

ARROW GLOBAL GROUP PLC

Interim results for the six months to 30 June 2017

31 August 2017

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AGENDA

Agenda	
I	Highlights
II	H1 Review
III	HY Financial Performance
IV	2017 Outlook
	Q&A

I. HIGHLIGHTS

H1 2017 HIGHLIGHTS

- ▶ Underlying profit after tax up 35.5% to £25.8 million (H1 2016: £19.1 million)
- ▶ Underlying basic earnings per share (EPS) increased 35.8% to 14.8p (H1 2016: 10.9p)
- ▶ Underlying LTM Return on Equity (ROE) of 32.8% (H1 2016: 27.4%)
- ▶ Interim dividend of 3.2p per share (H1 2016: 2.7p) up 18.5%
- ▶ Strong organic portfolio purchases up 30.3% to £125.1 million (H1 2016: £96.0 million)
- ▶ Revenue growth of 47.6% supported by 11.3% increase in core collections and 98.6% increase in Asset Management income
- ▶ Successfully raised €400 million senior secured floating rate notes due 2025, at a coupon of E+2.875%, reducing the Group's cost of debt to 3.9% (31 December 2016: 4.9%) and average debt facility maturity 6.8 years as of 30 June 2017
- ▶ Completion of the acquisition of Zenith Service S.p.A. in Italy
- ▶ Agreed terms to acquire Mars Capital, expanding UK secured servicing capabilities and entering the Irish market with strategic partnership with Oaktree Capital Management

II. H1 REVIEW

HIGH GROWTH

Market potential

- ▶ €2 trillion NPLs across Europe plus secondary market sales
- ▶ Market volumes in 2017 expected to exceed €100 billion seen in 2016 & 2015
- ▶ Increased pressure from European regulators to deal with legacy NPLs
- ▶ Introduction of IFRS9 in January 2018 will accelerate provisions

Arrow's strong franchise provides long-term opportunities

- ▶ Long-term relationships with primary sellers and a network of institutional funds
- ▶ Strong portfolio purchases with a face value of £968.2 million for a purchase price of £125.1 million
- ▶ 51.2% from off-market transactions and 35.8% from Asset Management business

An attractive mix of businesses and diversification improves earnings

- ▶ Entry into the active Italian market going well
- ▶ Entry into high-growth markets: agreed purchase of Mars Capital provides entry into Ireland, and expanded UK capability
- ▶ Continued growth in asset management, almost doubling revenues to £34.2 million
- ▶ Total AuM Increased to £38 billion

A HIGHLY VISIBLE RUNWAY FOR SIGNIFICANT LONG-TERM GROWTH

ITALY AND FRANCE

Zenith

- ▶ Completed the acquisition of Zenith on 28 April 2017
- ▶ Strong local origination capabilities
- ▶ Regulated business
- ▶ Deep data and 54 primary servicer relationships
- ▶ AUM up approx. 15% from €14.8 billion to over €17 billion, driven by two large mandates, including one from Fondo Atlante, the Italian private equity fund that is dedicated to recapitalise some Italian banks
- ▶ Completed two small portfolio purchases in Italy for a consideration of €10 million. One was master serviced by Zenith, while the second was with a long-term partner of Zenith
- ▶ Deep pipeline of opportunities in Italian NPL market of €342 billion

MCS

- ▶ Exiting French market with proposed sale of 15% interest in MCS Group
- ▶ MCS investment has delivered excellent returns to shareholders
- ▶ Subject to completion, the sale is expected to result in an exceptional net gain for Arrow in H2



MARS CAPITAL EXPANDS UK CAPABILITIES AND ENTRY INTO IRELAND



Proposed acquisition

- ▶ Proposed acquisition of Mars Capital UK and Ireland, a leading UK and Irish credit servicing business for an enterprise value of £15.5 million
- ▶ Strategic partnership with Oaktree Capital Management
- ▶ Mars Capital provides servicing for mortgages covering 1st & 2nd lien residential, buy-to-let and SME commercial mortgages
- ▶ Almost 11,000 customer accounts and £1.6 billion of AuM
- ▶ Earnings neutral in 2018 post amortisation of acquisition intangible
- ▶ Transaction subject to regulatory approval by the FCA and Central Bank of Ireland and is expected to complete late 2017
- ▶ Acquisition will strengthen Arrow's asset management capabilities and reinforces our leading position in the UK

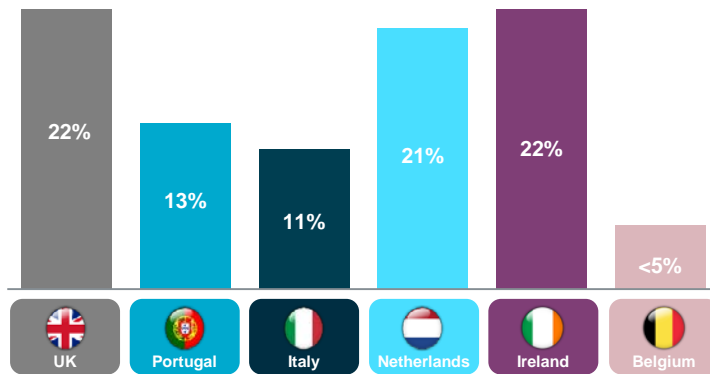
Opportunity

- ▶ Provides strategic entry into Ireland, a new market for the Group offering significant debt purchasing and servicing potential
- ▶ UK secured market is £1.3 trillion
- ▶ In the UK, scale matters
 - ▶ Regulatory permissions
 - ▶ Financial institutional relationships
 - ▶ Multi-asset class execution
- ▶ Ireland is a large NPL market (€59 billion)
- ▶ Ireland has a growing economy, falling unemployment and recovering house prices
- ▶ Irish banks have improved capital positions and high propensity to sell (22%)
- ▶ Significant deal flow (€63 billion) to Arrow's stable of Fund relationships in past five years

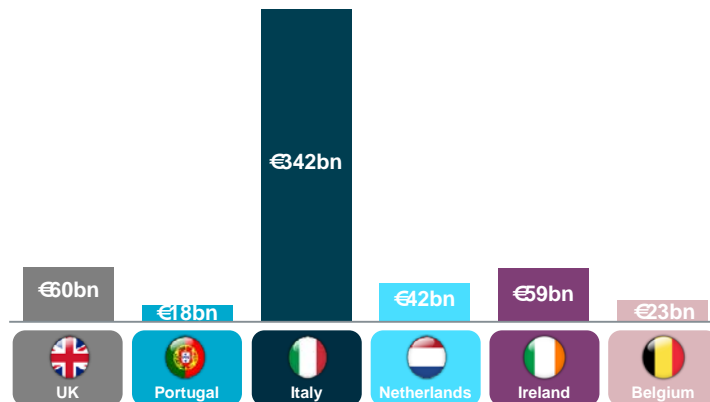
ADDRESSABLE MARKET

Addressable market

Stage of market maturity – propensity to sell¹



€500bn+ outstanding NPL



Arrow industry positioning

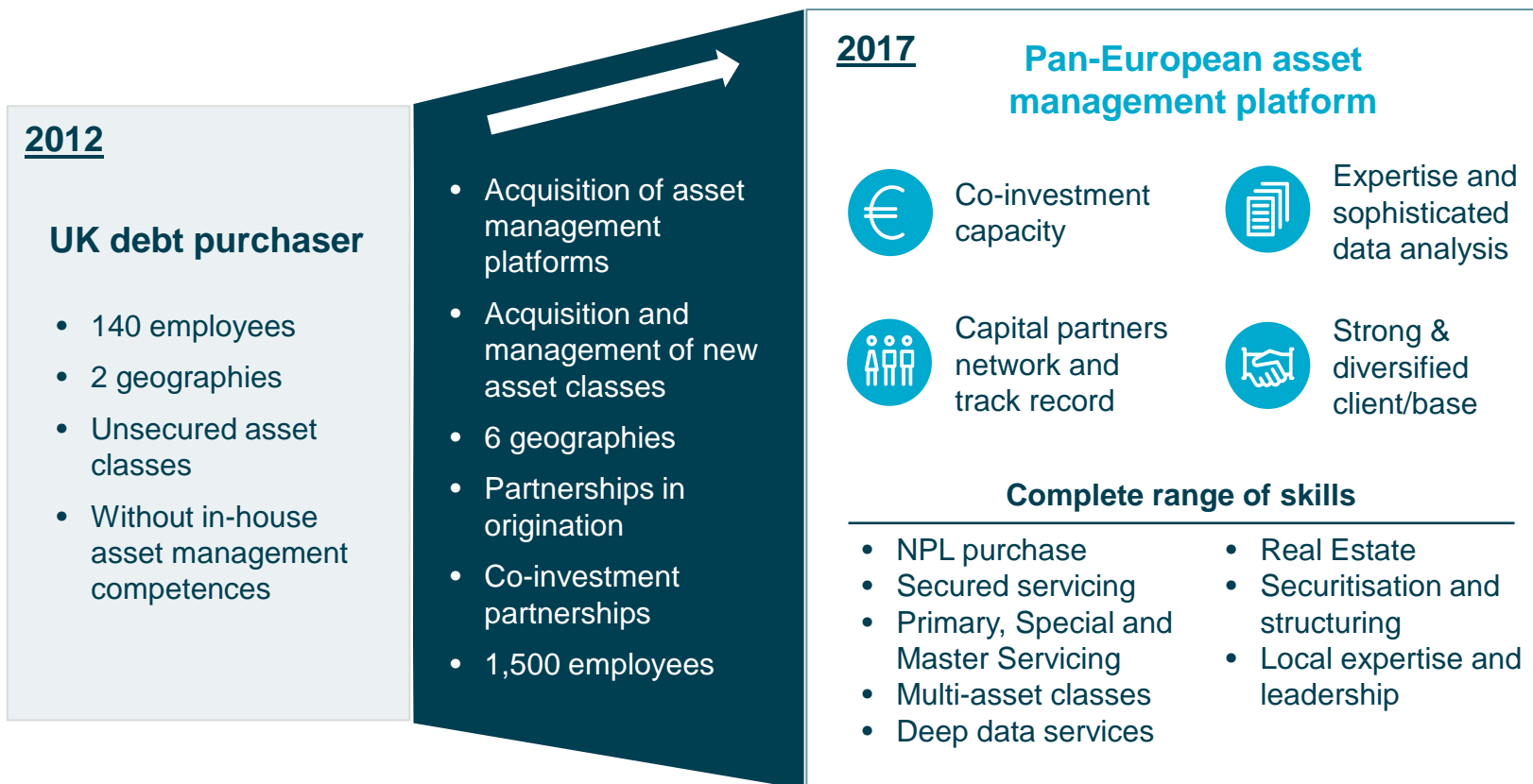
- ▶ €500 billion addressable market for Arrow today, prior to non-core assets of banks
- ▶ Leadership positions in UK, Portugal and Benelux and growing presence in Italy
- ▶ UK is the most mature market, other markets are at a relatively early stage of industry development
- ▶ Unique position to deliver significant growth given:
 - ▶ Relationships and service offering to investor participants in the industry
 - ▶ Expertise in portfolio carve-outs
 - ▶ Excellence in data

Source: Deloitte's *Deleveraging Europe H1 2017*, PWC's *Portfolio Advisory Group Market update Q1 2017*

1. Calculated as NPL sales/Face value of NPLs

OUR EXPANDED EUROPEAN FOOTPRINT ENHANCES MARKET POSITION

Progress in H1 reinforces our pan-European Multi-Asset Class, Asset Management Platform,



OPERATIONAL EXCELLENCE

Arrow's Key Strengths

- ▶ Expertise in data and analytics
- ▶ Strong track record of underwriting discipline
- ▶ Continual improvements in the customer journey in a regulatory compliant framework
- ▶ Scale and best practice deployed across all platforms

One Arrow

- ▶ Strong culture and commitment to serving all of our stakeholders
- ▶ Strengthening key Group capabilities in order to be able to manage growth sustainably and consistently
- ▶ Build strength-in-depth across key competencies
 - ▶ Data & Analytics
 - ▶ Origination
 - ▶ Portfolio Management
 - ▶ Risk Management
 - ▶ IT & Change

Investing for Growth

- ▶ Significant opportunity to grow Asset Management revenues – beyond 30% of total
- ▶ Bolt-on acquisitions in certain key markets
- ▶ Increased IT spend to provide leading-edge customer journey and improve productivity
- ▶ Simplification of operations and processes

PROVIDES SCALABLE PLATFORM TO DRIVE COMPETITIVE ADVANTAGE AND THE FUTURE GROWTH

FINANCIAL EXCELLENCE

ERC overview

- ▶ 84-month ERC increased by 10.4% to £1,478.5 million (as at 31 December 2016: £1,339.1 million)
- ▶ 120-month ERC increased by 10.6% to £1,708.8 million (as at 31 December 2016: £1,544.5 million)
- ▶ Replacement rate of approx. £130 million

Asset management creates capital-light revenues

- ▶ Long-term Asset Management contracts
- ▶ Grown asset management revenues from 16.9% in H1 2016 to 22.8% of Group revenue in H1 2017

Balanced capital structure with reducing cost of capital

- ▶ A balanced capital structure producing a reduced cost of capital
- ▶ Ratings upgrade to Ba3 by Moody's in February 2017
- ▶ Issued €400 million senior secured notes due 2025, at a floating rate of E+2.875%
- ▶ Weighted average cost of debt 3.9% and weighted average maturity of 6.8 years

HIGHLY PREDICTABLE CASH GENERATING BUSINESS, PRUDENTLY FUNDED

STRONG RETURNS

ROE

- ▶ Underlying LTM ROE: H1 2017 32.8% (H1 2016: 27.4%)

EPS

- ▶ Underlying EPS: H1 2017 14.8p, up 36% (H1 2016: 10.9p)

Profit after tax

- ▶ Underlying profit after tax of £25.8 million, up 35.5% (H1 2016: £19.1 million)

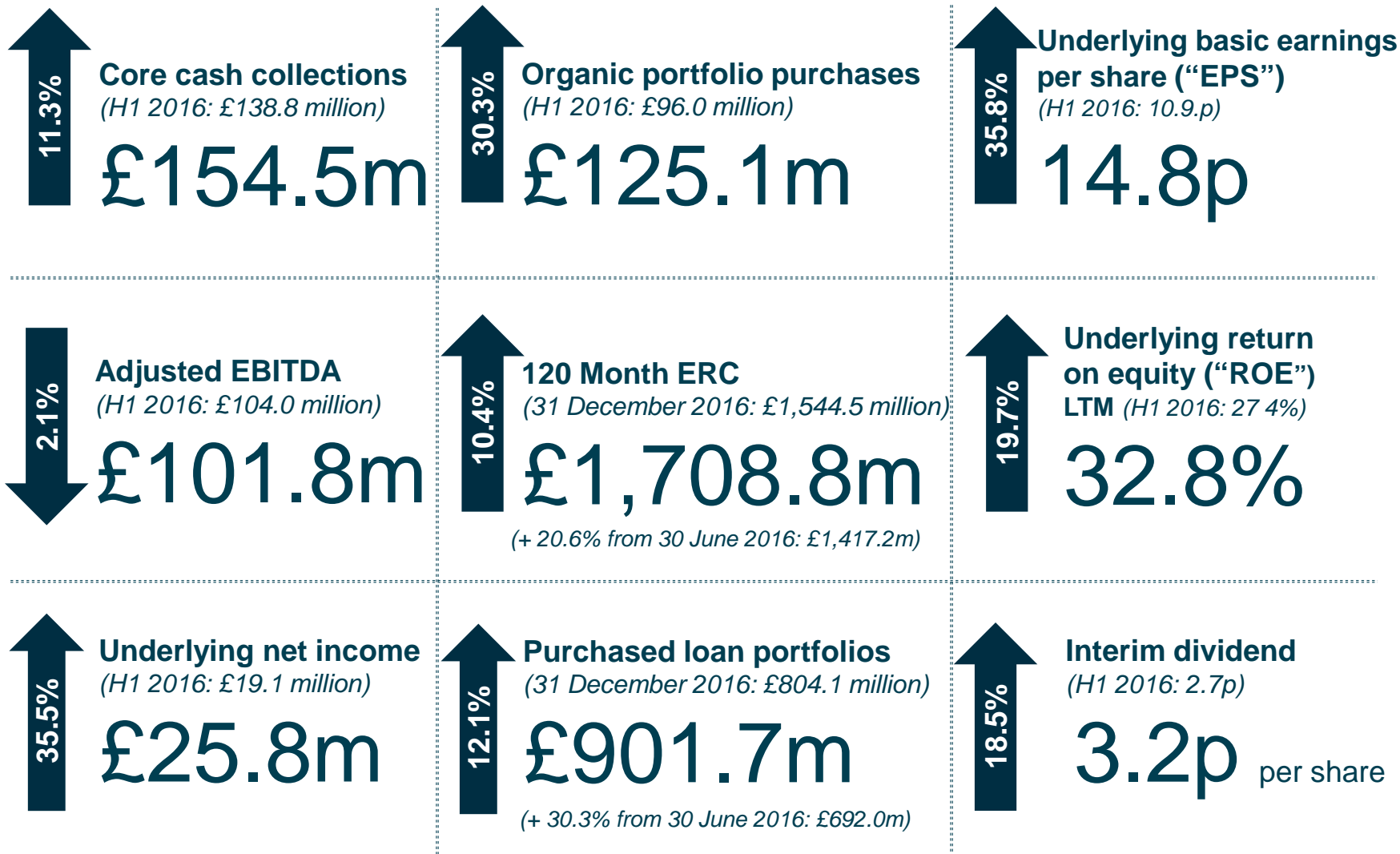
Interim dividend

- ▶ Interim dividend up 18.5% to 3.2p (H1 2016: 2.7p)

A SUSTAINABLY-HIGH RETURN BUSINESS MODEL, ALLOWING GROWTH AND CAPITAL DISTRIBUTION

III. HY FINANCIAL PERFORMANCE

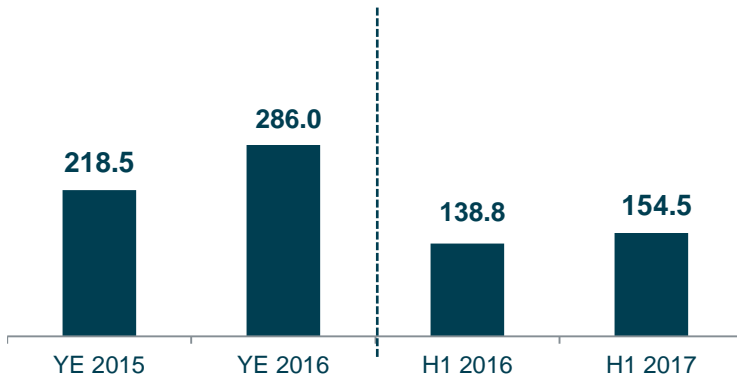
H1 2017 HIGHLIGHTS – FINANCIAL



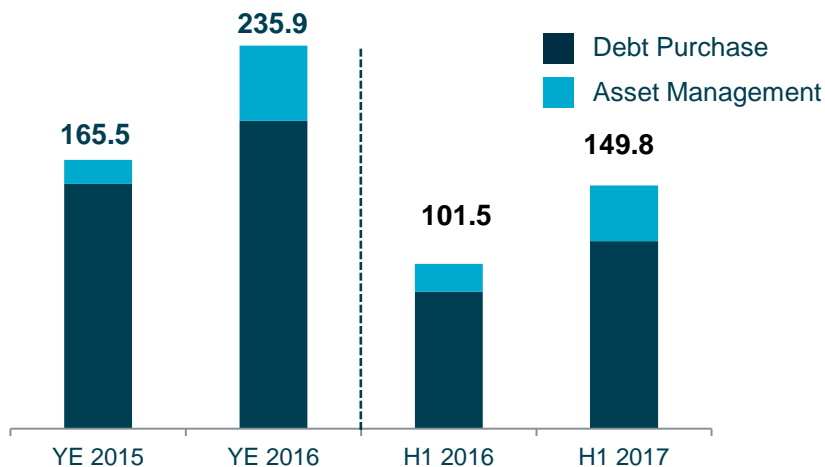
Executing our strategy to drive earnings and dividend growth

CORE COLLECTIONS & REVENUES

Core Cash Collections (£m)



Revenue (£m)

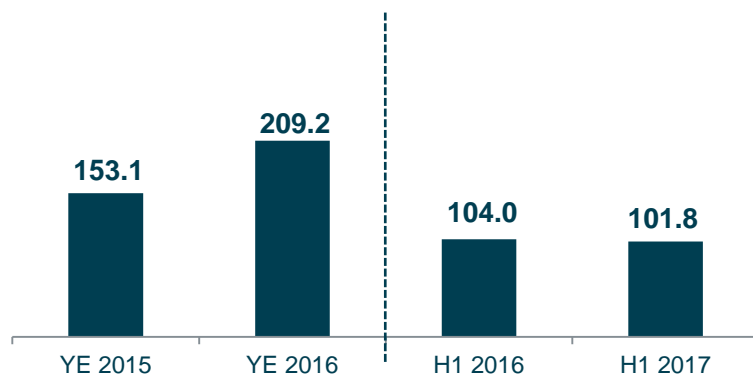


Key Highlights

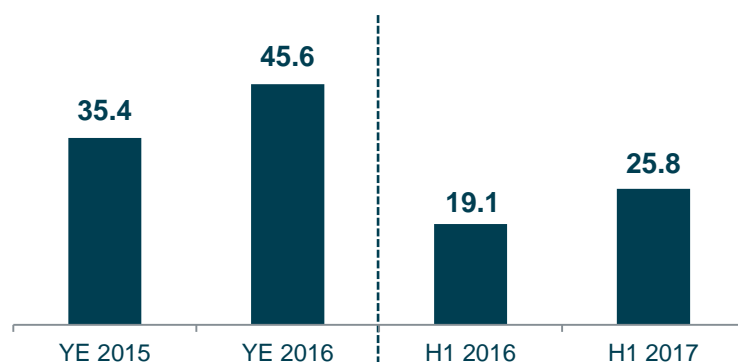
- ▶ Core collections growth reflecting increase in portfolio asset base
- ▶ Collections in HY 2017 were above our ERC forecast
- ▶ H1 2016 we experienced high collections from recent purchases
- ▶ Additional ERC supported by additional legal costs increases portfolio income
- ▶ Strong revenue growth underpinned by enhanced asset management revenues – a trend we expect to continue
- ▶ Asset management revenues up 98.6% to £34.2 million contributing 22.8% of total revenues (H1 2016: 16.9%)

ADJUSTED EBITDA AND UNDERLYING NET INCOME

Adjusted EBITDA (£m)



Underlying net income (£m)



Key Highlights

- ▶ For the period ended 30 June 2017, Adjusted EBITDA decreased by £2.1 million (2.1%) to £101.8 million
- ▶ Cost : income ratio of 64% impacted by investment in legal collection costs of £12 million. This programme will continue in Q3
- ▶ EPS: HY 2017 14.8p, up 35.7% (HY 2016: 10.9p)
- ▶ Underlying profit after tax continues to grow, increasing by 35.5% to £25.8 million
- ▶ LTM underlying ROE increased to 32.8% (HY 2016: 27.4%)
- ▶ Interim dividend of 3.2p (H1 2016: 2.7p)
- ▶ Expect the MCS sale to complete in H2 and result in a gain on disposal and an excellent financial return
- ▶ Reinvestment of proceeds into Mars acquisition and One Arrow investment programme

INVESTING FOR GROWTH – ONE ARROW

Principal Benefits

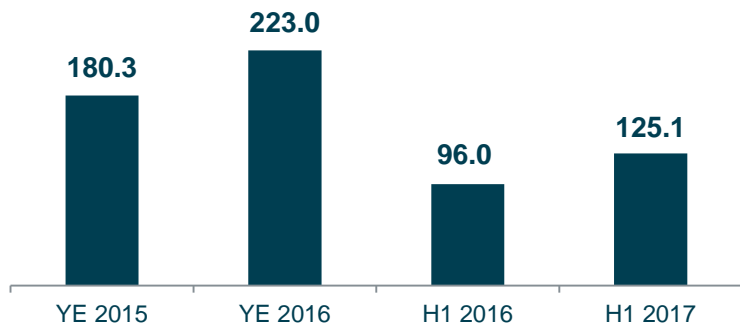
- ▶ Governance and oversight
- ▶ Office consolidation
- ▶ Enhanced IT platforms
- ▶ Streamlined operational processes
- ▶ Improved customer journey
- ▶ Expanded product capability
- ▶ Strengthened asset management capabilities

Financial Impact

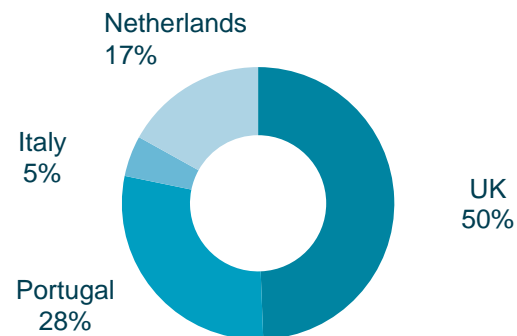
- ▶ £22 million total programme
- ▶ Of which £10 million capex
- ▶ Balance to be reported as non-recurring item
- ▶ Operational leverage from 2019 onwards

PORTFOLIO ACQUISITIONS

Organic portfolio purchases (£m)



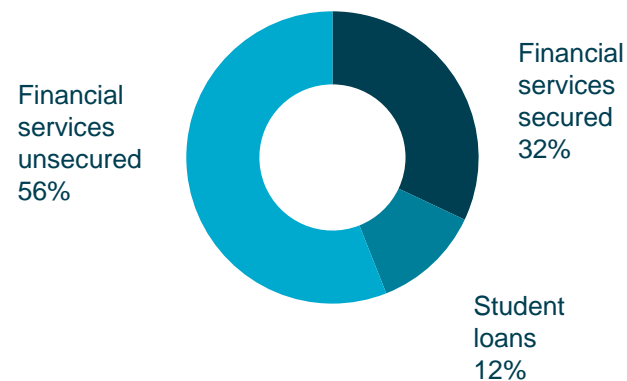
Investment split by geography H1 2017



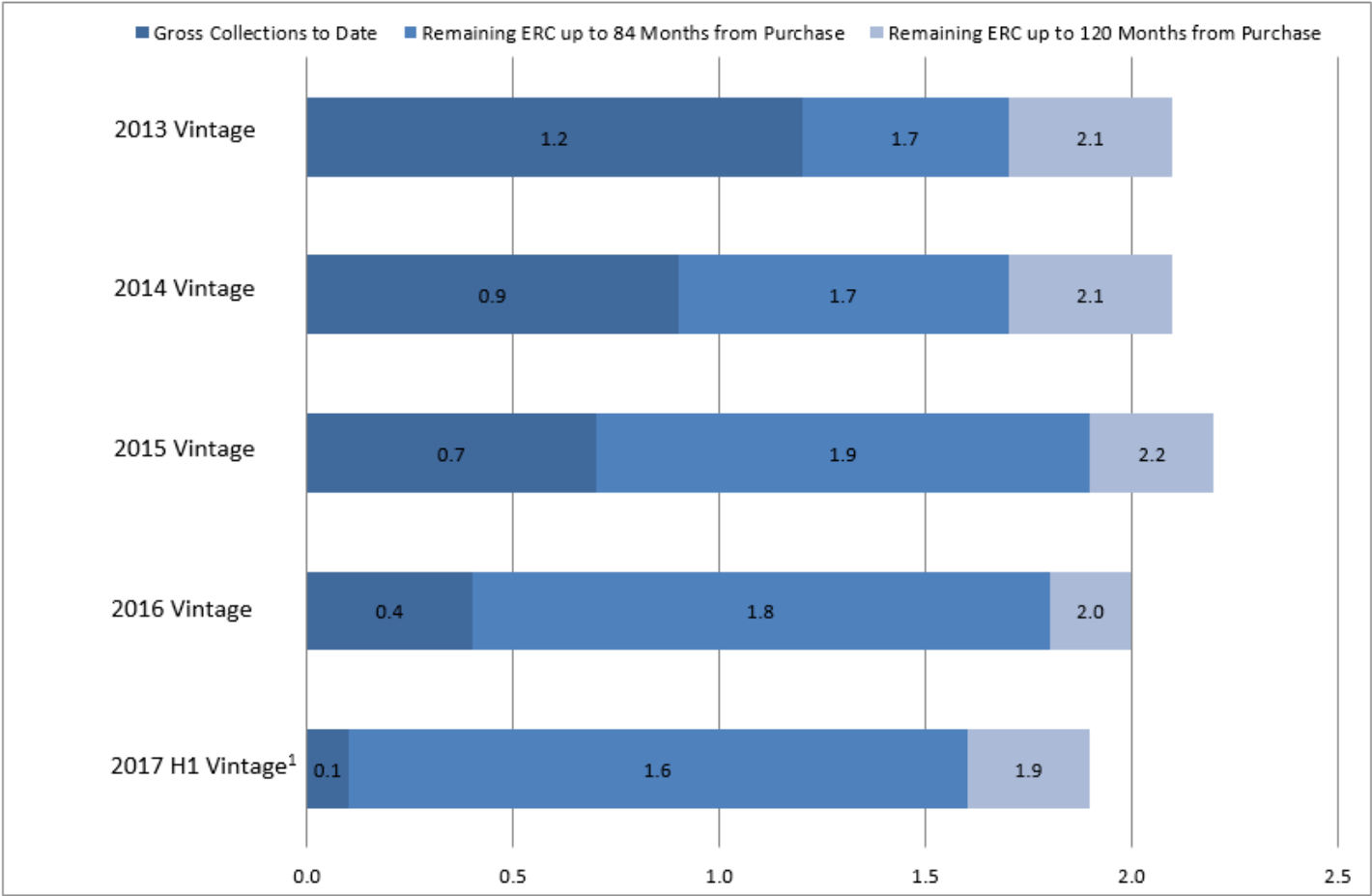
H1 2017

Year	Volume of Deals				Win Ratio	Bid Ratio
	Won	Lost	Did Not Trade / Passed	Total		
2014	23	28	35	86	45%	59%
2015	23	20	52	95	53%	55%
2016	23	31	75	129	43%	42%
2017 H1	13	16	40	69	45%	41%

Investment by asset class H1 2017



MONEY MULTIPLES: GROSS COLLECTIONS TO DATE AND ERC FROM PURCHASE 30 JUNE 2017

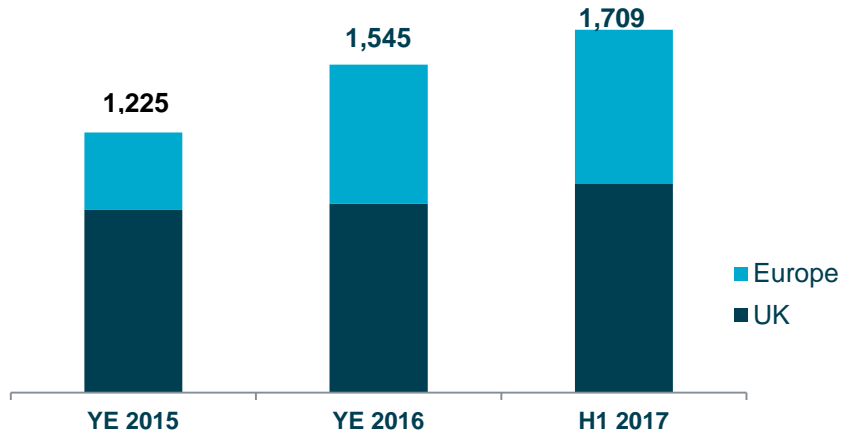


- ▶ We expect total returns to be higher as they mature as collections are expected beyond 120 months
- ▶ H1 2017 vintage include 32.1% secured by purchase price
- ▶ Of the portfolios purchased, 35.8% came from asset management, with lower cost-to-collect

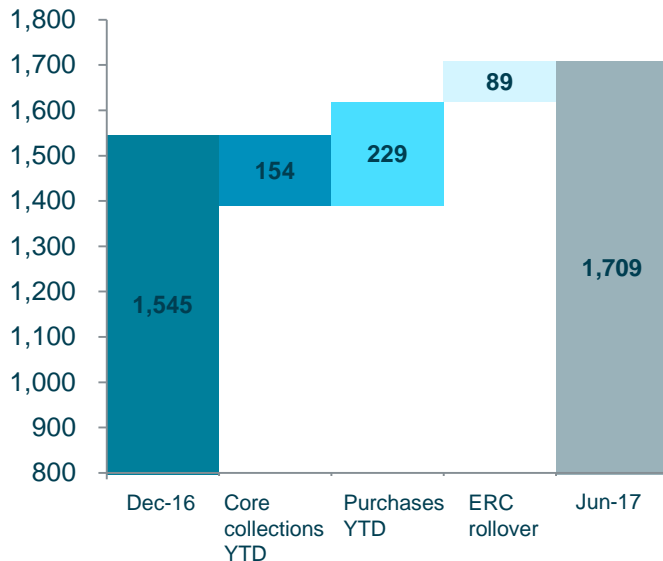
¹ Excluding REO purchases and purchase price adjustments relating to asset management fees.

ERC DEVELOPMENT

120-Month Gross ERC (£m)



120-month ERC bridge Dec 16 to Jun 17 (£m)



- ▶ Continued growth in ERC driven by strong H1 2017 purchases
- ▶ 120-month ERC breakdown
 - ▶ UK 57.5%
 - ▶ Portugal 28.5%
 - ▶ Netherlands 13.2%
 - ▶ Italy 0.8%
- ▶ At 30 June 2017, approx. 600,000 accounts paid Arrow in the last three months with a current face value of approx. £1.8 billion
- ▶ Replacement rate for next 12 months approx. £130 million¹
- ▶ £12 million additional investment in legal collection costs drive additional back book ERC

1. Excluding REO purchases and Loan Note held at fair value.

NET DEBT & KEY CREDIT RATIOS

Indebtedness – as at 30 June 2017 (£m)

Net Debt	929.7
Secured Net Debt	882.3
<i>Pro forma</i> LTM Adjusted EBITDA ¹	218.6
84-Month ERC	1,478.5
Leverage Metrics	
Secured Net Debt ² / <i>Pro forma</i> LTM Adjusted EBITDA	4.0x
Secured LTV ² (Secured Net Debt / 84-Month ERC)	60.3%
LTM cash interest cover	5.3x

Key Highlights

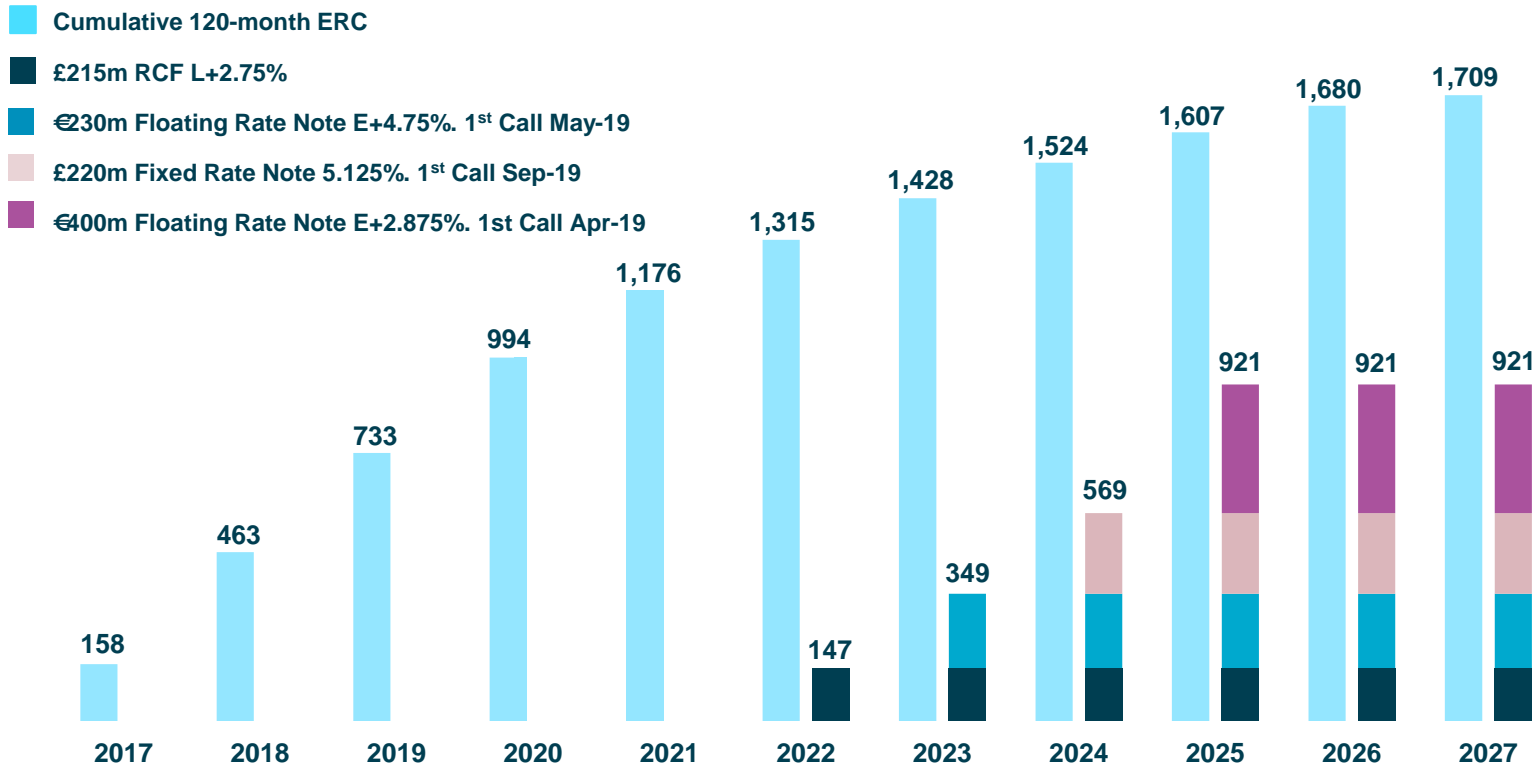
- ▶ Leverage ratio has increased reflecting strong portfolio acquisitions, investment in litigation activity and incurrence of refinancing costs.
- ▶ Leverage expected to reduce during H2 2017 to be within 3.5x – 4.0x policy
- ▶ Strong cash cover at 5.3x, continued strengthening expected as full benefits of reduced WACD are realised
- ▶ Significant headroom on 75% LTV covenant with LTV of 60.3%
- ▶ Revolving credit facility increased in February 2017 to £215 million across five banks
- ▶ £104.9 million of cash and RCF available as at 30th June 2017

¹ *Pro forma* LTM Adjusted EBITDA includes £3.2 million relating to the full year effect of the Zenith acquisition, £3.8 million cash distribution received from the RNHB (Project Yellow) securitization and £5.8 million cash distribution from MCS received in H2 2016 not previously recognized in Adjusted EBITDA.

² Excluding debt (£13.9 million) and estimated remaining collections (£15.5 million) attributable to non-recourse borrowings, accrued interest (£4.0 million), amounts drawn under unsecured bank overdrafts (£1.3 million), Zenith finance lease (£1.7 million) and deferred consideration (£26.5 million).

LONG-TERM FUNDING

Debt maturity & 120-month ERC

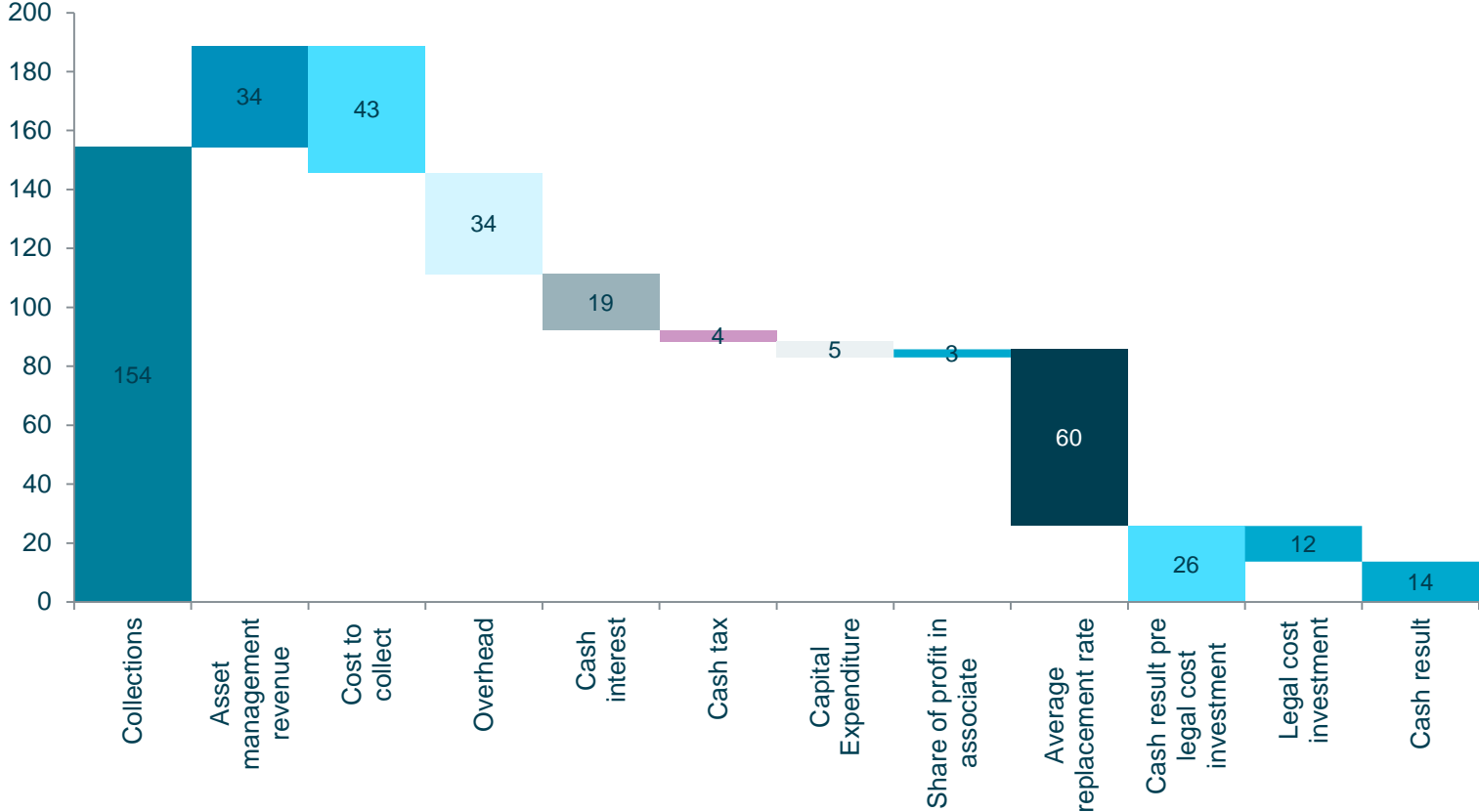


- ▶ Successfully raised €400 million E+2.875% 8-year bond. Strong demand led to:
 - ▶ pricing at tight end of indication and at a record low for our sector
 - ▶ upsized issuance by €40 million

- ▶ Significant ERC coverage of debt maturities
- ▶ Continue to reduce cost of debt since IPO
- ▶ Weighted average cost of debt reduced to 3.9%
- ▶ Weighted average debt duration c. 6.8 years
- ▶ No debt maturities until 2022

YEAR TO DATE PERFORMANCE: 30 JUNE 2017

Cash Result (£m)



IV. 2017 OUTLOOK

OUTLOOK

- ▶ Strong H1 performance and we continue to see attractive opportunities across our markets
- ▶ Strong market positions, a good pipeline of business and well-funded strong financial profile, leaves us well positioned to invest at least £200 million in 2017
- ▶ Mindful of macro economic uncertainty prevailing in the UK and more generally, but remain confident that our business has strong foundations
- ▶ Confidence in the One Arrow programme and its ability to deliver a scalable, high quality platform to support future growth
- ▶ Confident in delivering:
 - ▶ a medium-term underlying ROE percentage in the mid-twenties
 - ▶ high-teen EPS growth
 - ▶ a progressive dividend policy

Q&A