

# Arrow Global Limited

Annual report and financial  
statements for the year ended  
31 December 2013

UK Registered No. 05606545



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## **Company information**

**Registered in England and Wales No: 05606545**

### **Directors**

Robert Memmott

Tom Drury

Zachary Lewy

### **Secretary**

Stewart Hamilton

### **Auditor**

Deloitte LLP

Manchester, UK

### **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. On 28 February 2013, the Company acquired 100% of the share capital of Arrow Global Accounts Management Limited (formerly Wescot SPV Limited) for a consideration of £18,909,000 (see note 19).

### Strategic review

On 29 January 2013, the trade and assets of Arrow Global Guernsey Limited were transferred to the Company, which has led to an increase in the key performance indicators as shown in the table below.

Cash collections and costs 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. The Company maintained positive net assets and cash balances at the year end. The profit for the year of £9,813,000 (2012: £6,501,000) has been transferred to equity.

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

|  | 2013         | 2012        |
|--|--------------|-------------|
| Total cash collections and disposals of purchased loan portfolios          | £118,841,000 | £37,758,000 |
| Loan portfolios purchased  | £185,143,000 | £56,209,000 |
| Net operating cash flows before purchase of loan portfolios and loan notes | £63,268,000  | £39,596,000 |
| Net assets   | £34,763,000  | £29,450,000 |
| Cash balances  | £45,807,000  | £4,354,000  |

### 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 growth strategy is based on the future purchase of, and collection from, distressed loan 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.

The Company is exposed to Eurozone economic uncertainty through its Portuguese debt portfolios. Sensitivity analysis is provided in note 17.

#### Reputational risk

Negative attention and news 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 Company acquires.

The Company manages this through its 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/ brand damage. Conduct risk and treating the customer fairly ("TCF") are at the heart of our third party management framework. All employees and third parties acting on our behalf receive TCF training.

#### Operational risk

The Company is reliant on a panel of third party partners to manage customer accounts and collect outstanding debts. 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 have an overarching third party management framework focused on compliance, performance, resilience and customer outcomes. All new third party panel members are both rigorously checked to ensure they conform to the Company's compliance and quality standards and are monitored on a regular basis. Our third party panel is diversified to ensure that the Company does not become reliant on one third party debt servicer.

## Strategic report (*continued*)

The Company is also heavily reliant on IT systems for data management and analysis. These systems are regularly backed up and are managed through a tight set of quality and security policies, supported by a robust disaster recovery plan.

### **Regulatory risk**

Failure to comply with relevant regulation could result in the suspension or termination of the Company's ability to conduct business and could lead to regulatory censure and financial loss. The Company employs industry specialists to monitor the latest regulations and update the Company's internal policies accordingly. Where required the Company takes external specialist advice. The Company also engages in regular training and assurance activities to ensure compliance with internal policies.

### **Legal risk**

The Company could be exposed to remediation cost and cases pursued by claims management companies. Due diligence is undertaken on prospective investment purchases to identify potential documentation weaknesses. Legal team involvement in all purchases and external legal advice is taken where required.

### **Financial risk**

The Company's financial risk management strategy is 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 movements in foreign exchange rates (foreign exchange risk). Liquidity risk is managed through maintenance of a flexible cost base and establishment of borrowing facilities. We are highly cash generative and portfolio investment is discretionary. Foreign exchange risk is managed on a Group basis, which comprises Arrow Global Group PLC and its subsidiaries, through the use of forward contracts and daily monitoring of currency fluctuations. Management do not explicitly manage interest rate risk within this Company. The Company's risk management policies on foreign exchange, interest rates, credit risk and market risk are explained in more detail within note 17.

### **Investment risk**

The statistical models and analytics used, including the calculation of estimated remaining collections, may prove to be inaccurate, which could lead to poor decision making and the Company may fail 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 is carried out prior to investment. Portfolio performance is monitored by senior management.

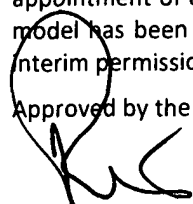
### **Outlook**

The industry is undergoing a number of regulatory changes affecting both our business and our network of third party partners. In particular, the regulation of consumer credit businesses in the UK transferred from the Office of Fair Trading ("OFT") to the Financial Conduct Authority ("FCA") in April 2014. This will make the regulation and supervision of consumer credit-related activities in the UK the responsibility of the FCA.

It is likely that the regulatory requirements applicable to the consumer debt purchase and collection industry will increase, reflecting the new regulatory framework and the fact that the FCA's supervisory and enforcement powers are substantially greater than the OFT's previous powers. In addition, it is likely that the compliance framework that will be needed to satisfy the FCA requirements will demand additional investment and resources in our compliance and governance framework.

Our current risk management framework is being further developed to both align with industry best practice and meet the expectations of the FCA. At a Group level, a new committee structure has been formed, which includes the addition of high profile and experienced industry leaders to the board. Also, our risk function has been enhanced by the appointment of a chief risk officer, and further recruitment is underway. The organisational structure and operational model has been redesigned around a three lines of defence model and is currently in transition. Our application for interim permissions has been accepted and we have been invited by the FCA to apply in latter half of 2015.

Approved by the board of directors on 9 June 2014 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 2013.

### Going concern and outlook

The Company made a profit after tax of £9,813,000 (2012: £6,501,000) from continuing activities and generated net operating cash inflows before purchase of loan portfolios and loan notes of £63,268,000 (2012: £39,596,000). At 31 December 2013, the Company had positive cash balances of £45,807,000 (2012: £4,354,000) and net assets of £34,763,000 (2012: £29,450,000). The Company's business activities are set out in the principal activities section above.

In January 2013, Arrow Global Finance PLC, a public limited Company and a fellow Group undertaking (forming part of the Arrow Global Group PLC Group) was incorporated and issued an offering memorandum for £220m of senior secured notes. The proceeds from the bond issue have been used to repay existing liabilities with residual cash of £40m for use in operating activities. During the year, the Company terminated its revolving credit facility of £110m and set up a new facility for £40m which was consequently increased to £55m in September 2013. Arrow Global Finance PLC is forecast to meet its covenants on the new facility. In October 2013, the Group became listed on the London Stock Exchange with net proceeds of £42m raised for use in operating activities.

The directors of the Company are satisfied with the performance of the Company in 2013 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

Dividends of £4,500,000 were paid during the year (2012: £nil).

### Directors

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

Robert Memmott

Sir George Mathewson (resigned 15 October 2013)

Tom Drury

Zachary Lewy

Malcolm Jackson (resigned 15 October 2013)

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

### 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 annual 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. 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### 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.

20-22 Bedford Row  
London  
WC1R 4JS

By order of the board



Rob Memmott

Director

Date: 9 June 2014

## 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 2013 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, statement of cash flows and the related notes 1 to 20. 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### 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 2013 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.

*D Heaton*

David Heaton (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Manchester, UK

*9 June 2014*



## Statement of comprehensive income for year ended 31 December 2013

|  |       | Year ended<br>31 December<br>2013<br>underlying | Exceptional<br>items 2013 | Year ended<br>31 December<br>2013<br>including<br>exceptionals | Year ended<br>31 December<br>2012 |
|--|-------|---|---------------------------|--|-----------------------------------|
| Revenue  | Notes | £000  | £000                      | £000   | £000                              |
| Income from purchased loan portfolios  | 11    | 79,651  | -                         | 79,651   | 26,336                            |
| Portfolio write up   | 5,11  | 5,437   | -                         | 5,437  | 1,852                             |
| Profit on portfolio sales  |       | 1,000   | -                         | 1,000  | 112                               |
|  |       | <b>86,088</b>                                   | <b>-</b>                  | <b>86,088</b>  | <b>28,300</b>                     |
| Interest income and profit on disposal of<br>secured loan notes                                  |       | 2   | -                         | 2  | -                                 |
| Income from asset management   |       | 373   | -                         | 373  | 1,027                             |
| Servicer income  | 5     | 463   | -                         | 463  | 4,040                             |
| <b>Total revenue</b>   |       | <b>86,926</b>                                   | <b>-</b>                  | <b>86,926</b>  | <b>33,367</b>                     |
| <b>Operating expenses</b>  |       |   |                           |  |                                   |
| Collection activity costs  |       | (26,270)  | -                         | (26,270)   | (11,521)                          |
| Professional fees and services   |       | (2,374)   | -                         | (2,374)  | (1,344)                           |
| Other expenses   | 8     | (12,199)  | (8,573)                   | (20,772)   | (9,791)                           |
| <b>Total operating expenses</b>  |       | <b>(40,843)</b>                                 | <b>(8,573)</b>            | <b>(49,416)</b>  | <b>(22,656)</b>                   |
| <b>Operating profit</b>  |       | <b>46,083</b>                                   | <b>(8,573)</b>            | <b>37,510</b>  | <b>10,711</b>                     |
| Finance income and costs   | 6     | (19,105)  | (4,060)                   | (23,165)   | (2,640)                           |
| <b>Profit before tax</b>   |       | <b>26,978</b>                                   | <b>(12,633)</b>           | <b>14,345</b>  | <b>8,071</b>                      |
| Taxation charge on ordinary activities   | 9     | (6,959)   | 2,427                     | (4,532)  | (1,570)                           |
| <b>Profit for the year and total comprehensive<br/>income attributable to equity shareholder</b> |       | <b>20,019</b>                                   | <b>(10,206)</b>           | <b>9,813</b>   | <b>6,501</b>                      |

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

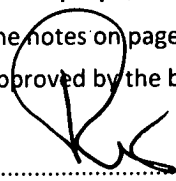
The notes on pages 11 to 27 form part of these financial statements.

## Balance sheet at 31 December 2013

|   |              | 31 December<br>2013 | 31 December<br>2012 |
|---|--------------|---------------------|---------------------|
|   |              | £000                | £000                |
| <b>Assets</b>   | <b>Notes</b> |                     |                     |
| <b>Non-current assets</b>                               |              |                     |                     |
| Intangible assets                                       | 10           | 1,476               | 1,752               |
| Property, plant and equipment                           | 10           | 259                 | 252                 |
| Purchased loan portfolios                               | 11           | 194,607             | 77,567              |
| Investment in subsidiary undertakings                   | 19           | 18,928              | 19                  |
| Loan notes  |              | 1,668               | -                   |
| Deferred tax asset                                      |              | 13                  | 9                   |
| <b>Total non-current assets</b>                         |              | <b>216,951</b>      | <b>79,599</b>       |
| <b>Current assets</b>                                   |              |                     |                     |
| Cash and cash equivalents                               |              | 45,807              | 4,354               |
| Other receivables                                       | 12           | 12,025              | 4,853               |
| Intercompany receivables                                | 16           | 864                 | 35,521              |
| Purchased loan portfolios                               | 11           | 58,115              | 22,524              |
| <b>Total current assets</b>                             |              | <b>116,811</b>      | <b>67,252</b>       |
| <b>Total assets</b>                                     |              | <b>333,762</b>      | <b>146,851</b>      |
| <b>Equity</b>   |              |                     |                     |
| Share capital   | 14           | -                   | -                   |
| Share premium   | 14           | 990                 | 990                 |
| Additional paid in capital                              |              | 18,107              | 18,107              |
| Retained earnings                                       |              | 15,666              | 10,353              |
| <b>Total equity attributable to equity shareholders</b> |              | <b>34,763</b>       | <b>29,450</b>       |
| <b>Liabilities</b>                                      |              |                     |                     |
| <b>Non-current liabilities</b>                          |              |                     |                     |
| Deferred tax liability                                  |              | 807                 | -                   |
| Bank loan   | 18           | -                   | 76,056              |
|   |              | <b>807</b>          | <b>76,056</b>       |
| <b>Current liabilities</b>                              |              |                     |                     |
| Trade and other payables                                | 13           | 7,704               | 6,631               |
| Provisions  | 8            | 2,253               | -                   |
| Current tax liability                                   |              | 1,672               | 816                 |
| Intercompany payables                                   | 16           | 286,563             | 33,898              |
| <b>Total current liabilities</b>                        |              | <b>298,192</b>      | <b>41,345</b>       |
| <b>Total liabilities</b>                                |              | <b>298,999</b>      | <b>117,401</b>      |
| <b>Total equity and liabilities</b>                     |              | <b>333,762</b>      | <b>146,851</b>      |

The notes on pages 11 to 27 form part of these financial statements.

Approved by the board of directors on 9 June 2014, signed and authorised for issue on its behalf by

  
.....  
**Rob Memmott**  
Director

Registered in England and Wales No: 05606545

## Statement of changes in equity for year ended 31 December 2013

|   | Ordinary<br>shares<br>£000 | Share<br>premium<br>£000 | Additional<br>paid-in<br>capital<br>£000 | Retained<br>earnings<br>£000 | Total<br>£000 |
|---|----------------------------|--------------------------|--|------------------------------|---------------|
| <b>Balance at 1 January 2012</b>        | -                          | 990                      | 18,107                                   | 3,852                        | 22,949        |
| Total comprehensive income for the year | -                          | -                        | -  | 6,501                        | 6,501         |
| <b>Balance at 1 January 2013</b>        | -                          | 990                      | 18,107                                   | 10,353                       | 29,450        |
| Total comprehensive income for the year | -                          | -                        | -  | 9,813                        | 9,813         |
| Dividends paid                          | -                          | -                        | -  | (4,500)                      | (4,500)       |
| <b>Balance at 31 December 2013</b>      | -                          | 990                      | 18,107                                   | 15,666                       | 34,763        |

The notes on pages 11 to 27 form part of these financial statements.

## Statement of cash flow for year ended 31 December 2013

|   | Year ended 31<br>December 2013<br>£000 | Year ended 31<br>December 2012<br>£000 |
|---|--|--|
| <b>Cash flows from operating activities</b>   |  |  |
| Profit before tax   | 14,345                                 | 8,071                                  |
| <b>Adjusted for:</b>  |  |  |
| Collections in the year   | 115,508                                | 37,521                                 |
| Income from purchased loan portfolios   | (79,651)                               | (26,336)                               |
| Portfolio write up  | (5,437)                                | (1,852)                                |
| Proceeds from disposal of purchased loan portfolios   | 3,333                                  | 237                                    |
| Profit on disposal of purchased loan portfolios   | (1,000)                                | (112)                                  |
| Depreciation and amortisation   | 752                                    | 811                                    |
| Foreign exchange losses   | 59                                     | 194                                    |
| Amortisation of financing costs   | 2,594                                  | -                                      |
| Equity settled share-based payment expenses   | 4,361                                  | -                                      |
| <b>Operating cash flows before movement in working capital:</b>                                   | <b>54,864</b>                          | <b>18,534</b>                          |
| Increase in other receivables   | (7,142)                                | (1,234)                                |
| Decrease in amounts due from group company undertakings   | 15,126                                 | 24,713                                 |
| Increase in trade and other payables  | 3,194                                  | 283                                    |
| Cash from secured loan notes from third party   | 99                                     | -                                      |
| <b>Cash generated by operations</b>   | <b>66,141</b>                          | <b>42,296</b>                          |
| Income taxes and overseas taxation paid   | (2,873)                                | (2,700)                                |
| <b>Net cash flow from operating activities before purchases of loan portfolios and loan notes</b> | <b>63,268</b>                          | <b>39,596</b>                          |
| Purchases of purchased loan portfolios  | (185,143)                              | (56,209)                               |
| Purchases of loan notes   | (1,798)                                | -                                      |
| <b>Net cash used in operating activities</b>  | <b>(123,673)</b>                       | <b>(16,613)</b>                        |
| <b>Cash flows from investing activities</b>   |  |  |
| Purchases of property, plant and equipment  | (144)                                  | (40)                                   |
| Purchases of intangible assets  | (339)                                  | (677)                                  |
| Acquisition of subsidiary   | (18,909)                               | -                                      |
| <b>Net cash flow used in investing activities</b>   | <b>(19,392)</b>                        | <b>(717)</b>                           |
| <b>Cash flows from financing activities</b>   |  |  |
| Proceeds from intercompany loan   | 267,836                                | -                                      |
| Dividends paid  | (4,500)                                | -                                      |
| Proceeds from additional loans  | 6,884                                  | 60,277                                 |
| Repayment of bank loans   | (85,535)                               | (42,814)                               |
| <b>Net cash flow generated by financing activities</b>  | <b>184,685</b>                         | <b>17,463</b>                          |
| <b>Net increase in cash and cash equivalents</b>  | <b>41,620</b>                          | <b>133</b>                             |
| <b>Cash and cash equivalents at beginning of year</b>   | <b>4,354</b>                           | <b>4,251</b>                           |
| Effect of exchange rates on cash and cash equivalents   | (167)                                  | (30)                                   |
| <b>Cash and cash equivalents at end of year</b>   | <b>45,807</b>                          | <b>4,354</b>                           |

The notes on pages 11 to 27 form part of these financial statements.

## Notes to the Financial Statements

### 1. General information

The Company acquires certain pools of semi-performing and/or charged-off consumer loans pursuant to the terms of each specific purchase agreement. The Company enters into contractual servicing agreements with other third parties to collect the receivables, to administer and disburse the proceeds of the receivables, and to take other actions as may be necessary to fully effectuate the terms of the articles of association.

The Company's financial statements for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. The accounting policies have been applied consistently in the current and prior periods.

### 2. Adoption of new and revised standards

The following new standards, amendments to standards and interpretations are mandatory for the first time for the year beginning 1 January 2013 and do not have a material impact on the Company:

IFRS 7 (amendment) 'Disclosures – Offsetting Financial Assets and Financial Liabilities' amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment does not have a significant impact on profit or loss, financial position, or cash flows.

IFRS 13 'Fair value measurements' defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price), sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurements. The Company's financial statements include appropriate disclosure. The quantitative impact is not material.

IAS 19 (revised) 'Employee benefits' revises several areas of IAS 19 to improve the transparency of financial reporting for employee benefits, particularly in respect of defined benefit schemes. The changes have no impact on the financial statements.

Improvements 2011 'Annual improvements to IFRSs: 2009-2011 cycle' sets out amendments to IFRSs and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. The amendments did not impact the financial statements.

The following standards, interpretations and amendments to existing standards are not yet effective and have not been early adopted by the Company:

IFRS 9 'Financial instruments' is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Company's accounting for its financial assets. This IFRS is to be applied by the Company when it has EU endorsement. The Company is in the process of assessing the potential impact of this Standard on its consolidated financial statements but it is not expected to have a material impact on the financial statements.

IAS 32 (amendment) 'Offsetting Financial Assets and Financial Liabilities' added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. These amendments are to be applied for annual periods beginning on or after 1 January 2014.

#### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with 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. As the Company is a wholly owned subsidiary of Arrow Global Group PLC (see note 20), it is exempt from preparing consolidated accounts in accordance with IFRS 10: Consolidated Financial Statements.

## Notes to the Financial Statements (*continued*)

### 3. Significant accounting policies

#### Going concern

As explained in detailed in the directors' report on page 3 the directors continue to prepare the Company financial statements on a going concern basis. The directors are satisfied that the Company has adequate resources to continue to trade for the foreseeable future and the going concern basis continues to be appropriate for preparing the financial statements. In making this assessment, detailed trading forecasts have been prepared which support the going concern assumptions in being applied. The year has seen increased amounts of charged-off, unsecured debt being placed into the marketplace by large financial institutions and this trend looks set to continue for the foreseeable future. This presents an ongoing opportunity for the Company to acquire portfolios of debt during this time for purchase considerations significantly lower than the debt's face value.

In January 2013, Arrow Global Finance plc, a public limited company and a fellow subsidiary of this company, was incorporated and issued an offering memorandum for £220,000,000 of senior secured notes. The proceeds from the bond issue have been used to repay the existing liabilities with residual cash of £40m for use in operating activities. The Group is forecast to meet its covenants on the new facility.

The principal accounting policies adopted are set out below.

#### Revenue recognition

Purchased loan portfolios are financial instruments that are accounted for under IAS 39 and are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a purchased loan portfolio and of allocating interest income over the expressed life of the portfolio; the allocated interest income is recorded as income from purchased loan portfolios in the financial statements. The effective interest rate ("EIR") is the rate that exactly discounts estimated future purchased portfolio cash receipts through the expected life of the purchased portfolio asset. The EIR is determined as at the time of purchase of the loan portfolio and then reassessed and adjusted up to 12 months after the purchase of the loan portfolio to reflect refinements made to our estimates of future cash flows based on enhanced data and analysis considered during that time period. This adjustment has historically not resulted in any material impact on income from purchased loan portfolios. When an individual portfolio's carrying value is completely recovered, we recognise any subsequent collections as revenue as it is received.

Upward revaluations ('uplifts') are recognised as revenue. Subsequent reversals of such uplifts are recorded in the revenue line. If such reversals exceed cumulative revenue recognised to date, a provision for impairment is recognised which is reflected as a separate income statement line item.

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

#### Revenue on assets under management

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 right to receive such revenue is measured in reference to services rendered based on the stage of completion, regardless of milestone payments received.

#### Impairment of purchased loan portfolios

The portfolios are reviewed for any possible indications of impairment at the balance sheet date in accordance with IAS 39. Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio. If the forecast portfolio collections exceed initial estimates, a portfolio basis adjustment is recorded as an increase to the carrying value of the portfolio and is included in income from purchased loan portfolios. Where portfolios have been newly acquired, the Company identifies an incubation period, during which time the portfolio is reviewed for signs of impairment but for which the EIR is not formally set. The incubation period lasts for no more than 12 months subsequent to the acquisition date of the portfolio. If the forecast portfolio collections are lower than previous forecasts, the cumulative revenue recognised is considered as described in the revenue recognition accounting policy.

## Notes to the Financial Statements (*continued*)

### 3. Significant accounting policies (*continued*)

#### 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. Interest income is recognised on a time-proportion basis.

#### Foreign currency translation

The Company's functional currency is pound sterling. In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded 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 on the balance sheet date.

#### Operating 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.

#### Taxation

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

#### Current tax

Current taxation, including UK corporation tax and foreign tax, is based on the taxable profit for the period 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 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 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.

#### Property, plant and equipment and intangible assets

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

## Notes to the Financial Statements (*continued*)

### 3. Significant accounting policies (*continued*)

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method on the following bases:

|                        |           |
|------------------------|-----------|
| Software               | - 3 years |
| Computer equipment     | - 3 years |
| Leasehold improvements | - 5 years |
| Furniture              | - 5 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 is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Income Statement.

Acquired licenses 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 effective interest method less any impairment.

##### *Derecognition of financial assets*

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers substantially all the risks and rewards of ownership of the asset to another entity.

##### *Financial liabilities*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRS. The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or they expire. Financial liabilities are held at amortised cost.

#### 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.

#### Retirement benefit costs

Payments to defined contribution retirement schemes are charged as an expense as they fall due. 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.

#### Capitalisation of legal transaction fees

Legal transaction fees are allocated to the purchase price of the portfolio with the effective interest rate applied against the asset value.

#### Servicer income

Servicer income is received from related parties in line with transfer pricing accounting policy. Income relates to services provided to related parties for the collections and administration undertaken on their behalf.

#### Operating expenses

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



## Notes to the Consolidated Financial Statements (*continued*)

### 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, 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 ongoing basis. Revisions to accounting estimates recognised in the period in which the estimate is revised.

#### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors have 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.

#### Revenue recognition

Purchased loan portfolios are financial instruments that are accounted for under IAS 39 and are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a purchased loan portfolio and of allocating interest income over the expressed life of the portfolio; the allocated interest income is recorded as income from purchased loan portfolios in the Financial Statements. The EIR is the rate that exactly discounts estimated future purchased portfolio cash receipts through the expected life of the purchased portfolio asset. The EIR is determined as at the time of purchase of the loan portfolio and then reassessed and adjusted up to 12 months after the purchase of the loan portfolio to reflect refinements made to our estimates of future cash flows based on enhanced data and analysis considered during that time period. This adjustment has historically not resulted in any material impact on income from purchased loan portfolios. When an individual portfolio's carrying value is completely recovered, we recognise any subsequent collections as revenue as it is received. The estimation of cash flow forecasts is a key estimation uncertainty fundamental within this critical accounting policy. Further explanation is given in cash flow forecasts below. Upward revaluations ('uplifts') are recognised as revenue. Subsequent reversals of such uplifts are recorded in the revenue line. If such reversals exceed cumulative revenue recognised to date, a provision for impairment is recognised which is reflected as a separate income statement line item.

#### Impairment of purchased loan portfolios

The portfolios are reviewed for any possible indications of impairment at the balance sheet date in accordance with IAS 39. Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio. If the forecast portfolio collections exceed initial estimates, a portfolio basis adjustment is recorded as an increase to the carrying value of the portfolio and is included in income from purchased loan portfolios. Where portfolios have been newly acquired, the Company identifies an incubation period, during which time the portfolio is reviewed for signs of impairment but for which the EIR is not formally set. The incubation period lasts for no more than 12 months subsequent to the acquisition date of the portfolio. If the forecast portfolio collections are lower than previous forecasts, the cumulative revenue recognised is considered as described in the revenue recognition accounting policy. The estimation of cash flow forecasts is a key estimation uncertainty fundamental within this critical accounting policy. Further explanation is given in cash flow forecasts below.

#### Cash flow forecasts

Estimates of cash flows that determine the effective interest rate are established for each purchased portfolio over 12 months old and are based on our 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. Revaluations of portfolios are based on the 84-month ERC ("Estimated Remaining Collections"). This ERC is updated with the Core Collections experience to date on a monthly basis using a proprietary model. ERC represents an estimate of the undiscounted cash value of our purchased loan portfolios at a point in time.

## Notes to the Consolidated Financial Statements (*continued*)

### 5. Profit for the year

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

|  | Year ended 31<br>December 2013 | Year ended 31<br>December 2012 |
|--|--------------------------------|--------------------------------|
|  | £000                           | £000                           |
| Net foreign exchange (gains)/ losses   | (59)                           | 374                            |
| Operating lease - properties   | 306                            | 281                            |
| Depreciation of property, plant and equipment  | 137                            | 191                            |
| Amortisation of intangible assets  | 615                            | 620                            |
| Portfolio write up   | (5,437)                        | (1,852)                        |
| Servicer income of £463,000 (2012: £4,040,000) represents revenues generated from collection activities for other Group companies (see note 16). |                                |                                |

### 6. Finance income and costs

|   | Year Ended 31<br>December 2013 | Year Ended 31<br>December 2012 |
|---|--------------------------------|--------------------------------|
|   | £000                           | £000                           |
| <b>Finance income</b>   |                                |                                |
| Bank interest   | 57                             | -                              |
| Interest on intercompany loans                                    | -                              | 1,304                          |
|   | 57                             | 1,304                          |
| <b>Finance costs</b>  |                                |                                |
| Interest and similar charges on bank loans                        | (1,360)                        | (3,944)                        |
| Other interest  | (161)                          | -                              |
| Interest on intercompany loans                                    | (20,001)                       | -                              |
| <b>Total interest costs</b>                                       | (21,522)                       | (3,944)                        |
| Fair value gains/(losses) on interest rate swaps                  | 894                            | -                              |
| Amortisation of financing costs                                   | (2,594)                        | -                              |
| <b>Total finance costs</b>  | (23,222)                       | (3,944)                        |
| <b>Total finance income and costs including exceptional items</b> | (23,165)                       | (2,640)                        |
| Exceptional financing costs                                       | 4,060                          | -                              |
| <b>Total finance income and costs</b>                             | (19,105)                       | (2,640)                        |

During the year, the Group issued £220 million of 7.875% senior secured notes. The proceeds were used to settle existing loans and facilities and accordingly accelerated amortisation and settlement fees were incurred, which can be seen in exceptional finance costs above.

### 7. Auditor remuneration

The analysis of auditor remuneration is as follows:

|   | Year ended 31<br>December 2013 | Year ended 31<br>December 2012 |
|---|--------------------------------|--------------------------------|
|   | £000                           | £000                           |
| Fees payable for audit services in respect of the Company | 55                             | 54                             |
| Fees payable for tax compliance                           | 93                             | 53                             |
| Fees payable for tax advisory services                    | 605                            | 238                            |
|   | 753                            | 345                            |

## Notes to the Consolidated Financial Statements (continued)

### 8. Other expenses

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

|  | Year ended 31<br>December 2013 | Year ended 31<br>December 2012 |
|--|--------------------------------|--------------------------------|
|  | £000                           | £000                           |
| Wages, bonuses and salaries                              | 13,992                         | 5,108                          |
| Payments for termination of employment of key management | -                              | 158                            |
| Payments for termination of employment of employees      | -                              | 7                              |
| Pension contributions                                    | 227                            | 157                            |
| Social security costs                                    | 872                            | 596                            |
| <b>Total staff costs including exceptional items</b>     | <b>15,091</b>                  | <b>6,026</b>                   |
| Exceptional items  | (6,113)                        | -                              |
| <b>Total staff costs</b>                                 | <b>8,978</b>                   | <b>6,026</b>                   |

Exceptional items included exceptional restructuring costs associated with the senior secured notes issuance of £1,005,000 and IPO related staff costs of £5,108,000, the main item being £4,361,000 of share option charges.

#### HMRC inquiry

Also included in other expenses is £2,460,000 of other exceptional items, the largest being £2,110,000 of costs relating to a historic HMRC VAT enquiry.

The Group has been involved in on-going discussions with HMRC with respect to the business activities in Guernsey prior to 2013 when the group was restructured. HMRC has concluded its review and disagree with our technical analysis. HMRC have raised an assessment for VAT but confirmed no penalties will be levied as they have confirmed that the group acted with reasonable care. Given the time, costs and uncertainties associated with appealing the HMRC decision at a tax tribunal and the fact that this is a historic issue with no impact on future profitability the board has decided commercially to settle the assessment. Including advisors costs for the current period, this has resulted in a non-recurring charge of £2.4 million.

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

|                  | Year ended 31<br>December 2013 | Year ended 31<br>December 2012 |
|------------------|--------------------------------|--------------------------------|
|                  | number                         | number                         |
| Data and Systems | 44                             | 31                             |
| Collections      | 50                             | 46                             |
| Management       | 7                              | 6                              |
| Finance          | 8                              | 7                              |
|                  | <b>109</b>                     | <b>90</b>                      |

The total director's remuneration paid during the year was £3,794,000, including exceptional costs of £2,126,000 (2012: £1,114,000) and included £31,000 in relation to pension costs (2012: £39,000). The total number of directors eligible for defined contribution pension contributions is 3 (2012: 1). The remuneration of the highest paid director during the year was £2,172,000 (2012: £395,000). Employer pension contributions were made to a defined contribution scheme of the highest paid director during the year of £11,000 (2012: £15,000). At 31 December 2013 there was an accrual in respect of pension costs of £nil (2012: £22,000).

## Notes to the Consolidated Financial Statements (*continued*)

### 9. Tax

The effective tax rate for the year ended 31 December 2013 is higher than (2012: lower than) the standard rate of corporation tax in the UK at 23.25% (2012: 24.5%), the differences are as follows:

|  | Year ended 31<br>December 2013 | Year ended 31<br>December 2012 |
|--|--------------------------------|--------------------------------|
|  | £000                           | £000                           |
| Profit before tax  | 14,345                         | 8,071                          |
| Tax charge at standard UK corporation tax rate of 23.25% (2012: 24.5%) | 3,335                          | 1,977                          |
| Adjustment in respect of prior years                                   | 33                             | 28                             |
| Capital allowances (in excess)/ less than depreciation                 | (8)                            | 32                             |
| Expenses not deductible for tax purposes                               | 1,134                          | 35                             |
| Rate differences on share based payments                               | (15)                           | -                              |
| Short term timing differences  | (5)                            | (129)                          |
| Rate differences on hedging arrangements                               | 85                             | -                              |
| Group relief claimed   | (27)                           | (373)                          |
| <b>Tax charge</b>  | <b>4,532</b>                   | <b>1,570</b>                   |
| <b>Effective tax rate</b>  | <b>26.9%</b>                   | <b>19.5%</b>                   |

|   | Year Ended<br>31 December<br>2013 | Year Ended<br>31 December<br>2012 |
|---|-----------------------------------|-----------------------------------|
|   | £000                              | £000                              |
| Tax charge for the year ended 31 December 2013 consists of:           |                                   |                                   |
| <i>Current tax charge:</i>  |                                   |                                   |
| UK and foreign corporation tax at 23.25% based on profit for the year | 3,729                             | 1,635                             |
| <b>Total current tax charge</b>                                       | <b>3,729</b>                      | <b>1,635</b>                      |
| <i>Deferred tax charge:</i>   |                                   |                                   |
| Origination and reversal of temporary differences                     | 803                               | (65)                              |
| <b>Total tax charge</b>   | <b>4,532</b>                      | <b>1,570</b>                      |

The Finance Act 2013, which was substantively enacted in July 2013, included provisions to reduce the rate of UK corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. 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. Accordingly, deferred tax balances have been revalued to the lower rate of 20% in these accounts.

#### Exceptional tax

We have identified exceptional items in the year amounting to £12,633,000. £10,029,000 of the exceptional items are taxable.

## Notes to the Consolidated Financial Statements (*continued*)

### 10. Property, plant and equipment and intangible assets

|                                      | Leasehold<br>improvements<br>£000 | Computer<br>equipment<br>£000 | Furniture<br>£000 | Total property,<br>plant and<br>equipment<br>£000 |
|--------------------------------------|-----------------------------------|-------------------------------|-------------------|---|
| <b>Property, plant and equipment</b> |                                   |                               |                   |   |
| <u>Cost</u>                          |                                   |                               |                   |   |
| At 1 January 2013                    | 346                               | 323                           | 162               | 831   |
| Additions                            | -                                 | 19                            | 125               | 144   |
| <b>At 31 December 2013</b>           | <b>346</b>                        | <b>342</b>                    | <b>287</b>        | <b>975</b>  |
| <u>Accumulated depreciation</u>      |                                   |                               |                   |   |
| At 1 January 2013                    | 242                               | 251                           | 86                | 579   |
| Charge for the year                  | 50                                | 45                            | 42                | 137   |
| <b>At 31 December 2013</b>           | <b>292</b>                        | <b>296</b>                    | <b>128</b>        | <b>716</b>  |
| <u>Carrying amount</u>               |                                   |                               |                   |   |
| <b>At 31 December 2013</b>           | <b>54</b>                         | <b>46</b>                     | <b>159</b>        | <b>259</b>  |
| <b>At 31 December 2012</b>           | <b>104</b>                        | <b>72</b>                     | <b>76</b>         | <b>252</b>  |

|                                 |                                       |
|---------------------------------|---------------------------------------|
| <b>Intangible assets</b>        | <b>Software<br/>licenses<br/>£000</b> |
| <u>Cost</u>                     |                                       |
| At 1 January 2013               | 2,453                                 |
| Additions                       | 339                                   |
| <b>At 31 December 2013</b>      | <b>2,792</b>                          |
| <u>Accumulated amortisation</u> |                                       |
| At 1 January 2013               | 701                                   |
| Charge for the year             | 615                                   |
| <b>At 31 December 2013</b>      | <b>1,316</b>                          |
| <u>Carrying amount</u>          |                                       |
| <b>At 31 December 2013</b>      | <b>1,476</b>                          |
| <b>At 31 December 2012</b>      | <b>1,752</b>                          |

## Notes to the Consolidated Financial Statements (*continued*)

### 11. Financial assets

As at 31 December 2013:

|                           | Current<br>£000 | Non-current<br>£000 | Total<br>£000  |
|---------------------------|-----------------|---------------------|----------------|
| Purchased loan portfolios | 56,873          | 190,412             | 247,285        |
| Portfolio write up        | 1,242           | 4,195               | 5,437          |
|                           | <b>58,115</b>   | <b>194,607</b>      | <b>252,722</b> |

As at 31 December 2012

|                           | Current<br>£000 | Non-current<br>£000 | Total<br>£000  |
|---------------------------|-----------------|---------------------|----------------|
| Purchased loan portfolios | 22,107          | 76,132              | 98,239         |
| Portfolio write up        | 417             | 1,435               | 1,852          |
|                           | <b>22,524</b>   | <b>77,567</b>       | <b>100,091</b> |

#### *Purchased loan portfolios*

The Company recognises income from purchased loan portfolios in accordance with IAS 39: At 31 December 2013, the carrying amount of the purchased loan portfolio asset was £252,722,000 (2012: £100,091,000).

The movements in purchased loan portfolio assets were as follows:

|   | 2013<br>£000   | 2012<br>£000   |
|---|----------------|----------------|
| As at 1 January   | 100,091        | 53,505         |
| Purchased loan portfolios acquired from other group companies | 101,701        | -              |
| Purchased loan portfolios acquired during the year *          | 83,442         | 56,209         |
| Portfolio cash collections in the year                        | (115,508)      | (37,521)       |
| Income from purchased loan portfolios                         | 79,651         | 26,336         |
| Exchange profit/ (loss) on purchased loan portfolios          | 241            | (165)          |
| Proceeds from disposal of purchased loan portfolios           | (3,333)        | (237)          |
| Profit on disposal of purchased loan portfolios               | 1,000          | 112            |
| Portfolio write up  | 5,437          | 1,852          |
| <b>As at 31 December</b>                                      | <b>252,722</b> | <b>100,091</b> |

\* inclusive of capitalised portfolio expenditure of £1,057,000 (2012: £149,000)

At the 31 December 2013, the directors calculated the fair value of portfolios and loan notes under IFRS 13 to be £263,030,000 which is £10,308,000 higher than the carrying value. The directors applied a discount rate of 20% net of cash flows, which was calculated using a consistent methodology as at 31 December 2012.

The directors consider that there was no material difference between the carrying value and fair value of the assets for the comparative year.

## Notes to the Consolidated Financial Statements (continued)

### 12. Other receivables

|                   | 31 December<br>2013<br>£000 | 31 December<br>2012<br>£000 |
|-------------------|-----------------------------|-----------------------------|
| Prepayments       | 9,629                       | 3,637                       |
| Other receivables | 1,939                       | 1,216                       |
| Derivative asset  | 457                         | -                           |
|                   | <u>12,025</u>               | <u>4,853</u>                |

The directors consider that the carrying amounts approximate to their fair value as balances are readily converted to cash.

### 13. Trade and other payables

|                                | 31 December<br>2013<br>£000 | 31 December<br>2012<br>£000 |
|--------------------------------|-----------------------------|-----------------------------|
| Trade payables                 | 3,444                       | 1,652                       |
| Taxation and social security   | -                           | 65                          |
| Other creditors                | 2,979                       | 2,104                       |
| Other liabilities and accruals | 1,281                       | 2,810                       |
|                                | <u>7,704</u>                | <u>6,631</u>                |

The directors consider that the carrying amount of trade payables approximates to their fair value on the grounds that the balances are short term in nature.

### 14. Share capital

|                               | 31 December<br>2013 | 31 December<br>2012 |
|-------------------------------|---------------------|---------------------|
| <b>Issued and fully paid:</b> |                     |                     |
| 2 ordinary shares of £1 each  | <u>2</u>            | <u>2</u>            |

The Company has one class of ordinary shares which carry no right to fixed income. The shares were issued at cash consideration of £990,002 and accordingly share premium of £990,000 is recorded (2012: £990,000).

### 15. 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<br>2013<br>£000 | 31 December<br>2012<br>£000 |
|------------------|-----------------------------|-----------------------------|
| Less than 1 year | 105                         | 189                         |
| 1 - 2 years      | 198                         | 173                         |
| 2 - 5 years      | 655                         | -                           |
|                  | <u>958</u>                  | <u>362</u>                  |

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

## Notes to the Financial Statements (continued)

### 16. Related party transactions

|  | Intercompany<br>receivables<br>31 December<br>2013<br>£000 | Intercompany<br>receivables<br>31 December<br>2012<br>£000 | Intercompany<br>creditors<br>31 December<br>2013<br>£000 | Intercompany<br>creditors<br>31 December<br>2012<br>£000 |
|--|--|--|--|--|
| Arrow Global Guernsey Limited                  | -  | -  | -  | (26,809)   |
| Arrow Global Portugal Limited                  | -  | 438  | (700)  | -  |
| Arrow Global (Holdings) Limited                | -  | 1,068  | (4,010)  | -  |
| Arrow Global Receivables<br>Management Limited | -  | -  | (7,362)  | (4,704)  |
| Strzala Sp. z.o.o.                             | -  | -  | (1,062)  | (896)  |
| Arrow Global Investments Holdings<br>Limited   | 4  | -  | -  | (1,489)  |
| Arrow Global Group Plc                         | -  | -  | (49,456)   | -  |
| Arrow Global Accounts Management<br>Limited    | -  | -  | (4,203)  | -  |
| Arrow Global Finance Plc                       | -  | -  | (219,770)  | -  |
| Arrow Global Guernsey Holdings<br>Limited      | 860  | 34,015   | -  | -  |
| <b>Total</b>                                   | <b>864</b>   | <b>35,521</b>  | <b>(286,563)</b>   | <b>(33,898)</b>  |

The Company had the following reportable transactions with related parties:

|  | Portfolio services<br>recharges<br>31 December<br>2013<br>£000 | Portfolio services<br>recharges<br>31 December<br>2012<br>£000 | Interest<br>31 December<br>2013<br>£000 | Interest<br>31 December<br>2012<br>£000 |
|--|--|--|---|---|
| Arrow Global Guernsey Limited                  | -  | -  | 168                                     | -                                       |
| Arrow Global Portugal Limited                  | 81   | 123  | 43                                      | -                                       |
| Arrow Global (Holdings) Limited                | -  | -  | 288                                     | -                                       |
| Arrow Global Receivables<br>Management Limited | 85   | 184  | 500                                     | -                                       |
| Strzala Sp. z.o.o.                             | -  | -  | 168                                     | -                                       |
| Arrow Global Investments Holdings<br>Limited   | -  | -  | 8                                       | -                                       |
| Arrow Global Group Plc                         | -  | -  | 1,030                                   | -                                       |
| Arrow Global Accounts Management<br>Limited    | 297  | 3,733  | 196                                     | -                                       |
| Arrow Global Finance Plc                       | -  | -  | 17,891                                  | -                                       |
| Arrow Global Guernsey Holdings<br>Limited      | -  | -  | (291)                                   | -                                       |
| <b>Total</b>                                   | <b>463</b>   | <b>4,040</b>   | <b>20,001</b>                           | <b>-</b>                                |

#### 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 8.



## Notes to the Financial Statements (*continued*)

### 17. 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 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 other than for purchased loan portfolios disclosed in note 11.

#### Credit risk

Credit risk is considered upon the acquisition of a portfolio by assessing the expected return. The Company manages this risk by monitoring the performance of the portfolio throughout its economic life. Cash collections made on a portfolio are continually monitored and the carrying value of the asset is impaired where cash collections fall short of the initial effective interest rate set for each portfolio. Any non-performing debt that does not meet initial commercial requirements can be passed back to the vendor. The loan notes are secured on the purchased portfolios which they fund.

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

|                           | 31 December<br>2013<br>£000 | 31 December<br>2012<br>£000 |
|---------------------------|-----------------------------|-----------------------------|
| <b>Balance sheet</b>      |                             |                             |
| Purchased loan portfolios | 252,722                     | 100,091                     |
| Cash and cash equivalents | 45,807                      | 4,354                       |
| Intercompany receivables  | 864                         | 35,521                      |
| Other receivables         | 12,025                      | 4,853                       |
| Loan notes                | 1,668                       | -                           |
|                           | <b>313,086</b>              | <b>144,819</b>              |

The Company's principal activity is the acquisition and management of underperforming portfolios of loans. All purchased portfolios are, by their nature, significantly past due and impaired upon acquisition. No additional collateral is held in respect of the portfolios. The Company performs further impairment reviews periodically.

All purchased loan portfolios are disclosed at amortised cost. Impairment is assessed on a regular basis by management and is identified on a cohort basis following evidence that the financial asset is impaired.

#### 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.

As at 31 December 2013:

|                             | within 1<br>year<br>£000 | 1 to 2<br>years<br>£000 | above 2<br>years<br>£000 | Total<br>£000  |
|-----------------------------|--------------------------|-------------------------|--------------------------|----------------|
| <b>Amounts due to :</b>     |                          |                         |                          |                |
| <b>Non-interest bearing</b> |                          |                         |                          |                |
| Trade and other payables    | 7,354                    | -                       | -                        | 7,354          |
| Intercompany payables       | 286,563                  | -                       | -                        | 286,563        |
| <b>Total</b>                | <b>293,917</b>           | <b>-</b>                | <b>-</b>                 | <b>293,917</b> |

## Notes to the Financial Statements (continued)

### 17. Financial instruments (continued)

As at 31 December 2012:

|                             | within 1<br>year<br>£000 | 1 to 2<br>years<br>£000 | above 2<br>years<br>£000 | Total<br>£000  |
|-----------------------------|--------------------------|-------------------------|--------------------------|----------------|
| Amounts due to :            |                          |                         |                          |                |
| <b>Non-interest bearing</b> |                          |                         |                          |                |
| Trade and other payables    | 6,631                    | -                       | -                        | 6,631          |
| Intercompany payables       | 33,898                   | -                       | -                        | 33,898         |
| <b>Interest bearing</b>     |                          |                         |                          |                |
| Bank loan                   | -                        | 76,056                  | -                        | 76,056         |
| <b>Total</b>                | <b>40,529</b>            | <b>76,056</b>           | <b>-</b>                 | <b>116,585</b> |

#### Market risk

Market risk is the risk that there is a decreased availability of distressed debt which consequently increases the market price at which portfolios can be acquired. In the event of the economy experiencing growth, there is the risk that debtors will have an increased ability to meet their obligations and repay an increased amount of debts originally undertaken. Current market conditions suggest this does not represent a significant risk for the foreseeable future. Furthermore, an improvement in macroeconomic conditions will result in an increased likelihood of previously distressed debt being recovered.

#### Interest rate risk

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

#### Interest rate sensitivity analysis

If interest base rates had been 0.5 per cent higher/ lower and all other variables were held constant, the Company's profit for the year ended 31 December 2013 would decrease/ increase by £107,000 (2012: decrease/ increase by £18,000). This is attributable to the Company's exposure to interest on its cash and cash equivalents.

If LIBOR rates had been 0.25 per cent higher/ lower and all other variables were held constant, the Company's profit for the year ended 31 December 2013 would decrease/ increase by £1,000 (2012: decrease/ increase by £210,000). This is fully attributable to the Company's exposure to interest on its rolling credit facility.

#### Foreign currency risk

The Company is exposed to foreign exchange currency risk on purchased loan portfolios, secured loan notes, cash and cash equivalents and its transactions with other related parties.

#### Foreign currency sensitivity analysis

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

|                    | Equity and net assets       |                             | Net Profit                  |                             |
|--------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                    | 31 December<br>2013<br>£000 | 31 December<br>2012<br>£000 | 31 December<br>2013<br>£000 | 31 December<br>2012<br>£000 |
| <b>Currency</b>    |                             |                             |                             |                             |
| Euro (EUR)         | (1,150)                     | (1,451)                     | (1,269)                     | (856)                       |
| US Dollar (USD)    | 2                           | -                           | (1)                         | (1)                         |
| Polish Zloty (PLN) | 38                          | (2)                         | 1                           | -                           |
|                    | <u>(1,110)</u>              | <u>(1,453)</u>              | <u>(1,269)</u>              | <u>(857)</u>                |

## Notes to the Financial Statements (*continued*)

### 17. Financial instruments (*continued*)

#### Foreign currency sensitivity analysis

If foreign exchange rates had been 10 per cent lower than those at the balance sheet date and all other variables were held constant, the Company's net assets and net profit for each denomination of currency would increase as follows:

|                    | Equity and net assets |                     | Net Profit          |                     |
|--------------------|-----------------------|---------------------|---------------------|---------------------|
|                    | 31 December<br>2013   | 31 December<br>2012 | 31 December<br>2013 | 31 December<br>2012 |
| Currency           | £000                  | £000                | £000                | £000                |
| Euro (EUR)         | 1,405                 | 1,773               | 1,551               | 1,046               |
| US Dollar (USD)    | (2)                   | -                   | 1                   | 1                   |
| Polish Zloty (PLN) | (47)                  | 3                   | -                   | -                   |
|                    | <u>1,356</u>          | <u>1,776</u>        | <u>1,552</u>        | <u>1,047</u>        |

#### Forward foreign exchange contracts

It is the policy of the Company to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts and exposure to currency rate fluctuations.

In the current year, the Company has entered into certain forward contracts to mitigate its portfolio future cash flows in Portugal. The collection remittances are received in Euros. The Company has entered into the forward foreign exchange contracts (for terms provided in the table below) to mitigate the exchange rate risk arising from these anticipated future cash flows.

As at 31 December 2013, the aggregate amount of net gain/ loss under forward foreign exchange contracts that have been recognised within profit and loss in the statement of comprehensive income relating to the exposure on these anticipated future transactions is £14,000 gain (2012: £451,000 loss).

| Outstanding contracts at December                                     | Exchange rate | Notional value<br>2013<br>£000 | Maturity date    | Fair value<br>2013<br>£000 |
|---|---------------|--------------------------------|------------------|----------------------------|
| <b>Exchange rate hedges</b>   |               |                                |                  |                            |
| <i>Sell Euro</i>  |               |                                |                  |                            |
| Window Forward Extra  | 1.1899        | 1,681                          | 13 February 2014 | 19                         |
| Window Forward Extra  | 1.1899        | 1,681                          | 15 May 2014      | 19                         |
| Knock Out Ratio Forward   | 1.1899        | 1,681                          | 15 August 2014   | (24)                       |
| <b>Derivative asset</b>   |               |                                |                  | <u>14</u>                  |
| <b>Total gain recognised in the statement of comprehensive income</b> |               |                                |                  | <u>14</u>                  |

|   | Notional value<br>2013<br>£000 | Maturity date    | Fair value<br>2013<br>£000 |
|---|--------------------------------|------------------|----------------------------|
| <b>Interest rate hedges at December</b>                               |                                |                  |                            |
| Interest rate swap  | 40,000                         | 10 October 2014  | (104)                      |
| Interest rate swap  | 26,667                         | 10 February 2018 | 547                        |
| <b>Derivative asset</b>   |                                |                  | <u>443</u>                 |
| <b>Total gain recognised in the statement of comprehensive income</b> |                                |                  | <u>894</u>                 |

## Notes to the Financial Statements (*continued*)

### Fair value hierarchy

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. Level 1 fair value measurements are those where the value has been derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Of the above derivative contracts, the net fair value asset of £457,000 (2012: liability of £451,000) has been determined as a Level 2 measurement. There have been no transfers in or out of Level 2.

There are no level 3 financial instruments.

### 18. Borrowings

|  | 31 December<br>2013<br>£000 | 31 December<br>2012<br>£000 |
|--|-----------------------------|-----------------------------|
| <b>Secured borrowing at amortised cost</b>               |                             |                             |
| Bank loans (2012: net of transaction fees of £2,594,000) | -                           | 76,056                      |
| <b>Total borrowings</b>                                  |                             |                             |
| Amount due for settlement within 12 months               | -                           | -                           |
| Amount due for settlement in more than 1-2 years         | -                           | 76,056                      |
| Amount due for settlement in more than 2 years           | -                           | -                           |

All amounts are denominated in GBP.

Prior to 2013, the Group entered into a £40 million revolving credit facility on 4 October 2011 (the "old revolving credit facility"), which subsequently increased to £110 million, with a term out date of September 2013 and a termination date of September 2014. This old revolving credit facility was repaid in full and terminated on January 2013 upon issuance of the senior secured loan notes, by Arrow Global Finance PLC, a fellow Group company. Interest on the facility was repayable at 4% plus LIBOR up to the term out date and at 5% plus LIBOR after the term out date up until the termination date. The facility was repayable by the termination date and was secured against the portfolio assets of the Group. Monthly loan repayments were based on a percentage of the monthly collections that the facility is secured against. There were no fixed contractual repayment dates prior to the above dates.

On 29 January 2013, the Group entered into a revolving credit facility (the "new revolving credit facility") with The Royal Bank of Scotland plc ("RBS"), as security agent for a consortium of participating financial institutions. The new revolving credit facility terminates on 28 January 2018 and bears interest at a rate per annum equal to LIBOR or EURIBOR (as applicable) plus certain mandatory costs and a margin of 4.25% per annum, subject to a margin ratchet based on the loan-to-value ratio at each quarter end. The new revolving credit facility was increased to £55 million on 22 October 2013.

The Group is also required to pay a commitment fee on available but not utilised or not cancelled commitments under the new revolving credit facility at a rate of 40% of the applicable margin per annum on the undrawn portion of each lender's commitment. The new revolving credit facility is secured by the same assets as the senior notes. Interest is paid based on agreement when the facility is drawn down, either payable every one, three or six months.

## Notes to the Financial Statements (*continued*)

### 19. Investment in subsidiary undertakings

|                               | £000          |
|-------------------------------|---------------|
| At January 2013               | 19            |
| Acquisition during the period | 18,909        |
| At 31 December 2013           | <u>18,928</u> |

On 28 February 2013, the Company acquired 100 per cent of the ordinary share capital of Arrow Global Accounts Management Limited for £18,909,000, satisfied with cash. Arrow Global Accounts Management Limited has a similar principal activity as the Company being the acquisition and management of an underperforming portfolio of loans and servicing of debt in relation to third party contracts.

|  | 31 December<br>2013<br>£000 | 31 December<br>2012<br>£000 |
|--|-----------------------------|-----------------------------|
| Strazala Sp. z.o.o.                      | 19                          | 19                          |
| Arrow Global Accounts Management Limited | 18,909                      | -                           |
|  | <u>18,928</u>               | <u>19</u>                   |

### 20. 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](http://www.arrowglobalir.net).