2 March 2017

Arrow Global Group PLC
Preliminary results for the year ended 31 December 2016

Arrow Global Group PLC "Arrow Global" or "the Company" and its subsidiaries (together "the Group"), is pleased to announce its preliminary results for the year ended 31 December 2016.

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

"2016 was a landmark year for Arrow. We ended the year a larger, stronger, more diverse business. Underlying profit after tax was 29% higher and we delivered strong returns, enhanced shareholder value and an increased dividend.

"During the year, we completed record organic purchases of £223 million with the majority sourced in off-market deals. In addition, we acquired Vesting in the Netherlands and agreed the purchase of Zenith in Italy.

"Our scale and reputation continue to provide a significant commercial advantage and we have started 2017 well, with a strong origination pipeline. We are confident in our objective of delivering high teens EPS growth and a progressive dividend policy, supported by ROE in the mid-20s, over the medium-term."

Highlights

- Final dividend of 6.4p proposed, bringing total dividends for 2016 to 9.1p per share, up 28.7% on 2015 and representing a 35% pay-out
- Underlying basic earnings per share (EPS) increased 28.5% to 26.1p (2015: 20.3p) delivering underlying Return on Equity (ROE) of 29.1% (2015: 26.5%)
- Total revenue for the year was £235.9 million, an increase of 42.6% (2015: £165.5 million), driven by an increase in core collections to £286.0 million (2015: £218.5m), resulting in an increase in Adjusted EBITDA of 36.7% to £209.2 million (2015: £153.1 million)
- Capital-light asset management revenues now constitute 20% of total revenues
- Profit after tax of £26.3 million (2015: £31.7 million), and basic EPS of 15.1p (2015: 18.2p). These include a number of one-off items, principally the costs associated with restructuring the group's long-term financing in September 2016 of £18.0 million
- Underlying profit after tax up 28.7% to £45.6 million (2015: £35.4 million)
- A record year for organic portfolio purchases of £223.0 million (2015: £176.3 million)
- Our purchased loan portfolio asset base and loan notes increased by 37.2% to £804.1 million (2015: £586.3 million*), which is reflected in the increased value of the 84-month ERC from £1,028.6 million to £1,339.1 million, up 30.2%
- Acquisition of InVesting B.V. ("Vesting") in the Netherlands and Belgium and agreed the proposed acquisition of Zenith Service S.p.A., ("Zenith") in Italy. These transactions coupled with the announcement to co-invest in the assets and servicing of the RNHB Hypotheekbank loan book in the Netherlands have enhanced our European mainland capabilities significantly

- Successful refinancing of the £220 million bond and the £180 million revolving credit facility, reducing the Group's overall cost of debt to just under 5% and increasing the average debt facility maturity to 6 years
- Group's credit ratings upgraded by both S&P (to BB- from B+ and the Group's Notes from BB- to BB) and Moody's (to Ba3 from B1)

* Excluding £23.5 million of portfolios due to be resold

A glossary of terms can be found on pages 39-42

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Forward looking statement

This document contains statements that constitute forward-looking statements relating to the business, financial performance and results of the Company and its subsidiaries (the "Group") and the industry in which the Group operates. These statements may be identified by words such as "expectation", "belief", "estimate", "plan", "target", or "forecast" and similar expressions or the negative thereof; or by forward-looking nature of discussions of strategy, plans or intentions; or by their context. All statements regarding the future are subject to inherent risks and uncertainties and various factors could cause actual future results, performance or events to differ materially from those described or implied in these statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Further, certain forward looking statements are based upon assumptions of future events which may not prove to be accurate and neither the Company nor any other person accepts any responsibility for the accuracy of the opinions expressed in this document or the underlying assumptions. The forward-looking statements in this document speak only as at the date of this presentation and the Company assumes no obligation to update or provide any additional information in relation to such forward-looking statements.

Group chief executive officer's review

I am delighted to have been appointed as Group chief executive officer. I am excited by the prospect of leading the next phase of Arrow's growth, building on the Group's momentum, high growth prospects, our operational and financial excellence and the strong financial returns we can deliver as we continue to expand in our chosen markets.

In 2016, Arrow has expanded its European footprint and client offering across attractive markets where the Group is targeting leadership positions. This coupled with a high quality and diversified investment portfolio has enabled us to deliver another strong financial performance.

A strong financial performance

Total revenue grew 42.6% to £235.9 million driven by a 30.9% increase in core collections to £286.0 million. Adjusted EBITDA increased 36.7% to £209.2 million. We continue to see an increase in the income from asset management, with revenues now constituting 20% of total revenues. These results were positively impacted by the Vesting acquisition in May 2016.

Our diversification across geographies and asset classes enabled us to deliver a strong increase in underlying profit after tax, up 28.7% to £45.6 million (2015: £35.4 million), and underlying return on equity (ROE) now stands at 29.1%. Due to post tax non-recurring items of £19.3 million, arising from restructuring the Group's long-term financing and acquisition costs, profit after tax decreased to £26.3 million (2015: £31.7 million).

Our underlying basic EPS has increased 28.5% to 26.1p (2015: 20.3p). The strong cash result for the year is pleasing and allows us to continue to deliver good returns to our shareholders while allowing for future investment and growth. As such, the full-year dividend for 2016, including the proposed final dividend of 6.4p, will increase to 9.1p, up 28.7% and represents a 35% payout ratio.

A landmark year for the Group

2016 was a year of many important milestones for the Group.

We made a number of acquisitions and continued to add to our loan portfolios through carefully considered purchases. Building from our strong UK base, we have made material progress in expanding our capabilities and the range of services we offer to financial institutions in all of our markets. In addition to the UK, we now have leading positions in the Netherlands and Portugal, with a presence in France, and from 2017, on completion of the Zenith acquisition, we will enter the Italian market.

Acquisitions in the Netherlands and Italy

During 2016, we acquired a market leading business in the Netherlands.

In May we completed the acquisition of Vesting, which has operations in the Netherlands and Belgium. Our relationship with Vesting commenced in 2015, when they started servicing portfolios on our behalf. As we got to know the management team and came to respect their collections capabilities, including the benefits of access to the Focum credit bureau, it was a natural progression to purchase the business outright.

In September, we strengthened our Dutch offering with a transformative deal. We acquired the servicing capabilities of RNHB Hypotheekbank and co-invested, alongside CarVal Investors, in loan portfolios with a face value of approximately €1.7 billion; resulting in an investment in loan notes of £21.3 million. The loan book comprises 9,300 high quality real estate loans, with an average loan-to-value of 66%. It builds on the secured asset expertise and real estate capabilities of our Portuguese business, and offers an attractive model for future deals.

For some time we have been evaluating the Italian market, which has the highest non-performing loan volumes in Europe along with a strong securitisation and structured finance market. We were delighted to mark our entry into Italy by agreeing terms to acquire Zenith Services S.p.A., a leading master servicing business that has an excellent reputation for securitisation and structuring services.

The transaction is subject to regulatory approval by the Bank of Italy, and we expect this to complete in the first half of 2017. On completion, it will offer us a strong and established client base of leading Italian and international banks and funds, increase the weighting of asset management revenues across the Group, and provide a valuable insight into the Italian market and the performance and administration of credit portfolios. We consider Zenith to be a low-risk business, with stable revenues and is a sensible entry into the Italian market.

Record year for investment and strengthened funding

2016 was a record year for investment. We acquired purchased loan portfolios and loan notes with a face value of £2.2 billion for a purchase price of £258.4 million. Of this, £223 million related to the purchase of organic portfolios and £35.4 million for the Vesting back book. Of the purchase price invested, 52% related to secured portfolios.

During the year we also took the opportunity to strengthen and secure our long-term funding. In July, we refinanced our revolving credit facility reducing the cost by 100bp and extending its term to July 2021. In September, we successfully refinanced our £220 million bond, securing a coupon reduction of 275bp. Our average debt facility term is now just under six years and our average cost of debt is now less than 5%.

Reshaping our earnings

Our market entry strategy has been to target leading operating platforms in countries that meet our criteria.

Our increased diversification, by both geography and asset class provides a good platform to diversify our earnings as we balance our strength in debt purchase with that of asset management.

Asset management is attractive as it is capital-light and helps us grow both earnings and return on equity (ROE) through long-term contracted revenues. Our ability to provide servicing on behalf of third parties has strengthened our partnership with credit funds, which has become a key part of our origination strategy.

Over time, we want to increase the percentage of our Group revenues derived from asset management. We made good progress in 2016, ending the year with asset management constituting 20% of total revenues, and we expect this to strengthen further in 2017 to approximately 25%.

Arrow now services 9 million customer accounts. The access we have to historic credit performance data in the markets in which we operate provides us with significant insight into customer behaviours. This, added to a number of initiatives Group-wide, such as a new servicing platform in the Netherlands and our UK digital portal, will enable us to improve customer engagement.

Our people

As the Group has expanded, we have welcomed new colleagues to Arrow. Our philosophy is to attract and retain the best talent.

In 2016, we have added considerably to the expertise we have across the Group. We now have over 1,500 colleagues, and it is their hard work, combined with a strong Group culture, that will continue our success.

As a result of our continued expansion we introduced a new management structure during the year. In addition to creating a small Group function that will have oversight for the whole Group, we appointed new Country chief executive officers. Phil Marsland was appointed in the UK, Joost van Rens in the Netherlands and Belgium and John Calvão in Portugal. John will take responsibility for Italy on completion of the Zenith acquisition in H1 2017, to be replaced in Portugal by João Bugalho.

From 2017, responsibility for each Country P&L will lie with each Country chief executive officer and their senior management teams, which will ensure that we maintain strong local ownership and delivery of the Group's strategic objectives.

Outlook

Economic and market conditions

With stricter capital adequacy requirements and continued regulatory and government requirements, European banks have a continuing need to divest non-performing and non-core credit portfolios. In doing so banks can lower their costs, release capital and focus on their core business. This generates opportunities for the Group to purchase and manage portfolios and increase our asset management business. This will be a strong driver for growth across the markets in which we operate.

Looking ahead, consensus forecasts are for UK and European interest rates to remain low with a continuation of low but steady economic growth in European economies. As such, whilst we are by no means complacent, it is reasonable to expect a small improvement in consumer and business confidence with a corresponding increase in lending.

Regulation and compliance

We think the regulatory oversight in our European markets will continue to evolve. In the UK, FCA regulation has required investment across the industry in improved risk, governance and compliance frameworks. We believe that this will favour businesses such as Arrow that have scale, strong funding and a focus on the right customer outcomes. Arrow received its full FCA authorisation in August 2016.

We are constantly evaluating and evolving risk and compliance activities across the entire Group, regardless of geography, and wherever possible, share best practice.

Our clients are increasingly looking for respected partners, who meet all regulatory requirements and who have a strong track record of doing the right thing for customers. Our status as a regulated business in all of our markets, and our strong purpose and social responsibility, means that we are well positioned to continue to take advantage of the opportunities that this presents.

Pricing and Competition

We maintain a positive outlook in each of our markets where supply has grown in recent years and all the indicators suggest that this trend will continue, especially in financial services.

While competition is evident across all markets, our ability to secure off market purchases coupled with a disciplined approach to investment, and in particular, to diversification, by both asset class and geography, means we are well placed to continue to grow our business profitably.

We have begun to see portfolios coming to market earlier in the cycle and we expect this trend to continue as financial institutions continue to adopt changes arising from new accountancy standards, such as IFRS 9.

UK economy and Brexit

In the UK, we have used our deep insight into customer payment behaviour under macro-economic stress to simulate the potential impacts of any downturn in macro-economic factors, due to Brexit or otherwise.

During the year we asked Jaywing Consulting to review and challenge our analysis. The analysis considered the impact on our forecast Estimated Remaining Collections (ERC) of the following drivers:

- Breakage rates: the proportion of customers paying over time
- Payment values: the proportional growth in arrangement value
- Cumulative settlement rate: the cumulative proportion of customers making a one-off settlement
- Settlement liquidation rate: the proportion of current balances made as a settlement

The analysis showed that whilst increases in payment values observed in non-recessionary times are suppressed the other three metrics did not exhibit significant shocks within the last recession.

The UK's EU referendum on 23 June 2016 created additional concerns for part of the UK Financial Services industry. However, these are not expected to impact our ability to operate and purchase portfolios in Europe, since we are licensed in our own right in each of our chosen markets and, as such, are not reliant on the UK's continuing membership of the EU.

Summary

We will continue to enhance our position as a leading partner to primary lenders and credit funds, where our relationships support both additional portfolio purchases and the growth in asset management revenues.

We start 2017 with a strong origination pipeline. We expect to complete the purchase of Zenith in the first half of the year, following which we intend gradually to expand our Italian operations further.

We are a well-funded business with a strong financial profile, which will support the Group's growth opportunities.

We are confident in maintaining portfolio investments at approximately twice our average annual replacement rate. This combined with the value we can add from our expanded Group, supports continued earnings growth in 2017.

We are improving our Group capabilities to support the added complexity of a more diversified business and to continue to support its growth in a disciplined and safe way. This includes embedding our Group risk framework, investing in improving systems and processes across the Group and developing our capital allocation and portfolio management capabilities. In the short-term, this will lead to some additional cost, but will help drive sustainable earnings growth into the future.

We remain confident of our ability to deliver a medium-term underlying ROE percentage in the mid-twenties, high-teen EPS growth and a progressive dividend policy.

Lee Rochford
Group chief executive officer

Delivering against our strategy

Our strategic pillars are:

1. To be a leading player in our chosen markets

Approach:

- We work with both primary financial institutions and leading credit funds to expand and grow our business
- We have demonstrated our ability to build from our strong UK base, through acquisitions and organic growth into mainland Europe
- To fund this growth we have secured long-term funding with a reducing cost of capital
- We have acquired leading servicing platforms in each of our chosen markets to enable us to increase asset management capability, supporting consortium transactions
- We actively participate in industry bodies that help lead change in legislation and best practice

Progress in 2016:

- Acquisition of Vesting in the Netherlands and Belgium
- Agreeing terms for the purchase of Zenith
- Integration of Gesphone and Redrock acquisitions into the Whitestar platform in Portugal
- Growth of 28.7% in underlying profit after tax for the Group
- Purchased loan portfolios on the statement of financial position have increased 28.4% to £782.8 million, driven by an increase in 84-month ERC of £0.3 billion (30.2%)

2. To build a diversified risk weighted investment portfolio

Approach:

- We are transforming our business by broadening our activities across different geographies, assets and businesses
- We have an established approach of purchasing 'pilot' portfolios in new geographies and asset classes across Europe, to understand the market and potential collections capabilities and returns, before we make material acquisitions
- We are able to partner with specialist servicers and our fund partners
- We operate a well-defined underwriting and investment process and have a robust governance structure in place, helping to ensure that we acquire portfolios in line with our risk-adjusted target returns
- As a business, we have long-term capital in place that provides on-going funding and allows us to take advantage of opportunities as they arise

Progress in 2016:

- Expanded the Group to be in six geographies, including Italy from 2017
- Ended the year with our 84-month ERC split between the UK 56%, Portugal 34%, and the Netherlands 10%
- 2016 investment split: 52% secured assets and 48% unsecured assets

- Significant progress has also been made to grow asset management revenues to 20% of total revenue

3. **To transform the customer journey within our industry**

   Approach:

- We aim to work with customers and help them improve their financial situation
- By using our industry leading data and customer segmentation systems, we understand our customers and their situations, which means we interact with them on an individual basis
- Our ultimate aim is to help customers rehabilitate their finances, improve their credit file and gain access to more affordable mainstream credit services others often take for granted
- We work with credit charities and other organisations that provide free impartial services, to ensure customers get the best advice possible

Progress in 2016:

- Through the Vesting acquisition we now have access to historic credit performance in the Netherlands, providing us with valuable insight into customer behaviours
- We have migrated a large proportion of accounts managed by third party collectors to our in-house operation in the UK
- Through our digital customer portal, we have seen increased customer engagement, with a 60% increase in online payments in the UK

4. **To be the best operator in our markets**

Approach:

- We are committed to having leading platforms in the markets in which we operate
- Through the growth of the business, we are able to invest in the best people, technology and data
- We have a Group wide governance and risk management framework
- Through diversifying the business we have more opportunities to deploy capital. This enables us to invest at target returns whilst maintaining investment discipline

Progress in 2016:

- Acquisition of Vesting in the Netherlands and Belgium
- Landmark deal in the Netherlands announced in September, where we agreed to co-invest in the assets and servicing capabilities of RNHB Hypotheekbank
- Completed off-market transactions of £187.0 million

5. **To attract and retain the best talent**

Approach:

- We support our people through accessible career planning and training, valued incentives and recognition programmes and a collaborative and customer-oriented culture

- We recognise that the on-going commitment to build leadership strength is vital to our continued growth; the development of our future leaders through stretching opportunities and broadening job experiences is important to our future success
- We offer professional development opportunities and a competitive package of pay and benefits. We recognise that a highly motivated and engaged workforce provides excellent customer service, and our people are effective advocates of our Group

Progress in 2016:

- Strengthened our leadership teams in all geographies
- Added 400 staff to the Group, taking total staff to over 1,500
- Enhanced expertise in non-secured and secured assets, securitisation and real estate operations
- We held our first European conference
- Staff recognition scheme introduced, closely linked to Group values

Financial Review

We are pleased to present a strong set of results for 2016. They demonstrate the excellent progress we have made to develop the business, deliver strong returns, lay the foundation for future growth, and enhance shareholder value.

Underlying profit after tax increased

Underlying profit after tax for the Group for 2016 has risen 28.7% to £45.6 million from £35.4 million in 2015. The growth in earnings has been driven by increasing investment in our portfolio asset base with strong collections performance from the UK and the Netherlands back books. The corporate acquisitions made by the Group in Portugal and the Netherlands in 2016 have helped grow our capital-light asset management revenue to 20%, with the aim of increasing this to 25% of total revenues in 2017.

2016 profit after tax of £26.3 million (2015: £31.7 million) includes £5.0 million of acquisition costs, and £18.0 million associated with restructuring the Group's long-term financing. The saving in interest costs as a result of the refinancing will be beneficial to the Group's income statement in future years. The refinancing extended the maturity of our facilities ensuring the financial position is sufficiently well structured to support and fund the continued growth plans for the Group.

Strong returns and progressive dividend delivered

	IFRS 2016 £000	**Non-recurring items 2016 £000**	**Underlying 2016 £000**	**IFRS 2015 £000**	**Non-recurring items 2015 £000**	**Underlying 2015 £000**
Profit after tax	26,306	19,261	45,567	31,749	3,652	35,401
Opening net assets	145,356		145,356	121,874		121,874
Closing net assets	167,391		167,391	145,356		145,356
Average net assets	156,374		156,374	133,615		133,615
ROE (%)	**16.8%**		**29.1%**	**23.8%**		**26.5%**

Weighted average ordinary shares	174,373	174,373	174,046	174,046
Basic EPS (£)	**£0.15**	**£0.26**	**£0.18**	**£0.20**

The underlying Return on Equity (ROE) for the Group in 2016 is 29.1%, up from 26.5% last year, and well above our target of 'mid-20's underlying ROE'. This metric is a key driver of shareholder value.

Basic EPS for 2016 is 15.1p compared to 18.2p in 2015, with the reduction largely due to the non-recurring items. Underlying basic EPS has increased 28.5% to 26.1p (2015: 20.3p). The Group has established a progressive dividend policy. The strong cash result for the year, supported by the growth in the asset management business, enables good returns to be made to our shareholders whilst allowing for future investment and growth. As such, the full-year dividend, including the proposed final dividend of 6.4p, for 2016 will increase to 9.1p, up 28.7% and represents a 35% payout of underlying profit after tax.

Record year for portfolio purchases

Our purchased loan portfolio asset base and loan notes increased by 37.2% to £804.1 million (2015: £586.3 million), which will help to support the future flow of collections and revenue streams.

This was driven by a record year for organic portfolio purchases of £223.0 million, up from £176.3 million in 2015, plus the portfolios acquired as part of the acquisition of Vesting generated a corresponding increase in the ERC. The face value of debt portfolios acquired in the year was £2,200 million, with an average purchase price of 11.7p per £1. For the year to 31 December 2016, the 120-month expected gross money multiple for this vintage is 1.94 times (84-month: 1.78 times) from the date of purchase. This is slightly below our 2.0 times target given the higher proportion of secured portfolios within the vintage. Of the purchase price invested 52% related to secured portfolios. There was a good balance of investment by geography.

In the year, the Group acquired debt portfolios (including those through acquisitions) significantly in excess of the required replacement rate (the amount of annual investment required to keep the ERC constant). This higher level of acquired portfolios will increase future collections. This is reflected in the increased value of the ERC (84-months) from £1,028.6 million to £1,339.1 million, an increase of 30.2%.

All portfolios continue to be monitored carefully and where appropriate adjusted for in the ERC forecast based upon our detailed modeling. Although it has increased in total, the ERC has been adjusted down for our expectation of credit balances and a historic claim on one of the Portuguese portfolios.

Core collections increased

Core collections increased to £286.0 million (2015: £218.5 million) coming from over 7.7 million individual payments (2015: 7.5 million), reflecting the increase in our portfolio asset base. Collections were ahead of our ERC forecast and reflect a higher proportion of collections coming from recently acquired portfolios and the impact of collection strategy initiatives, such as litigation, the digital customer portal, and the increased use of data sources.

Collections on UK books in particular have performed strongly in the year and the performance on the acquired Dutch portfolios has also been pleasing. Collections on our Portuguese portfolios have largely performed behind our expectations, due to delays in the migration of accounts from a third party servicer to in-house, and processing delays with the courts. We expect performance in Portugal to improve in 2017.

As at 31 December 2016, we have cumulatively collected 103% of our original underwriting forecast (2015: 102%) excluding foreign exchange impacts, reflecting the success of our data driven approach to underwriting.

Revenues and EBITDA increased
Total revenue for the year was £235.9 million, an increase of 42.6% from the 2015 comparative of £165.5 million. £38.9 million reflected the increase in purchased loan portfolios and loan notes and £31.6 million was from asset management services. The latter was due to a full period of results for Whitestar and the acquisition of Vesting in May 2016.

The increase in collections drove an increase in Adjusted EBITDA of 36.7% to £209.2 million (2015: £153.1 million). Adjusted EBITDA is a key driver of the cash result and allows us to monitor the operating performance of the Group.

Total income from asset management in 2016 was 20% of total revenue, and we expect this to increase to approximately 25% in 2017.

Reflective of the enlarged business, collection costs increased by 34.3% to £70.3 million (2015: £52.3 million). During the year we completed the rationalisation of our UK panel and the associated migration of the accounts to our in-house operation, delivering the full benefit of the Capquest acquisition synergies.

Profit after tax

Profit after tax decreased from £31.7 million in 2015 to £26.3 million for the year, as we saw the impact of the non-recurring items offsetting the growth in underlying profit after tax. We saw positive results of £2.4 million from our 15% economic interest in French market leader, MCS. During the final quarter of 2016, we received a distribution of €8 million (£6.8 million), which will impact our share of profits from 2017 onwards.

Non-recurring items of £18.0 million arose on refinancing the £220 million fixed rate note and the Group's RCF, and £5.0 million arose on the strategic corporate acquisitions of Vesting Finance and Redrock Capital Partners, S.A. that completed in the year and the agreed acquisition of Zenith Services S.p.A. These items are considered due to their size and nature to be outside of the normal operating activities of the Group. These items had a tax impact of £3.8 million. The cash impact of the financing and operating expenses for these non-recurring items in the year was £13.7 million.

The tax charge for 2016 represents an effective tax rate of 16.1% (2015: 19.2%) on profit before tax. The movement is mostly due to utilisation of historic trading losses being recognised and profits from associate already net of tax, offset by disallowable acquisition costs and a higher level of overseas taxable income at higher tax rates.

Net assets, funding and net debt

Net assets increased £22.0 million during the period, mostly reflecting the retained profit for the period of £26.3 million, foreign currency translation of £6.0 million and share-based payment movements of £3.2 million, offset by the final 2015 approved dividend and 2016 interim dividend paid totalling £14.1 million. The main driver of the translation movements was the significant movements in the Euro exchange rate from 1.35 at 31 December 2015 to 1.17 at 31 December 2016.

Net debt increased by £227.4 million to £816.0 million (2015: £588.6 million), driven by the acquisitions of Vesting and Redrock, organic portfolio purchases and foreign exchange.

The Group is committed to maintain its strong financial profile and aims to maintain the ratio of Net debt to Adjusted EBITDA between 3.5x-4.0x, achieving 3.9x compared to 3.8x in 2015. Similarly, cash interest cover was 5.2x, comfortably ahead of target at greater than 4.0x, and ahead of 2015's 4.9x.

The ratio of Net debt to 84-month ERC (LTV) was 60.0% as at 31 December 2016 (2015: 57.2%), which is significantly below our financial covenant of 75%. The secured loan to value ratio is 57.0% (2015: 51.8%).

In July 2016, we refinanced our £180 million multi-currency RCF, provided by four banks. The new facility has a margin of 275bp, a reduction of 100bps from the previous facility. The commitment fee has also been reduced by 54bps. The new facility has an extended maturity of 31 July 2021.

As a reflection of our ability to continue to expand our franchise whilst maintaining our key credit ratios, on 1 August 2016 S&P upgraded the Group's credit rating to BB- from B+ and the Group's Notes credit rating from BB- to BB.

On 1 September 2016, we refinanced our £220 million fixed rate note, reducing its coupon from 7.875% to 5.125% decreasing the Group's overall cost of debt to just under 5% and the average debt facility maturity to six years.

In February 2017, Moody's upgraded the Group's credit rating and Notes rating to Ba3 from B1. In addition, the Group increased its RCF by £35 million to £215 million, adding a fifth bank.

Summary

Group performance was strong for the year. This was seen through the growth of the asset management business, expansion of our geographical footprint and a material reduction in our cost of capital and extended funding maturity.

We have a Group financial control framework across all geographies, which we will further embed during 2017 to ensure a continued consistent approach in the application of our accounting controls and policies. This is being further supported by investment in IT and finance systems during 2017.

Country Reviews

United Kingdom

Market overview

The UK has one of the most mature debt purchase and collection markets in Europe, characterised by a relatively high propensity of financial institutions to sell non-performing debt. This is driven by a large and well established consumer finance sector that continues to grow due to healthy volumes of new lending. Total unsecured consumer non-performing loans of approximately £32 billion are still estimated to be held by financial institutions.

The regulatory environment has continued to tighten and a number of banks have sought to rationalise their panels, both for debt purchase and debt placement. Increasing compliance costs for servicers, together with decreasing funding costs, data driven benefits and efficiencies derived from investment in operational excellence have all favoured larger established players such as Arrow Global. Brand, reputation and track record are all critical considerations for financial institutions considering an outright sale of a portfolio or the choice of a servicing partner, given reputational risk is to an extent retained.

Key 2016 highlights

- Appointment of Phil Marsland as UK chief executive officer strengthening the UK leadership team
- Receipt of full FCA authorisation and Lending Standards Board registration
- Building out of key infrastructure including further development of a digital portal, which has led to increased online customer engagement, and in-house servicing capabilities for student loan accounts
- Cost to collect improvements driven by extensive rationalisation of the external servicing panel
- £72.6 million of purchased loan portfolios acquired.

Outlook

We expect the supply of debt sale volumes across unsecured and secured markets to remain strong. The secured retail debt sale market has grown significantly in recent years, driven primarily by asset sales by a number of large financial institutions. This asset class is forecast to remain strong and offers an opportunity for further diversification and growth to the UK business.

Whilst the competitive environment will remain challenging, we have a healthy pipeline entering into 2017. Through the operational improvements, we continue to implement, and through the strength of our client relationships, we believe that we can be competitive in both on and off market opportunities.

Portugal

Market Overview

The Portuguese banking system continues to deleverage in a challenging operating environment. Banks remain liquid, but cost-cutting measures have not offset the drag on profitability from low interest margins and weak asset quality.

The deleveraging has helped banks to reduce risk-weighted assets and associated capital requirements, but repairing their financial position remains incomplete. The stock of legacy assets continues to weigh on the banking system, with provisions being insufficient to fully cover non-performing loans.

At the end of 2016, Portugal's private sector continues to be heavily indebted both in household and corporate debt, which as a percentage of GDP stands at around 77.6% and 143% respectively.

This market context remains favourable for our business. The European Banking Authority estimate that as at Q2 2016, non-performing loans in Portugal total around €40 billion.

Key 2016 Highlights

- Appointment of João Bugalho as chief executive of Whitestar
- Integration of Gesphone and Redrock acquisitions into the Whitestar platform strengthening our ability to service secured and unsecured loans
- Collections behind expectations, due to delays in accounts migration and processing delays in the courts. The ERC has been adjusted down for our expectation of a historic claim on one of the portfolios
- Maintained our market leading asset management position having on-boarded 16 transactions with a face value above €1.8 billion
- £109.8 million of purchased loan portfolios acquired.

Outlook

In line with other European markets, the Bank of Portugal is maintaining pressure on banks to reduce the volume of non-performing loans and non-core assets, while the Portuguese Government is also implementing reforms in order to force banks to resolve non-performing loans.

In 2017, we expect the continuation of significant debt portfolio sales as the banks look to further delever. We are well placed to support these divestments given our structuring, due diligence and servicing skills combined with strong relationships with financial institutions and credit funds.

We expect an increase in the number of transactions of SME/corporate portfolios, alongside a steady flow of individual residential and unsecured books.

Benelux

Market overview

Dutch financial institutions hold approximately €26 billion of non-performing loans outstanding, which generates in the region of €2.7 billion of sales value each year.

The largest five banks hold up to 90% of non-performing loans and we believe that the book value of these stands at 57% of gross value. Financial services dominate non-performing loans, but telecoms, utilities and consumer loans are also being sold in the Dutch market.

While non-performing loans sales historically have been less common than in other geographies, this is increasing and the Group is well placed to acquire these due to our long-standing banking relationships and the Vesting platform.

Key 2016 highlights

- Vesting chief executive officer, Joost van Rens, now in-country chief executive officer responsible for all Arrow Global assets in the geography
- Successful integration of Focum credit bureau into Vesting operations, helping optimise collection strategies on owned and third party portfolios
- Commencement of major investment in the servicing platform and IT infrastructure, scheduled to be completed in 2018
- Purchases of loan books from our asset management business, demonstrating the value of these relationships
- Landmark deal to acquire the servicing capability and co-investment in the loan book from RNHB Hypotheekbank, in the form of an investment in loan notes of £21.3 million
- £75.9 million of purchased loan portfolios and loan notes acquired.

Outlook

As with most European markets, the pressure on structural reform from both government and regulators is increasing and Dutch banks will need to deleverage.

We expect compliance requirements for those who participate in the market to increase. In the UK, we have seen panel sizes reduce as a result of this. This provides an opportunity for well run and highly compliant businesses such as Arrow Group to take advantage of this as the non-performing loan market continues to accelerate from its current take-off phase.

France

The French market is the second largest retail credit market in Europe, with around €1.4 trillion in loans outstanding. It also has the third largest amount of non-performing loans at €41 billion.

We estimate that the French market is set to grow between €1.8 billion - €2.3 billion in 2018. We believe only around 4% of non-performing loans have so far been sold.

In France we have a 15% economic interest in the French market leader, MCS Group. Our relationship with MCS offers a low-risk entry to the growing French non-performing loan market.

Italy

The Italian banking market continues to experience challenges surrounding asset quality, capital adequacy and profitability. In July 2016, the European Banking Authority stress test results highlighted Italy's banking problems and the recent events have confirmed the overall fragility of the system.

The Italian servicing market is continuing to experience solid growth, which is attributable to portfolio sales as well as an increasing number of financial institutions outsourcing their bad loans management.

According to PwC its expectation for 2017 is that there is around €50 billion of transactions that may come to market via securitisations.

In December, we agreed terms to purchase Zenith, a master servicer, focused on the Italian structured finance market. The acquisition is expected to complete in the first half of 2017.

Zenith has developed a reputation for quality and service in a complex, regulated market with €14.9 billion assets under management across multiple asset classes. It has a strong and established client base of leading Italian and international banks and funds, offering the Group an excellent platform to grow its business in Italy.

Equity Case: our competitive position will continue to create value

Looking ahead we see four distinct areas where our business model and how we operate provides a compelling competitive position. These are:

- **High growth** – a highly visible runway of significant long-term growth
- **Operational excellence** – drives competitive advantage and is the foundation of our financial performance
- **Financial excellence** – highly predictable cash generated business, prudently funded
- **Strong returns** – a sustainably-high return business model, allowing self-funded growth and capital distribution.

HIGH GROWTH

Market potential

PWC predicts that European banks need to divest €2.3 trillion of non-performing loans and non-core assets. Within the markets where we operate, we estimate there is more than €50 billion face value of debt sales each year.

European banks are heavily reliant on deposit funding across Europe, where its banks utilise €45 trillion in deposits compared to the €16 trillion USA banks fund in a similar way. Against this backdrop and the 2008 financial crisis, increased regulation and associated capital adequacy requirements such as the Asset Quality Review (AQR), and accounting changes, such as IFRS 9, means that European banks are being asked to raise equity.

With European bank return on capital (ROE) at relatively low levels, this creates structural challenges for financial institutions, as it is difficult to raise new equity from investors. As a result, European banks are choosing, or in some instances through regulatory and government pressure, being forced to restructure. The favoured option is to deleverage by releasing large pools of non-core and non-performing assets to be sold, creating long-term opportunities for Arrow.

We have consistently increased the annual level of organic portfolio investment, with £223 million deployed in 2016. Given the size of the market potential, we feel confident in deploying around twice our replacement rate annually over the medium-term.

Arrow's strong origination franchise provides long-term opportunities

With circa 110 client relationships, we are a leading partner to support financial institutions to move assets to a mix of credit funds, securitisations, and our own statement of financial position.

In the geographies where we operate we have market leading platforms, which underpin our ability to offer tailored solutions, such as debt purchase, asset management and consortium structures. This makes Arrow relevant in helping the banks divest across asset classes and transaction types.

For larger transactions, we typically participate in consortium structures where we will work with a credit fund, co-invest in the portfolio, and then asset manage the full portfolio on behalf of the consortium. This helps improve our returns from the one portfolio purchase.

Given the very long lifespan of the assets, we will often purchase the tail of the asset from the credit fund as a secondary purchase.

In 2016, we deployed £223 million in organic portfolio purchases, 39.2% was in consortium transactions, with a further £483.7 million deployed by our partners.

The assets that we acquire have a long life, providing significant visibility of future servicing opportunities, buying opportunities, cash flows and pipeline.

We have key relationships in all the countries we operate, offering opportunities to secure 'off-market' trades, as well as competing strongly in competitive auctions. In 2016, 72.4% of our origination came via off market transactions, with the remaining 27.6% through competitive bids. Moreover, 52.7% of our total investments of £258.4m came from repeat business with existing clients.

An attractive mix of business and diversification improves earnings

We operate across an increasing and diversified range of geographies, and are not tied to the fortunes of any one country. We hold portfolios in multiple asset classes, but within each country we invest in different asset classes that are suited to the local market. In some markets, we will focus on unsecured debt, while in others we have invested in secured real estate and securitised assets.

In 2016, our organic and acquired loan portfolio of £258.4 million split by geography was: 42.5% in Portugal, 28.1% in the UK and 29.4% in the Netherlands.

This strengthening of our market position provides greater opportunities for the Group to evaluate transactions, enabling us to deploy increasing levels of capital whilst maintaining investment discipline. This ensures investments continue to achieve target returns.

As part of our origination strategy we have been growing our asset management capability. This re-balances our income from purely debt purchases to include more capital-light servicing and asset management revenue. We have grown asset management revenues from 9% in 2015 to 20% of Group revenue in 2016. In 2017, we expect to grow the revenues from servicing and asset management to approximately 25% of the Group's total revenue.

This provides us with the flexibility of where we deploy our investment capital, and gives us the option to partner with credit funds, which in turn, helps us spread and diversify risk and drive profit.

OPERATIONAL EXCELLENCE

Expertise in data and analytics

From our creation in 2005, we constructed our own proprietary data repository which now has tens of millions of records. The richness of the data assets we hold informs our investment decisions, our collections strategies and also the best treatment for our customers.

As we have expanded our business we have acquired additional historic data on credit performance in different European markets. The intelligent analysis of this combined data means we have significant insights into customer behaviours, which help us deliver better customer outcomes.

We continue to evolve our data assets and models to improve our understanding of our customers' individual circumstances. This, combined with an efficient operation, allows us to pay a fair price for a portfolio whilst still maintaining good returns.

In the UK, the number of records in our Proprietary Collection Bureau (PCB), our unique data matching tool designed in conjunction with Experian, has grown to 23.8 million (2015: 22.5 million). For a typical UK financial services portfolio, we are able to match approximately 44% of records. We therefore know or already have a relationship with this proportion of the portfolio.

PCB now works alongside other elements of a wider data warehouse developed after our acquisition of Capquest. All of this feeds into our operational IT platform.

In the Netherlands, in addition to the historic performance data acquired with the Vesting back book, we now own Focum, a credit bureau that holds more than 10.5 million customer records. We see further potential to leverage these data sets across our operation.

Track record of underwriting discipline

We operate a well-defined underwriting and investment process and have a robust governance structure in place, helping to ensure that we acquire portfolios in line with our target returns and risk management framework.

We have developed a number of proprietary underwriting models that leverage our data assets. These models forecast cash flow at an individual account level based upon certain attributes. Due to the significant portfolio assets we hold, and the data systems at our disposal, when we assess a portfolio through statistical modelling, we are able to identify and match a large percentage of its customers. This allows us to price more accurately and supports us in treating customers fairly when we look to collect on the portfolio.

Cumulatively we have collected 103% of our pre purchase underwriting forecast (2015: 102%), demonstrating our overall accuracy.

Following the acquisition of a portfolio, we monitor performance to ensure that deviations in performance are understood. Models are developed or updated to ensure we continually learn from under or over performance.

Continual improvement in the customer journey

We work with our customers, leading debt charities, industry bodies and third party research agencies to help us understand our customers' needs. We aim to establish long-term affordable repayment plans, which helps our customers' rehabilitate their credit listing and gain access to more affordable mainstream financial products.

Through our data models, we are able to build consolidated customer profiles that reflect customers' current circumstances and invest in leading customer service platforms to ensure that all our customers get the best service. In the UK, our collections colleagues are rewarded based on the customer outcomes they achieve, rather than the amount they collect.

2016 saw further development of our digital capability. Following the launch of our UK digital customer portal in October, there was a significant increase in the number of customers choosing to interact online and we saw a 60% increase in online payments.

In the UK, our new fully integrated customer service platform gives us greater flexibility to work across multiple asset classes, performing and non-performing loans. This allows us to develop a true single customer view and assist in making more informed collections decisions.

Every collections colleague receives specialist training in handling vulnerable customers and all collection staff regularly undertake refresher courses.

FINANCIAL EXCELLENCE

Estimated remaining collections (ERC) provides long-term cash flow visibility

We quote an 84-month and 120-month ERC forecast as key metrics for the business, however our cash flow analysis extends beyond 15 years. As at 31 December 2016, the 84-month ERC increased to £1.3 billion and 120-month ERC to £1.5 billion.

The statement of financial position carrying value for purchased loan portfolios is supported by the 84-month rolling ERC, which we consider to be prudent. Each year we roll the ERC forward to include the additional year of collections, as our expected cash flows extend beyond 84-months.

The ERC is forecast at an individual account level and is updated twice a year to reflect actual and expected collections performance. The Portfolio Review Committee (PRC) meets regularly to review and challenge the latest forecast and judgements. The PRC reports to the audit committee twice a year.

The ERC is underpinned by more than 600,000 customer accounts that have paid the Group in the last three months. These accounts have a current face value of £1.7 billion meaning the Group has 1.3 times coverage of the ERC from existing customers.

The ERC provides significant cash flow visibility. For example, 75% of collections in 2016 came from portfolios we owned on 1 January 2016.

In order to maintain our ERC we need to invest at our replacement rate (maintenance capex).

Asset management creates capital-light revenues

By developing our servicing and asset management proposition as part of our origination strategy, we have increased the level of capital light revenues and cash flows.

Our asset management contracts are long-term in nature, averaging approximately five years in term. The revenues we generate are typically fee income, based upon collections performance of similar assets to those that we own in the ERC. These assets, therefore, have similar long-term collection forecasts that support earnings visibility.

We have grown asset management revenues from 9% in 2015 to 20% of Group revenue in 2016. In 2017, we expect to grow the revenues from servicing and asset management to approximately 25% of the Group's total revenue.

Balanced Capital Structure with reducing cost of capital

Our statement of financial position is robust, and reflects our commitment to maintaining a strong financial profile together with the increasingly diverse asset base we now hold. We fund largely at a Group level.

Our debt funding sources are diverse, ensuring that we are not overly reliant on one funding source and that we will be able to support our business growth.

Our debt funding facilities are a mix of senior secured listed notes (bonds) and a revolving credit facility that provides statement of financial position liquidity. The bonds are fixed and floating rate with maturity dates ranging from November 2021 to September 2024, whilst the revolving credit facility matures in July 2021. The bonds are denominated in a mixture of Sterling and Euro and our revolving credit facility can be drawn in either currency.

Our financial policy is based upon the following metrics:

- Leverage: Net debt to Adjusted EBITDA of between 3.5-4 times, actual 3.9 times
- Loan to Value: Secured Net debt / 84m ERC: 60%, actual 57.0%
- Cash cover: Adjusted EBITDA / Cash interest: >4 times, actual 5.2 times

The track record that the business has shown of growing, diversifying and maintaining ratios within our financial policy has supported improvements in our cost of capital and our credit rating. In the summer of 2016, we refinanced our revolving credit facility and our Sterling bond, reducing the cost of these facilities by 100bp and 275bp respectively. During 2016, the Group's credit rating was upgraded to BB- by Standard and Poor's. In February 2017, the Group's credit rating was upgraded to Ba3 by Moody's.

The combination of these diverse debt funding sources results in long-term funding facilities with an average maturity of six years, and a total cost of funding of just under 5%.

STRONG RETURNS

Our leading origination franchise operating in growth markets combined with the areas of excellence outlined above have enabled us to deliver strong returns that we believe are sustainable.

We continue to exceed our key financial targets:

- High teen underlying basic EPS growth: 2016: 28.5%
- Mid twenties underlying ROE: 2016: 29.1%

In addition, the strong cash result driven by the portfolio returns, increase in asset management revenues and reducing our cost of capital enables the business to pay an increasing dividend to shareholders alongside investing in growth. Our full-year dividend, including the proposed final dividend of 6.4p, of 9.1p has grown from 7.1p in 2015 (28.7%).

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2016

	Note	31 December 2016 £000	31 December 2015 £000
Continuing operations			
Revenue			
Income from purchased loan portfolios	9	188,914	150,238
Profit on portfolio sales		701	503
Total revenue from portfolios		189,615	150,741
Income from asset management		46,315	14,713
Total revenue		**235,930**	**165,454**
Operating expenses			
Collection activity costs		(70,261)	(52,303)
Recurring other operating expenses	4	(65,615)	(34,205)
Non-recurring other operating expenses			
Costs arising from business acquisitions		*(5,022)*	*(1,491)*
Company integration		-	*(1,452)*
IPO related costs		-	*(1,366)*
Total other operating expenses	4	**(70,637)**	**(38,514)**
Total operating expenses		**(140,898)**	**(90,817)**
Operating profit		**95,032**	**74,637**
Finance income		813	152
Recurring finance costs	3	(48,847)	(36,760)
Non-recurring finance costs			
Bond related and RCF refinancing costs		*(17,994)*	-
Total finance costs	3	**(66,841)**	**(36,760)**
Share of profit in associate net of tax		2,363	1,243
Profit before tax		**31,367**	**39,272**
Recurring taxation charge on ordinary activities		(8,816)	(8,180)
Tax on non-recurring items		*3,755*	*657*
Taxation charge on ordinary activities	6	(5,061)	(7,523)
Profit after tax		**26,306**	***31,749***
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
FX translation difference arising on revaluation of foreign operations		5,954	34
Hedging movement		670	(615)
Items that will not be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		(10)	-
Total comprehensive income		**32,920**	**31,168**
Profit after tax attributable to:			
Owners of the company		26,305	31,749
Non-controlling interest		1	-
		26,306	**31,749**
Underlying profit after tax		***45,567***	***35,401***
Basic EPS (£)	5	**0.15**	**0.18**
Diluted EPS (£)	5	**0.15**	**0.18**

Consolidated statement of financial position

As at 31 December 2016

Assets	**Note**	**31 December 2016 £000**	**31 December 2015 £000**
Non-current assets			
Goodwill	8	128,081	79,490
Other intangible assets		39,144	20,643
Property, plant and equipment		3,584	3,649
Investment in associate		10,371	12,158
Loan notes	9	-	862
Deferred tax asset		3,692	639
Total non-current assets		**184,872**	**117,441**
Current assets			
Cash and cash equivalents		23,203	10,183
Other receivables		35,484	34,781
Purchased loan portfolios	9	782,792	609,793
Loan notes	9	21,315	-
Total current assets		**862,794**	**654,757**
Total assets		**1,047,666**	**772,198**
Equity			
Share capital		1,744	1,744
Share premium		347,436	347,436
Retained earnings		92,327	76, 916
Hedging reserve		(632)	(1,302)
Other reserves		(273,484)	(279,438)
Total equity attributable to shareholders		**167,391**	**145,356**
Liabilities			
Non-current liabilities			
Senior secured notes	12	681,158	447,545
Trade and other payables	10	-	7,648
Deferred tax liability		14,859	4,396
Defined benefit liability		1,721	-
Total non-current liabilities		**697,738**	**459,589**
Current liabilities			
Trade and other payables	10	76,261	83,906
Derivative liability		1,433	1,281
Current tax liability		5,469	3,755
Revolving credit facility	12	74,169	71,479
Bank overdrafts	12	7,698	-
Other borrowings	12	12,077	-
Senior secured notes	12	5,430	6,832
Total current liabilities		**182,537**	**167,253**
Total liabilities		**880,275**	**626,842**
Total equity and liabilities		**1,047,666**	**772,198**

Consolidated statement of changes in equity
For the year ended 31 December 2016

	Ordinary shares £000	Share premium £000	Retained earnings £000	Hedging reserve £000	Own share reserve* £000	Translation reserve* £000	Merger reserve* £000	Total £000	Non-controlling interest £000	Total £000
Balance at 1 January 2015	**1,744**	**347,436**	**51,479**	**(687)**	**(562)**	**(575)**	**(276,961)**	**121,874**	–	**121,874**
Profit after tax	–	–	31,749	–	–	–	–	31,749	–	31,749
Exchange differences	–	–	–	–	–	34	–	34	–	34
Net fair value losses – cash flow hedges	–	–	–	(729)	–	–	–	(729)	–	(729)
Tax on hedged items	–	–	–	114	–	–	–	114	–	114
Total comprehensive income for the year	–	–	31,749	(615)	–	34	–	31,168	–	31,168
Repurchase of own shares	–	–	–	–	(1,374)	–	–	(1,374)	–	(1,374)
Share-based payments	–	–	2,577	–	–	–	–	2,577	–	2,577
Dividend paid	–	–	(8,889)	–	–	–	–	(8,889)	–	(8,889)
Balance at 31 December 2015	**1,744**	**347,436**	**76,916**	**(1,302)**	**(1,936)**	**(541)**	**(276,961)**	**145,356**	**-**	**145,356**
Profit after tax	-	-	26,305	-	-	-	-	26,305	1	26,306
Exchange differences	-	-	-	-	-	5,954	-	5,954	20	5,974
Net fair value losses – cash flow hedges	-	-	-	827	-	-	-	827	-	827
Tax on hedged items	-	-	-	(157)	-	-	-	(157)	-	(157)
Remeasurements of the defined benefit liability	-	-	(10)	-	-	-	-	(10)	-	(10)
Total comprehensive income for the year	-	-	26,295	670	-	5,954	-	32,919	21	32,940
Share-based payments	-	-	3,239	-	-	-	-	3,239	-	3,239
Dividend paid	-	-	(14,123)	-	-	-	-	(14,123)	-	(14,123)
Non-controlling interest on acquisition	-	-	-	-	-	-	-	-	394	394
Settlement of non-controlling interest	-	-	-	-	-	-	-	-	(415)	(415)
Balance at 31 December 2016	**1,744**	**347,436**	**92,327**	**(632)**	**(1,936)**	**5,413**	**(276,961)**	**167,391**	**-**	**167,391**

*Other reserves total £273,484,000 deficit (2015: £279,438,000 deficit)

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.

Own share reserve

The own share reserve comprises the cost of the Company's ordinary shares held by the Group. At 31 December 2016, the Company held 66,277 ordinary shares of 1p each, held in an employee benefit trust. This represents 0.04% of the Company share capital at 31 December 2016.

Consolidated statement of cash flows
For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Net cash used in operating activities	**14**	**(26,217)**	**(56,294)**
Investing activities			
Purchase of property, plant and equipment		(525)	(920)
Purchase of intangible assets		(7,412)	(8,618)
Proceeds from disposal of intangible assets and property, plant and equipment		643	-
Dividends received from associate		6,820	658
Additional investment in associate		(1,305)	-
Acquisition of subsidiaries, net of cash acquired		(62,465)	(15,581)
Acquisition of subsidiary, deferred consideration		(14,998)	-
Net cash used in investing activities		**(79,242)**	**(24,461)**
Financing activities			
Net proceeds from additional loans		12,193	35,835
Proceeds from senior notes (net of fees)		169,712	81,560
Early repayment of bond		(8,664)	-
Repayment of interest on senior notes		(36,915)	(27,365)
Repurchase of own shares		-	(1,374)
Receipt of loan notes		938	579
Bank fees paid		(4,389)	(4,304)
Payment of dividends		(14,123)	(8,889)
Payment of deferred interest		(1,071)	-
Settlement of non-controlling interest		(415)	-
Net cash flow generated by financing activities		**117,266**	**76,042**
Net increase/ (decrease) in cash and cash equivalents		**11,807**	**(4,713)**
Cash and cash equivalents at beginning of year		**10,183**	**14,542**
Effect of exchange rates on cash and cash equivalents		1,213	354
Cash and cash equivalents at end of year		**23,203**	**10,183**

1. Statutory information

This document does not constitute the Group's statutory accounts for the years ended 31 December 2015 or 31 December 2016 but is derived from those accounts. Statutory accounts for 31 December 2015 have been delivered to the Registrar of Companies, and those for 2016 will be delivered to the Registrar of Companies following the Group's annual general meeting.

The auditors have reported on the 2015 and 2016 accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The 2016 annual report, including the auditor's report, can be obtained free of charge on request to the Group at Belvedere, 12 Booth Street, Manchester, M2 4AW or, alternatively, can be downloaded at www.arrowglobal.net from April 2017. The 2015 annual report is already available via these routes.

The financial statements of the Group have been prepared under the historical cost convention. The accounting policies are the same as those disclosed in the annual report and accounts for the year ended 31 December 2016. The financial information included in this preliminary announcement is based on the Group's annual report and accounts for the year ended 31 December 2016, which are prepared in accordance with International Financial Reporting Standards (IFRSs) and in accordance with IFRSs adopted by the European Union.

The annual report and accounts for the year ended 31 December 2016 will be posted to shareholders in April 2017. The annual general meeting will take place on 24 May 2017.

The Group has one operating segment in line with the reporting in the Annual Reports and the carrying value of assets and liabilities is in line with their fair value.

2. General information

Arrow Global Group Plc is a company incorporated in England and Wales and is the ultimate parent company of the Group. The financial statements are presented in pounds sterling and rounded to the nearest thousand.

The Group's principal activity is to identify, acquire and manage secured and unsecured defaulted loan portfolios from financial institutions, such as banks and credit card companies, as well as retail chains, student loans, motor credit, telecommunication firms and utility companies.

The Group's financial statements for the year ended 31 December 2016 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.

3. Finance costs

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Finance costs		
Interest and similar charges on bank loans	5,370	8,991
Interest on senior secured notes	42,746	27,032
Other interest	731	737
Non-recurring interest and costs	17,994	-
Total finance costs (including non-recurring items)	**66,841**	**36,760**
Non-recurring finance costs	(17,994)	-
Recurring finance costs	**48,847**	**36,760**

Finance costs include a non-recurring cost of £17,994,000 relating to refinancing activity during the period. This comprised £15,026,000 incurred upon the early redemption of the £220 million notes due 2020, of which £8,664,000 was a cash cost related to the call premium and £6,362,000 a non-cash cost related to the write-off of previous transaction fees. In addition, upon the cancellation of the previous revolving credit facility £2,968,000 non-cash costs were incurred relating to the write-off of previous transaction fees.

4. Other operating expenses

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Staff costs	30,649	19,217
Other staff related costs	4,071	4,428
Premises	4,678	2,326
IT	7,033	2,594
Depreciation and amortisation	8,658	4,176
Net foreign exchange gains	(1,510)	(592)
Acquisition of subsidiaries	5,022	1,491
Other operating expenses	12,036	4,874
Total other operating expenses (including non-recurring items)	**70,637**	**38,514**
Non-recurring items:		
Costs arising from the acquisition of subsidiary	(5,022)	(1,491)
IPO related costs	-	(1,366)
Company integration	-	(1,452)
Total non-recurring items	**(5,022)**	**(4,309)**
Recurring other operating expenses	**65,615**	**34,205**

In the year to 31 December 2016, £5,022,000 of costs were incurred in relation to the completion of two acquisitions, Vesting Finance in the Netherlands and Redrock in Portugal, and the agreed acquisition of Zenith Services S.p.A.

5. Earnings per share (EPS)

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Basic/diluted EPS		
Underlying profit after tax	45,567	35,401
Profit after tax attributable to shareholders including non-recurring items	26,305	31,749
Weighted average ordinary shares	174,373	174,046
Potential exercise of share options	4,041	3,794
Weighted average ordinary shares (diluted)	178,414	177,840
Underlying basic earnings per share (£)	**0.26**	**0.20**
Basic earnings per share including non-recurring items (£)	**0.15**	**0.18**
Underlying diluted earnings per share (£)	**0.26**	**0.20**
Diluted earnings per share including non-recurring items (£)	**0.15**	**0.18**

6. Tax

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax. The effective tax rate for the year ended 31 December 2016 is lower than the standard rate of corporation tax in the UK at 20.0% (2015: 20.25%). The differences are as follows:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Profit before tax	**31,367**	**39,272**
Tax charge at standard UK corporation tax rate	6,273	7,952
Utilisation of tax losses previously unrecognised	(2,754)	-
Adjustment in respect of prior years	(46)	(862)
Expenses not deductible for tax purposes	1,391	473
Share in profit in associate reported net of tax	(472)	(252)
Differences in corporate tax rates	(329)	23
Differences on hedging arrangements	-	18
Differing overseas tax rates	1,259	171
Movements in unrecognised deferred tax	(469)	-
Chargeable gains	208	-
Tax charge	**5,061**	**7,523**
Effective tax rate relating to continuing operations	**16.1%**	**19.2%**
Standard UK corporation rate for the year	**20.0%**	**20.25%**
Effective tax rate higher/lower than standard UK corporation rate for the year	**Lower**	**Lower**

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Tax charge for the year consists of:		
Current tax charge:		
UK and foreign corporation tax based on profit after tax	7,055	8,691
Adjustment in respect of prior years	(2,871)	(642)
Total current tax charge	**4,184**	**8,049**
Deferred tax charge/(credit):		
Origination and reversal of temporary differences	1,234	(329)
Adjustment in respect of prior years	441	(220)
Movement in deferred tax previously not recognised	(469)	-
Differences in tax rates	(329)	23
Total tax charge	**5,061**	**7,523**

In the current year, we have recognised through current tax, a previously unrecognised deferred tax asset in relation to prior year losses has been recognised, which with profits in associate accounted for net of tax, deflates the current year tax charge. This is offset by an increase in expenses not deductible for tax purposes largely due to current year subsidiary acquisition costs, a higher level of taxable income coming from overseas countries with higher tax rates and a chargeable gain.

Deferred tax

The Group has not recognised a deferred tax asset in respect of £14,335,000 (2015: £28,168,000) of tax losses carried forward, due to uncertainties over the future utilisation of the losses including the future profitability of the relevant subsidiaries. These losses may be available for offset against future profits and have no expiry date.

The Finance Act 2016, which was substantively enacted in September 2016, included provisions to reduce the rate of UK corporation tax from 20% to 19% from 1 April 2017 and 17% from 1 April 2020. Deferred taxation is measured at the tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the statement of financial position date. Accordingly, deferred tax balances have generally been calculated using a rate of 17% in these accounts, apart from balances on overseas companies that are recognised at the relevant rate applicable in the appropriate jurisdictions.

6. Tax (continued)

Non-recurring tax

We have identified non-recurring items in the year amounting to £23,016,000 (2015: £4,309,000), with a £3,755,000 (2015: £657,000) associated tax impact.

7. Dividend

Dividends of £14,123,000 have been included in these financial statements, being the 2015 final dividend of 5.4p per share and the 2016 interim dividend of 2.7p per share. A final dividend for 2016 has been proposed of 6.4 pence per share taking the total declared and proposed dividends for the year ended 31 December 2016 to 9.1 pence, being 35% of underlying profit after tax. The proposed final dividend is subject to approval at the annual general meeting and has therefore not been included as a liability in these financial statements.

The 2016 interim dividend was declared at 50% of the 2015 final dividend with the subsequent final dividend being proposed based on the underlying profit after tax for the year.

The ex-dividend date for the final dividend is 8 June 2017 with a record date of 9 June 2017 and a payment date of 6 July 2017. Shareholders will have the opportunity to elect to reinvest their cash dividend and purchase existing shares in the Company through a dividend reinvestment plan.

8. Goodwill

	£000
Cost	
At 1 January 2015	49,932
Goodwill on acquisition of subsidiary	30,920
Exchange rate differences	947
At 31 December 2015	81,799
Goodwill on acquisition of subsidiary	40,371
Exchange rate differences	8,220
At 31 December 2016	**130,390**
Amortisation and impairment	
At 31 December 2015 and 31 December 2016	**2,309**
Net book value	
At 31 December 2016	**128,081**
At 31 December 2015	79,490

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). In relation to goodwill, the four CGUs identified are Benelux, comprising of all the Group companies acquired in the Vesting acquisition, Capquest group, comprising all group companies acquired in the Capquest acquisition, Portugal, comprising of all the Group companies acquired in the Whitestar, Gesphone and Redrock acquisitions, and Arrow Global Receivables Management Limited ("AGRML"). The Benelux, Capquest and Portugal CGUs, represent the cash flows generated principally from collections on acquired purchased loan portfolios and management of third party debt, and the AGRML CGU represents the cash flows generated principally from collections on purchased loan portfolios.

8. Goodwill (continued)

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

	31 December 2016 £000	31 December 2015 £000
Benelux	40,921	-
Capquest	45,608	45,608
Portugal	39,584	31,914
AGRML	1,968	1,968
	128,081	**79,490**

An impairment review was carried out at 31 December 2016 that resulted in no impairment to goodwill. The goodwill was assessed to be appropriately stated. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGUs is determined as the higher of fair value less cost to sell and value in use. The key assumptions for the value in use calculations are those regarding the discount rate and forecast cash collections net of direct collection costs, and allowable forecast synergies.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The starting point for determining the discount rates for each CGU was to use the Group's weighted average cost of capital ('WACC'), and adjust this for specific factors for each of the CGUs to derive a market participant's rate. The factors took into account the risks inherent in each of the CGUs, such as currency, regulatory, and economic risks and the different operations in the CGUs were also considered. As a result of applying the various risk factors noted above to the Group's WACC, a market participant rate of 6.09% was determined for the AGRML and Capquest CGUs, a rate of 6.84% was determined for the Portuguese CGU, and a rate of 6.34% was determined for the Benelux CGU.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows into perpetuity. The forecasts assume growth rates in collection activity which in turn drive the forecast collections and cost figures. These assumptions are in keeping with the directors' expectations of future growth. Appropriate tax rates are applied to the cash flow forecasts for each CGU.

The Group has conducted a sensitivity analysis on the impairment test of the CGUs carrying value. The CGUs would become impaired based on an unlevered post tax cash flow noted below, or based on an increase in the discount rate noted below.

Impairment in each CGU, would happen with -	**- a cashflow reduction of -**	**- a discount rate increase of -**
Capquest	16%	3%
Portugal	14%	3%
AGRML	7%	2%
Benelux	54%	8%

9. Financial assets

	31 December 2016 £000	31 December 2015 £000
Expected falling due after 1 year:		
Purchased loan portfolios	595,352	464,996
Loan notes	17,763	862
	613,115	**465,858**
Expected falling due within 1 year:		
Purchased loan portfolios	187,440	121,278
Loan notes	3,552	-
Purchased loan portfolios due to be resold	-	23,519
Total	**804,107**	**610,655**

9. Financial assets (continued)

Purchased loan portfolios

The Group recognises income from purchased loan portfolios in accordance with IAS 39. At 31 December 2016, the carrying amount of the purchased loan portfolio asset was £782,792,000 (2015: £609,793,000).
The movements in purchased loan portfolio assets were as follows:

	31 December 2016 £000	31 December 2015 £000
As at the year brought forward	609,793	477,513
Portfolios acquired during the year *	224,640	177,716
Purchased loan portfolios to be resold	(23,519)	23,519
Portfolios acquired through acquisition of a subsidiary	35,343	3,970
Collections in the year	(285,960)	(218,515)
Income from purchased loan portfolios	188,914	150,238
Exchange gain/(loss) on purchased loan portfolios	32,880	(5,151)
Disposal of purchased loan portfolios	701	503
As at the year end	**782,792**	**609,793**

* Inclusive of portfolio expenditure and recoverable litigation expenditure of £22,940,000 (2015: £1,406,000)

10. Trade and other payables

Current	**Note**	**31 December 2016 £000**	**31 December 2015 £000**
Trade payables		13,536	9,408
Deferred consideration on acquisition of subsidiary		9,230	14,278
Deferred consideration on purchased loan portfolios		26,171	28,223
Deferred consideration on portfolio to be resold		-	23,519
Taxation and social security		121	121
Other liabilities and accruals		27,203	8,357
		76,261	**83,906**

Non-current	**31 December 2016 £000**	**31 December 2015 £000**
Deferred consideration on acquisition of subsidiary	-	7,648
	-	**7,648**

11. Related party transactions

Related party balances as at each year end were as follows:

	Key management personnel	Total
As at 31 December 2016 and 2015:	**£000**	**£000**
Trade	-	-
	-	**-**

Summary of transactions

Key management, defined as permanent members of the executive committee, received the following compensation during the year.

Remuneration	**31 December 2016 £000**	**31 December 2015 £000**
Salaries and performance related bonus	4,080	2,487
Pension-related benefits	184	160
	4,264	**2,647**

Non-executive director, Iain Cornish, was appointed Chairman of Shawbrook Group Plc during 2015. Shawbrook was part of the consortium of our revolving credit facility lenders up until July 2016. There have been no related party transactions with Shawbrook during this period.

During the year there were no other related party transactions other than discussed above.

12. Borrowings and facilities

Secured borrowing at amortised cost	**31 December 2016 £000**	**31 December 2015 £000**
Senior secured notes (net of transaction fees of £20,562,000, 2015: £19,286,000)	681,158	447,545
Revolving credit facility (net of transaction fees of £2,756,000, 2015: £3,521,000)	74,169	71,479
Senior secured notes interest	5,430	6,832
Bank overdrafts	7,698	-
Other borrowings – non-recourse debt	12,077	-
	780,532	**525,856**
Total borrowings:		
Amount due for settlement within 12 months	**87,297**	**78,311**
Amount due for settlement after 12 months	**693,235**	**447,545**

Senior secured notes

On 1 September 2016, the Group issued £220 million senior secured notes at a fixed rate of 5.125% due 2024 (the '2024 Sterling Senior Notes'). Interest is paid bi-annually. The 2024 Sterling Senior Notes can be redeemed in full or in part on or after 15 September 2019 at the Group's option. Prior to 15 September 2019, the Group may redeem, at its option, some or all of the 2024 Sterling Senior Notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable make-whole premium.

On 1 September 2016, upon issuance of the 2024 Sterling Senior Notes, the Group redeemed the £220 million senior secured notes due 2020 (the '2020 Sterling Senior Notes') which were issued in January 2013. Upon redemption of the 2020 Sterling Senior Notes, the Group incurred non-recurring costs of £15.0 million details of which are included within finance costs (see note 3).

On 14 April 2016, the Group issued €230 million senior secured notes due 2023, at a floating rate of 4.75% over three-month EURIBOR (the '2023 Euro Senior Notes'). Interest is paid quarterly in arrears. The 2023 Euro Senior Notes can be redeemed in full or in part on or after 1 May 2019 at the Group's option. Prior to 1 May 2019, the Group may redeem, at its option, some or all of the 2023 Euro Senior Notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable make-whole premium.

12. Borrowings and facilities (continued)

On 28 September 2015, the Group increased the outstanding amount of its 5.25% over three-month EURIBOR floating rate senior secured notes ('the 2021 Euro Senior Notes') by €110 million, bring the total amount outstanding to €335 million. The Group issued the original €225 million tranche of its 2021 Euro Senior Notes on 4 November 2014. Interest is paid quarterly in arrears. Derivative contracts have been used to fix the floating rate margin of the euro senior notes for the period through to December 2018. The 2021 Euro Senior Notes can be redeemed in full or in part on or after 1 November 2017 at the Group's option. Prior to 1 November 2017, the Group may redeem, at its option, some or all of the euro senior notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable make-whole premium.

The euro senior notes and sterling senior notes are secured by substantially all of the assets of the Group.

Revolving credit facility

On 21 July 2016, The Group entered into a new £180 million revolving credit facility (the 'Revolving Credit Facility') with The Royal Bank of Scotland Plc acting as security agent for a syndicate of participating financial institutions. The Revolving Credit Facility has a margin of 2.75% and a committed term to 31 July 2021. The Group is required to pay a commitment fee at a rate of 35% of the margin per annum on the undrawn portion of each Lender's commitment. The Revolving Credit Facility is secured by the same assets as the 2021 Euro Senior Notes, 2023 Euro Senior Notes and 2024 Sterling Senior Notes and ranks super senior to these. The assets that are secured are those of the Arrow Global Guernsey Holdings Limited group. On 24 February 2017 the commitments under the Revolving Credit Facility were increased from £180 million to £215 million.

On 21 July 2016, the Group cancelled its existing revolving credit facility (the 'Original Revolving Credit Facility'). Upon cancellation the Group incurred non-recurring costs of £3.0 million, these costs are included within finance costs (see note 3).

On 31 March 2015, the Group amended the Original Revolving Credit Facility to increase the commitments available under the facility from £100 million to £140 million. On 22 June 2015, the commitments were further increased to £165 million. The RCF was drawn by £75 million as at 31 December 2015. On the 9 February 2016, the commitments were further increased from £165 million to £180 million.

Under the Original Revolving Credit Facility, the Group was required to pay a commitment fee at a rate of 40% of the applicable margin per annum on the undrawn portion of each lender's commitment.

13. Acquisition of a subsidiary undertaking

InVesting

On 4 May 2016, the Group acquired 100% of the ordinary share capital of InVesting B.V. (subsequently renamed Arrow Global Investments Holdings Benelux B.V.). InVesting has a similar principal activity as the Group, is a leading consumer debt purchaser and third party collections provider with operations both in the Netherlands and Belgium.

The Group paid cash consideration of €76,964,000 (£60,649,000) and contingent consideration of €270,000 (£213,000), with an additional requirement to repay outstanding loans and other costs of €12,280,000 (£9,677,000). The contingent consideration is payable on the one year anniversary of the transaction and has been included at its fair value, at the amount contractually agreed. The contingent consideration is based on the previous shareholders fulfilling their service responsibilities for 12 months post acquisition; management deem this to be highly probable at the reporting date. Included within the opening net assets are debt liabilities of £18,412,000, comprising an overdraft with a facility limit of €20 million, drawn at the acquisition date to the value €11,084,000 (£8,735,000) and an intercompany loan of €12,280,000 (£9,677,000) from an entity of the previous Group. Further to this an intercompany loan of €12,280,000 (£9,677,000) was created between Arrow Global Investments Holdings Limited and Investing.

Goodwill of €47,995,000 (£37,821,000) was created as a result of this acquisition. The primary reasons for the acquisition were to create scale and servicing capability across multiple asset classes and to create a market leader within the Benelux market.

In the period from acquisition to 31 December 2016, InVesting contributed revenue of £40,580,000 and profit of £7,729,000 to the consolidated results for the period. If the acquisition had occurred on the first day of 1 January 2016, Group total revenue would have been an estimated £250,538,000 and profit after tax would have been an estimated £27,531,000.

13. Acquisition of a subsidiary undertaking (continued)

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Total £000
Purchased loan portfolios	35,343
Other intangible assets	16,388
Property, plant and equipment	582
Deferred tax asset	3,210
Other receivables	10,775
Cash and cash equivalents	696
Trade and other payables	(23,924)
Defined benefit liability	(1,470)
Bank overdraft	(8,735)
Deferred tax liability	(9,276)
Current tax liability	(154)
	23,435
Minority interest	(394)
	23,041
Goodwill on acquisition	37,821
	60,862
Consideration:	
Cash	60,649
Contingent consideration	213
	60,862

Goodwill of £5,410,000 previously recognised in Investing is not an identifiable asset when applying acquisition accounting and has therefore been written off through fair value adjustments accordingly.

Purchased loan portfolios had a fair value at acquisition of £35,343,000. The fair value has been assessed using a methodology consistent with the Group's other purchased loan portfolios. An intangible asset of £13,850,000 was recognised at acquisition being the fair value of expected cash flows over a 7 year period arising from contractual and non-contractual customer relationships discounted appropriately. A deferred tax liability has been recognised, with respect to the customer intangible asset and the difference between the fair value of the purchased loan portfolios and the seller's balance sheet carrying value.

A fair value adjustment of £400,000 arose to reduce the deferred tax asset, reflecting the uncertainty over the amounts and timing of historical tax losses.

Other receivables in the acquired entities comprise gross contracted amounts of £3,675,000. There is doubt over the recoverability of £47,000 of this amount, being a specific provision against an overdue amount.

The minority interest was recorded at fair value at the acquisition date.

Redrock

On 29 February 2016, the Group acquired 100% of the ordinary share capital of Redrock Capital Partners, S.A. satisfied with cash of €3,200,000 (£2,515,000), together with deferred consideration of €454,000 (£357,000) being a total consideration of €3,654,000 (£2,872,000). The deferred consideration is payable on the one year anniversary of the transaction and has been included at its fair value. Redrock has a similar principal activity as the Group being the management and servicing of non-performing debt portfolios on behalf of third party clients and the Group in Portugal.

13. Acquisition of a subsidiary undertaking (continued)

Redrock (continued)

Goodwill of €3,244,000 (£2,550,000) was created as a result of this acquisition. The primary reasons for the acquisition, which makes up the goodwill, were to enable further synergy gains within the Portuguese CGU from a combination of lower servicing costs and more control over owned loan portfolios. This also allows focus on low valuation collections.

In the period from acquisition to 31 December 2016, Redrock contributed revenue of £268,000 and loss of £386,000 to the consolidated results for the period. If the acquisition had occurred on the first day of 1 January 2016, Group total revenue would have been £235,959,000 and profit after tax would have been £26,325,000.

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Total £000
Other intangible assets	407
Deferred tax asset	28
Other receivables	417
Cash and cash equivalents	3
Trade and other payables	(399)
Deferred tax liability	(134)
	322
Goodwill on acquisition	2,550
	2,872
Consideration:	
Cash	2,515
Deferred consideration	357
	2,872

An intangible asset of £407,000 was recognised at acquisition being the fair value of expected cash flows over a 7 year period arising from contractual and non-contractual customer relationships discounted appropriately. A deferred tax liability has been recognised, with respect to the customer intangible asset. The fair value of plant, property and equipment within Redrock was assessed to be nil following the relocation of the Redrock office.

Other receivables in the acquired entity comprise gross contracted amounts of £315,000. There are no provisions for overdue amounts.

Acquisition expenses

The Group incurred acquisition expenses of £5,022,000 in relation to the acquisitions of InVesting and Redrock and the agreed acquisition of Zenith, which has been charged to the statement of profit or loss and other comprehensive income and included within other operating expenses and has been disclosed as a non-recurring cost.

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 not made available to the Group at the acquisition date. If any additional material changes are required within this measurement period, these will be reflected in the 2017 half year results of the Group.

14. Notes to the cash flow statement

Cash flows from operating activities	Group Year ended 31 December 2016 £000	Group Year ended 31 December 2015 £000
Profit before tax	31,367	39,272
Adjusted for:		
Collections in the year*	285,960	218,515
Income from purchased loan portfolios*	(188,914)	(150,238)
Profit on disposal of purchased loan portfolios	(701)	(503)
Share in profit in associate	(2,363)	(1,243)
Depreciation and amortisation	8,658	4,176
Net interest payable	66,028	36,485
Foreign exchange gains	(1,510)	(946)
Loss on fair values on derivatives	-	123
Equity settled share-based payment expenses	3,061	2,577
Operating cash flows before movement in working capital	**201,586**	**148,218**
Increase in other receivables	(9,243)	(16,285)
Increase in trade and other payables	7,305	18,226
Cash generated by operations	**199,648**	**150,159**
Income taxes and overseas taxation paid	(2,850)	(6,624)
Net cash flow from operating activities before purchases of loan portfolios and loan notes	**196,798**	**143,535**
Purchase of loans purchased for resale	-	(23,519)
Purchase of purchased loan portfolios	(201,700)	(176,310)
Purchase of loan notes	(21,315)	-
Net cash used in operating activities	**(26,217)**	**(56,294)**

*amortisation is the net of collections in the year and income from purchased loan portfolios

Glossary

'Adjusted EBITDA' means profit before interest, tax, depreciation, amortisation, foreign exchange gains or losses and non-recurring items. The Adjusted EBITDA reconciliations for the year to 31 December are shown below:

Reconciliation of net cash flow to EBITDA	31 December 2016 £000	31 December 2015 £000
Net cash flow used in operating activities	(26,217)	(56,294)
Purchases of loan portfolios	201,700	176,310
Purchase of loan notes	21,315	-
Purchases of loan portfolios to be resold	-	23,519
Income taxes paid	2,850	6,624
Working capital adjustments	1,938	(1,942)
Amortisation of acquisition and bank facility fee	276	303
Effect of exchange rates on cash and cash equivalents	-	354
Share of profit from associate	2,363	1,243
Non-recurring items	5,022	2,943
Adjusted EBITDA	**209,247**	**153,060**
Reconciliation of core collections to EBITDA	**£000**	**£000**
Income from loan portfolios	188,914	150,238
Portfolio amortisation	97,046	68,277
Core collections (includes proceeds from disposal of purchased loan portfolios)	**285,960**	**218,515**
Other income	46,315	14,713
Operating expenses	(140,898)	(90,817)
Depreciation and amortisation	8,658	4,176
Foreign exchange (gains)/losses	(1,510)	(592)
Amortisation of acquisition and bank facility fees	276	303
Share of profit on associate	2,363	1,243
Share based payments	3,061	1,210
Non-recurring items	5,022	4,309
Adjusted EBITDA	**209,247**	**153,060**
Reconciliation of operating profit to EBITDA	**£000**	**£000**
Profit for the year	26,306	31,749
Underlying finance income and costs	48,034	36,608
Taxation charge on ordinary activities	5,061	7,523
Share of profit on associate	(2,363)	(1,243)
Non-recurring items	17,994	-
Operating profit	**95,032**	**74,637**
Portfolio amortisation	97,046	68,277
Depreciation and amortisation	8,658	4,176
Foreign exchange (gains)/losses	(1,510)	(592)
Profit on disposal of purchased loan portfolios	(701)	(503)
Amortisation of acquisition and bank facility fees	276	303
Share based payments	3,061	1,210
Share of profit on associate	2,363	1,243
Non-recurring items	5,022	4,309
Adjusted EBITDA	**209,247**	**153,060**

Glossary

‘Adjusted EBITDA ratio’ represents the ratio of Adjusted EBITDA to core collections.

‘Cash interest cover’ represents interest on senior secured notes, utilisation and non-utilisation RCF fees and bank interest to Adjusted EBITDA.

‘CGU’ means cash generating unit.

‘Collection activity costs’ represents the direct costs of external collections related to the Group’s purchased loan portfolios, such as commissions paid to third party outsourced providers, credit bureau data costs and legal costs associated with collections.

‘Core collections’ or ‘core cash collections’ mean collections on the Group’s existing portfolios incorporating purchase price adjustments.

‘Cost-to-collect ratio’ is the ratio of collection activity costs to core collections.

‘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 thereto 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.

‘DSBP’ means the Arrow Global deferred share bonus plan.

‘EBITDA’ means earnings before interest, taxation, depreciation and amortisation.

‘EBT’ means employee benefit trust.

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

‘EPS’ means earnings per share.

‘84-month ERC’ and ‘120-month ERC’ (together ‘gross ERC’), mean the Group’s estimated remaining collections on purchased loan portfolios over an 84-month or 120-month period, respectively, representing the expected future core collections on purchased loan portfolios over an 84-month or 120-month period (calculated at the end of each month, based on the Group’s proprietary ERC forecasting model, as amended from time to time).

‘ERC Rollover’ relates to additional cash flows from rolling the asset life on all portfolios to 7 years from the date of ERC, including the impact of any foreign exchange movement and the impact of reforecast in the period.

‘Existing portfolios’ or ‘purchased loan portfolios’ are on the Group’s statement of financial position and represent all debt portfolios that the Group owns at the relevant point in time.

‘FCA’ means the Financial Conduct Authority.

‘Free cash flow’ means Adjusted EBITDA after the effect of capital expenditure and working capital movements.

Glossary

'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.

'IFRS' means international financial reporting standards.

'Income from asset management' includes commission income, debt collection, due diligence, real estate management and advisory fees.

'IPO' means initial public offering.

'ISOP' means the initial share option plan.

'Lending Code' means the voluntary code of practice issued by the Lending Standards Board and describes minimum standards of good practice for banks, building societies, credit card providers and their agents

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

'LTIP' means the Arrow Global long-term incentive plan.

'Net money multiple' means collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, net of collection activity costs, all divided by the purchase price for each portfolio.

'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 loan portfolios, 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 2016 is as follows:

	31 December 2016 £000	**31 December 2015 £000**
Cash and cash equivalents	(23,203)	(10,183)
Senior secured notes (pre transaction fees net off)	701,720	466,832
Senior secured notes interest	5,430	6,832
Revolving credit facility (pre transaction fees net off)	76,925	75,000
Deferred consideration	35,401	50,149
Bank overdrafts	7,698	-
Other borrowings	12,077	-
Net debt	**816,048**	**588,630**

'Net promoter score' means a measure of customer satisfaction on a scale of 0-9.

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

'Organic purchases of loan portfolios' means those purchased through the ordinary course of business, not through acquisition.

'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.

'Payout ratio' represents the total amount of dividends paid out divided by the underlying profit after tax.

'PCB' means the Proprietary Collections Bureau, a data matching tool designed by Arrow Global and Experian.

'Putback' means an account that is to be sold back or replaced with the original creditor.

'Purchased loan portfolios' see 'existing portfolios'.

'Purchases of loan portfolios to be resold' relates to a portfolio of assets, which has been acquired at the year end, and will shortly be resold to an investment partner. These are separately disclosed from other purchased loan portfolios, as an investment partner is intending to complete their acquisition from us.

'PwC' means PricewaterhouseCoopers.

'RCF' means revolving credit facility.

'Replacement rate' means the level of purchases needed during the subsequent year to maintain the current level of ERC

Glossary

'ROE' means the return on equity.

'Secured loan to value ratio' represents the drawn RCF, senior secured notes and bank overdrafts (all pre transactions fees net off), less cash to 84-month ERC.

'SID' means the senior independent director of the Group.

'SIP' means the Arrow Global all-employee share incentive plan.

'SME' means small and medium sized enterprises.

'Secured loan to value' or 'secured LTV ratio' represents the ratio of 84-month ERC to secured debt (net debt as defined above excluding deferred consideration and interest on the senior secured notes and including the fair value of foreign currency contracts and interest rate swaps.)

'TCF' means the treating customers fairly FCA initiative.

'TSR' means total shareholder return.

'Underlying basic EPS' represents earnings per share based on underlying profit after tax, excluding any dilution of shares

'Underlying profit after tax' means profit for the period after tax adjusted for the post-tax effect of non-recurring items. The Group presents underlying profit after tax because it excludes the effect of non-recurring items (and the related tax on such items) on the Group's profit or loss for a period and forms the basis of its dividend policy.

'Underlying return on equity' represents the ratio of underlying profit after tax to average shareholder equity.