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Arrow Global Limited

Annual report and financial statements for the year ended 31 December 2015

UK Registered No. 05606545

Table of Contents

ARROW GLOBAL

Company information

Registered in England and Wales No: 05606545

Directors
Robert Memmott
Tom Drury
Zachary Lewy

Secretary
Stewart Hamilton

Auditor
KPMG LLP,
1 St Peter's Square,
Manchester,
M2 3AE

Registered Office
20-22 Bedford Row
London
WC1R 4JS

Strategic report

Principal activities

Arrow Global Limited's (the "Company") principal activity is the acquisition and management of underperforming portfolios of loans and servicing of debt in relation to third party contracts.

Strategic review

Cash collections were in line with management expectations. Operating cash flows before purchases of loan portfolios increased on the prior year and the Company has reinvested an element of these cash flows during the year (note 12). The Company maintained positive net assets and cash balances at the year end. The profit after tax for the year of £11,346,000 (2014: £15,417,000) has been transferred to equity.

The directors monitor the business using the following key performance indicators:

	2015	**2014**
	£000	**£000**
Total cash collections in the year on debt portfolios	159,930	134,445
Purchased loan portfolios	479,631	348,243
Net operating cash flows before purchase of loan portfolios and loan notes	154,517	75,659
Net assets	61,527	50,181
Cash and cash equivalents	5,036	9,210

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company's long term performance, and the Company undertakes a positive approach to risk management.

Economic risk

The Company's strategy is based on the future purchase of, and collection from, distressed loan portfolios, as well as the management of third party debt portfolios. Changes in economic conditions could impact the ability to collect from portfolios, or the amount of debt portfolios that are sold.

Management ensure that all portfolios are purchased at an appropriate price, and we also build strong relationships with our creditor client base in order to mitigate such risks. Appropriate currency liquidity management and scenario planning is in place.

Reputational risk

Negative news and attention regarding the debt collection industry and individual debt collectors may have a negative impact on ability to acquire portfolios and a customer's willingness to pay the debt that the Group acquires.

We manage this risk through compliance and industry best practice collection approaches.

Conduct risk

Any action which leads to poor and/or unfair customer outcomes or customer detriment goes against our core values and could also lead to regulatory censure, financial loss and reputational damage to our brand.

Conduct risk and treating customers fairly (TCF) are at the heart of our business. All employees and third parties acting on our behalf receive TCF training. We have an oversight framework focused on compliance, performance, and customer outcomes across our in-house operations and third party panel members. All new third party panel members are rigorously checked to ensure they conform to our compliance and quality standards, and are then monitored on a regular basis.

Regulatory risk

Failure to comply with the legal and regulatory requirements applying to business arrangements and activities, for example data protection regulation. We are partly reliant on a panel of third party partners to manage customer accounts and collect outstanding debts where accounts are outsourced. Should third party debt servicers experience sustained business interruption or are subject to takeover by an unfriendly competitor firm, we could suffer financial loss. We are also reliant on IT systems for data management and analysis. Failure to comply with relevant regulation could result in the suspension or termination of our ability to conduct business and could lead to regulatory censure and financial loss.

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Strategic report *(continued)*

We have on-going oversight of our third party panel and in-house collections teams to ensure standards are met and that businesses have plans in place to manage business interruption. Our third party panel is diversified to ensure that we do not become reliant on any one particular third party debt servicer.

IT systems are regularly backed up and are managed through a tight set of quality and security policies, supported by a robust disaster recovery plan. We adhere to ISO27001 standards and practise ITIL (Information Technology Infrastructure Library) based procedures.

We employ industry specialists to monitor the latest regulations and update our internal policies accordingly. Where required, we take external specialist advice. We also engage in regular training and assurance activity to ensure compliance with internal policies.

Legal risk

The risk of documentation deficiencies within purchased portfolios that are unable to be mitigated through contract and/or warranties and exposure to remediation cost and cases pursued by claims management companies could lead to failure to realise forecast synergies and potential poor customer outcomes.

Due diligence is undertaken on prospective investment purchases to identify potential documentation weaknesses. Our legal team are involved in all purchases and external legal advice is taken where required.

Financial risk

The Group's financial risk management strategy is governed by a policy framework based upon sound economic objectives and corporate practices. The main financial risks concern the availability of funds to meet obligations as they fall due (liquidity risk) and fluctuations in interest rates (interest rate risk). Tax compliance risks arise from the complex nature of tax legislation and practice.

The Company are highly cash generative and aim to maintain a flexible cost base. Portfolio investment is largely discretionary which provides a large degree of control over working capital. Management reduce interest rate risk by principally using interest rate swaps at a Group level. The Group engages tax specialists to advise about its tax compliance obligations, and the application of tax legislation and practice to the transactions and activities it undertakes.

Investment risk

The statistical models and analytics used, including the calculation of Estimated Remaining Collections "ERC", may prove to be inaccurate, which could lead to poor decision making and the Group failing to achieve its anticipated recoveries. Rigorous change controls are in place prior to any new data influencing our decision making model, and due diligence and executive review through an investment 'gate' process is carried out prior to investment. Portfolio performance is monitored by senior management.

Outlook

The group submitted its FCA authorisation applications in September 2015 as planned and anticipates receiving full authorisation later in 2016 (these timescales align with other firms' experience). This will mark the completion of our migration from regulation by the OFT to that of the FCA, a journey that began in 2013.

We believe that the risk, governance and compliance frameworks that are called for under the FCA regulation will require on going investment, and as a consequence, will continue to drive consolidation within the UK industry.

Approved by the board of directors on 29 April 2016 and signed and authorised for issue on its behalf by:

Rob Memmott
Director

Directors' report

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 December 2015.

Going concern and outlook

The Company made a profit after tax of £11,346,000 (2014: £15,417,000) from continuing activities and generated net operating cash inflows before purchase of loan portfolios and loan notes of £154,517,000 (2014: £75,659,000). At 31 December 2015, the Company had positive cash balances of £5,036,000 (2014: £9,210,000) and net assets of £61,527,000 (2014: £50,181,000). The Company's business activities are set out in the principal activities section above.

The directors of the Company are satisfied with the performance of the Company in 2015 and are satisfied that the Company will continue to grow and generate positive cash flows on its own account.

On the basis of the above, as well as management's consideration of detailed Company cash and trading forecasts, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Dividends

The directors do not propose a dividend (2014: nil) and no dividend was paid during the year (2014: £nil).

Directors

The directors, who served throughout the year and subsequently, were as follows:

Robert Memmott
Tom Drury
Zachary Lewy

No director has any direct interest in the shares of the Company.

Political donations

The Company made no political donations and did not incur any political expenditure during the year (2014: nil).

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Directors' Report *(continued)*

Directors' responsibilities statement

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and prevent and detect fraud and other irregularities.

Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

20-22 Bedford Row
London
WC1R 4JS

By order of the board

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Rob Memmott
Director
29 April 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARROW GLOBAL LIMITED

We have audited the financial statements of Arrow Global Limited for the year ended 31 December 2015 which comprise the income statement, the balance sheet, the statement of changes in equity, statement of cash flows and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

A Simpson

Alexander Simpson (Senior Statutory Auditor) for and on behalf of KPMG LLP
Chartered Accountants and Statutory Auditor
Chartered accountants
1 St Peter's Square,
Manchester,
M2 3AE

29 April 2016

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Income statement for year ended 31 December 2015

	Note	Year ended 31 December 2015 underlying £000	Non-recurring items 2015 £000	Year ended 31 December 2015 including non-recurring £000	Year ended 31 December 2014 underlying £000	Non-recurring items 2014 £000	Year ended 31 December 2014 including non-recurring £000
Revenue							
Income from purchased loan portfolios	*12*	103,663	-	103,663	99,586	-	99,586
(Loss)/ profit on portfolio sales		(248)	-	(248)	737	-	737
Total revenue from portfolios		103,415	-	103,415	100,323	-	100,323
Income from asset management		723	-	723	1,016	-	1,016
Servicer income	*5*	256	-	256	247	-	247
Total revenue		104,394	-	104,394	101,586	-	101,586
Operating expenses							
Collection activity costs		(39,287)	-	(39,287)	(32,281)	-	(32,281)
Professional fees and services		(2,802)	-	(2,802)	(563)	-	(563)
Recurring other operating expenses	*9*	(17,629)	-	(17,629)	(15,908)	-	(15,908)
Non-recurring other operating expenses							
Costs arising from business acquisition		-	*(1,064)*	*(1,064)*	-	*(4,432)*	*(4,432)*
Company integration		-	*(1,094)*	*(1,094)*	-	-	-
IPO related costs		-	*(1,366)*	*(1,366)*	-	*(1,760)*	*(1,760)*
Settlement provisions		-	-	-	-	*(1,645)*	*(1,645)*
Total other operating expenses		(17,629)	(3,524)	(21,153)	(15,908)	(7,837)	(23,745)
Total operating expenses		(59,718)	(3,524)	(63,242)	(48,752)	(7,837)	(56,589)
Operating profit		44,676	(3,524)	41,152	52,834	(7,837)	44,997
Finance income	6	8,322	-	8,322	705	-	705
Finance costs	*7*	(39,204)	-	(39,204)	(25,621)	-	(25,621)
Share of profit in associates net of tax	*20*	1,243	-	1,243	-	-	-
Profit before tax		15,037	(3,524)	11,513	27,918	(7,837)	20,081
Taxation charge on ordinary activities	10	(665)	498	(167)	(5,444)	780	(4,664)
Profit for the year attributable to equity shareholders		14,372	(3,026)	11,346	22,474	(7,057)	15,417

All revenue is derived from continuing operations in both the current and preceding years.

There have been no recognised gains or losses during the reporting period other than those recorded in the income statement. Accordingly, no statement of other comprehensive income is presented.

The notes on pages 11 to 31 form part of these financial statements.

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Balance sheet at 31 December 2015

Assets	Notes	31 December 2015 £000	31 December 2014 £000
Non-current assets			
Intangible assets	*11*	627	812
Property, plant and equipment	*11*	276	352
Investment in subsidiary undertakings	*20*	18,909	18,909
Investments in associates	*20*	12,156	11,419
Loan notes	*12*	856	1,378
Deferred tax asset		318	300
Total non-current assets		**33,142**	**33,170**
Current assets			
Cash and cash equivalents		5,036	9,210
Other receivables	*13*	22,046	15,202
Current tax asset		2,927	-
Intercompany receivables	*17*	100,147	74,460
Purchased loan portfolios	*12*	479,631	348,243
Total current assets		**609,787**	**477,115**
Total assets		**642,929**	**480,285**
Equity			
Share capital	*15*	-	-
Share premium	*15*	990	990
Additional paid in capital		18,107	18,107
Retained earnings		42,430	31,084
Total equity attributable to equity shareholders		**61,527**	**50,181**
Liabilities			
Non-current liabilities			
Deferred tax liability		-	681
		-	**681**
Current liabilities			
Trade and other payables	*14*	65,553	21,830
Provisions	*14*	-	1,663
Current tax liability		-	2,235
Revolving credit facility	*19*	71,489	35,413
Intercompany payables	*17*	444,360	368,282
Total current liabilities		**581,402**	**429,423**
Total liabilities		**581,402**	**430,104**
Total equity and liabilities		**642,929**	**480,285**

The notes on pages 11 to 31 form part of these financial statements.

Approved by the board of directors on 29 April 2016, signed and authorised for issue on its behalf by

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Rob Memmott
Director
Registered in England and Wales No: 05606545

Statement of changes in equity for year ended 31 December 2015

	Ordinary shares £000	Share premium £000	Additional paid-in capital £000	Retained earnings £000	Total £000
Balance at 1 January 2014	-	990	18,107	15,667	34,764
Profit for the year	-	-	-	15,417	15,417
Balance at 1 January 2015	-	990	18,107	31,084	50,181
Profit for the year	-	-	-	11,346	11,346
Balance at 31 December 2015	-	990	18,107	42,430	61,527

The notes on pages 11 to 31 form part of these financial statements.

ARROW GLOBAL

Statement of cash flow for year ended 31 December 2015

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Cash flows from operating activities		
Profit before tax	11,513	20,081
Adjusted for:		
Collections in the year	159,930	134,445
Income from purchased loan portfolios	(103,663)	(99,586)
Loss on disposal of intangibles	-	21
Loss/ (profit) on disposal of purchased loan portfolios	248	(737)
Depreciation and amortisation	403	860
Foreign exchange (gains)/ losses	(685)	1,473
Loss on fair value derivatives	-	443
Share of profit on associate	(1,243)	-
Interest payable	29,393	23,756
Amortisation of financing costs	1,489	717
Equity settled share-based payment expenses	2,577	2,328
Operating cash flows before movement in working capital:	**99,962**	**83,801**
Increase in other receivables	(6,770)	(7,973)
Decrease/ (increase) in amounts due from group company undertakings	26,737	(9,142)
Increase in trade and other payables	40,616	13,486
Cash generated by operations	**160,545**	**80,172**
Income taxes and overseas taxation paid	(6,028)	(4,513)
Net cash flow from operating activities before purchases of loan portfolios and loan notes	**154,517**	**75,659**
Purchases of purchased loan portfolios	(167,816)	(138,074)
Purchases of loans purchased for resale	(23,519)	-
Net cash used in operating activities	**(36,818)**	**(62,415)**
Cash flows from investing activities		
Purchases of property, plant and equipment	(27)	(245)
Purchases of intangible assets	(114)	(64)
Acquisition of associate	-	(11,419)
Dividend received from associate	658	-
Net cash flow generated by/ (used) in investing activities	**517**	**(11,728)**
Cash flows from financing activities		
Net proceeds from additional loans	35,836	38,999
Receipt of loan notes	579	-
Bank fees paid	(4,288)	(1,453)
Net cash flow generated by financing activities	**32,127**	**37,546**
Net decrease in cash and cash equivalents	**(4,174)**	**(36,597)**
Cash and cash equivalents at beginning of year	**9,210**	**45,807**
Cash and cash equivalents at end of year	**5,036**	**9,210**

The notes on pages 11 to 31 form part of these financial statements.

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Arrow Global Limited is a company incorporated in England and Wales. The address of the registered office is presented on page 1. The financial statements are presented in pounds sterling and are rounded to the nearest thousand.

The Company's subsidiaries and associates, both direct and indirect, at this date are listed in note 20. The Company acquires certain pools of semi-performing and/or charged-off consumer loans pursuant to the terms of each specific purchase agreement. In addition, the Company enters into contractual servicing agreements with other third parties to collect the receivables, to administer and disburse the proceeds of the receivables.

The Company's financial statements for the year ended 31 December 2015 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.

2. Adoption of New and Revised Standards

There were no new standards, amendments to standards and interpretations mandatory for the first time for the year beginning 1 January 2015.

The following new and revised Standards and Interpretations have been endorsed but are not yet effective for these financial statements:

IAS 19 (amended): Defined Benefit Plans: Employee Contributions

Annual Improvements to IFRSs – 2010-2012 Cycle

Annual Improvements to IFRSs – 2011-2013 Cycle

No new or revised standards and interpretations that have been endorsed but are not yet effective in these financial statements are deemed to have a material impact on future financial statements.

The following standard is not yet endorsed, however, may have a material impact and affect disclosure requirements in future periods:

IFRS 9: Financial Instruments
IFRS 9 will impact the measurement and disclosures for financial instruments, as this new standard will focus further on classification, measurement and impairment considerations, such as expected credit losses.
Whilst management are still assessing the impact of IFRS 9 on future periods, they believe that the impact of on the Company's results will not be significant, as the Company buys portfolio assets, which are at a deep discount. Also, the Company's adoption of an effective interest rate is thought to be in line with current IFRS 9 guidance. The Company will be required to produce additional disclosure requirements, over and above those from IFRS 7, in particular, more specific disclosures around compliance with applicable regulation and the management of risk.

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS
3. Significant Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union and therefore the financial statements comply with EU IAS Regulation.

The financial statements of the Company have been prepared under the historical cost convention.

Going concern

The directors are required to make an assessment of the Company's ability to continue to trade as a going concern for the foreseeable future. The directors have given this matter due consideration through a review of forecast cash flow models and scenarios and current cash availability and have concluded that it is appropriate to prepare the Company financial statements on a going concern basis.

Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 to 50 per cent of the voting power of another entity or evidence through a number of aspects such as representation on the board of directors, participation in policy making and decisions, material transactions between the entity and investee, interchange of managerial personnel or provision of essential technical information. Associates are accounted for using the equity method and are initially recognised at cost. The financial statements include the Company's share of the total comprehensive income and equity movements of the associate from the date that significant influence commences until the date that it ceases.

Revenue recognition and effective interest rate method (EIR) Income from purchased loan portfolios

Income from purchased loan portfolios represents the yield from acquired portfolio investments. Purchased loan portfolios are financial instruments that are accounted for under IAS 39 and recognised at fair value at the purchase date that equals the price paid. They are subsequently measured at amortised cost using the EIR method.

The EIR method is a method of calculating the amortised cost of a purchased loan portfolio and of allocating interest income over the expected life of the portfolio. The EIR is the rate that exactly discounts 84-months of estimated future cash receipts of the purchased portfolio asset to the net carrying amount at initial recognition (i.e. the price paid to acquire the asset). On acquisition, there is a short period that is required to determine the EIR, due to the complexity of the portfolios acquired.

Upward revaluations ('write ups') are increases to carrying values, discounted at the EIR rate, of the acquired debt portfolios as a result of reassessments to their estimated cash flows and are recognised in the income from purchased loan portfolios line within revenue, with any subsequent reversals to write ups also recorded in this line. If these reversals exceed any previously recognised cumulative write-ups then an impairment is recognised as a separate line in the income statement.

Unallocated cash is held as a liability in the balance sheet until it is reconciled. Unallocated cash is held for a period of six years, only being released to the consolidated income statement at this point as this cash is not held in statutory trust.

Where the Company acquires purchased loan portfolios via forward flow agreements, being contracted multiple future purchases, there is no difference in accounting treatment than described above.

Impairment of purchased loan portfolios

The portfolios are reviewed for indications of impairment at the balance sheet date, such as variances to historical cash curves, in accordance with IAS 39. This is considered on a portfolio basis. Where portfolios exhibit objective evidence of impairment, an adjustment, being the difference between the current carrying value and the net present value of future estimated cash flows, is recorded to the carrying value of the portfolio.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies *(continued)*

Revenue on assets under management
The Company receives asset management revenue on portfolios managed for third parties in the UK. In accordance with IAS 18, the Company recognises revenue on its managed services contracts when the right to receive such revenue is reasonably assured and can be measured reliably. The nature of the revenue is contingency collection fees, which are received either as a fixed fee, or as a percentage of collections or the outstanding portfolio asset value.

Non-recurring items
Non-recurring items are those which are separately identified by virtue of their size and nature (i.e. outside of the normal underlying operating activities of the Company) to allow a full understanding of the underlying performance of the Company. These are disclosed separately on the face of the income statement. Current year non-recurring items are explained in notes 9.

Interest income from secured loan notes
The Company has entered into lending arrangements with third parties to provide capital to purchase non-performing consumer debt portfolios (see note 12). Interest income is recognised throughout the year using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life.

Retirement benefit costs
Payments to defined contribution retirement schemes are charged as the employees provide services to the Company.

The Company has, for the period covered by these financial statements, only made contributions to defined contribution plans to provide pension benefits for employees upon retirement and, otherwise, has no residual obligation or commitments in respect of any defined benefit scheme.

Foreign currency translation

In preparing the financial statements of the company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Leases
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current taxation, is based on the taxable profit for the year and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at each reporting date. Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current taxation is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the corporation taxation is also dealt with in equity.

Deferred tax

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at each reporting date.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation is measured at the average tax rates that are expected to apply in the years in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at each reporting date. The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred taxation is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred taxation is also dealt with in equity.

Share based payment transactions

Share based payments transactions in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share based payments.

The grant date fair value of the share based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employee becomes unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model were required, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share based payments with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. Where the Company grants rights to its equity instruments to employees of its subsidiaries, the costs are recharged to the subsidiary in line with the requirements of IFRS 2 'Share based payments'.

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies *(continued)*

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets, as discussed below, are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method on the following basis:

Furniture	five years
Computer equipment	three years
Leasehold improvements	five years
Software licences	shorter of contractual life and useful economic life
IT platform	ten years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment and other intangibles is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.
Acquired licences, such as software licences, are capitalised at cost and amortised over the shorter of contractual life and useful economic life.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Purchased loan portfolios and secured loan notes

The Company's purchased loan portfolios and secured loan notes are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Under IAS 39, such assets are classified as 'loans and receivables' and are measured at amortised cost using the EIR method less any impairment.

Purchased loan portfolios are acquired at a deep discount and as a result the estimated future cash flows reflect the likely credit losses within each portfolio. The portfolio investments are initially recorded at their fair value, being their acquisition price, and are subsequently measured at amortised cost using the EIR method.

The portfolio asset is analysed between current and non-current. The current asset is determined using the expected cash flows arising in the next 12 months after the balance sheet date. The residual amount is classified as non-current.

Litigation costs

As part of the Company's litigation strategy to recover customer balances, the Company incurs recoverable upfront legal costs, which are deferred as a other receivable and amortised over the period that cash is collected.

Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the the consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS
3. Significant Accounting Policies *(Continued)*

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the consideration required to settle that obligation at the date of the consolidated statement of financial position and are discounted to present value where the effect is material.

Borrowings
Borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are stated subsequently at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the EIR. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Cash and cash equivalents
Cash and cash equivalents comprise demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Capitalisation of legal transaction fees
Legal transaction fees associated with the purchase of portfolios are allocated to the purchase price of the portfolio and included within the EIR applied against the asset value.

Operating expenses
Operating expenses relate to administration and costs associated with collection activities. All operating costs are accounted for on an accruals basis.

Fair value measurements
The fair value of financial instruments is determined in accordance with IFRS 13 in the manner described in note 19.

Investment in subsidiaries
Investments held are stated at cost less any provision for impairment. Investments are assessed for indicators of impairment throughout and at the end of each period. Investments are impaired where there is objective evidence that the net asset value has been affected as a result of one or more events that occurred after the initial recognition of investment.

Interest payable and receivable
Interest is charged on intercompany transactions using a market rate of interest.

NOTES TO THE FINANCIAL STATEMENTS

4. Critical Accounting Judgments and estimates

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

- **Critical judgments in applying accounting policies**

The following is the critical judgment that have been made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

a) Approach to substance of loan notes as portfolios

During the year, the Company purchased a number of loan portfolios in the form of securitisation loan notes. Management have assessed the substance of the loan notes under the criteria set out in IAS 39. Management have concluded that the portfolios purchased in the form of loan notes are presented as loan portfolios in the Company's balance sheet and the Company's revenue accounting policy for loan portfolios is also applied. This treatment has been concluded on the basis that the assets relating to the loan notes are segregated as separate silos within the securitisation vehicle, in such a way that the assets and loan notes are bankruptcy remote. This results in the securitisation vehicle having no rights to the risks and rewards of the underlying assets. The assets and liabilities within the silos meet the derecognition criteria under IAS 39.

- **Key sources of assumption and estimation uncertainty in applying accounting policies**

The following is the key source of assumption and estimation uncertainty that have been made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

a) Carrying value and EIR of purchased loan portfolios

For UK portfolios, a 12-month cash flow forecast is prepared for each account, based on predictions of probability to pay and value of total payments within the 12-month period. These predictions are generated using a bespoke statistical model (the PV model), which utilises customer and account level data, credit agency data and our historic experience with accounts which have similar key attributes. Management also review the model on a portfolio basis to take into account unforeseen external factors, which have impacted historical performance. Where necessary portfolios are calibrated to take into account these known factors. For European portfolios, 12-month cash flow forecasts are based on information from servicers, which management validate against recent performance.

A separate model, using an ERC forecasting methodology, then takes the 12-month estimate and uses this to form an 84-month forecast of ERCs at a portfolio level, by extrapolating the data over a decaying rate. Key factors in this model are the assumptions made on the conversion of accounts from non-paying to paying, and vice-versa either through breakdown of the account or settlement/pay down of the balances due, and the impact of placing accounts into litigation. Campaign overlays are also built into the model which allows the effect of performance improvements resulting from new initiatives to be factored into future cash flows. The ERCs created from the ERC forecasting model, are regularly benchmarked at a portfolio level against actuals, which forms the impairment review.

The key assumption is the Company's determination of the future cash flows. Flexing the expected future gross cash flows by -1/+1% would impact the closing carrying value of the purchased loan portfolios as at 31 December 2015 by £8,204,000 (2014: £5,623,000).

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

5. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	Year ended 31 December 2015	Year ended 31 December 2014
	£000	£000
Net foreign exchange (gains)/ losses	(685)	1,473
Operating lease - properties	328	313
Depreciation of property, plant and equipment	104	151
Amortisation of intangible assets	299	709

Servicer income of £256,000 (2014: £247,000) represents revenues generated from collection activities for other Group companies (see note 17).

6. Finance income

	Year Ended 31 December 2015	Year Ended 31 December 2014
	£000	£000
Bank interest	4	53
Interest on intercompany loans	8,173	363
Loan note interest	145	289
	8,322	705

7. Finance costs

	Year Ended 31 December 2015	Year Ended 31 December 2014
	£000	£000
Interest and similar charges on bank loans	5,945	2,387
Other interest	-	2
Interest on intercompany loans	33,259	22,789
Total interest costs	39,204	25,178
Fair value gains on interest rate swaps	-	443
Total finance costs	39,204	25,621

8. Auditor Remuneration

The analysis of auditor remuneration is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
	£000	£000
Fees payable for audit services in respect of the Company	60	63
	60	63

The 2014 and 2015 amounts relate solely to amounts paid to KPMG LLP. No non- audit services were provided to the Company by the Company's auditor in the period.

ARROW
GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

9. Other expenses

The main item in other expenses is staff costs as documented below:

	Year ended 31 December 2015	Year ended 31 December 2014
	£000	£000
Wages, bonuses, share options and salaries	11,993	7,887
Pension contributions	260	291
Social security costs	1,038	946
Total staff costs including non-recurring items	**13,291**	**9,124**
Non-recurring items	(1,366)	(1,760)
Total staff costs	**11,925**	**7,364**

Non-recurring items include items that, by virtue of their size and nature (i.e. outside of the normal operating activities of the Company), are not considered to be representative of the on going performance of the Company. Due to transformation changes to the Group brought about by the IPO and strategic acquisitions, such as the sterling senior secured notes leading onto the IPO in 2013 and the euro senior secured notes to acquire the Capquest Group in 2014, significant costs have been incurred in the current and comparative period, which the Group believe are not reflective of expected principal Group activity. The Capquest acquisition took place on 28 November 2014 and therefore there is still an element of acquisition costs being incurred in 2015.

In the year to 31 December 2015, included in staff costs were £1,366,000 related to remaining IPO related share issuance charges. As these optioned vested in October 2015, these have been recognised as non-recurring items since the IPO.

Other non-recurring other expenses related to £1.1 million of costs were incurred relating to the completion of two Group strategic Portuguese entity acquisitions, Gesphone and Whitestar. The majority of these costs related to fees incurred for legal advice and due diligence on both acquisitions. £1.1 million of costs have been incurred due to Capquest integration, that relate to the termination of debt servicing contracts, as the Group moves from an outsourced model to a partially insourced model, and redundancy costs that relate to removal of duplicate roles as the Group combines operating and finance functions.

In the year to 31 December 2014, included in staff costs were £1,760,000 related to remaining IPO related share issuance charges.

Other non-recurring other expenses related to costs incurred due to the acquisition of Capquest group amounted to £4,432,000, being fees incurred of £3,858,000 and specific staff costs including £374,000 redundancy costs, as a direct result of the acquisition due to duplication of senior roles and £200,000 related bonuses. In other operating expenses were £1,645,000 of non-recurring contract settlements, directly due to the Capquest acquisition, terminating a duplicate servicing contract.

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

9. Other expenses *(continued)*

The average monthly number of employees (including executive directors) is analysed as:

	Year ended 31 December 2015 number	Year ended 31 December 2014 number
Collections	27	26
Data and analytics	29	38
Finance, pricing and legal	22	17
IT and change	33	21
Management	14	17
Risk	6	5
Support services	7	3
	138	**127**

The total director's remuneration paid during the year was £1,883,000, including exceptional costs of £nil (2014: £1,659,000) and included £140,000 in relation to pension costs (2014: £119,000). The total number of directors eligible for defined contribution pension contributions is 3 (2014: 3). The remuneration of the highest paid director during the year was £722,000 (2014: £631,000). Employer pension contributions were made to a defined contribution scheme of the highest paid director during the year of £53,000 (2014: £45,000). At 31 December 2015 there was an accrual in respect of pension costs of £nil (2014: £nil).

Summary of related party transactions

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

	Year ended 31 December 2015	Year ended 31 December 2014
Remuneration	**£000**	**£000**
Salaries and performance related bonus	2,487	1,998
Pension-related benefits	160	134
	2,647	**2,132**

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

10. Tax

The effective tax rate for the year ended 31 December 2015 is lower than (2014: higher than) the standard rate of corporation tax in the UK at 20.25% (2014: 21.49%), the differences are as follows:

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Profit before tax	11,513	20,081
Tax charge at standard UK corporation tax rate of 20.25% (2014: 21.49%)	2,331	4,315
Adjustment in respect of prior years	(966)	(362)
Expenses not deductible for tax purposes	255	917
Effects of other tax rates	5	18
Group relief claimed	(1,458)	(224)
Current tax charge on the profit for the year	**167**	**4,664**
Effective tax rate	**7.2%**	**23.2%**

NOTES TO THE FINANCIAL STATEMENTS

10. Tax *(continued)*

	Year ended 31 December 2015	Year Ended 31 December 2014
Tax charge for the year ended 31 December 2015 consists of:	£000	£000
Current tax charge:		
Current tax based on profit for the year	1,645	5,438
Adjustment in respect of previous periods	(760)	(363)
Total current tax charge	885	**5,075**
Deferred tax charge:		
Origination and reversal of temporary differences	(517)	(444)
Adjustment in respect of previous periods	(206)	2
Effect of changes in tax rates	5	31
Total deferred tax	(718)	(411)
Total tax charge	**167**	**4,664**

The Finance (No. 2) Act 2015, which was substantively enacted in October 2015, included provisions to reduce the rate of UK corporation tax from 20% to 19% from 1 April 2017 and 18% 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 balance sheet date.

Non-recurring tax

We have identified exceptional items in the year amounting to £3,524,000 (2014: £7,837,000) with an £498,000 (2014: £780,000) associated tax impact.

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

11. Property, Plant and Equipment and Intangible Assets

Property, plant and equipment	Leasehold improvements £000	Computer equipment £000	Furniture £000	Total property, plant and equipment £000
Cost				
At 1 January 2014	346	342	287	975
Additions	138	55	53	246
Disposals	-	-	(5)	(5)
At 1 January 2015	**484**	**397**	**335**	**1,216**
Additions	8	17	2	27
At 31 December 2015	**492**	**414**	**338**	**1,244**
Accumulated depreciation				
At 1 January 2014	292	296	128	716
Charge for the year	57	37	57	151
Disposals	-	-	(3)	(3)
At 1 January 2015	**349**	**333**	**182**	**864**
Charge for the year	30	30	44	104
At 31 December 2015	**379**	**363**	**226**	**968**
Carrying amount				
At 31 December 2015	**113**	**51**	**112**	**276**
At 31 December 2014	**135**	**64**	**153**	**352**

Intangible assets	Software licenses £000
Cost	
At 1 January 2014	2,792
Additions	64
Disposals	(193)
At 1 January 2015	**2,663**
Additions	114
At 31 December 2015	**2,777**
Accumulated amortisation	
At 1 January 2014	1,316
Charge for the year	709
Disposals	(174)
At 1 January 2015	**1,851**
Charge for the year	299
At 31 December 2015	**2,150**
Carrying amount	
At 31 December 2015	**627**
At 31 December 2014	**812**

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

12. Financial Assets

	31 December 2015 £000	31 December 2014 £000
Non-current:		
Purchased loan portfolios	365,464	275,597
Loan notes	856	1,378
	366,320	276,975
Current:		
Purchased loan portfolios	90,648	72,646
Purchased loan portfolios due to be resold*	23,519	-
	480,487	699,242

* This 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 commitment has been received from an investment partner to complete their acquisition from us. Subsequent to the year end, completion has taken place to sell these assets to the investment partner.

Purchased loan portfolios

The Company recognises income from purchased loan portfolios in accordance with IAS 39. At 31 December 2015, the carrying amount of the purchased loan portfolio asset was £479,631,000 (2014: £348,243,000).

The movements in purchased loan portfolio assets were as follows:

	2015 £000	2014 £000
As at 1 January	348,243	252,722
Purchased loan portfolios acquired during the year *	167,816	132,690
Purchased loan portfolio to be resold	23,519	-
Portfolio cash collections in the year	(159,930)	(134,445)
Income from purchased loan portfolios	103,663	99,586
Exchange loss on purchased loan portfolios	(3,432)	(3,047)
(Loss)/ profit on disposal of purchased loan portfolios	(248)	737
As at 31 December	479,631	348,243

* inclusive of capitalised portfolio expenditure of £456,112 (2014: £4,222,000)

13. Other receivables

	31 December 2015 £000	31 December 2014 £000
Prepayments	3,482	3,143
Other receivables	18,564	12,059
	22,046	15,202

The Company incurs recoverable upfront litigation costs, which are deferred as other receivables and amortised over the period that cash is collected. During the year the amortisation profile was reassessed from four to seven years, in line with cash collection profile, increasing the year end capitalised costs by £2.8 million.

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

14. Trade and Other payables

	31 December 2015 £000	31 December 2014 £000
Trade payables	5,315	4,422
Taxation and social security	306	249
Deferred consideration	26,239	11,928
Deferred consideration on portfolio purchases to be resold*	23,519	
Other liabilities and accruals	10,174	5,231
	65,553	21,830

* This relates to the deferred consideration on 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 commitment has been received from an investment partner to complete their acquisition from us. Subsequent to the year end, completion has taken place to sell these assets to the investment partner.

15. Share capital

	31 December 2015	31 December 2014
Issued and fully paid:		
2 ordinary shares of £1 each	2	2

The Company has one class of ordinary shares which carry no right to fixed income. The shares were issued at cash consideration of £990,000 and accordingly share premium of £990,000 is recorded (2014: £990,000).

16. Lease commitments

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2015 £000	31 December 2014 £000
Less than 1 year	293	307
1 - 2 years	516	991
2 - 5 years	-	-
	809	1,298

Operating lease payments represent rentals payable by the Company for certain of its office properties.

NOTES TO THE FINANCIAL STATEMENTS

17. Related Party Transactions

	Intercompany receivables 31 December 2015	Intercompany receivables 31 December 2014	Intercompany creditors 31 December 2015	Intercompany creditors 31 December 2014
	£000	£000	£000	£000
Arrow Global Portugal Limited	-	-	(1,073)	(630)
Arrow Global (Holdings) Limited	-	-	(4,480)	(4,230)
Arrow Global Receivables Management Limited	-	-	(8,590)	(8,936)
Strzala Sp. z.o.o.	-	-	(485)	(1,082)
Arrow Global Investments Holdings Limited	74,823	64,538	-	-
Arrow Global Group Plc	4,797	-	-	(4,990)
Arrow Global Accounts Management Limited	-	-	(11,604)	(8,372)
Arrow Global Finance Plc	-	-	(208,449)	(211,311)
Arrow Global Guernsey Holdings Limited	1,931	1,770	-	-
Arrow Global Portugal Investments Limited	2,086	1,624	-	-
Capquest Investments Limited	3,480	948	-	-
Capquest Debt Recovery Limited	7,685	174	-	-
Arrow Global Europe Limited	-	-	(207,226)	(126,416)
Arrow Global One Limited	-	-	(2,453)	(2,315)
Gesphone – Servicos de Tratamento e Acquisicao de Dividas, S.A.	500	-	-	-
AGHL Portugal Investments Holdings, S.A.	1	-	-	-
Arrow Global Luna Limited	4,844	5,406	-	-
Total	**100,147**	**74,460**	**(444,360)**	**(368,282)**

The Company had the following reportable transactions with related parties:

	Portfolio services recharges 31 December 2015	Portfolio services recharges 31 December 2014	Interest payable / (receivable) 31 December 2015	Interest payable / (receivable) 31 December 2014
	£000		£000	
Capquest Investments Limited	(2,566)	-	(223)	-
Arrow Global Portugal Limited	136	116	54	56
Arrow Global (Holdings) Limited	-	-	250	241
Arrow Global Receivables Management Limited	-	-	540	487
Strzala Sp. z.o.o.	-	-	63	62
Arrow Global Investments Holdings Limited	-	-	(4,568)	(227)
Arrow Global Group Plc	-	-	(184)	2,045
Arrow Global Accounts Management Limited	120	131	582	357
Arrow Global Finance Plc	-	-	18,236	18,581
Capquest Debt Recovery Limited	-	-	(165)	-
Arrow Global Europe Limited	-	-	10,452	796
Arrow Global One Limited	-	-	138	45
Arrow Global Portugal Limited	-	-	-	(16)
Arrow Global Portugal Investments Limited	-	-	(90)	-
Total	**(2,310)**	**247**	**25,085**	**22,427**

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

17. Related Party Transactions *(Continued)*

Transactions with Directors and key managers

There were no material related transactions with directors or key managers during the year other than directors' emoluments disclosed in note 7.

18. Risks arising from Financial Instruments

The key risks and uncertainties faced by the Company are managed within an established risk management framework. The Company's day to day working capital is funded by its cash and cash equivalents. The key risks identified for the Company are discussed below.

The Company has exposure to credit risk, market risk, interest rate risk and liquidity risk that arises throughout the normal course of the Company's business.

Fair Values

The directors consider that there are no material differences between the asset values in the balance sheet and their fair value.

Valuation models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted market prices within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, using prices from observable current market transactions and dealer quotes for similar instruments and unobservable inputs such as historic performance data and the Proprietary Collections Bureau output. The purchased loan portfolios fair value is calculated using our 84-month ERC through our own in-house models. Derivative financial instruments are initially recognised, and subsequently measured, at fair value. The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Financial instruments not measured at fair value – fair value hierarchy

The following table analyses financial instruments not measured at fair value at the reporting date, by the level in the fair value hierarchy into which the measurement is categorised. The amounts are based on the values recognised in the balance sheet. All of the Company's financial instruments fall into hierarchy level 3.

Level 3	**2015**	**2014**
	£000	**£000**
Assets		
Purchased loan portfolios	479,631	348,243

There have been no transfers in or out of level 3.

NOTES TO THE FINANCIAL STATEMENTS

18. Risks arising from Financial Instruments *(Continued)*

The balance sheet value of the Company's purchased loan portfolios is derived from discounted cash flows generated by an 84-month ERC model. The inputs into the ERC model are historic portfolio collection performance data. This ERC is updated with the core collections experience to date on a monthly basis.

Estimates of cash flows that determine the EIR are based on the Company's collection history with respect to portfolios comprising similar attributes and characteristics such as date of purchase, original credit grantor, type of receivable, customer payment histories, customer location, and the time since the original charge off.

Management considers that the valuing of the purchased loan portfolios at amortised cost is comparable to the fair value. The models that are used to determine the balance sheet valuation of the Company's purchased loan portfolios, are the same as those used in pricing portfolio purchases. Management believes the purchase price is the best indicator of fair value at a point in time, and therefore considers the model driven value on the balance sheet to be fair value.

The Company has an established control framework with respect to the measurement of purchased loan portfolio values. This includes regular monitoring of portfolio performance overseen by the portfolio review committee, which considers actual versus forecast results at an individual portfolio level, re-forecasts cash flows on a quarterly basis, reviews actual against forecast gross cash on cash money multiples, signs off the latest ERC forecast and assesses the carrying value of the portfolio assets and reviews revenue recognition.

A reconciliation of the opening to closing balances for the period of the purchased loan portfolios can be seen in note 12.

The company did not hold any other financial instruments not measured at fair value for which a fair value needs to be calculated (2014: none).

Credit risk

As part of credit risk, the Company is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks and foreign currency and derivative financial instruments.

The maximum credit risk exposure in relation to the financial assets is disclosed below:

	31 December 2015	31 December 2014
Balance Sheet	**£000**	**£000**
Cash and cash equivalents	5,036	9,210
Other receivables	22,046	15,202
Intercompany receivables	100,147	74,460
Current tax asset	2,927	-
Loan notes	856	1,378
	131,012	**100,250**

The table represents a worst case scenario of the counterparty risk that the Company is exposed to.

The key risks and uncertainties faced by the Company are managed within an established risk management framework. The Company's day-to-day working capital is funded by its cash and cash equivalents.

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

18. Risks arising from Financial Instruments *(Continued)*

Liquidity risk

The Company actively monitors its liquidity and cash flow position to ensure it has sufficient cash and purchased loan portfolio financing in order to fund its activities.

The table below sets out the cash flows payable by the Company in respect of financial liabilities, by contractual repayments of the principal amount and any interest at the balance sheet date:

	31 December 2015	31 December 2014
Amounts owed, due within one year:	**£000**	**£000**
Trade and other payables	42,034	21,830
Current tax liability	-	2,235
Intercompany payables	444,360	368,282
	486,394	**392,347**

The above liabilities do not incur interest and all amounts are due within one year.

Market risk

Market risk is defined as the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in market prices. The Company is not exposed to foreign currency risk as all of the Company's assets are denominated in sterling that is the company's functional and presentational currency. The Company is only exposed to interest rate risk on the intercompany balances and the rate is derived from the Group cost of funding. If the Group cost of funding increased by 50bps, and thus the interest charged by the Company, the interest receivable would increased by £681,000. The company does not charge interest of the purchased loan portfolios. No interest is charged on other financial liabilities and therefore the company is not exposed to interest rate risk on these balances.

Interest rate risk

The Company is exposed to interest rate risk during the year on cash and cash equivalents. The recoverability of debts may be influenced by movements in the interest rate environment.

Capital risk management

The Company aims to maintain appropriate capital to ensure that it has a strong balance sheet but at the same time is providing a good return on equity to its shareholders.

The capital structure of the Company consists of cash and cash equivalents and equity.

NOTES TO THE FINANCIAL STATEMENTS

18. Risks arising from Financial Instruments *(Continued)*

Foreign currency sensitivity analysis

If foreign exchange rates had been 10% weaker than sterling than those at the balance sheet date and all other variables were held constant, the Group's net assets and net profit for each denomination of currency would increase/(decrease) as follows:

	31 December 2015	31 December 2014
Equity and net assets	**£000**	**£000**
Currency		
Euro (EUR)	2,194	2,229
US Dollar (USD)	-	(1)
Polish Zloty (PLN)	32	(9)
	2,226	**2,219**

Net profit	**£000**	**£000**
Currency		
Euro (EUR)	561	613
US Dollar (USD)	4	2
	565	**615**

If foreign exchange rates had been 10% stronger than sterling than those at the balance sheet date and all other variables were held constant, the Group's net assets and net profit for each denomination of currency would increase/(decrease) as follows:

	31 December 2015	31 December 2014
Equity and net assets	**£000**	**£000**
Currency		
Euro (EUR)	(2,682)	(2,725)
US Dollar (USD)	-	1
Polish Zloty (PLN)	(40)	-
	(2,722)	**(2,724)**

Net Profit	**£000**	**£000**
Currency		
Euro (EUR)	(686)	(750)
US Dollar (USD)	(5)	(2)
	(691)	**(752)**

10% is considered to be a reasonable expectation of possible fluctuations in rates. The above also assumes that there is no impact on retained earnings or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

19. Borrowings

	31 December 2015	31 December 2014
Secured borrowing at amortised cost	**£000**	**£000**
Revolving credit facility (net of transaction fees of £3,511,000 (2014: £3,568,000)	71,489	35,413
Total borrowings		
Amount due for settlement within 12 months	71,489	35,413
Amount due for settlement after 12 months	-	-

On 31 March 2015, the Company amended its revolving credit facility with The Royal Bank of Scotland Plc acting as security agent for a syndicate of participating financial institutions. The commitments under the facility were increased from £100 million to £140 million. On 22 June 2015, the commitments under the facility were further increased to £165 million. The RCF was drawn by £75 million as at 31 December 2015. On the 9 February 2016, the revolving credit facility was increased from £165 million to £180 million.

The revolving credit facility is secured by the same assets as the euro and sterling senior notes and ranks supersenior to these. The assets that are secured are those of the Arrow Global Guernsey Holdings Limited group.

The Company is 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. The revolving credit facility is secured by the same assets as the euro and sterling senior notes and ranks supersenior to these. The assets that are secured are those of the Arrow Global Guernsey Holdings Limited group.

20. Investment in Subsidiaries and Associates

Details of the Company's subsidiaries at 31 December 2015 are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ordinary shares ownership (%)	Current status	Parent company
Arrow Global Portugal Investments Limited	UK – England and Wales	100	Trading	AGL
Arrow Global Accounts Management Limited	UK – England and Wales	100	Trading	AGL

	31 December 2015	31 December 2014
	£000	**£000**
Strazala Sp. z.o.o. (Arrow Global Poland)	-	-
Arrow Global Accounts Management Limited	18,909	18,909
	18,909	**18,909**

The investments in subsidiaries are all stated at cost less impaiment.

ARROW GLOBAL

NOTES TO THE FINANCIAL STATEMENTS

20. Investment in Subsidiaries and Associates *(Continued)*

Details of the Company's associates at 31 December 2015 are as follows:

Name	Place of incorporation (or registration) and operation	Economic interest (%)	Current Status	Parent company
Promontoria MCS Holding SAS	France	15%	Trading	AGL

The Company acquired an indirect 15% economic interest in Promontoria MCS Holding SAS ("MCS") through a participation agreement on 15 December 2014. The terms of the participation agreement meant that the Company demonstrated significant influence over the MCS group.

MCS is a holding company of the MCS group, a specialist acquirer and manager of retail banking assets, which is seen as complementing the Group's operations and contributing to achieving the Group's overall strategy. The associate is accounted for using the equity method.

Summarised below is a reconciliation of the movements in the carrying value of the Company's interest in MCS during the year:

	£000
Interest in the net assets of the associate as at 1 January 2015	11,419
Adjustment of foreign exchange differences	154
Share of profit in associate during the year	1,243
Dividends received from associates	(658)
Interest in the net assets of the associate as at 1 January 2016	12,158

21. Commitments

Arrow Global Limited has guaranteed on behalf Arrow Global Finance Plc the following:

- €335 million 5.25% over three-month EURIBOR floating rate senior secured notes
- £220 million 7.875% senior secured notes

The Intragroup guarantee is accounted in accordance with IFRS 4 (Insurance Contracts) and as a loss event, i.e. default by Arrow Global Finance Plc, has not occurred during the year the guarantee has not been called upon and therefore no charge has been recognised.

22. Parent Undertaking

The immediate parent company is Arrow Global (Holdings) Limited and the ultimate parent company is Arrow Global Group PLC, both of which are incorporated in England and Wales.

The largest Group in which the results of the Company is consolidated is that headed by Arrow Global Group PLC. The consolidated financial statements of this group are publically available from the Group's website www.arrowglobalir.net.

23. Post balance sheet events

On 24 February 2016, the Group resold a portfolio of assets, held for £23.5 million, to an investment partner. No gain or loss arose on the transaction. The portfolio has been separately disclosed within the accounts.