finally, by analyzing our collection centers' results on a real-time basis, we can quickly spot trends that others may overlook for a long time, if not miss entirely. We can then quickly and accurately fine-tune our pricing models. In short, we believe that being a collector makes us a better buyer.

Ramping Up Productivity in Tennessee

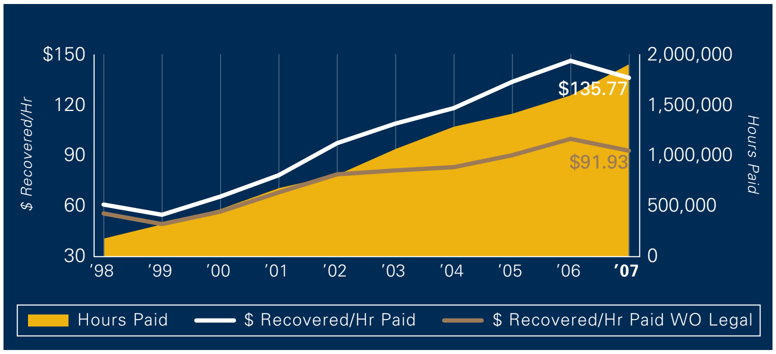
As our debt buying picked up early in 2007, we rapidly increased the staff at our newly opened call center in Jackson, TN. Our original plan was to manage the Jackson site with first-level supervisors and

Chris Graves joined PRA in 2006 as Vice President, Portfolio Acquisitions. He has an extensive background in the bad debt market, having spent the prior seven years with Capital One purchasing charged-off debt and establishing partnerships with other debt buyers. Chris has broadened PRA's account-purchasing relationships and has been successful with cross-selling business for its subsidiaries, IGS and Anchor. Chris has an MBA from the College of William and Mary and an undergraduate degree from Wake Forest University.

Chris Graves, *Vice President, Portfolio Acquisitions*

to rotate in senior managers as the center grew; however, the staffing levels at Jackson quickly grew beyond the scope of that strategy. Due to a delay in recruiting the lead executive for this call center, productivity lagged the normal ramp-up we would have expected. Given the large size of the Jackson staff, the lag had a dampening effect on Company-wide hourly productivity. However, the center responded well once its new senior executive was in place. From September through December its performance improved in each month, in both absolute and relative terms, when compared with that of our other call centers. At this point I feel that Jackson is on track to become one of our top-performing collection centers.

The graph to the right shows cash collections per hour paid, our primary productivity metric for our owned portfolio. The Company-wide productivity decline that occurred in 2007 was our first since 1999. Incidentally, in 1999 as in 2007, we had ramped up staffing heavily at another new call center. That facility was at Norfolk, VA, which went on to become one of our top-performing sites.



HOURLY PRODUCTIVITY VS. HOURS PAID
(collections per hour paid in dollars)

Information Technology

We made substantial investments last year to build an IT operating platform that would be faster, more scalable, more efficient, and more secure.

- We converted our wide area network (WAN) to MPLS technology from frame relay technology, to enhance network reliability and availability and reduce unplanned downtime. MPLS technology allows for redundancy in connectivity between our call centers and eliminates single points of failure in the network.

- We implemented storage area network (SAN) technology and load-balancing hardware, to enhance the performance of our collection platform, PRANet. The added technologies significantly improved the response time and reliability of the PRANet application and reduced unplanned downtime.

- We began implementing virtual servers. Virtualization's benefits originate from a decoupling of the physical hardware from the operating system. This approach allows us to run multiple virtual machines from the same physical machine, which in turn allows us to consolidate server room space, reduce the loads on electrical and HVAC systems, and reduce maintenance time and costs. The implementation of this technology allowed us to retire approximately 30 physical servers during the year.

Facilities

During 2007 PRA invested in its Jackson, TN; Norfolk, VA; Las Vegas, NV; Birmingham, AL; and Hutchinson, KS, facilities to expand capacity and better prepare each site to effectively service the business in the years to come. Here are some examples of what we did:

- Jackson—We completed our build-out there with modular call center furniture to accommodate 350 seats. We also redesigned a section of the building to accommodate 32 skip tracers for our IGS business, giving them a second pool of employees on which to draw, a footprint in the Central time zone, and a business recovery site. In addition, we expanded our parking lot considerably, and added a second backup generator to the site to ensure 100% coverage in the event of a power loss.

- Norfolk—We reconfigured space to permit an expansion of our Human Resources department. After relocating our IT software and development group to our newest Norfolk building, we moved Human Resources into the former IT area, which was newly redesigned and dramatically expanded. We also moved our primary training center from its original location into the redesigned area, giving it a space specifically built for the training function. Incorporating state-of-the-art multimedia technology, the new training center offers an ideal environment for initial and continuing collector education.

- Hutchinson—We converted an existing 4,000-square-foot building into a state-of-the-art training and employee center. This permitted us to free up space in our primary call center buildings to house another 48 collector workstations.

Portfolio Modeling

During 2007 we completed the development of a new, multivariate statistical model to be used in making portfolio purchase decisions. We developed this new tool over a 12-month period with the help of a consulting firm whose experience came from similar modeling and simulation techniques employed by the U.S. military. These techniques are well suited for the huge amount of data we have amassed over the last 11 years. We are now using the model on most core portfolios we consider for purchase. The model has been fully validated against a large sample of our portfolios, and has proven to be predictive of our collection performance. We are combining the output from this model with our other qualitative and quantitative analyses and due diligence processes to arrive at our most confident prices. The more we buy, the better calibrated this model becomes, adding even greater precision to our pricing abilities.

Reworking Our Capital Structure

Since the theme of this year's annual report is investing, I would be remiss in not commenting on our capital structure decisions. During 2007 we moved forward with an ambitious capital optimization plan. Entering the year, we were well aware of our equity capital excess. Our shareholders' equity account had grown to $247 million at the end of 2006 from $81 million at year-end 2002 (just after our IPO). In those four years we had spent approximately $375 million for new debt portfolios, acquired two companies for about $25 million in cash, and funded significant capital expenditures. And we had done it all with little use of debt or lease financing. On top of that, we had built our cash position to $25 million from $18 million at year-end 2002—a great example of the Company's ability to generate cash.

Working with our Board and financial advisors, we determined that our shareholders would be best served in the long run if the Company began using some modest amount of financial leverage. To move the Company into a net borrowing position while returning a modest level of excess capital to our shareholders, we decided to pay a $1.00-per-share dividend and implement a one-million-share repurchase program. Both actions were completed by mid-2007 at a total cost of about $65 million. The two initiatives, when combined with our record investments in charged-off debt, transformed the Company into a material net borrower by year-end, with $168 million outstanding against its $270 million line of credit. This transformation has also materially lowered the Company's cost of capital, which should result in greater economic value creation over time.

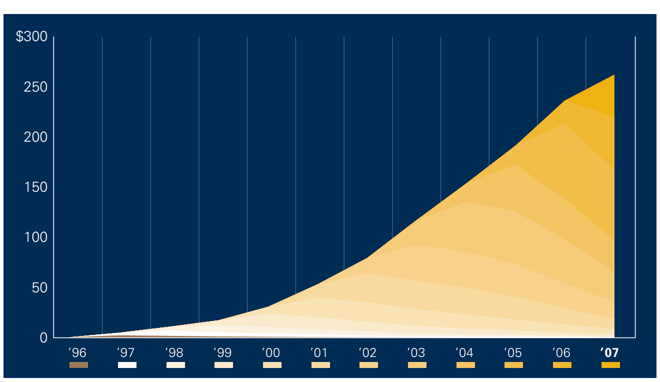
To make the transformation possible, we obtained a new line of credit ($270 million with a rate of LIBOR plus 1.40%) to replace our previous line ($75 million at LIBOR plus 1.75%). I see it as a vote of confidence by our bank group, and testimony to the skill and foresight of our CFO, that we were able to obtain the new facility, even in the face of deteriorating credit markets.

Not unexpectedly, in the fourth quarter of 2007 our net income took a short-term hit. The decrease was due to the substantial interest expense produced by our monumental investment during the quarter. Since collections from newly acquired debt pools take a few months to ramp up, we received little cash benefit to offset our increased borrowing costs during the period. As these long-lived cash-generating assets move through our collection processes in 2008 and beyond, I believe our strategy of using financial leverage to expand our business and amplify shareholder returns will be proven out.

Against this background, let me now offer you some of the detail behind our 2007 performance.

Owned Portfolio Performance

Key to our performance is our ability to collect cash from our purchased portfolios. Our long-term collection strategies and our practice of not reselling purchased debt enable us to extract cash from purchased accounts for many years after acquisition. Last year, for example, was the 12th consecutive year that we generated meaningful cash flow from the portfolios we first acquired back in 1996. By layering our portfolio purchases year after year, we are able to build highly predictable, highly reliable, and steadily growing sources of cash flow, as demonstrated in this graph and the following tables.



OWNED PORTFOLIO CASH COLLECTIONS PER PURCHASE PERIOD *($ in millions)*

This layering effect means that no single year of purchasing is responsible for the majority of our cash collections. Throughout our history, we have entered a new year knowing that about 80–90% of our cash collections will come from past purchases. Those deals are already on our books, and we are typically able to predict their cash flows very accurately. In 2007 only 16% of our cash collections came from the pools we purchased during that year, even though those pools amounted to a far greater sum than ever before. And in the four preceding years, the corresponding proportions were 10%, 10%, 12% and 21%. This effect permits us to be patient and disciplined in our debt purchasing, knowing that results do not rapidly decline due to short-term variations in purchase volumes. The two tables below show how much cash we have collected in each year since 1996, by year of account purchase. The first table displays purchased bankruptcy accounts only, while the second table shows the entire portfolio less the purchased bankruptcy accounts.

Cash Collections by Year, by Year of Purchase—Purchased Bankruptcy Portfolio Only *($ in thousands)*

Purchase Period	Purchase Price	Cash Collection Period 1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
1996	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
1997	—	—	—	—	—	—	—	—	—	—	—	—	—	$ —
1998	—	—	—	—	—	—	—	—	—	—	—	—	—	$ —
1999	—	—	—	—	—	—	—	—	—	—	—	—	—	$ —
2000	—	—	—	—	—	—	—	—	—	—	—	—	—	$ —
2001	—	—	—	—	—	—	—	—	—	—	—	—	—	$ —
2002	—	—	—	—	—	—	—	—	—	—	—	—	—	$ —
2003	—	—	—	—	—	—	—	—	—	—	—	—	—	$ —
2004	7,472	—	—	—	—	—	—	—	—	743	4,554	3,956	2,777	$ 12,030
2005	29,325	—	—	—	—	—	—	—	—	—	3,777	15,500	11,934	$ 31,211
2006	17,671	—	—	—	—	—	—	—	—	—	—	5,608	9,455	$ 15,063
2007	81,834	—	—	—	—	—	—	—	—	—	—	—	2,850	$ 2,850
Total	$136,302	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 743	$ 8,331	$ 25,064	$ 27,016	$ 61,154

Cash Collections by Year, by Year of Purchase—Entire Portfolio Less Purchased Bankruptcy Portfolio *($ in thousands)*

Purchase Period	Purchase Price	Cash Collection Period 1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
1996	$ 3,080	$548	$2,484	$ 1,890	$ 1,348	$ 1,025	$ 730	$ 496	$ 398	$ 285	$ 210	$ 237	$ 102	$ 9,753
1997	7,685	—	2,507	5,215	4,069	3,347	2,630	1,829	1,324	1,022	860	597	437	$ 23,837
1998	11,089	—	—	3,776	6,807	6,398	5,152	3,948	2,797	2,200	1,811	1,415	882	$ 35,186
1999	18,898	—	—	—	5,138	13,069	12,090	9,598	7,336	5,615	4,352	3,032	2,243	$ 62,473
2000	25,020	—	—	—	—	6,894	19,498	19,478	16,628	14,098	10,924	8,067	5,202	$ 100,789
2001	33,479	—	—	—	—	—	13,048	28,831	28,003	26,717	22,639	16,048	10,011	$ 145,297
2002	42,324	—	—	—	—	—	—	15,073	36,258	35,742	32,497	24,729	16,527	$ 160,826
2003	61,456	—	—	—	—	—	—	—	24,308	49,706	52,640	43,728	30,695	$ 201,077
2004	51,837	—	—	—	—	—	—	—	—	17,276	41,921	36,468	27,973	$ 123,638
2005	113,924	—	—	—	—	—	—	—	—	—	15,191	59,645	57,928	$ 132,764
2006	90,183	—	—	—	—	—	—	—	—	—	—	17,363	43,737	$ 61,100
2007	181,443	—	—	—	—	—	—	—	—	—	—	—	39,413	$ 39,413
Total	$640,418	$548	$4,991	$10,881	$17,362	$30,733	$53,148	$79,253	$117,052	$152,661	$183,045	$211,329	$235,150	$1,096,153

Fee-for-Service Businesses

Our three fee-for-service businesses matured in 2007. Together they contributed a record 16% of revenue, up from the prior high-water mark of 13% in 2006. Although we do not provide details about our fee business profitability, we do want to note that combined pre-tax net operating income from these subsidiaries increased more than threefold in 2007. That is an impressive performance by anyone's measure. It is true that these subsidiaries have lower operating margins than our debt-buying business and therefore compress our overall margins. However, these companies use very limited amounts of capital, so they generate substantial ROE. They also produce strong cash flow. Moreover, they help diversify our revenue and income streams, and permit us to leverage certain

Kent McCammon joined our team in mid-2007 as Senior Vice President—Strategy and Business Development. Kent has substantial experience as an investment banker, and in his most recent position was Managing Director—Activist Value Fund for Shamrock Holdings, a sophisticated investment fund originated by the Disney family. Kent's role at PRA is to head up our search for profitable, complementary businesses for PRA to acquire or otherwise invest in or partner with. Kent has an MBA and undergraduate degree from the University of Virginia.

Kent McCammon, *Senior Vice President, Strategy and Business Development*

aspects of our infrastructure, including human resources, general counsel, information technology, and sales and marketing.

IGS is our collateral-location business, serving the automobile finance industry. In 2007 it continued its track record of growth as the auto finance sector dealt with rising levels of delinquency and charge-offs. IGS grew its business with existing clients while developing several material relationships from scratch. Operating out of state-of-the-art centers in Las Vegas, NV and Jackson, TN, we view ourselves as the market leader in skip tracing of this type.

Our RDS business provides revenue administration, audit, and collection services for government agencies. During the year RDS continued to grow, both organically and via acquisition. In August we purchased assets of The Palmer Group ("TPG"), a small company providing insurance premium tax administration to more than 100 municipal clients located in Louisiana. This acquisition gives us a nice entrée into a new state (Louisiana) and into a new area of expertise. We look forward to cross-selling our suite of products to TPG clients, while simultaneously offering RDS clients insurance premium tax services. We are keeping our eyes open for more exciting tuck-in acquisitions in the government space.

Anchor is our contingent-fee collection business. This subsidiary performs collection services for debt owners in return for a commission fee that is based on the amount actually collected from the consumer. During the year Anchor operations improved dramatically, convincing us by year-end that Anchor does indeed have an important role to play at PRA. Although Anchor is part of an industry that has faced fee compression for years now, we feel that we can build and sustain a solid business if we carefully select our clients, perform consistently for them, and demand a reasonable fee for that performance.

Neal Stern is our most recent executive appointment, filling the newly created position of Chief Operating Officer—Owned Portfolios as of January 2008. Neal is responsible for all owned portfolio collection activity, including call centers, legal outsourcing, collection agency outsourcing, probate, customer service, and portfolio collection strategy and analytics. Neal has extensive experience running multiple call centers of substantial scale. He was most recently a senior executive with the Target Corporation, running collection and customer service vendor management operations. Neal attended the University of Minnesota.

Neal Stern, *Senior Vice President,*
Chief Operating Officer—Owned Portfolios

A Promising Future

Truly, 2007 was a year of investing for the future. The important actions we took—repurchasing shares, leveraging our balance sheet, aggressively adding collectors, and buying record amounts of debt—will affect the long-term success of the Company. The immediate impact of these moves was to drive down our financial results for the fourth quarter of the year. I am confident, however, that our decisions will result in strong returns for those shareholders who are owners for the longer term, the very group for whom we are managing the Company.

An investment we have always considered to be key is the one we make in our people and their training. Collectors who treat customers well achieve optimal collection results, because satisfied customers are paying customers. The following page highlights several of our collectors—the people who pay the bills for PRA, and a group of whom we are very proud. The page after that contains actual testimonials from satisfied customers. We think you'll be pleasantly surprised to hear how positive an experience many of our customers have with us.

We expect 2008 to be a good year for our company, and look forward to telling you about its successes. We thank the people of PRA for their commitment and hard work, and our shareholders for their support.

Sincerely,

Steve Fredrickson
Chairman, President & Chief Executive Officer

COLLECTOR PROFILES

John joined PRA's Kansas office in 2004, bringing with him a couple years of collection experience, in addition to stints in the fast-food and telemarketing industries. John has an aggressive phone style that he balances nicely with an empathetic approach to his customers' unique situations.

John G., *PRA collector, Kansas*

Located in our Norfolk, VA office, Georgian has been a collector for PRA since November 2003. Recruited by another PRA employee, Georgian had worked as an auditor at a resort before coming to PRA. Georgian views her position as that of a business owner—the harder she works and the more money she collects, the higher her income rises.

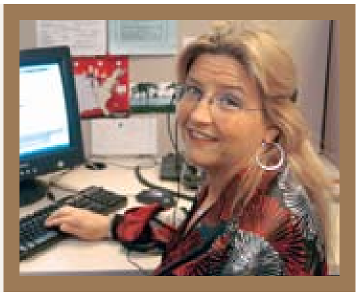
Georgian B., *PRA collector, Norfolk*

LaTonya is based in our Hampton, VA office and has been with the Company since February 2003. Prior to joining PRA, LaTonya had 2 years of collection experience. She loves collections because there is no limit on how much she can collect and therefore no cap on how much she can make.

LaTonya F., *PRA collector, Hampton*

In March 2008 Kathleen was promoted from a collector to a first-level supervisor. Working out of our Hutchinson, KS office, she has been a part of PRA since 2004. Before that, Kathy worked in the collections business as a collector and supervisor for over three years. Kathy believes in using a firm tone, listening closely to her customers, and being straightforward with them.

Kathleen W., *PRA supervisor, Kansas*



CUSTOMER FEEDBACK

Ed P.

$2,500
originally owed

"I negotiated an acceptable monthly payment amount and the payments were taken out of my account on the date agreed upon. My collection representative confirmed an amount to be withdrawn out of my checking account with pre-numbered electronic checks for a six month period. After six months, I received a call to confirm the same amount with new electronic checks for the next 6 months. This was done until my debt was cleared. There was no pressure."

"My experience with PRA was great. Unlike other debt-collection companies, they offered lots of payment options that worked for me and my situation. I was able to make flexible monthly payments instead of paying the whole balance in full immediately.

I felt respected when I worked with PRA. My agent treated me as an individual, not as someone that doesn't want to pay their bills. They offered great customer service—worked with me instead of working against me to resolve the debt."

Danielle H.

$580
originally owed

Renee S.

$7,400
originally owed

"My agent was always a pleasure to talk to when I was having a problem with my account. She was firm when it came to making payments, and as long as I kept to my payment arrangement she was willing to work with me. We need more debt collectors like her to handle customers!"

"I found PRA to be flexible to work with. My representative was patient, courteous, and knowledgeable. She presented me with two or three options that allowed me to pay off my debt without putting a strain on other obligations I had. I also appreciated the online payment option, which I found to be very convenient to my busy lifestyle. I felt encouraged to pay my bill because everything went so smoothly."

Makia T.

$1,530
originally owed

Operating Principles for the Management of Portfolio Recovery Associates

Disclose. Be honest and open with shareholders. Let them know what is going on.

Invest carefully. Build a diverse portfolio. Never bet the ranch. Make sure each investment, be it a portfolio or a business, has been reviewed, judged objectively, and priced to achieve appropriate profit hurdles.

Keep the business simple. Operate fewer, larger call centers.

Keep costs low and productivity high. Develop and retain great employees. Keep support staff as small as possible, while providing excellent service to the collection operation.

Maintain a conservative capital structure. Allow room for error. Keep debt levels low. When borrowing is required because of opportunity, use low cost, non-participating debt.

Build an integrated business. Portfolio buying and collections must be under the same roof.

Employ steady, controlled growth. We operate process- and people-intensive businesses. Experienced employees are significantly more productive than newer employees. Growing too quickly puts too many less productive, lower margin people into the workforce mix, driving down productivity, margin and net income.

Management should be owners, not hired guns. We act like owners because we are. Our senior managers have a significant portion of their net worth invested in the Company. We expect our senior managers to retain substantial stock ownership positions—common stock, not just options—throughout their terms of employment.

Develop and support employees. Provide and support ongoing employee skill development to help create ever increasing levels of individual potential with high levels of performance for continuing personal and company growth.

Safe Harbor Act

Certain statements in this annual report which are not historical, including statements of the Company's Chairman, President and Chief Executive Officer, in his letter which begins, "Dear Fellow Shareholders," including, without limitation, regarding earnings, financial results, the outlook for the economy, management's intentions, beliefs and expectations, growth opportunities, business prospects, projections, plans or predictions of the future, and other similar matters, are forward-looking statements within the meaning of Section 21(e) of the Securities Exchange Act of 1934. Such statements are not statements of historical fact. Forward-looking statements involve assumptions, uncertainties and risks, some of which are not currently known to us, which could cause the Company's results to differ materially from its management's current expectations. Actual events or results may differ from those expressed or implied in any such forward-looking statements as a result of various factors, many of which are beyond our control, which could affect our operations, performance, business strategy and results, and could cause our experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, the factors, risks and uncertainties that are described from time to time in the company's filings with the Securities and Exchange Commission, including but not limited to, its Annual Reports on Form 10-K, its Quarterly Reports on Form 10-Q and its Current Reports on Form 8-K, which contain more detailed discussions of the company's business, including risks and uncertainties that may affect our future.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the dates on which they are made. The content of this Annual Report includes time-sensitive information, and is accurate as of the date hereof, April 4, 2008. The company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein, any changes in the company's expectations with regard thereto, or the impact of circumstances, events or conditions that may arise after the dates such statements are made. The reader should, however, consult any further disclosures we may make in future Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, which we may file after the date hereof.

Portfolio Recovery Associates, Inc.

2007 Financial Information

CORPORATE GOVERNANCE

Corporate Information

Stock Exchange Listing

Portfolio Recovery Associates' common stock trades on the NASDAQ Global Stock Market under the symbol "PRAA." Price information for the common stock appears daily in major newspapers.

Transfer Agent and Registrar

Continental Stock Transfer & Trust Company
17 Battery Place, 8th Floor
New York, New York 10004
Tel: 212-509-4000
Fax: 212-509-5150

Auditors

KPMG LLP
Norfolk, Virginia

Legal Counsel

Dechert, LLP
New York, New York

Financial Publications/Investor Inquiries

Shareholders may acquire copies of the 2007 Form 10-K, Annual Report and other filed documents by visiting the company's website at www.portfoliorecovery.com or by writing to us at:

Portfolio Recovery Associates
Attn: Investor Relations
120 Corporate Blvd., Suite 100
Norfolk, Virginia 23502

Price Range of Common Stock

The Company's common stock began trading on the NASDAQ Global Stock Market under the symbol "PRAA" on November 8, 2002. The following table sets forth the high and low sales price for the common stock for the year 2007.

	High	Low
2007	$65.66	$36.28

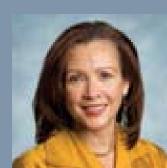
As of January 31, 2008, there were approximately 28 holders of record of the common stock. Based on information provided by the Company's transfer agent and registrar, the Company believes that there are approximately 30,875 beneficial owners of the common stock as of January 31, 2008.

Management

Steve Fredrickson
President and Chief Executive Officer

Kevin Stevenson
Executive Vice President, Chief Financial and Administrative Officer, Treasurer and Asst. Secretary

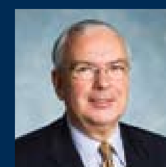
Craig Grube
Executive Vice President, Acquisitions



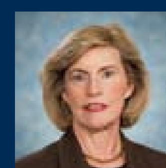
Judith Scott
Executive Vice President, General Counsel and Secretary

Board of Directors

Steve Fredrickson
Chairman of the Board



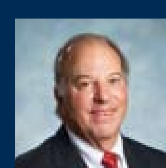
William Brophey
Director



Penelope Kyle
Director

David Roberts
Director

Scott Tabakin
Director



James Voss
Director

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Norfolk, Virginia 23502