1 March 2018

Arrow Global Group PLC

Preliminary results for the year ended 31 December 2017

Differentiated model delivers strong underlying profit growth and increased quality of earnings, with further expansion of asset management offering

Arrow Global Group PLC (the "Company" or the "Group"), a leading European credit management services provider focusing on loan purchases and specialist asset management, announces its results for the year ended 31 December 2017.

Financial Highlights	**31 December 2017**	**31 December 2016**	**Change**
Core collections	£342.2m	£286.0m	19.7%
Revenue	£319.0m	£235.9m	35.2%
Underlying profit after tax	£56.6m	£45.6m	24.1%
Underlying earnings per share	32.4p	26.1p	24.1%
Underlying return on equity	32.9%	29.1%	+3.8ppts
Total dividend per share	11.3p	9.1p	24.2%
120 month ERC	£1,780.2m	£1,544.5m	£235.7m

Highlights

High growth

- Revenue growth of 35.2%, driven by a 19.7% increase in core collections and a 53.5% increase in Asset Management income
- Assets under management increased from €41.3 billion to €53.4 billion
- Acquisition of Mars Capital completed, providing entry into the attractive Irish and UK secured markets and a strategic partnership with Oaktree Capital
- Continued to execute on our Italian strategy following the acquisition of Zenith; the number of Italian portfolio acquisitions was ahead of forecast and have outperformed underwriting estimates
- Announcement of two bolt-on business acquisitions in Italy covering high value niches that will enhance the Group's franchise and materially expand its servicing offering to clients
- Announcement of a co-investment partnership with a tier one institutional investor, marking a further incremental step in our strategy to offer specialist discretionary asset management services for clients
- The outlook for Non-Performing Loan (NPL) supply across Arrow's markets remains highly attractive, driven by the European Central Bank (ECB) guidance on accelerated provisioning for NPLs, and IFRS 9

Operational excellence

- Overall collections performance remained strong at 103% of original underwriting forecasts, underlining the quality of our data, analytics and consistent track record of outperformance
- Record portfolio acquisitions of £223.9 million, with over £50.0m committed for Q1, demonstrates the depth of our origination network and reflects the pan-European nature of our flow, with 63.3% ex-UK
- Market-leading platforms now in place across 6 European markets
- Strength and breadth of origination platform led to a record number of portfolio purchases, highly diversified by geography and asset class, with over 70% of portfolio purchases transacted off-market

- Maintained stable, attractive returns across all geographies
- 'One Arrow' investment programme launched across the Company creating a platform for sustainable growth and the prospect of a more efficient Pan-European Group
- New Executive Committee structure implemented, with further depth added by the appointment of a new Group Chief Operating Officer and Group Chief Risk Officer

Financial excellence

- 84-month ERC increased to £1,516.9m (FY 2016: £1,339.1m)
- 53.5% increase in capital-light Asset Management revenues to £71.1m (FY 2016: £46.3m)
- Successfully raised €400 million senior secured floating rate notes due 2025, at a coupon of E+2.875%, reducing the Group's weighted average cost of debt to 3.9% (FY 2016: 4.9%) and increasing average debt facility maturity to 6.1 years (FY 2016: 5.8 years)
- Secured net debt to adjusted EBITDA reduced to 3.9x, within guided range
- IFRS 9 to have minimal balance sheet impact

Strong returns

- 24.1% increase in underlying profit after tax to £56.6m (FY 2016: £45.6m)
- 51.7% increase in statutory profit after tax to £39.9m (FY 2016: £26.3 m)
- 24.1% increase in underlying basic earnings per share (EPS) to 32.4p (FY 2016: 26.1p)
- 51.0% increase in basic earnings per share to 22.8p (FY 2016: 15.1p)
- Underlying Return on Equity (ROE) of 32.9% (FY 2016: 29.1%)

Commenting on today's results, Lee Rochford, Group Chief Executive Officer of Arrow Global, said:
"2017 was a transformational year for Arrow Global. Our strong underwriting performance and specialised asset management capabilities meant that we have again delivered strong returns to shareholders. The shape of our earnings is also continuing to evolve, with higher quality, capital light revenues from our asset management operations growing by over 50%.

With the acquisition of Mars Capital in the UK and Ireland, we added another country to our geographic portfolio. The strategic partnership with a tier-one institutional investor, and the two Italian acquisitions we have announced today, also mark an important step in our European expansion strategy and progress towards building a track record of running discretionary assets for fund clients. There has been strong demand for this offering from our clients, and we are focused on fulfilling their operational needs.

The Arrow model is highly differentiated. We are a sophisticated investor and asset manager, underpinned by our strong institutional investor client relationships and unique servicing capabilities; we are not a bulk buyer of loans with vanilla servicing platforms. Looking ahead, I'm confident that this approach will support medium term EPS growth in the high teens, and I look forward to updating the market further on strategy at our capital markets day on 8 November 2018."

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Forward looking statements

This document contains statements that constitute forward-looking statements relating to the business, financial performance and results of 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.

Chairman's statement

Another strong year of growth and delivery

I am pleased to be able to present another strong set of financial results during a year which saw the Company continue to register significant growth and add another market to our geographical footprint.

We have continued to diversify our earnings, with further growth in our high quality, capital light asset management business, which grew revenues by 53.5%. We are a more diversified Group than ever before, growing the geographical and asset class mix of our debt purchase business by investing 36.7% of our capital in the UK, 24.7% in Portugal, 18.9% in Italy and 19.7% in Benelux. During the year, we completed the acquisitions of Zenith in Italy and Mars Capital in the UK and Ireland, significantly enhancing our European capabilities.

Profit after tax increased by 51.7% to £39.9 million giving an increase in basic earnings per share of 51.0% to 22.8p. Financially, we have again delivered against our guidance, with underlying basic earnings per share increasing 24.1% to 32.4p and underlying return on equity increasing by 3.8 percentage points to 32.9%.

This strong performance enables us to propose a final 2017 dividend of 8.1p, bringing the full year dividend to 11.3p (2016: 9.1p) which is at the top of our payout range. Once again, balance sheet strength and management is key to the business' success and earlier in the year we undertook a highly successful refinancing, securing a material reduction in our cost of funding with our weighted average cost of debt falling below 4.0% at the same time as extending duration.

The evolution of our model

Our strategy of building top three positions in our chosen European markets has remained on track throughout 2017. The servicing capabilities we have continued to build, underpinned by the strong relationships we have with institutional investors, has meant our asset management division has been the fastest growing part of the Group. The highly cash generative nature of this business has further improved the quality of the Company's earnings stream. We have a clear plan in place to continue to grow this business as we identify further high value niches within our large markets where Arrow's superior technology, data and relationships provide us with a competitive advantage.

Group governance

The Group operates in a number of countries with strong local management teams that have responsibility for their operations. This structure has been enhanced by the appointment of Dave Sutherland as Group chief operating officer, who the country management teams now report to. The appointment of our new Group chief risk officer, Clodagh Gunnigle, earlier in the year has also brought greater structure and diligence to our risk and governance procedures, with Group wide risk and compliance teams all reporting to her.
This revised structure has allowed management at the Group level to focus on strategy, origination and capital allocation. Overseen by our Group chief executive officer and Group chief financial officer, I believe that this is the most efficient structure for the Group's governance and consider the company very well positioned to perform optimally at the operational level.

The Board

The Arrow board is a strong group of highly experienced individuals who all bring valuable experience and skills to bear in Arrow's thinking and strategy. Last year, we announced that we had appointed Paul Cooper as our new Group chief financial officer. His strong financial services experience and track record of driving operational change through large companies, means he is a great addition to the team. Our previous Group chief financial officer, Rob Memmott, left us at the end of February 2018, and I would like to thank Rob on behalf of the Board for his dedication and the important role he has played in successfully growing the Company. Our Group chief executive officer, Lee Rochford, continues to effectively deliver on the Group's

strategic objectives. Lee leads a strong Executive team comprising a mix of established members and new hires. Their energy, commitment and focus on key strategic deliverables have had a marked impact on our results.

One Arrow - fostering a culture that underpins our values

Arrow's mission statement is to 'Build Better Financial Futures' for our customers across all the markets in which we operate. In order to continue to build and improve on this goal, throughout the course of the year we launched each of our four 'Group values': 'We succeed together', 'We're trusted and valued', 'We're brave and creative' and 'We do the right thing'. In order to embed these into our Company DNA and Group-wide approach to our operations, the management team embarked on a series of roadshows around all countries in the Group to present their vision for the business and get feedback from employees. I am pleased to say that feedback to this initiative from across the Group has been overwhelmingly positive, and it is a great source of pride for us that our employees are so committed to a positive working culture focused on excellent customer experience and outcomes.

Looking forward

I am pleased that Arrow has registered another year of strong growth and that so much has been achieved to integrate the business more fully, ensuring we are well positioned to continue to deliver the consistent financial performance we have registered since IPO.

We are well positioned for 2018: the market opportunity for the business remains compelling and I believe we have the strategy, management team and employee base to continue to deliver on market expectations.

Finally, I would like to thank my fellow board members, the senior leadership team and all colleagues for their hard work and commitment in 2017 and our shareholders for their ongoing support as we continue to evolve Arrow's differentiated business model. I look ahead with a great deal of confidence for the business. The opportunities for Arrow are significant and I believe we have the right skill set at all levels of the Company to capitalise on them and continue to deliver growth and value.

Group chief executive officer's review

2017 review

2017 has been another exciting year for the business. We have expanded our European footprint and client offering further across attractive markets where the Group targets leadership positions. When viewed alongside our diversified investment portfolio and expanding asset management business, it has been another excellent year of growth and financial performance.

Strong financial performance

Total revenue grew 35.2% to £319.0 million (2016: £235.9 million), driven by core collections 19.7% higher at £342.2 million (2016: £286.0 million). Profit after tax increased by 51.7% to £39.9 million (2016: £26.3 million). Adjusted EBITDA increased 10.2% to £230.6 million (2016: £209.2 million). We continue to see an increase in the contribution from the capital-light asset management business, with revenues increasing by 53.5% year on year; our aim is to continue to grow this business over the medium-term, both organically and via acquisitions.

Strong performance across the business enabled us to deliver a significant increase in underlying profit after tax, up 24.1% to £56.6 million (2016: £45.6 million), and underlying return on equity (ROE) now stands at 32.9% (2016: 29.1%).

Basic EPS increased by 51.0% to 22.8p (2016: 15.1p) with underlying basic EPS increasing by 24.1% to 32.4p (2016: 26.1p). The business has a track record of strong cash generation and this enables us to deliver excellent returns to shareholders, while simultaneously investing for future growth. As a result, the full-year dividend, including the proposed final dividend of 8.1p, will increase to 11.3p, representing an increase of 24.2% and a 35.0% payout ratio – the top of our guided range.

Debt purchasing – strong portfolio investment

2017 was another strong year for investment. We acquired a record number of loan portfolios and loan notes with a face value of £2.4 billion for a purchase price of £223.9 million. Of the purchase price invested, 40.7% related to secured accounts. Additionally, over 70% of portfolio purchases were off-market – a record for the Group – largely driven by our unique model of purchasing the tails of asset portfolios already being serviced on our platforms.

Our investment portfolios across the Group continue to be well diversified by both geography and asset class, providing us with good resilience against adverse conditions in any country or market.

Asset management – continued revenue growth

Our specialist asset management business, focusing on the servicing of loan portfolios for our clients, continues to be an important growth area for the Group, with revenues from this business growing strongly in 2017.

When moving into new markets, we have a strong track record of acquiring leading servicing businesses. By working to retain skilled management teams, we are able to acquire earnings-accretive operations and gather deep data and insight – allowing us to deploy more of our own capital at strong returns in that market in the future. We expect to repeat this model with our acquisition of Mars Capital. This provided us with a strategic entry into Ireland, a new market for the Group, offering a €59 billion NPL opportunity and significantly enhanced our servicing capabilities for mortgages in the UK. The acquisition is already delivering value and we closed our first deal on the new platform in December. As part of the acquisition, we also

announced a strategic partnership with Oaktree, a leading global asset manager with over USD$100 billion under management.

The strategic partnership with a tier one institutional investor and the two Italian acquisitions we have announced, represent another important step in the evolution of our asset management business as we move closer towards our ambition of managing discretionary funds on behalf of our clients.

Our aspirations for the asset management business continue to be high, and we are aiming to continue to grow significantly the business' contribution to Group revenues.

The Italian opportunity
Italy is a core strategic market for us. The large size of its NPL market, with over €300 billion of NPLs on bank balance sheets and extended asset tails, provides significant long-term opportunities. Its specific characteristics mean that we have entered the country with diligence and discipline. The team took two years to analyse the market before deciding that Zenith, the master servicing business we purchased in 2017, was the right entry point. This acquisition has exceeded our expectations in all respects: AUM has grown by over 70% and the deep insight it has given us into the Italian market's characteristics has allowed us to invest our own capital ahead of forecasts, and at excellent returns. Importantly, all investments were originated in off-market deals from the Zenith platform and are, therefore, assets on which we have excellent performance visibility.

Having made a successful start, and established strong foundations, we believe that now is the right time to expand the business. Market activity is high, as regulatory pressure to deal with Italian bank balance sheets has started to take effect asset sales rose from €34.0 billion in 2016 to a projected €64 billion in 2017. The market potential remains considerable and we are seeing strong demand from Arrow's clients in the alternative asset space for us to deploy the same capability in Italy that we have successfully offered them elsewhere, offering our cross-asset class special servicing capabilities in high level niches we understand well, and where we are prepared to invest our own money. This targeted approach is key to our success; we will not attempt to cover the entire Italian market, but only the parts where we can develop an edge and generate solid returns.

In other markets, we have built the leading servicing platform for both ourselves and third-party investors through a combination of acquisitions and organic build. We believe that this strategy will serve us well in Italy too given our long-term commitment to the market.

Our track record demonstrates that we are able to achieve the following:

- identify the right management teams which fit with Arrow's culture and bring local expertise;
- buy platforms at attractive prices in off-market deals, where value accretes to our shareholders; and
- grow acquired platforms swiftly after acquisition by tapping into Arrow's broad origination footprint across a wide range of financial institutions and alternative asset manager clients.

The two new bolt-on acquisitions of Parr Credit – a specialist servicer for sophisticated financial investors that has diversified into small ticket utilities and telecoms servicing – and Europa Investimenti – an expert investor in non-performing corporate and SME business – are consistent with this approach. In addition, investment will be required in order to build out our credit platform offering for clients. Expanding asset class offerings (notably secured), systems, governance and risk infrastructure and adding management depth will involve a two-year programme of investment. This will contribute to our ability to grow our investment portfolio conservatively, with continued underwriting discipline, and to our stated ambition to grow asset management revenues materially by the end of 2018 and beyond.

Strengthened funding
During the year, we took the opportunity to strengthen and secure our long-term funding. In March, the Group issued €400 million senior secured floating rate notes due 2025, at a coupon of E+2.875%.

This has meant that the Group's weighted average cost of debt has been significantly reduced to 3.9% (2016: 4.9%) and the weighted average maturity of the Group's debt at 31 December 2017 was 6.1 years (2016: 5.8 years) with no facility maturing before March 2022. This positions us well to continue to run the balance sheet efficiently and capitalise on opportunities presented by market conditions.

We continue to be open to further opportunities to reduce our weighted average cost of debt and extend its duration.

Investing for growth – One Arrow
While the runway for growth provided by our significant market opportunity remains substantial, our strategy centres on controlled growth of our balance sheet, allowing us to maintain underwriting discipline and returns within our balanced capital structure.

The combination of our origination strengths, client relationships and servicing platforms means that we are well positioned to take advantage of the potential to grow capital-light asset management revenues. To achieve this in a safe, disciplined and sustainable way, we took the decision earlier in the year to invest further in our core capabilities.

This will see us strengthening governance and Group capabilities, using our knowledge and expertise from certain geographies in order to improve efficiency across the board. Areas of focus will be in our core centres of excellence: Origination, Data & Analytics, Portfolio Management, Risk Management and Change & IT Functions. In addition, we are increasing investment in our servicing and operating platforms across the Group to improve customer journeys through enhanced digital capabilities, which in turn, will produce improvements in our productivity.

We have outlined an investment and restructuring programme totalling £22 million across 2017 and 2018. On completion we will have more scalable, resilient platforms, optimised to support future growth.

Our people
We have continued to grow welcoming new colleagues during the year. At the Group Executive level, our Group chief financial officer, Rob Memmott, decided to step down following nearly seven years of excellent service. I would like to thank Rob for his huge contribution to the growth of the Company, and wish him the very best for the future. We announced in October last year that Paul Cooper would be joining us as Group chief financial officer in January 2018, and I look forward to working closely with Paul as we continue to steer the business along a strong growth trajectory in the coming years. The way in which the business develops and operates will be key to its success and we welcomed Clodagh Gunnigle as our new Group chief risk officer earlier in the year. Clodagh has significant experience driving risk strategy at large financial companies and will play a pivotal role in ensuring that Arrow continues to grow prudently. Most recently, we announced the appointment of Dave Sutherland as our new Group chief operating officer. His experience will add considerably to our management expertise at a time when we are continuing to grow our operations and ensure we maintain and strengthen our leading management capabilities.

Following these appointments at the Group executive level, we streamlined the management structure. The country heads now report directly into Dave Sutherland, which will ensure that we share best practice and drive operational excellence across the business.

As ever, I would like to take the opportunity to thank the wider Arrow Global team for all their hard work this year. Good culture is such an important part of any organisation, and I am proud to see the ongoing commitment from all my colleagues to Arrow's commitment to 'Building Better Financial Futures' for all of our stakeholders. I'm excited about what we can all achieve together in the coming year, as we continue to place our values at the heart of the business.

Outlook

I continue to be optimistic about the potential for the business in a growing market. Focus on the health of financial institutions' balance sheets continues to increase. Indeed, this year saw the European Central Bank being particularly vocal on the issue, suggesting banks must provision for non-performing loans much faster than they currently do. Combined with the European Banking Authority's focus on reducing the stock of NPLs, this is likely to lead to increased volumes of asset sales across Europe, generating opportunities for Arrow to purchase and manage more portfolios, feeding both our debt purchase and asset management businesses.

Consensus regarding forecasts for UK and European GDP growth remains positive, but we remain well positioned to capitalise on any market opportunities presented by a turn in the economic cycle. This is supported by our resilient back book of paying customers and the ensuing front book opportunities that would arise from a portfolio pricing perspective in a downward cycle. As previously guided, we do not expect Brexit to impact our ability to operate and purchase portfolios in Europe, since we are individually licensed in all of our jurisdictions and are not reliant on the UK's continuing membership of the EU.

We believe that regulatory oversight will continue to evolve in European markets and view this as favourable for businesses such as Arrow that have scale, strong funding structures and a focus on the right customer outcomes. We constantly evaluate and evolve risk and compliance activities across the entire Group, regardless of geography, and, wherever possible, share best practice.

Increasingly, our clients look for respected partners which comply with regulatory requirements and have strong reputations for dealing fairly with customers. At Arrow Global, we are committed to achieving the right outcomes for our customers and I believe we are well positioned to continue to take advantage of the opportunities this presents.

We remain neutral on pricing in each of our markets. While competition is evident across all jurisdictions, our model of purchasing the majority of our portfolio acquisitions off-market provides us with a degree of protection. The fact that we purchase only around half a per cent on an annual basis of all NPLs sold across the markets in which we operate means that we can be highly selective, only acquiring portfolios where we are confident we can achieve our required returns. Our diversification across geographies and asset classes on portfolios where our data and analytics can provide us with an advantage gives me great confidence about our future performance.

We remain relatively well insulated against the potential for interest rate rises when viewed alongside our strengthened funding position and reduced weighted average cost of debt fixed over a long duration. Moreover, over 60% of our unsecured customers do not have a mortgage, the asset most geared towards interest rate hikes, meaning we would not expect to see a material increase in payment breakage rates should interest rates rise. Furthermore, over two thirds of our balance sheet is hedged against rate rises.

In the coming year, we will remain focused on the strategic advantages afforded by our unique business model. We will:

- purchase specialist portfolios where we have a data advantage;
- maintain our strong relationships with primary lenders and our institutional investor clients to continue to buy off-market as a preferred purchaser;
- target acquisitions that provide a strategic fit;
- continue to scale up our presence in geographies that fit our investment criteria; and
- focus on our partner relationships with institutional investors to continue to expand our asset management business.

We therefore remain confident in our ability to deliver on our targets of achieving 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

Group chief financial officer's review

I am pleased to present another good set of results for 2017. They demonstrate strong returns together with high growth, underpinned by operational and financial excellence across the business contributing to sustainable, profitable growth and enhanced shareholder value.

Profit after tax increased

Profit after tax for the Group for 2017 has risen by 51.7% to £39.9 million (2016: £26.3 million). The growth in earnings has been driven by increased revenues from both our debt purchase business and our asset management business. Collections performance has been strong (ahead of our ERC forecast) across the Group. Our capital-light asset management revenues have increased by £24.8 million from £46.3 million to £71.1 million driven by the Zenith acquisition completed in April 2017 and a full-year effect of the Vesting acquisition completed in May 2016. Capital-light asset management revenue is now 22% of Group revenues, and we aim to increase this further in 2018.

The 2017 profit after tax of £39.9 million (2016: £26.3 million) includes £2.4 million of acquisition costs and £27.4 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 at a lower finance cost, ensuring the financial position is sufficiently well structured to support and fund the continued growth plans of the Group.

In October 2017, we completed the sale of our 15% economic interest in MCS Groupe. The disposal generated a pre-tax gain of £14.7 million and proceeds of £18.1 million. The proceeds will be reinvested in the Mars Capital acquisition and the One Arrow programme.

Strong returns and increased dividend delivered

The underlying return on equity (ROE) for the Group in 2017 is 32.9%, up from 29.1% last year, and well above our target of 'mid-20s underlying ROE'. This metric is a key driver of shareholder value.

Basic EPS for 2017 is 22.8p compared to 15.1p in 2016, with the increase largely due to the growth in revenue. Underlying basic EPS has increased 24.1% to 32.4p (2016: 26.1p). The Group has established a progressive dividend policy. The strong cash result for the year, supported by the continued 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 8.1p for 2017 will increase to 11.3p, up 24.2%, and represents a 35% payout of underlying profit after tax.

Strong portfolio purchases

Our purchased loan portfolio asset base and loan notes increased by 18.3% to £951.5 million (2016: £804.1 million), which helps to support the future flow of collections and revenue streams.

This was driven by another excellent year of organic portfolio purchases of £223.9 million, a slight increase from 2016's £223.0 million. The face value of debt portfolios acquired in the year was £2,450 million, with an average purchase price of 9.1p per £1. For the year to 31 December 2017, the 120-month expected gross money multiple for this vintage is 1.8 times (2016: 1.9 times) from the date of purchase. This is slightly below our 2.0 times target and the 2016 comparative given the proportion of secured portfolios and portfolios acquired from our asset management platforms, which we regard as lower risk within the vintage. Of the purchase price invested, 40.7% related to secured portfolios and 33.8% was acquired from our asset management business. There was a good balance of investment by geography, including a healthy level of investment in Italy.

In the year, the Group acquired debt portfolios 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 £1,339.1 million to £1,516.9 million, an increase of 13.3%. In addition, in the year we decided to allocate an additional £18.0 million of capital to legal collection costs, in order to enhance the value of the back book. This has

increased collections and our ERC. It is the collections performance and size of the ERC which drives income recognised on loan portfolios.

All portfolios continue to be monitored carefully and, where appropriate, adjusted for in the ERC forecast based upon our detailed modelling. Although it has increased in total, the ERC has been adjusted down to account for any areas of underperformance.

Core collections increased
Core collections increased to £342.2 million (2016: £286.0 million), reflecting the increase in our portfolio asset base. Collections were ahead of our ERC forecast and reflect 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. Collections on our Portuguese portfolios have improved in the second half of 2017. In the period we acquired our first portfolios in Italy; to date these portfolios have collected in line with our underwriting forecast.

As at 31 December 2017, we have cumulatively collected 103% of our original underwriting forecast (2016: 103%) excluding foreign exchange impacts, reflecting the success of our data driven approach to underwriting.

Revenue and EBITDA increased
Total revenue for the year was £319.0 million, an increase of 35.2% from the 2016 comparative of £235.9 million. £58.3 million came from purchased loan portfolios and loan notes and £24.8 million was from asset management services. The latter was due to a full period of results for Vesting and the acquisition of Zenith in April 2017.

The increase in collections drove an increase in Adjusted EBITDA of 10.2% to £230.6 million (2016: £209.2 million). The reconciliation for the year of net operating cash flow to the cash result, including a reconciliation to Adjusted EBITDA, is provided on page p.31. 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 2017 was 22.3% (2016: 20%) of total revenue, and we expect this to continue to grow in 2018.

As noted above, we increased our spend on litigation collections strategies in the period by £18 million; this has increased our ERC, but also our cost ratios in the period (in combination with a larger asset management business, which has higher costs to collect). Reflecting this and the enlarged business, collection costs increased by 68.6% to £118.5 million (2016: £70.3 million).

Underlying performance (see alternative performance measures below)
Profit after tax for the year increased to £39.9 million from £26.3 million in 2016, largely due to the growth in revenue. The contribution from our minority interest in MCS Groupe reduced from £2.4 million to £1.6 million as a result of divestment of the business in October 2017. This resulted in a gain on disposal of £14.7 million.

Profit before tax was adjusted by items totalling £19.7 million which arose from; the refinancing of both the €400 million floating rate note and the Group's RCF, costing £27.4 million, 'One Arrow' costs of £4.7 million and £2.4 million from corporate acquisitions that completed in the year. These costs were partially offset by the gain on disposal of the Group's associate, MCS. Costs of the 'One Arrow' programme were split broadly evenly between the Netherlands, in respect of the office consolidation, and in the UK, where the cost covered reorganising a number of aspects of the business. All of these items are adjusted from reported profit to give an underlying profit, as the 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 £3.1 million.

The tax charge for 2017 represents an effective tax rate of 21.1% (2016: 16.1%) on profit before tax. The effective tax rate has increased due to a higher level of taxable incoming from overseas countries with higher tax rates and a chargeable gain. The effective tax rate on underlying profit was 19.5% (2016: 16.2%).

Net assets, funding and net debt

Net assets increased £27.9 million during the period, mostly reflecting the retained profit for the period of £39.9 million, foreign currency translation of £2.4 million and share-based payment movements of £3.3 million, offset by the final 2016 approved dividend and 2017 interim dividend paid totalling £16.8 million.

Net debt increased by £132.4 million to £948.4 million (2016: £816.0 million), driven by the acquisitions of Zenith and Mars, organic portfolio purchases and foreign exchange.

The Group is committed to maintain its strong financial profile and aims to maintain the ratio of secured net debt to Adjusted EBITDA between 3.5x-4.0x, achieving 3.9x in both 2017 and 2016. Similarly, cash interest cover was 5.9x, comfortably ahead of target at greater than 4.0x and ahead of 2016's 5.2x.

The ratio of Net debt to 84-month ERC (LTV) was 62.5% as at 31 December 2017 (2016: 60.8%), which is significantly below our financial covenant of 75%. The secured loan to value ratio, which cannot exceed 65.0%, is 59.7% (2016: 57.0%).

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.

On 30 March 2017, the Group issued €400 million senior secured floating rate notes due 2025, at a coupon of E+2.875% (the '2025 Notes').

The proceeds of the 2025 Notes were used to redeem the existing 2021 Notes, pay the early redemption and transaction costs and repay drawings under our RCF.

The early redemption of the 2021 Notes resulted in finance costs of £27.4 million, of which £17.6 million related to the cash call premium and cancellation of interest rate hedging linked to the 2021 Notes, with the remaining £9.8 million due to a non-cash write-off of related transaction fees.

In January 2018, the Group increased the RCF by £40 million to £255 million and extended the facility to 2023, meaning that the Group has cash and RCF headroom of £136.5 million, and an average debt maturity of 6.2 years with no debt maturing before January 2023. To maintain headroom following the announcement of the Italian acquisitions, the Group has entered into a €60 million bridge facility.

Summary

The financial performance of the Group for 2017 was strong. We have continued to grow our asset management business, broadened and deepened our geographical footprint and reduced our cost of capital with an extended funding maturity.

We have invested in the Group via the One Arrow programme, which will see stronger governance, improved centres of excellence and increased efficiency and productivity across the Group's operating platforms.

Alternative performance measures

The Group believes that the use of alternative performance measures ('APMs') for profitability, earnings per share and cash metrics provide valuable information to the readers of the financial statements. They can provide a more comparable basis for assessing the Group's performance between financial periods, by adjusting for items that by virtue of their size, nature or incidence are not necessarily representative of the ongoing performance of the business. APMs also reflect key operating targets and are used to monitor performance by the Board. However, any APM's in this document are not a substitute for, but complement reported measures, and readers should also consider the reported measures.

	2017			2016		
	PBT £'000	**Tax £'000**	**PAT £'000**	PBT £'000	Tax £'000	PAT £'000
Reported profit	**50,559**	**(10,644)**	**39,915**	31,367	(5,061)	26,306
Acquisition costs	**2,444**	**(267)**	**2,177**	5,022	(156)	4,866
One Arrow costs	**4,645**	**(896)**	**3,749**	–	–	–
Bond refinancing costs	**27,352**	**(5,265)**	**22,087**	17,994	(3,599)	14,395
Gain on sale of associate	**(14,697)**	**3,375**	**(11,322)**	–	–	–
	70,303	**(13,697)**	**56,606**	54,383	(8,816)	45,567
Non-controlling interest			**(44)**			(1)
Underlying profit after tax			**56,562**			45,566

	2017		2016	
	Reported £000	**Underlying £000**	Reported £000	Underlying £000
Profit after tax	**39,915**	**56,562**	26,306	45,566
Opening net assets	**167,391**	**167,391**	145,356	145,356
Closing net assets	**195,148**	**195,148**	167,391	167,391
Average net assets	**171,905**	**171,905**	156,374	156,374
ROE (%)	**23.2%**	**32.9%**	16.8%	29.1%
Weighted average ordinary shares	**174,768**	**174,768**	174,373	174,373
Basic EPS (p)	**22.8p**	**32.4p**	15.1p	26.1p

Paul Cooper
Group chief financial officer

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Continuing operations			
Total revenue	3	**319,015**	**235,930**
Operating expenses:			
Collection activity costs		(118,468)	(70,261)
Other operating expenses	6	(94,603)	(70,637)
Total operating expenses		**(213,071)**	**(140,898)**
Operating profit		**105,944**	**95,032**
Finance income		9	813
Finance costs	4	(71,669)	(66,841)
Share of profit in associate net of tax		1,578	2,363
Gain on sale of associate	5	14,697	–
Profit before tax		**50,559**	**31,367**
Taxation charge on ordinary activities	8	(10,644)	(5,061)
Profit after tax		**39,915**	**26,306**
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
FX translation difference arising on revaluation of foreign operations		2,431	5,954
Movement on hedging reserve		289	670
Items that will not be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		(25)	(10)
Total comprehensive income		**42,610**	**32,920**
Profit after tax attributable to:			
Owners of the Company		39,871	26,305
Non-controlling interest		44	1
		39,915	26,306
Basic EPS (£)	7	**0.23**	**0.15**
Diluted EPS (£)	7	**0.22**	**0.15**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

Assets	Note	2017 £000	2016 £000
Non-current assets			
Goodwill	10	152,779	128,081
Other intangible assets		43,493	39,144
Property, plant and equipment		10,168	3,584
Investment in associate	5	–	10,371
Deferred tax asset		7,780	3,692
Total non-current assets		**214,220**	**184,872**
Current assets			
Cash and cash equivalents		35,943	23,203
Trade and other receivables		56,885	35,484
Purchased loan portfolios	11	900,769	782,792
Loan notes	11	50,698	21,315
Total current assets		**1,044,295**	**862,794**
Total assets		**1,258,515**	**1,047,666**
Equity			
Share capital		1,753	1,744
Share premium		347,436	347,436
Retained earnings		118,710	92,327
Hedging reserve		(343)	(632)
Other reserves		(272,408)	(273,484)
Total equity attributable to shareholders		**195,148**	**167,391**
Non-controlling interest		173	–
Total equity		**195,321**	**167,391**
Liabilities			
Non-current liabilities			
Senior secured notes	14	763,740	681,158
Trade and other payables	12	16,569	–
Deferred tax liability		21,940	14,859
Defined benefit liability		-	1,721
Total non-current liabilities		**802,249**	**697,738**
Current liabilities			
Trade and other payables	12	81,790	76,261
Derivative liability		2,865	1,433
Current tax liability		4,528	5,469
Revolving credit facility	14	153,036	74,169
Bank overdrafts	14	1,332	7,698
Other borrowings	14	10,724	12,077
Senior secured notes	14	6,670	5,430
Total current liabilities		**260,945**	**182,537**
Total liabilities		**1,063,194**	**880,275**
Total equity and liabilities		**1,258,515**	**1,047,666**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Group	Ordinary shares £000	Share premium £000	Retained earnings £000	Hedging reserve £000	Own share reserve* £000	Trans-lation reserve* £000	Merger reserve* £000	Total £000	Non-controlling interest- £000	Total £000
Balance at 1 January 2016	**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**
Profit after tax	–	–	39,871	–	–	–	–	39,871	44	39,915
Exchange differences	–	–	–	–	–	4,301	–	4,301	–	4,301
Recycled to profit after tax	–	–	–	–	–	(1,870)	–	(1,870)	–	(1,870)
Net fair value losses – cash flow hedges	–	–	–	348	–	–	–	348	–	348
Tax on hedged items	–	–	–	(59)	–	–	–	(59)	–	(59)
Remeasurements of the defined benefit liability	–	–	(25)	–	–	–	–	(25)	–	(25)
Total comprehensive income for the year	–	–	39,846	289	–	2,431	–	42,566	44	42,610
Shares issued	9	–	–	–	–	–	–	9	–	9
Repurchase of own shares	–	–	–	–	(1,355)	–	–	(1,355)	–	(1,355)
Share-based payments	–	–	3,334	–	–	–	–	3,334	–	3,334
Dividend paid	–	–	(16,797)	–	–	–	–	(16,797)	–	(16,797)
Dividend paid by NCI	–	–	–	–	–	–	–	–	(58)	(58)
Non-controlling interest on acquisition	–	–	–	–	–	–	–	–	187	187
Balance at 31 December 2017	**1,753**	**347,436**	**118,710**	**(343)**	**(3,291)**	**7,844**	**(276,961)**	**195,148**	**173**	**195,321**

***Other reserves total £272,408,000 deficit (2016: £273,484,000 deficit).**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Net cash used in operating activities	16	**(27,478)**	**(26,217)**
Investing activities			
Purchase of property, plant and equipment		(4,885)	(525)
Purchase of intangible assets		(9,112)	(7,412)
Proceeds from disposal of intangible assets and property, plant and equipment		1,319	643
Dividends received from associate		7,233	6,820
Additional investment in associate		–	(1,305)
Disposal of associate		18,143	–
Acquisition of subsidiaries, net of cash acquired		(8,201)	(62,465)
Acquisition of subsidiary, deferred consideration		(8,888)	(14,998)
Net cash used in investing activities		**(4,391)**	**(79,242)**
Financing activities			
Net proceeds from additional loans		66,327	12,193
Proceeds from senior notes (net of fees)		340,546	169,712
Redemption of senior notes		(290,867)	-
Early repayment of bond		(17,631)	(8,664)
Repayment of interest on senior notes		(31,119)	(36,915)
Repurchase of own shares		(1,355)	–
Issued share capital		9	–
Bank interest received		9	–
Receipt of loan notes		–	938
Bank and other similar fees paid		(4,274)	(4,389)
Payment of dividends		(16,855)	(14,123)
Payment of deferred interest		(610)	(1,071)
Settlement of non-controlling interest		–	(415)
Net cash flow generated by financing activities		**44,180**	**117,266**
Net increase in cash and cash equivalents		**12,311**	**11,807**
Cash and cash equivalents at beginning of year		23,203	10,183
Effect of exchange rates on cash and cash equivalents		429	1,213
Cash and cash equivalents at end of year		**35,943**	**23,203**

1. Statutory information

This document does not constitute the Group's statutory accounts for the years ended 31 December 2016 or 31 December 2017 but is derived from those accounts. Statutory accounts for 31 December 2016 have been delivered to the Registrar of Companies, and those for 2017 will be delivered to the Registrar of Companies following the Group's annual general meeting.

The auditors have reported on the 2016 and 2017 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 2017 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 March 2018. The 2016 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 2017. The financial information included in this preliminary announcement is based on the Group's annual report and accounts for the year ended 31 December 2017, 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 2017 will be posted to shareholders in March 2018. The annual general meeting will take place on 22 May 2018.

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 2017 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. Revenue

	2017	**2016**
	£000	**£000**
Income from purchased loan portfolios	239,575	188,914
Profit on portfolio sales	1,329	701
Income from loan notes	1,715	–
Fair value gain on loan notes	5,298	–
Total revenue from portfolios and loan notes	**247,917**	189,615
Income from asset management	71,098	46,315
Total revenue	**319,015**	**235,930**

4. Finance costs

	2017 £000	2016 £000
Interest and similar charges on bank loans	6,047	5,370
Interest on senior secured notes	34,616	39,968
Interest rate swap and forward exchange contract hedge costs	2,095	2,778
Other interest	1,562	731
Bond refinancing costs	27,349	17,994
Total finance costs	**71,669**	**66,841**

In 2017, Bond refinancing costs comprised £27,349,000 incurred on the early redemption of the €335 million notes due 2021, of which £17,631,000 was a cash cost related to the call premium and cancellation of interest rate hedging linked to the 2021 Notes. The remaining £9,718,000 is due to a non-cash write-off of transaction fees, in connection with the 2021 Notes.

In 2016, Bond refinancing costs comprised £15,026,000 incurred on 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.

5. Gain on disposal

The 15% interest in the Group's associate, Promontoria MCS Holding SAS ('MCS'), was sold on 18 October 2017. The Group had acquired an indirect 15% economic interest in MCS through a participation agreement on 15 December 2014. The terms of the participation agreement meant that the Group demonstrated significant influence over the MCS group. The associate was accounted for using the equity method.

Summarised below is a reconciliation of the movements in the carrying value of the Group's interest in MCS during the year until the date of disposal:

	£000
Interest in the net assets of the associate as at 1 January 2017	10,371
Foreign exchange differences	497
Share of profit in associate during the year	1,578
Dividends received from associate	(7,233)
Interest in the net assets of the associate as at 18 October 2017	5,213

The sale generated a gain on disposal, which was calculated as follows:

	£000
Interest in the net assets of the associate as at 18 October 2017	(5,213)
Proceeds	18,143
Foreign exchange gain	1,870
Disposal costs	(103)
Gain on disposal	**14,697**

6. Other operating expenses

	2017 £000	2016 £000
Staff costs	42,954	30,649
Other staff related costs	7,255	4,071
Premises	7,353	4,678
IT	9,213	7,033
Depreciation and amortisation	11,729	8,658
Net foreign exchange gains	(611)	(1,510)
Other operating expenses	16,710	17,058
Total other operating expenses	**94,603**	**70,637**

In 2017, £7,240,000 of the other staff related costs relates to indirect temporary labour, recruitment and training (2016: £3,700,000).

7. Earnings per share (EPS)

	2017 £000	2016 £000
Profit after tax attributable to shareholders	39,871	26,305
Weighted average ordinary shares	174,768	174,373
Potential exercise of share options	4,344	4,041
Weighted average ordinary shares (diluted)	179,112	178,414
Basic earnings per share (£)	0.23	0.15
Diluted earnings per share (£)	0.22	0.15

Refer to table of alternative performance measures on page 13 for details of underlying earnings per share.

8. 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 2017 is higher than the standard rate of corporation tax in the UK at 19.25% (2016: 20.00%). The differences are as follows:

	2017 £000	2016 £000
Profit before tax	50,559	31,367
Tax charge at standard UK corporation tax rate	9,733	6,273
Utilisation of tax losses previously unrecognised	–	(2,754)
Adjustment in respect of prior years	(724)	(46)
Expenses not deductible for tax purposes	454	1,391
Share in profit in associate reported net of tax	(304)	(472)
Differences in corporate tax rates	186	(329)
Differences on hedging arrangements	–	–
Differing overseas tax rates	1,327	1,259
Movements in unrecognised deferred tax	(572)	(469)
Chargeable gains	544	208
Tax charge	10,644	5,061
Effective tax rate relating to continuing operations	21.1%	16.1%
Standard UK corporation rate for the year	19.25%	20.0%
Effective tax rate higher/lower than standard UK corporation rate for the year	Higher	Lower

	2017 £000	2016 £000
Tax charge for the year consists of:		
Current tax charge:		
UK and foreign corporation tax based on profit after tax	8,947	7,055
Adjustment in respect of prior years	(825)	(2,871)
Total current tax charge	8,122	4,184
Deferred tax charge:		
Origination and reversal of temporary differences	2,806	1,234
Adjustment in respect of prior years	102	441
Movement in deferred tax previously not recognised	(572)	(469)
Differences in tax rates	186	(329)
Total tax charge	10,644	5,061

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

8. Tax *(continued)*

Deferred tax

The Group has not recognised a deferred tax asset in respect of £11,455,000 (2016: £14,335,000) 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.

9. Dividend

Dividends paid of £16,797,000 have been included in these financial statements, being the 2016 final dividend of 6.4p per share and the 2017 interim dividend of 3.2p per share. A final dividend for 2017 has been proposed of 8.1p per share, taking the total declared and proposed dividends for the year ended 31 December 2017 to 11.3p, 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 2017 interim dividend was declared at 50% of the 2016 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 31 May 2018 with a record date of 1 June 2018 and a payment date of 6 July 2018. Shareholders will again have the opportunity to elect to reinvest their cash dividend and purchase existing shares in the Company through a dividend reinvestment plan ('DRIP) with an election date of 15 June 2018.

10. Goodwill

Cost	**£000**
At 1 January 2016	81,799
Goodwill on acquisition of subsidiary	40,371
Exchange rate differences	8,220
At 31 December 2016	**130,390**
Goodwill on acquisition of subsidiary	20,911
Exchange rate differences	3,787
At 31 December 2017	**155,088**
Amortisation and impairment	
At 31 December 2016 and 31 December 2017	**2,309**
Net book value	
At 31 December 2017	**152,779**
At 31 December 2016	**128,081**

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 six 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 six CGUs identified are Benelux, comprising 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, Arrow Global Receivables Management Limited ('AGRML'), Zenith Service S.p.A ('Zenith') and Mars Acquisition Limited ('Mars Capital'). The Benelux, Capquest, Portugal, Zenith and Mars Capital 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.

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

	2017	**2016**
	£000	**£000**
Benelux	42,614	40,921
Capquest	45,608	45,608
Portugal	41,225	39,584
AGRML	1,968	1,968
Zenith	10,525	-
Mars Capital	10,839	-
	152,779	**128,081**

10. Goodwill *(continued)*

An impairment review was carried out at 31 December 2017 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 6.11% (2016: 6.09%) was determined for the AGRML and Capquest CGUs, a rate of 8.50% (2016: 6.84%) was determined for the Portuguese CGU, a rate of 6.00% (2016: 6.34%) was determined for the Benelux CGU and a rate of 6.57% (2016: N/A) for the Italian CGU.

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

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

	2017	
Impairment in each CGU, would happen with –	a cashflow reduction of	a discount rate increase of
Capquest	19%	3%
Portugal	6%	1%
AGRML	3%	1%
Benelux	37%	4%
Zenith	55%	20%

11. Financial assets

	2017 £000	2016 £000
Expected falling due after 1 year:		
Purchased loan portfolios	713,358	595,352
Loan notes	44,755	17,763
	758,113	**613,115**
Expected falling due within 1 year:		
Purchased loan portfolios	187,411	187,440
Loan notes	5,943	3,552
	193,354	**190,992**
Total	**951,467**	**804,107**

Purchased loan portfolios

The Group recognises income from purchased loan portfolios in accordance with IAS 39. At 31 December 2017, the carrying amount of the purchased loan portfolio asset was £900,769,000 (2016: £782,792,000).

The movements in purchased loan portfolio assets were as follows:

	2017 £000	2016 £000
As at the year brought forward	782,792	609,793
Portfolios acquired during the year	195,579	224,640
Purchased loan portfolios to be resold	–	(23,519)
Portfolios acquired through acquisition of a subsidiary	–	35,343
Collections in the year	(333,567)	(285,960)
Income from purchased loan portfolios	239,575	188,914
Exchange gain on purchased loan portfolios	15,535	32,880
Profit on disposal of purchased loan portfolios	1,329	701
Purchase price adjustment relating to prior year	(474)	-
	900,769	**782,792**

11. Financial assets *(continued)*

There was no impairment recognised in respect of purchased loan portfolios or loan notes in 2017 (2016: £nil).

The movements in loan notes were as follows:

	2017	2016
	£000	£000
As at the year brought forward	21,315	–
Loan notes acquisition expenditure	30,155	21,315
Changes in fair value	5,298	–
Collections in the year	(8,643)	–
Income from loan notes	1,715	–
Exchange gain on loan notes	858	–
	50,698	**21,315**

12. Trade and other payables

	Group 2017	Group 2016
Current	**£000**	**£000**
Trade payables	19,634	13,536
Deferred consideration on acquisition of subsidiary	6,618	9,230
Deferred consideration on purchased loan portfolios	10,830	26,171
Taxation and social security	152	121
Other liabilities and accruals	44,556	27,203
	81,790	**76,261**

Vesting Finance vacated an office building in December 2017 as part of its office consolidation. The property has an unexpired lease term of 6 years and a provision of £1,169,000 is included in trade and other payables at 31 December 2017. It has been assumed that sub-lease rental income of £656,000 will be received to reduce the overall gross liability.

	Group 2017	Group 2016
Non-current	**£000**	**£000**
Trade payables	3,509	–
Deferred consideration on acquisition of subsidiary	8,581	–
Deferred consideration on purchased loan portfolios	4,479	–
	16,569	**–**

Zenith

The employees in the Zenith business are part of a statutory indemnity scheme, compulsory by law, that entitles them to deferred pay, typically at the end of their employment, the 'Trattamento di fine rapport' (TFR). A liability is recognised to reflect that the indemnity will be paid in the future when the employees leave employment. As at 31 December 2017 the estimated liability is €715,000 (£635,000) and is included within non-current trade and other payables on the statement of financial position. The liability is calculated by an independent expert through an actuarial valuation, the key assumptions used are detailed below:

	2017	2016
Discount rate	1.3%	1.6%
Annual inflation rate	1.5%	1.0%
Wage inflation	3.5%	3.0%
Probability of leaving employment for reasons other than retirement (employees aged 18-60)	10.0% per annum	15.0% per annum

13. Related party transactions

Related party balances as at each year end were as follows:	Key management personnel £000	Total £000
As at 31 December 2017 and 2016:		
Trade	–	–
	–	–

Summary of transactions

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

Remuneration	2017 £000	2016 £000
Salaries and performance-related bonus	4,555	4,080
Pension-related benefits	222	184
	4,777	**4,264**

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.

14. Borrowings and facilities

Secured borrowing at amortised cost	£000	£000
Senior secured notes (net of transaction fees of £15,607,000, 2016: £20,562,000)	763,740	681,158
Revolving credit facility (net of transaction fees of £2,721,000, 2016: £2,756,000)	153,036	74,169
Senior secured notes interest	6,670	5,430
Bank overdrafts	1,332	7,698
Finance lease	1,816	–
Non-recourse facility	8,908	12,077
	935,502	780,532
Total borrowings:		
Amount due for settlement within 12 months	165,360	87,297
Amount due for settlement after 12 months	770,142	693,235

Senior secured notes

On 30 March 2017, the Group issued €400 million senior secured floating rate notes due 2025 (the ‘2025 Notes’) at a coupon of EURIBOR +2.875% per annum with EURIBOR being not less than 0%. Interest is paid quarterly in arrears. The 2025 Notes can be redeemed in full or in part on or after 1 April 2019 at the Group’s option. Prior to 1 April 2019 the Group may redeem, at its option, some or all of the 2025 Notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable make-whole premium.

The proceeds from the 2025 Notes were used to redeem the existing €335 million 2021 Notes, pay the early redemption and transaction fees payable in respect of the €335 million 2021 Notes and repay drawings under the RCF (see note 4).

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 costs of £15.0 million details of which are included within finance costs (see note 4).

14. Borrowings and facilities (continued)

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.

The Euro senior notes and Sterling senior notes are secured by substantially all of the assets of the Group.

Revolving credit facility

On 24 February 2017 the commitments under the RCF were increased from £180 million to £215 million. Upon the redemption of the €335 million 2021 Notes on 30 March 2017, the maturity of the facility was extended to 31 March 2022. On 8 January 2018 the RCF was increased by £40 million and maturity extended to January 2023. The margin on the RCF was also reduced to 2.5%.

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 costs of £3.0 million, these costs are included within finance costs (see note 4).

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.

Finance lease liabilities

Due to the acquisition of Zenith Service S.p.A the Group's liabilities now include a finance lease in relation to a property. This is payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Less than one year	171	–	57	–	114	–
Between one and five years	685	–	192	–	493	–
More than five years	1,377	–	168	–	1,209	–
	2,233	**–**	**417**	**–**	**1,816**	**–**

15. Acquisition of subsidiary undertakings

Current year acquisitions

(a) Zenith Service S.p.A

On 28 April 2017, the Group acquired 100% of the ordinary share capital of Zenith Service S.p.A. ("Zenith"). Zenith has a similar principal activity to that of the Group and is a leading master servicer in the Italian structured finance market, and provider of various structuring and securitisation services.
The Group paid cash consideration of €11,327,000 (£9,630,000) together with deferred consideration of €7,551,200 (£6,420,000). Deferred consideration is payable on the one-year anniversary of the transaction and has therefore been included at its fair value, leading to an overall consideration of €18,588,000 (£15,803,000).

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities:	**Total £000**
Intangible assets	2,517
Property, plant and equipment	3,087
Deferred tax asset	965
Cash and cash equivalents	4,555
Other receivables	3,803
Trade and other payables	(7,610)
Deferred tax liability	(672)
Current tax liability	(727)
	5,918
Minority interest	(187)
	5,731
Goodwill on acquisition	10,072
	15,803
Consideration:	
Cash	9,630
Deferred consideration	6,173
	15,803
Cash impact of acquisition in the period:	
Cash consideration	9,630
Cash and cash equivalents acquired	(4,555)
	5,075

15. Acquisition of subsidiary undertakings *(continued)*

An intangible asset of €2,872,000 (£2,442,000) has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from contractual customer relationships.

Goodwill of €11,847,000 (£10,072,000) was created as a result of this acquisition. The primary reasons for the acquisition was to enter the Italian market via the acquisition of an existing well-established company, and to create scale and servicing capabilities across multiple asset classes.

Trade and other payables in the acquired entity include a finance lease liability of €2,054,000 (£1,746,000) in relation to a property.

In the period from acquisition to 31 December 2017, Zenith contributed revenue of £8,681,000 and profit after tax of £1,055,000 to the consolidated results for the period. If the acquisition had occurred on 1 January 2017, Group total revenue would have been an estimated £331,942,000 and profit after tax would have been an estimated £41,498,000.

The minority interest, relating to a non-controlling interest in Zenith's subsidiary, Structured Finance Management – Italy S.r.l (SFM)

was recorded as the non-controlling party's proportionate interest in the fair value of the identifiable assets of SFM at the acquisition date.

(b) Hefesto

On 31 March 2017, the Group acquired 100% of the ordinary share capital of Hefesto STC. Hefesto is a regulated Portuguese special purpose vehicle for the securitisation of loans and receivables. Whitestar acts as servicer and administrator of Hefesto. The Group paid cash consideration of €743,000 (£636,000) which was equal to the fair value of the net assets acquired. The assets and liabilities acquired comprised €1,880,000 (£1,608,000) of cash, €1,181,000 (£1,010,000) of trade and other liabilities and €44,000 (£38,000) of other receivables. These figures are after fair value adjustments totalling €66,000 (£56,000).

15. Acquisition of subsidiary undertakings *(continued)*

(c) Mars Capital

On 30 November 2017, the Group acquired 100% of the ordinary share capital of Mars Capital Finance Limited. ("Mars"). Mars is the leading UK and Irish mortgage servicing business and will strengthen the Group's asset management capabilities and reinforces its leading position in the UK, while providing strategic entry into Ireland.

The Group will pay £4,178,000 in cash together with deferred cash consideration of £10,000,000. The deferred consideration is payable on the four-year anniversary of the transaction. There is an amount of the deferred consideration contingent on the timing of the commencement of a new servicing contract. The deferred consideration has been included at its fair value, £8,581,000, taking into account management's best estimate of the amount payable. This gives an overall consideration of £12,759,000.

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities:	**Total £000**
Intangible assets	3,011
Property, plant and equipment	162
Cash and cash equivalents	80
Other receivables	3,214
Trade and other payables	(3,937)
Deferred tax liability	(462)
Current tax liability	(148)
	1,920
Goodwill on acquisition	10,839
	12,759
Consideration:	
Cash	4,178
Deferred consideration	8,581
	12,759
Cash impact of acquisition in the period:	
Cash consideration	4,178
Cash and cash equivalents acquired	(80)
	4,098

An intangible asset of £2,568,000 has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from contractual customer relationships.

Goodwill of £10,839,000 was created as a result of this acquisition. The primary reasons for the acquisition was to enter the Irish market, which offers significant debt purchasing and servicing potential via the acquisition of an existing well-established company, whilst enhancing the Group's asset management capabilities.

In the period from acquisition to 31 December 2017, Mars contributed revenue of £696,000 and profit after tax of £79,000 to the consolidated results for the period. If the acquisition had occurred on 1 January 2017, Group total revenue would have been an estimated £327,315,000 and profit after tax would have been an estimated £41,915,000.

15. Acquisition of subsidiary undertakings *(continued)*

Measurement period

Whilst the Group believes the acquisition accounting fair value adjustments to be complete, IFRS 3 allows a measurement period of up to one year after acquisition to reflect any new information obtained about facts and circumstances that were made available to the Group at the acquisition date. If any additional material changes are required within this measurement period, these will be reflected in the 2018 half year results of the Group.

16. Notes to the cash flow

Cash flows from operating activities	Group Year ended 31 December 2017 £000	Group Year ended 31 December 2016 £000
Profit before tax	50,559	31,367
Adjusted for:		
Collections in the year	342,210	285,960
Income from purchased loan portfolios and loan notes	(241,290)	(188,914)
Profit on disposal of purchased loan portfolios	(1,329)	(701)
Share in profit in associate	(1,578)	(2,363)
Fair value gain on loan notes	(5,298)	–
Gain on sale of associate	(14,697)	–
Depreciation and amortisation	11,729	8,658
Net interest payable	71,660	66,028
Foreign exchange gains	(611)	(1,510)
Equity settled share-based payment expenses	3,334	3,061
Operating cash flows before movement in working capital	214,689	201,586
(Increase) in other receivables	(13,224)	(9,243)
Increase in trade and other payables	5,915	7,305
Cash generated by operations	207,380	199,648
Income taxes and overseas taxation paid	(9,598)	(2,850)
Net cash flow from operating activities before purchases of loan portfolios and loan notes	197,782	196,798
Purchase of purchased loan portfolios	(195,579)	(201,700)
Purchase price adjustment relating to prior year	474	–
Purchase of purchase of loan notes	(30,155)	(21,315)
Net cash used in by operating activities	(27,478)	(26,217)

17. Events occurring after the reporting date

The Group announced on 1 March that it has agreed terms for two acquisitions which strengthen the Group's investment and asset management capabilities and reinforce its growing presence in Italy.

The first is for 100% of Parr Credit S.r.l. ("Parr"), a leading Rome-based servicer of Italian non-performing loans for an equity value of €20 million. There are no regulatory required approvals for the transaction and the acquisition will complete on 1 March.

The second is for Europa Investimenti S.p.A. ("Europa"), a leading originator and manager of Italian distressed debt investments, for an equity value of €62 million. This equity value includes the Group making an equity injection of €11.5m. While the core Europa business is not regulated, due to Europa owning a 74% stake in an Italian real estate fund management company, Vegagest SGR S.p.A., the transaction is subject to a regulatory change of control approval by the Bank of Italy and is expected to complete in mid-2018. The acquisitions will be funded in cash from existing Group resources

ADDITIONAL INFORMATION (UNAUDITED)

Underlying profit

'**Underlying Profit**' is considered to be a key measure in understanding the Group's ongoing financial performance. Adjusting items are those items that by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered to be representative of the ongoing performance of the Group and these items are excluded from underlying profit.
The below table show the Group's income statement, prepared on an underlying basis.

	2017 £000	2016 £000
Continuing operations		
Revenue	319,015	235,930
Operating expenses		
Collection activity costs	(117,638)	(70,261)
Other operating expenses	(88,344)	(65,615)
Total operating expenses	(205,982)	(135,876)
Operating profit	113,033	100,054
Finance income	9	813
Finance costs	(44,317)	(48,847)
Share of profit in associates	1,578	2,363
Underlying profit before tax	70,303	54,383
Taxation charge on underlying activities	(13,697)	(8,816)
Underlying profit after tax	56,606	45,567
Non-controlling interest	(44)	(1)
Underlying profit attributable to the owners of the Company	**56,562**	**45,566**
Underlying Basic EPS (£)	0.32	0.26
Underlying tax rate	19.5%	16.2%

The below table shows an analysis of the differences between reported and underlying profits.

	2017			2016		
	Reported	Adjusting items	Underlying	Reported	Adjusting items	Underlying
	£000	£000	£000	£000	£000	£000
Collection activity costs	(118,468)	830	(117,638)	(70,261)	-	(70,261)
Other operating expenses	(94,603)	6,259	(88,344)	(70,637)	5,022	(65,615)
Finance costs	(71,669)	27,352	(44,317)	(66,841)	17,994	(48,847)

Collection activity cost adjusting items relate to One Arrow costs incurred during the year.

Within other operating expenses, adjusting items are £4,645,000 (2016: £nil) of One Arrow costs and £2,444,000 of costs incurred relating to the acquisitions of Zenith Services S.p.A. in Italy and the Mars Capital companies in the UK and Ireland. In the year to 31 December 2016 £5,022,000 of costs were incurred relating to the completion of two acquisitions, Vesting in the Netherlands, Redrock in Portugal and the agreed acquisition of Zenith.

ADDITIONAL INFORMATION (UNAUDITED)

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

Reconciliation of net cash flow to EBITDA	31 December 2017 £000	31 December 2016 £000
Net cash flow used in operating activities	(27,478)	(26,217)
Purchases of loan portfolios	195,579	201,700
Purchase price adjustment relating to prior year	(474)	–
Purchase of loan notes	30,155	21,315
Income taxes paid	9,598	2,850
Working capital adjustments	7,309	1,938
Amortisation of acquisition and bank facility fee	273	276
Dividends and interest from associate	7,233	2,363
Disposal of intangible asset	1,332	-
Acquisition costs	2,444	5,022
"One Arrow" costs	4,645	-
Adjusted EBITDA	**230,616**	**209,247**
Reconciliation of core collections to EBITDA		
Income from loan portfolios	241,290	188,914
Portfolio amortisation	100,920	97,046
Core collections (includes proceeds from disposal of purchased loan portfolios)	342,210	285,960
Other income	71,098	46,315
Operating expenses	(213,071)	(140,898)
Depreciation and amortisation	11,729	8,658
Foreign exchange gains	(611)	(1,510)
Amortisation of acquisition and bank facility fees	273	276
Dividends and interest from associate	7,233	2,363
Disposal of intangible asset	1,332	–
Share-based payments	3,334	3,061
Acquisition costs	2,444	5,022
"One Arrow" costs	4,645	-
Adjusted EBITDA	**230,616**	**209,247**
Reconciliation of operating profit to EBITDA		
Profit for the year	39,915	26,306
Underlying finance income and costs	44,308	48,034
Taxation charge on ordinary activities	10,644	5,061
Share of profit on associate	(1,578)	(2,363)
Gain on sale of associate	(14,697)	–
Adjusting finance costs	27,352	17,994
Operating profit	105,944	95,032
Portfolio amortisation	100,920	97,046
Depreciation and amortisation	11,729	8,658
Foreign exchange gains	(611)	(1,510)
Profit on disposal of purchased loan portfolios	(1,329)	(701)
Amortisation of acquisition and bank facility fees	273	276
Share-based payments	3,334	3,061
Fair value gain on loan notes	(5,298)	–
Disposal of intangible asset	1,332	-
Dividends and interest from associate	7,233	2,363
Acquisition costs	2,444	5,022
"One Arrow" costs	4,645	-
Adjusted EBITDA	**230,616**	**209,247**

Glossary

'Adjusted EBITDA' means profit before interest, tax, depreciation, amortisation, foreign exchange gains or losses and adjusting items.

'Adjusted EBITDA ratio' represents the ratio of Adjusted EBITDA to core collections.

'Adjusting items' are those items that by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered to be representative of the ongoing performance of the Group and are therefore excluded from underlying profit after tax.

'Average net assets' is calculated as the average quarterly net assets from H1 2016 to H1 2017 as shown in the quarterly and half yearly statements. In comparative periods this was calculated as the average annual net assets.

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

'Cash result' represents current cash generation on a sustainable basis and is calculated as Adjusted EBITDA less cash interest, income taxes and overseas taxation paid, purchase of property, plant and equipment, purchase of intangible assets and average replacement rate.

'CGU' means cash-generating unit.

'Collection activity costs' represent the direct costs of 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' means cash collections on the Group's existing portfolios and loan notes including ordinary course portfolio sales and put backs. The breakdown of core collections for the years ended 31 December 2017 and 31 December 2016 are as follows

	2017	2016
	£000	£000
Collections from purchased loan portfolios	333,567	285,960
Collections from loan notes	8,643	-
Core collections	**342,210**	**285,960**

'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 to debt purchasers (such as the Group).

'CSA' means Credit Services Association.

'Customers' means consumers whose unsecured loan obligation is owed to the Group as a result of a portfolio purchase made by the Group.

'Defaulted debt' means a debt where a customer has breached the repayment terms governing that debt such that it is unlikely to be paid. Under the Consumer Credit Act 1974 there are specific legal obligations which require a customer to be sent the relevant statutory default notice(s) after which the customer's agreement may ultimately be terminated. Other types of debts may also be defined as defaulted in the event that they remain unpaid for a period of 90 days or more, if there is not an acceptable arrangement in place to bring the account back up to date, in which case the creditor or lender may reasonably believe that the relationship has broken down. Under the Data Protection Act 1990 it is a requirement that any organisation seeking to register a default with a credit reference agency must also send a notice of intention to file a default, this notice is very similar in nature to that required under the Consumer Credit Act both of which give the debtor 28 days to bring the account back up to date before action is taken.

'Diluted EPS' means the earnings per share whereby the number of shares is adjusted for the effects of potential dilutive ordinary shares, options and LTIP's.

'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 seven 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.

'FVTPL' – Financial instruments designated at fair value with all gains or losses being recognised in the profit or loss.

'Gross money multiple' means core collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, all divided by the purchase price for each portfolio, excluding REO purchases and purchase price adjustments relating to asset management fees.

'IFRS' means EU endorsed 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 2017 is as follows:

	2017	**2016**
	£000	**£000**
Cash and cash equivalents	(35,943)	(23,203)
Senior secured notes (pre-transaction fees net off)	779,347	701,720

Revolving credit facility (pre-transaction fees net off)	155,757	76,925
Secured bank overdrafts	-	6,419
Secured net debt	**899,161**	**761,861**
Deferred consideration	30,509	35,401
Senior secured notes interest	6,670	5,430
Bank overdrafts	1,332	1,279
Other borrowings	10,724	12,077
Net debt	**948,396**	**816,048**

'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. In the year ended 31 December 2017 organic purchases of loan portfolios included cash paid for portfolios and loan notes acquired during the year of £195,579,000 and £30,155,000 less capitalised portfolio and loan note acquisition expenditure of £1,785,000.

'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 resold/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.

'ROE' means the return on equity as calculated by taking profit after tax divided by the average equity attributable to shareholders. Average equity attributable is calculated as the average quarterly equity from H1 2016 to H1 2017 as shown in the quarterly and half yearly statements. In the comparative period this is calculated as the average annual equity attributable.

'Secured loan to value ratio' represents the drawn RCF, senior secured notes and bank overdrafts (all pre-transaction 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 adjusting items. The Group presents underlying profit after tax because it excludes the effect of adjusting items (and the related tax on such items) which are not considered representative of the Group’s ongoing performance, on the Group’s profit or loss for a period and forms the basis of its dividend policy.

‘Underlying return on equity’ represents the ratio of underlying profit after tax attributable to equity shareholders, to average shareholder equity post-restructure.