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Arrow Global Limited

Annual report and financial statements for the year ended 31 December 2019

UK Registered No. 05606545

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Company information
Registered in England and Wales No: 05606545

Directors
Lee Rochford
Zachary Lewy (resigned 4 April 2019)
Paul Cooper (resigned 9 August 2019)
Matthew Hotson (appointed 8 October 2019)

Secretary
Stewart Hamilton

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

Registered Office
Belvedere
12 Booth Street
Manchester
M2 4AW

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Strategic report

Principal activities

Arrow Global Limited's (the "Company") principal activity is to identify, acquire and manage secured and unsecured defaulted and non-core assets from, and on behalf of financial institutions such as banks, institutional investors and credit card companies.

Strategic review

Cash collections were in line with management expectations. Operating cash flows were £252,829,000 (2018: £182,041,000) before purchases of loan portfolios and the Company has reinvested an element of these cash flows during the year (note 13). The Company maintained positive net assets and cash balances at the year end. The loss after tax for the year of £8,169,000 (2018: profit of £2,350,000) has been transferred to equity.

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

	2019	2018
	£000	£000
Total cash collections in the year on portfolio investments	307,718	292,730
Operating profit	30,592	60,371
Net operating cash flows before purchase of portfolio investments	252,829	182,041
Net assets	29,304	37,745
Cash and cash equivalents	24,300	53,522

Risks and uncertainties

The Company is a subsidiary of Arrow Global Group PLC and faces largely those risks and uncertainties faced by the Group. The Group operates an Enterprise-Wide Risk Management Framework, which is underpinned by risk appetite statements and a suite of policies. Risk is governed by the Group board, executive management and the Group risk committee. Full details of the risks and uncertainties and mitigating actions are included in the Group's financial statements, which can be found on the Group's website www.arrowglobalir.net.

The significant risks and uncertainties faced by the Company are managed through this risk management framework and are summarised below:

Operational risk

Failure to comply with relevant legal and regulatory requirements through failed internal processes could result in the suspension or termination of our ability to conduct business, and could lead to regulatory censure and financial loss.

The Company relies on Group IT systems for customer and data management and data analytics. Should these systems experience performance issues or outage through, for example, cyber-attack, customers would be impacted, and we could experience financial loss.

There is also a risk of data quality and documentation deficiencies in purchased portfolios that require remediation post-purchase. The effectiveness of this remediation activity potentially affects the enforceability of debt, our future collections and credit risk or the quality of customer outcomes.

Key mitigating actions

Operational risk is managed in line with our operational risk policy, which sets out the framework and processes for managing this risk type.

IT systems are regularly tested, backed up and managed through a set of quality and security policies, supported by disaster recovery and business continuity plans.

Due diligence is undertaken on prospective investment purchases to identify potential data quality and documentation weaknesses. Our legal team are involved in all purchases and external legal advice is taken where required, with contractual terms and warranties used to provide protection against legacy issues.

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Strategic report *(continued)*

Conduct risk

We operate in a highly regulated environment and any action that leads to poor customer outcomes or customer detriment could lead to a breach of regulations, resulting in censure and possibly financial loss.

Poor customer outcomes or customer detriment could arise through the debt collection activities within our in-house operations or the third-party servicer network of collection agencies, whether we are collecting debt which we have acquired or on behalf of clients. We always seek to ensure we adhere to best practice collections approaches.

Key mitigating actions

Governance over conduct risk is provided by the risk committees, principally through the UK Risk Committee. This committee provides oversight of the UK's processes and procedures, monitoring their effectiveness in fulfilling regulatory obligations and the management of risk that may result in non-compliance and/or poor outcomes for customers. Conduct risk exposures are also managed and monitored against the Group board's risk appetite.

Financial risk

The Group's financial risk management strategy is governed by a robust policy framework and is overseen by the Assets and Liabilities Committee which is a delegated committee from the board and executive risk committees. Note 19 of these financial statements describes the Company's financial risk exposures.

Investment risk

Investment risk is managed through the Group's rigorous due diligence and controls to consider risks (including operational risks) and accurately price new investment opportunities. These include executive review through an investment 'gate' process and in certain circumstances Group board approval prior to purchase execution.

COVID-19

Following the rapid emergence of the COVID-19 pandemic, management has prepared a number of scenarios which consider the impact of COVID-19 on the Group's cash flows. These stress tests consider the principal risks faced by the Group. It is considered that the most material risk to the Group is a reduction in expected cash collection levels, and the impact this could have on the Group's liquidity headroom and leverage covenant. Under the stress scenarios, collections performance deteriorates from the base cash ERC, resulting in lower cash generation.

This presents a risk that the Group will need to engage with its lenders in respect of the covenants. Management have identified and assessed a range of actions that the Group can deploy to mitigate the impact of the lower cash generation under the stress scenarios and considers the Group can maintain sufficient liquidity and cash reserves, however under plausible downside scenarios, certain banking covenants would be breached within the next 12 months necessitating engagement with its lenders in respect of the banking covenants.

Brexit

Throughout the year, management have continued to monitor the risks and opportunities presented by Brexit with a range of actions prepared depending on the final outcome. This has been overseen by the director of Group risk and compliance, and subject matter experts from both within the UK business, Group functions and European colleagues as well as external advisors. Our focus, inevitably, is on our people, financial impacts and business processes, and we shall continue to monitor broader developments throughout 2020. Financial mitigation exists in the form of long-term funding and our balance sheet strength – both reducing exposure to any potential market risk in relation to funding. Geographic, regulatory and currency diversification, along with a strong balance sheet position, continue to leave the business well placed to negotiate a range of Brexit outcomes.

Arrow is well positioned post-Brexit given the operating licenses held by each of our businesses and strong ongoing relationships built across individual regulators. With respect to our people, timely communications are provided to our teams across the UK and EU, providing targeted information on the Brexit process and encouraging engagement with the Human Resources team for those individuals.

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Strategic report *(continued)*

Outlook

Management monitor the competitive, economic and political environments in which we operate to influence future strategy. The Group board regularly carries out reviews of the markets and strategy, with impacts managed through our governance activities and by operating in accordance with regulatory requirements and industry best practice in each jurisdiction. The risks associated with COVID-19 have specifically been considered as shown above, including the potential impact on the Group's cash flows, and further details are provided in the directors' report.

Section 172 statement

From the perspective of the board, as a result of the Group governance structure, the matters that it is responsible for considering under Section 172 (1) of the Companies Act 2006 ('s172') have been considered to an appropriate extent by the board of Arrow Global Group Plc ("AGG PLC"), the Company's ultimate parent company, in relation both to the wider Arrow Global group and to this entity. The board has also considered relevant matters where appropriate. To the extent necessary for an understanding of the development, performance and position of the entity, an explanation of how AGG PLC has considered the matters set out in s172 (for the wider Arrow Global group and for the entity) is set out on page 48 of AGG PLC's 2019 annual report and accounts, which does not form part of this report.

Approved by the board of directors on 29 April 2020 and signed and authorised for issue on its behalf by:

Matthew Hotson
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 2019.

Going concern and outlook

The Company made a loss after tax of £8,169,000 (2018: profit of £2,350,000) from continuing activities and generated net operating cash inflows before purchase of portfolio investments of £252,829,000 (2018: £182,041,000). At 31 December 2019, the Company had positive cash balances of £24,300,000 (2018: £53,522,000) and net assets of £29,304,000 (2018: £37,745,000). The Company's business activities are set out in the principal activities section and the Company is part of the Arrow Global Group PLC group of companies (the 'Group').

The assessment of the going concern basis of preparation for the Company has considered both the position at 31 December 2019 and the outlook for the Company, as well as the going concern position of the Group as a whole. This is due to the integrated nature of the companies across the Group, and therefore the reliance of the Company on the Group's going concern position. In assessing whether the going concern basis is appropriate to adopt, the directors have undertaken a thorough review of the most recent forecast cash flow models and scenarios for a period in excess of 12 months from the date of approval of these accounts. These scenarios have been subject to stress testing, and downside scenarios have been considered as a result of the impact of COVID-19 on the Group's cash flows, with the scenarios assuming a range of cashflow reductions, including 25% to 90% fall in collections over a 3 to 9 month period, prior to recovery.

In the scenarios considered to be reasonable by management, after taking management actions as required, the Company is able to maintain sufficient liquidity and cash reserves to continue as a going concern. However, in certain plausible downside scenarios, the Group will breach their current RCF leverage covenant and would consequently be reliant on a future renegotiation or waiver of that covenant for a period of time to maintain that cash and liquidity position throughout the next 12 months.

Whilst the rapid escalation of COVID-19 and its impact on current market conditions are challenging and present uncertainties, the directors remain confident of such renegotiation given the financial position of the Group, its liquidity headroom as at 31 March 2020, and no debt facility maturities until 2024. The directors believe the Group continues to operate a business model that leaves it well placed to navigate this period of uncertainty.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the unprecedented and unpredictable nature of COVID-19 and the risks it may pose to the Group's ability to maintain its lending covenants, represent a material uncertainty that may cast doubt on the Company's ability to continue as a going concern and, therefore to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Dividends

No dividend was paid during the year (2018: £nil) and the directors do not propose a final dividend (2018: £nil).

Directors

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

Lee Rochford	
Zachary Lewy	(resigned 4 April 2019)
Paul Cooper	(resigned 9 August 2019)
Matthew Hotson	(appointed 8 October 2019)

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

Political donations

The Company made no political donations and did not incur any political expenditure during the year (2018: nil).

Directors' indemnities

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

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Directors' report *(continued)*

Stakeholder statements

Employees

From the perspective of the board, as a result of the group governance structure, the AGG PLC board has taken the lead in carrying out the duties of a board in respect of the company's employees, including engaging with them, having regard to their interests and the effect of that regard (including on the principal decisions taken by the company during the financial year). The board of the company has also considered relevant matters where appropriate. An explanation of how the AGG PLC board has carried out these responsibilities (for the wider Arrow Global group and for the entity) is set out on page 42 of AGG PLC's 2019 annual report and accounts, which does not form part of this report.

Other stakeholders

Similarly, from the perspective of the board, as a result of the group governance structure, the AGG PLC board has taken the lead in carrying out the duties of a board in respect of the company's other stakeholders. The board of the company has also considered relevant matters where appropriate. An explanation of how the AGG PLC board has had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year, is set out (for the wider Arrow Global group and for the entity) on page 42 of AGG PLC's 2019 annual report and accounts, which does not form part of this report.

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.

KPMG LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors.

By order of the board

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Matthew Hotson

Director

29 April 2020

Statement of Directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the board

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Matthew Hotson

Director

29 April 2020

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

Opinion

We have audited the financial statements of Arrow Global Limited ("the company") for the year ended 31 December 2019 which comprise the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and related notes, including the significant accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 3 to the financial statements which indicates that the risk most likely to adversely affect the Company's available financial resources over this period is a significant reduction in cash collections by entities within the Arrow Global Group ('Group') due to adverse changes in the macroeconomic environment such as the impact of uncertainty due to Covid-19, which in turn impact the ability of the Group to comply with financial covenants. There are also less predictable but realistic second order impacts, such as the impact of Brexit, which could result in a rapid reduction of available financial resources. These events and conditions, along with the other matters explained in note 3, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Matters on which we are required to report by exception
Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities
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.

M Davidson

Michael Davidson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One St Peter's Square
Manchester
M2 3AE

29 April 2020

Statement of profit or loss and other comprehensive income for year ended 31 December 2019

	Note	2019 £000	2018 £000
Income from portfolio investments at amortised cost		102,011	132,902
Fair value gain on portfolio investments at FVTPL		21,190	7,949
Impairment gains on portfolio investments		11,160	47,839
Total income from portfolio investments		**134,361**	**188,690**
Income from asset management and servicing		3,160	2,231
Total income		**137,521**	**190,921**
Operating expenses:			
Collection activity costs	9	(50,207)	(80,029)
Professional fees and services		(13,297)	(8,121)
Other operating expenses	9	(43,425)	(42,400)
Total operating expenses		**(106,929)**	**(130,550)**
Operating profit	5	**30,592**	**60,371**
Finance income	6	7,753	5,327
Finance costs	7	(45,463)	(62,560)
Profit before tax		**(7,118)**	**3,138**
Taxation charge on ordinary activities	10	(1,051)	(788)
Profit for the year attributable to equity shareholders		**(8,169)**	**2,350**

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

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

The notes on pages 14 to 45 form part of these financial statements.

Statement of financial position at 31 December 2019

	Note	2019	2018
Assets	**Note**	**£000**	**£000**
Cash and cash equivalents		24,300	53,522
Other receivables	14	28,077	22,202
Amounts due from Group undertakings	18	249,998	215,235
Current tax asset		15,005	9,495
Portfolio investments	13	812,811	757,300
Property, plant and equipment	12	6,089	1,844
Intangible assets	11	2,473	1,453
Deferred tax asset		2,387	2,509
Investment in subsidiary undertakings	22	29,142	18,909
Total assets		**1,170,282**	**1,082,469**
Liabilities			
Revolving credit facility	21	213,970	224,166
Trade and other payables	15	101,606	45,431
Amounts due to Group undertakings	18	825,402	763,493
Other borrowings	21	-	11,634
Total liabilities		**1,140,978**	**1,044,724**
Equity			
Share capital	16	-	-
Share premium	16	990	990
Additional paid in capital		18,107	18,107
Retained earnings		10,207	18,648
Total equity attributable to equity shareholders		**29,304**	**37,745**
Total equity and liabilities		**1,170,282**	**1,082,469**

Note – the balance sheet has been re-presented on a reducing liquidity basis. Prior periods have been re-presented accordingly on this basis.

The notes on pages 14 to 45 form part of these financial statements.

Approved by the board of directors on 29 April 2020, signed and authorised for issue on its behalf by

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Matthew Hotson
Director
Registered in England and Wales No: 05606545

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Statement of changes in equity for year ended 31 December 2019

	Ordinary shares £000	Share premium £000	Additional paid-in capital £000	Retained earnings £000	Total £000
Balance at 1 January 2018	-	990	18,107	16,298	35,395
Profit for the year	-	-	-	2,350	2,350
Balance at 31 December 2018	-	990	18,107	18,648	37,745
Impact of adopting IFRS 16				(162)	(162)
Balance post IFRS adjustments at 1 January 2019	-	990	18,107	18,486	37,583
Profit for the year	-	-	-	(8,169)	(8,169)
Deferred tax on share options	-	-	-	(110)	(110)
Balance at 31 December 2019	-	990	18,107	10,207	29,304

The notes on pages 14 to 45 form part of these financial statements.

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Statement of cash flow for year ended 31 December 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Profit before tax	(7,118)	3,138
Adjusted for:		
Collections in the year	307,718	292,730
Income from portfolio investments	(108,903)	(132,902)
Fair value gain on portfolio investments	(22,134)	(7,949)
Net impairment gain	(10,554)	(47,839)
Loss on disposal of fixed assets	124	104
Depreciation and amortisation	2,016	898
Net interest payable	37,390	57,233
Lease liability interest	364	-
Foreign exchange losses	968	137
Equity settled share-based payment expenses	1,705	3,260
Operating cash flows before movement in working capital	**201,576**	**168,810**
Increase in other receivables	(5,846)	(1,002)
Increase in amounts due from Group undertakings	(20,900)	(18,266)
Decrease in amounts due to Group undertakings	37,938	34,416
Decrease in trade and other payables	46,611	6,133
Cash generated by operations	**259,379**	**190,091**
Income taxes and overseas taxation paid	(6,550)	(8,050)
Net cash flow from operating activities before purchases of portfolio investments	**252,829**	**182,041**
Purchase of portfolio investments	(258,884)	(224,888)
Net cash used in operating activities	**(6,055)**	**(42,847)**
Cash flows from investing activities		
Purchases of property, plant and equipment	(186)	(1,258)
Purchases of intangible assets	(1,636)	(634)
Acquisition of subsidiary	(10,237)	-
Net cash flow used in investing activities	**(12,059)**	**(1,892)**
Cash flows from financing activities		
Repayment of RCF and other borrowings	(1,761)	-
Net proceeds from additional loans	(2,017)	90,868
Finance lease payments	(1,167)	-
Bank interest received	12	2
Bank fees paid	(6,175)	(4,858)
Net cash flow (used in) / generated by financing activities	**(11,108)**	**86,012**
Net (decrease) / increase in cash and cash equivalents	**(29,222)**	**41,273**
Cash and cash equivalents at beginning of year	**53,522**	**12,249**
Cash and cash equivalents at end of year	**24,300**	**53,522**

The notes on pages 14 to 45 form part of these financial statements.

Notes to the Financial Statements

1. General Information

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

The Company's subsidiaries and associates, both direct and indirect, at this date are listed in note 22.

The Company's principal activity is to identify, acquire and manage secured and unsecured defaulted and non-core assets from, and on behalf of financial institutions such as banks, institutional investors and credit card companies.

The Company's financial statements for the year ended 31 December 2019 have been prepared in accordance with IFRS as adopted for use in the EU, and therefore comply with Article 4 of the EU IFRS Regulation. The accounting policies have been applied consistently in the current and prior periods, except for transitional arrangements as discussed in note 2.

2. Accounting Standards

New standards

The following new standards and interpretations are mandatory for the year beginning 1 January 2019:

- IFRS 16 Leases;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle – various standards; and
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

The Company also chose to early adopt the 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7' in the period.

During 2019, these new standards and interpretations had an insignificant effect on the financial statements of the Company, apart from IFRS 16 which is discussed in note 2.1.

2.1 IFRS 16 'Leases'

IFRS 16 replaces the previous standard IAS 17 'Leases', bringing a number of leases on balance sheet, which were previously off-balance sheet and accounted for as operating leases under IAS 17.

As lessee, under IFRS 16, in respect of leased properties previously accounted for as operating leases the Group now recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Lease payments are allocated between the liability and finance cost.

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with leases with a lease term of twelve months or less and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis.

The Company is not required to restate comparatives on the initial adoption of IFRS 16, and has applied the modified retrospective approach. The Company has applied exemptions where appropriate for short-term leases of twelve months or less and low value assets to be expensed and has also applied 'grandfathering' to all IAS 17 judgements previously made, including lease terms. The incremental borrowing rates used to measure lease liabilities at initial application ranged between 5.6% and 6.0%.

Transition to this new standard has led to a one-off opening 2019 reserves reduction of £0.2 million, a right-of-use asset disclosed in property, plant and equipment of £5.6 million and a lease liability of £6.6 million and a release of lease accruals of £0.9 million, both of which are classified in trade and other payables.

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Notes to the Financial Statements *(continued)*

2. Accounting Standards *(continued)*

Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the following new or amended standards in preparing these financial statements.

The following amended standards are not expected to have a significant impact on the Company's financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3); and
- IFRS 17 Insurance Contracts.

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 Company has taken advantage of the exemption under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated accounts as it is a wholly-owned subsidiary of Arrow Global Group PLC (see note 22), which prepares group accounts. The Report and Accounts containing these consolidated financial statements can be found at www.arrowglobalir.net.

The financial statements of the Company have been prepared under the historical cost convention, other than the fair value of certain portfolio investments and the amortised cost accounting for other financial assets and liabilities.

The Company has elected to present the statement of financial position on a liquidity basis. Assets and liabilities have been presented in order of liquidity as this method of presentation is more relevant to the sector which the Company operates within.

3. Significant Accounting Policies

Going concern

The assessment of the going concern basis of preparation for the Company has considered both the position at 31 December 2019 and the outlook for the Company, as well as the going concern position of the Group as a whole. This is due to the integrated nature of the companies across the Group, and therefore the reliance of the Company on the Group's going concern position. In assessing whether the going concern basis is appropriate to adopt, the directors have undertaken a thorough review of the latest forecast cash flow models and scenarios for a period in excess of 12 months from the date of approval of these accounts. These scenarios have been subject to stress testing, and downside scenarios have been considered as a result of the impact of COVID-19 on the Group's cash flows, with the scenarios assuming a range of cashflow reductions, including 25% to 90% fall in collections over a 3 to 9 month period, prior to recovery.

In the scenarios considered to be reasonable by management, after taking management actions as required, the Company is able to maintain sufficient liquidity and cash reserves to continue as a going concern. However, in certain plausible downside scenarios, the Group will breach a RCF leverage covenant and would be reliant on a future renegotiation or waiver of that covenant for a period of time to maintain that cash and liquidity position throughout the next 12 months.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the unprecedented and unpredictable nature of the COVID-19 situation and the risks it may pose to the Company, represent a material uncertainty that may cast doubt on the Company's ability to continue as a going concern and, therefore to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

ARROW

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rates at the date of the transactions. The functional currency of the Company is pounds Sterling, which is also the presentational currency of the Company.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the carrying amount in the foreign currency, translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss.

Interest

i. Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. This is the case for all the Company's portfolio investments held at amortised cost, recognised since the introduction of IFRS 9.

Additionally, for such assets, the future cash flows are forecast across the next 84 months following the balance sheet date. This is the point by which substantially all of the cash flows will have been received from a normal portfolio investment, and the point at which the Company is comfortable in forecasting to.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability, such as legal and due diligence fees.

ii. Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation, using the effective interest method, of any difference between that initial amount and the expected cash flows and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance. However, for amortised cost portfolio assets the concept of a separable expected credit loss allowance is not applied, because due to the nature of the portfolio assets, expected cash flows are forecast including an estimate of expected credit losses, including multiple economic scenarios.

ARROW

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

iii. Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, which includes all of the Company's portfolio investments held at amortised cost, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in fair value gains on portfolio investments at FVTPL.

Fair value gains on portfolio investments at FVTPL

Fair value gains on portfolio investments at FVTPL represents all of the income and expenses relating to the Company's portfolio investments which are classified as FVTPL. The line item includes fair value changes, interest and dividends.

Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

i. Company acting as a leasee

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on, or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of premises the Company has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the shorter of its useful economic life and the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The adjustment is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'trade and other payables' in the statement of financial position.

ii. Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

iii. Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset.

The Company did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

iv. Company acting as a lessor

None of the arrangements which the Company has entered into have been determined to constitute the Company acting as a lessor under the definitions of IFRS 16.

Taxation
i. Income tax

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

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised the related expenses in 'other expenses'.

ARROW

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

ii. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

iii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Financial assets and financial liabilities

i. Recognition and initial measurement

The Company initially recognises portfolio investments, debt securities issued and other financial liabilities on the date on which they are acquired. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. No such elections have been made by the Company.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or as at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. No such designations have been made by the Company.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Company's portfolio investments are comprised of various types of underlying credit positions. These investments are held by the Company for the primary purpose of collecting the underlying cash flows to the fullest extent possible. Sales of such portfolio investments are not a common occurrence and are not part of management's strategy for such investments when they are purchased.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Equity and similar instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

Contractually linked instruments

The Company has some investments in securitisations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- The contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- The underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- The exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

i. Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. The gain or loss is presented as interest income calculated using the effective interest rate method.

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as a derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

ii. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

iii. Fair value measurement

'Fair value' is 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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

iv. Impairment

The Company recognises loss allowances for ECL on financial assets that are debt instruments, and that are not measured at FVTPL. No impairment loss is recognised on equity investments. The Company has not taken the low credit risk exemption for any of its financial assets.

The Company measures loss allowances at an amount equal to lifetime ECL, except for financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (excluding credit-impaired assets), for which they are measured as 12-month ECL.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- Financial assets that are credit-impaired at the reporting date, except POCI financial assets: as the difference between the gross carrying amount and the present value of estimated future cash flows; or
- POCI financial assets: the ECL is incorporated into the estimated future cash flows, therefore it is not possible to separate this from a 'gross carrying amount' of these assets. As such, although ECL is incorporated into the carrying amount, a separate loss allowance is not held for POCI financial assets. The only material assets in this category are the portfolio investments held at amortised cost.

When discounting future cash flows, the following discount rates are used:

- Financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate; and
- Lease receivables: the discount rate used in measuring the lease receivable.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Restructured financial assets

If the terms of a financial asset are renegotiated or modified, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past-due event;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Designation at fair value through profit or loss

The Company has not designated any financial assets or liabilities as FVTPL in either the current or previous periods.

Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised within other income in profit or loss.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

ii. Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property and equipment for the current and comparative periods are as follows:

Furniture	five years
Computer equipment	three years
Leasehold improvements	five years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets

i. Software licenses and IT platforms

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software, such as IT platforms, is recognised as an asset when the Company is able to demonstrate that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development.

The capitalised costs of internally developed software include all costs directly attributable to developing the software plus capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

Software, including IT platforms, is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to ten years. Amortisation is disclosed within other expenses within the statement of profit and loss.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Borrowings

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

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Provisions

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

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Employee benefits

i. Share-based payment transactions

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

The grant date fair value of the share-based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employee becomes unconditionally entitled to the awards.

The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

For share-based payments with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. Where the Company grants rights to its equity instruments to employees of its subsidiaries, the costs are recharged to the subsidiary in line with the requirements of IFRS 2 'Share based payments'.

ii. Retirement benefit costs

Payments to defined contribution retirement schemes are charged as the employees provide services to the Company. The Company has, for the year covered by these financial statements, 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.

Intercompany receivables
The Company holds material intercompany receivables on its balance sheet. These have been assessed under IFRS 9 ECL criteria, taking into account guidance specific to intercompany assets. The Company has concluded that these assets have no material ECL.

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

Investment in subsidiaries
Investments in subsidiaries are stated at cost less any provision for impairment. Investments are assessed for indicators of impairment throughout and at the end of each period. Investments are impaired where there is objective evidence that events or changes in circumstances exist that indicate that the investment carrying amount may not be fully recoverable. Any such impairment is recognised as a separate line in the statement of comprehensive income.

Deferred and contingent consideration
During the normal course of business, the Company enters in agreements with third-parties to purchase portfolios of financial assets, and the consideration paid may include an element of deferred consideration. Such consideration is discounted at the Group's weighted average costs of debt to its present value at the point of initial recognition of the acquired portfolio asset, and this discounted amount is included within the purchase price of the portfolio asset. A liability for the discounted amount of deferred consideration is also recognised at this time. Subsequent to this, the discount taken from the gross deferred consideration payable to the initial present value is recognised in the income statement as a finance cost over time.

Usually as part of business acquisitions, the Company also enters into arrangements with third-parties to pay amounts in the future which are contingent on the outcome of a future event, such as the acquired business meeting certain operational or financial targets. In such instances, the Company forms and initial estimation of the fair value of such consideration by assessing the likelihood of paying out a range of amounts, and using this analysis to calculate the probability-weighted average expected pay out. This amount is then discounted at the Group's cost of debt to bring it to its present value at the point of acquisition. An assessment is made at this point as to whether the payments constitute a post-employment benefit arrangement with former owners, or not. If this is not the case, the present value is included within the consideration paid to acquire the business and within goodwill, if relevant. Each period the discount is unwound to the income statement as a finance cost, and the liability is remeasured to its current fair value at that point in time.

Notes to the Financial Statements *(continued)*

4. Critical accounting judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is set out below.

i. Classification of amortised cost financial assets

The Company holds the majority of its portfolio investments at amortised cost, due to the fact that management have determined that these assets that meet the SPPI criteria, and are held in a 'hold to collect' business model. The SPPI criteria for each portfolio are assessed at the point each portfolio is being approved for purchase, and are based on the nature of the underlying loans which are being purchased. This determination is made for each purchase individually, unless it is a follow-on purchase of the same or very similar assets, which have already been assessed.

Regarding the 'hold to collect' business model, the Company has determined that this is the most appropriate IFRS 9 business model classification for its general portfolio holding activities, as although in the past a small number of portfolios have been sold outright to a third-party, such sales do not comprise a material component of the Company's ERC at any point in time. Therefore, such infrequent sales activity is not deemed to invalidate the 'hold to collect' business model which the Company employs for the vast majority of its portfolio assets.

Another judgement which has been made regarding the Company's amortised cost portfolio assets is that they all fall within the POCI classification for IFRS 9 impairment measurement purposes. This judgement has been made by the Company, based upon the fact that historic purchase history and the current composition of the amortised cost portfolio investments shows that such assets tend to be bought at a point in time where they are credit impaired in some manner. This is supported by not only the nature of the assets, but by the fact that they are usually purchased at a deep discount, which is reflective of their incurred credit losses to date.

Assumptions and estimation uncertainties

i. Carrying value of portfolio investments

The carrying value of portfolio investments is £812,811,000 at 31 December 2019 (2018: £757,300,000). The majority of these portfolio investments are measured at amortised cost, and the remainder at FVTPL. The carrying value of the portfolio investments are based on cash flow forecasts that are prepared for each portfolio. Typically, these forecasts cover an 84-month period, except in the case of a small number of FVTPL portfolios where it is necessary to forecast cash flows over a 120-month period to capture all of the material cash flows. The 84-month period is deemed to be the most appropriate timeframe over which expected cash flows are measured, as this is the point that modelling accuracy begins to fall below a supportable threshold.

These cash flow (ERC) forecasts are generated using a mixture of asset-specific forecasts and statistical models, incorporating a number of factors, including predictions of probability to pay, which is informed by customer and account level data, credit agency data and our historical experience with accounts which have similar key attributes. A further key model input is previous payments made by a customer. Additionally, estimates are made of the movement of accounts from non-paying to paying, and vice-versa, either through breakdown of the account or settlement/pay down of the balances due. In relation to non-paying accounts, assumptions will be made as to which operational strategy is the most appropriate to move the account to paying status, this may include placing these accounts into litigation. Operational factors, that may impact future estimated cash flows, are also considered such as improved collections processes and systems.

Management also review the model on a portfolio basis to take into account external factors, which have impacted historical, or will impact future performance and where necessary portfolios are calibrated to take into account these known factors. Known or estimated factors such as HPI increases/decreases, or planned litigation action are examples of key assumptions which are made that impact management's forecast of ERCs. The assumptions and estimates made are specific to the particular characteristics of each portfolio.

Notes to the Financial Statements *(continued)*

4. Critical accounting judgements and estimates *(continued)*

The ERCs created from the ERC forecasting models are regularly benchmarked at a portfolio level against actual performance, and this helps to inform the decision as to whether an impairment gain/loss may be required. Furthermore, with the introduction of IFRS 9 in 2018, ERCs now include specific consideration of multiple economic scenarios and the impact these are likely to have on collections in the future.

The estimated future cash flows generated by the above process are the key estimate/judgement in these financial statements. Flexing the expected future gross cash flows by +1/-1% would impact the closing carrying value of the portfolio investments as at 31 December 2019 by +/- £8,128,000 (2018: +/- £7,573,000). The forecasting period over which ERCs are calculated is also a key estimate/judgement in these financial statements. Adding or removing six months to the cash flow forecasting period would increase/(reduce) the closing carrying value of the portfolio investments as at 31 December 2019 by £9,199,000/(£13,078,000) (2018: £10,548,000/(£12,528,000)). Note that there are a large number of inputs which are used to derive the ERC and hence the carrying value of portfolios. However, many of these are factual historical data points which do not individually involve significant estimation uncertainty, and as such, an overall combined sensitivity has been provided.

5. Profit for the year

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

	2019	2018
	£000	£000
Net foreign exchange (gains) / losses	968	137
Operating lease – properties	-	846
Depreciation of property, plant and equipment	1,400	362
Amortisation of intangible assets	616	536
Staff costs (see note 9)	25,227	24,955

6. Finance income

	2019	2018
	£000	£000
Bank interest	12	2
Interest on intercompany loans	7,741	5,325
	7,753	5,327

7. Finance costs

	2019	2018
	£000	£000
Interest and similar charges on bank loans	7,986	6,700
Lease liability interest	364	-
Other interest	344	431
Interest on intercompany loans	36,769	36,770
Other finance costs	-	18,658
	45,463	62,560

In 2018, bond refinancing costs comprised £18,658,000 incurred on the early redemption of the €230 million notes due 2023, of which £13,623,000 was a cash cost related to the call premium. The remaining £5,035,000 was due to a non-cash write-off of related transaction fees, in connection with the 2023 Notes.

ARROW

Notes to the Financial Statements *(continued)*

8. Auditor remuneration

The analysis of auditor remuneration is as follows:

	2019	2018
	£000	£000
Fees payable for audit services in respect of the Company	25	166

The 2019 and 2018 amounts relate solely to amounts paid to KPMG LLP. No non-audit services were provided to the Company by the Company's auditor in either the current or preceding period. Fees payable to KPMG LLP for the audit of the Company's annual accounts were borne by a fellow subsidiary, Arrow Global Limited.

9. Collection activity costs, other operating expenses and staff costs

	2019	2018
	£000	£000
External collection costs	23,556	35,560
Staff costs (see note 9b)	1,480	10,144
Direct temp labour	50	-
Direct operating costs	1,472	416
Legal disbursements	8,213	10,900
Other collection activity costs	15,436	23,009
Total collection activity costs	**50,207**	**80,029**

	2019	2018
	£000	£000
Staff costs (see note 9b)	23,747	24,955
Other related staff costs	4,064	3,220
Premises	1,922	1,972
IT	3,065	3,330
Depreciation and amortisation	2,016	903
Net foreign exchange losses / (gains)	990	137
Other operating expenses	7,621	7,883
Total other operating expenses	**43,425**	**42,400**

b. Staff costs	2019	2018
	£000	£000
Wages, bonuses and share options	20,361	33,307
Pension costs	670	525
Social security costs	1,860	1,267
Share-based payments	1,705	-
Staff restructuring	631	-
	25,227	35,099

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Notes to the Financial Statements *(continued)*

9. Collection activity costs, other operating expenses and staff costs *(continued)*

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

	2019 number	2018 number
Operations and asset servicing	78	58
Commercial asset management	45	34
Finance	44	36
Fund management and origination	19	21
Legal and risk	22	25
HR and communications	19	12
Management and support	13	11
	240	**197**

The total director's remuneration paid during the year was £1,942,000 (2018: £2,596,000) and £152,000 in relation to pension costs (2018: £169,000). The total number of directors eligible for defined contribution pension contributions is 2 (2018: 3). The remuneration of the highest paid director during the year was £752,000 (2018: £1,029,000). Employer pension contributions were made to a defined contribution scheme of the highest paid director during the year of £67,000 (2018: £49,000). At 31 December 2019 there was an accrual in respect of pension costs of £nil (2018: £nil).

All the directors provided services to the wider Arrow Global Group ("the Group") although all their remuneration is borne by the company as it is not practicable to allocate directors' remuneration between Group companies. Lee Rochford, Paul Cooper, Mathew Hotson and Zachary Lewy provided services to other entities in the group.

Summary of related party transactions

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

	2019	2018
Remuneration	**£000**	**£000**
Salaries and performance related bonus	3,121	3,836
Pension-related benefits	194	214
	3,315	4,050

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

Notes to the Financial Statements *(continued)*

10. Tax

The effective tax rate for the year ended 31 December 2019 is higher (2018: higher) than the standard rate of corporation tax in the UK at 19% (2018: 19%), the differences are as follows:

	2019	2018
	£000	£000
(Loss) / Profit before tax	(7,118)	3,138
Tax (credit) / charge at standard UK corporation tax rate of 19% (2018: 19%)	(1,352)	596
Adjustment in respect of prior years	77	(601)
Expenses not deductible for tax purposes	2,279	378
Effects of other tax rates	44	-
Share options	3	415
Current tax charge on the profit for the year	**1,051**	**788**
Effective tax rate	**(14.8%)**	**25.1%**

	2019	2018
	£000	£000
Current tax charge:		
Current tax based on profit for the year	1,098	832
Adjustment in respect of previous periods	(58)	(575)
Total current tax charge	**1,040**	**257**
Deferred tax charge:		
Origination and reversal of temporary differences	(169)	557
Adjustment in respect of previous periods	136	(26)
Effect of changes in tax rates	44	-
Total deferred tax charge	**11**	**531**
Total tax charge	**1,051**	**788**

Deferred taxation is measured at the tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the statement of financial position date. The rate of UK corporation tax was reduced to 17% effective from 1 April 2020. At the balance sheet date it was proposed that the reduction be reversed and would remain at 19%. However, as legislation had not been substantively enacted to implement this, deferred tax continues to be recognised at 17%.

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Notes to the Financial Statements *(continued)*

11. Intangible assets

	IT Platform	Software licences	Total
	£000	£000	£000
Cost			
At 1 January 2018	**584**	**3,904**	**4,488**
Additions	-	634	634
Disposals	-	(100)	(100)
At 31 December 2018	**584**	**4,438**	**5,022**
Additions	-	1,636	1,636
Disposals	-	-	-
At 31 December 2019	**584**	**6,074**	**6,658**
Accumulated amortisation			
At 1 January 2018	**77**	**2,974**	**3,051**
Charge for the year	75	461	536
Eliminated on disposals	-	(18)	(18)
At 31 December 2018	**152**	**3,417**	**3,569**
Charge for the year	71	545	616
Eliminated on disposals	-	-	-
At 31 December 2019	**223**	**3,962**	**4,185**
Carrying amount			
At 31 December 2019	**361**	**2,112**	**2,473**
At 31 December 2018	**432**	**1,021**	**1,453**

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Notes to the Financial Statements *(continued)*

12. Property, plant and equipment

	Leasehold improvements	Computer equipment	Furniture	Right-of-use asset	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2018	**1,122**	**716**	**429**	**-**	**2,267**
Additions	405	788	65	-	1,258
Disposals	(128)	-	-	-	(128)
At 31 December 2018	**1,399**	**1,504**	**494**	**-**	**3,397**
Adoption of IFRS 16 as at 1 January 2019	-	-	-	6,355	6,355
Additions	62	112	12	-	186
Disposals	-	(124)	-	-	(124)
At 31 December 2019	**1,461**	**1,492**	**506**	**6,355**	**9,814**
Accumulated depreciation					
At 1 January 2018	**503**	**471**	**323**	**-**	**1,297**
Charge for the year	126	194	42	-	362
Disposals	(106)	-	-	-	(106)
At 31 December 2018	**523**	**665**	**365**	**-**	**1,553**
Adoption of IFRS 16 as at 1 January 2019	-	-	-	772	772
Charge for the year	221	332	41	806	1,400
Eliminated on disposals	-	-	-	-	-
At 31 December 2019	**744**	**997**	**406**	**1,578**	**3,725**
Carrying amount					
At 31 December 2019	**717**	**495**	**100**	**4,777**	**6,089**
At 31 December 2018	**876**	**839**	**129**	**-**	**1,844**

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Notes to the Financial Statements *(continued)*

13. Portfolio investments

	2019	2018
	£000	**£000**
Expected falling due after 1 year	627,348	585,358
Expected falling due within 1 year	185,463	171,942
	812,811	**757,300**

The Company recognises income from purchased loan portfolios in accordance with IFRS 9 from 1 January 2018.

The movements in portfolio investments were as follows:

	2019	2018
	£000	**£000**
As at the year brought forward	**757,300**	**638,384**
Impact of adopting IFRS 9 at 1 January 2018	-	(11,925)
Brought forward after impact of adopting IFRS 9 opening adjustment	**757,300**	**626,459**
Portfolios purchased during the year	258,884	224,888
Collections in the year	(307,718)	(292,730)
Income from portfolio investments at amortised cost	108,903	132,902
Fair value gain on portfolios at FVTPL	22,134	7,949
Net impairment gain	10,554	47,839
Exchange and other movements	(37,246)	9,993
As at 31 December	**812,811**	**757,300**

The impact of IFRS 9 shown above is pre-tax. The post-tax impact is £9,820,000. The closing IFRS 9 position has not been shown in the table above, as post-implementation the impact of IFRS 9 is subsumed within the net impairment gain, and within income from portfolio investments at amortised cost.

ARROW

Notes to the Financial Statements *(continued)*

14. Other receivables

	2019	2018
	£000	£000
Prepayments	2,931	1,728
Other receivables	11,736	3,350
Bank balances not classified as cash and cash equivalents	13,410	17,124
	28,077	**22,202**

Other receivables includes contract balances of £3,100,000 and £3,400,000 of receivables related to contracts with customers. Bank balances not classified as cash and cash equivalents are those cash balances which, while controlled by the Group, are not readily available for immediate use by the Group. This is usually because the cash payments are subject to constraints regarding when the balance can be remitted, such as in a securitisation structure awaiting a payment date.

15. Trade and other payables

	2019	2018
	£000	£000
Trade payables	3,379	5,328
Taxation and social security	236	819
Deferred consideration on portfolio investments	62,917	11,864
Deferred consideration on acquisition of subsidiaries	6,300	-
Other liabilities and accruals	22,948	27,420
Lease liability	5,826	-
	101,606	**45,431**

Deferred consideration on portfolio investments has increased in the period as significantly more portfolio acquisitions had an element of deferred consideration outstanding at 31 December 2019 than 31 December 2018.

16. Share capital

	2019	2018
Issued and fully paid:		
2 ordinary shares of £1 each	2	2

The Company has one class of ordinary shares which carry no right to fixed income. The shares were issued at cash consideration of £990,000 and accordingly share premium of £990,000 is recorded (2018: £990,000).

Notes to the Financial Statements *(continued)*

17. Leases

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 £000
Less than 1 year	846
2 - 5 years	4,258
More than 5 years	2,893
	7,997

The primary difference between the total future minimum lease payment as at 31 December 2018 and the opening right of use assets recognised on adoption to IFRS 16 relates to the phasing of the IAS 17 charge, including recognition of rent-free periods over the lease term, as opposed to the straight line depreciation of an opening right of use balance, which was determined by discounting the future lease payments at the incremental cost of borrowing relating to a particular lease. This resulted in a timing difference on the recognition of the lease expense between IAS 17 and IFRS 16.

Amounts recognised in profit or loss

During 2019 the following leases-related expenses were recognised under IFRS 16 in the profit or loss:

	2019 £000
Interest on lease liabilities	364
Depreciation charge for the year on right of use assets	806

During 2018 the following leases were recognised under IAS 17 in the profit or loss:

	2018 £000
Lease expense	881

Amounts recognised in statement of cash flows

During 2019 the following lease payments were recognised in the statement of cash flows:

	2019 £000
Total cash outflow for leases	1,167

ARROW

Notes to the Financial Statements *(continued)*

18. Related party transactions

The Company had the following year end balances with related parties:

	Amounts due from group undertakings		Amounts due to group undertakings	
	2019	2018	2019	2018
	£000	£000	£000	£000
Arrow Global Portugal Limited	-	-	(3,803)	(2,692)
Arrow Global (Holdings) Limited	9,343	8,810	-	-
Arrow Global Receivables Management Limited	-	-	(16,066)	(14,687)
Strzala Sp. z.o.o.	-	-	(1,075)	(1,077)
Arrow Global Investments Holdings Limited	224,288	195,234	-	-
Arrow Global Group Plc	151	686	-	-
Arrow Global Accounts Management Limited	-	-	(23,499)	(13,603)
Arrow Global Finance Plc	-	-	(309,373)	(308,118)
Arrow Global Guernsey Holdings Limited	1,993	1,977	-	-
Arrow Global Portugal Investments Limited	434	681	-	-
Capquest Investments Limited	-	-	(32,262)	-
Capquest Debt Recovery Limited	-	-	(66,654)	(46,698)
Arrow Global Europe Limited	-	-	(306,972)	(369,661)
Arrow Global One Limited	-	-	(2,600)	(2,600)
Gesphone – Servicos de Tratamento e Acquisicao de Dividas, S.A.	3,936	3,297	-	-
AGHL Portugal Investments Holdings, S.A.	1	1	-	-
Quest Topco Limited	151	151	-	-
Whitestar Asset Solutions, S.A.	-	-	(821)	(1,452)
Redrock Capital Partners, S.A.	-	-	(77)	(207)
Vesting Finance Servicing B.V.	46	-	-	(21)
Arrow Global Luna Limited	3,536	4,143	-	-
Arrow Global Investments Holdings Italia S.R.L.	-	-	(441)	(1,038)
Whitestar S.R.L	-	-	(212)	(1,575)
Arrow Global Italia S.R.L.	-	-	(13)	-
Mars Acquisition Limited	242	255	-	-
Dryden's Limited	5,721	-	-	-
AGL Fleetwood Limited	-	-	(61,137)	-
Sandalgreen, Assets, S.A.	-	-	(397)	-
Bergen Capital Management Limited	156	-	-	(64)
Total	**249,998**	**215,235**	**(825,402)**	**(763,493)**

Notes to the Financial Statements *(continued)*

18. Related party transactions (continued)

The Company had the following reportable transactions with related parties:

	Portfolio services recharges receivable / (payable)		Interest receivable / (payable)	
	2019	2018	2019	2018
	£000	£000	£000	£000
Capquest Investments Limited	476	1,310	-	-
Arrow Global Portugal Limited	-	-	(189)	(149)
Arrow Global (Holdings) Limited	-	-	527	-
Arrow Global Receivables Management Limited	-	-	(887)	(802)
Arrow Global Investments Holdings Limited	-	-	6,535	5,026
Arrow Global Group Plc	-	-	-	-
Arrow Global Accounts Management Limited	-	-	(799)	(96)
Arrow Global Finance Plc	-	-	(18,065)	(16,881)
Capquest Debt Recovery Limited	(8,926)	(9,593)	(2,974)	(1,562)
Arrow Global Europe Limited	-	-	(13,709)	(17,279)
Arrow Global Portugal Investments Limited	-	-	40	57
Arrow Global Luna Limited	247	240	185	241
Drydens Limited	(3,271)	-	306	-
Europa Investimenti S.p.A	682	(1,113)	-	-
Vesting Finance	(368)	(375)	-	-
Whitestar Asset Solutions, S.A.	(12,503)	(14,728)	-	-
Whitestar S.R.L	(482)	(914)	-	-
Arrow Global Italia S.R.L.	(13)	-	-	-
Zenith Service S.p.A.	(668)	(1,704)	-	-
Bergen Capital Management Limited	(561)	(130)	1	-
Total	**(25,387)**	**(27,007)**	**(29,029)**	**(31,445)**

There were no material related transactions with directors or key management personnel during the year other than directors' emoluments disclosed in note 9.

19. Risks arising from financial instruments

Key risks and uncertainties faced by the Company are managed within the Group's established risk management framework, as described in the Group's financial statements.

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

Credit risk

The Company's principal activity is the acquisition and management of non-performing and non-core consumer and commercial secured portfolios. Most portfolios by their nature are impaired at acquisition and the Company continually monitors cash collections that in turn inform the ERCs on which the portfolio carrying is calculated. The ongoing risk is managed through a portfolio valuation process including modelling current expectations of recoverability based on historical information on debt types, also factoring in recoveries from collateral held on the secured portfolios and sales. Further details of the forecasting process are given in note 4.

A pricing credit committee is in place which includes at least two members of the Group's executive board as well as other key members from appropriate areas of the business, including oversight by the risk management function. The Company also monitors its exposure to geographic concentration of assets. This process exists to scrutinise all aspects of a portfolio acquisition from reputational and regulatory risk through to the financial assumptions and maximum bid price.

Where portfolio investments are measured at amortised cost using the EIR method, as part of the regular monitoring process, the future cash flows in the ERCs are updated, with impairment gains/losses as a result of changes to the estimated cash flows discounted at the EIR rate. Where portfolio investments are measured at FVTPL, they are measured using a discounted cash flow model.

Notes to the Financial Statements *(continued)*

19. Risks arising from financial instruments (continued)

With the introduction of IFRS 9 in 2018, the Company's management of credit risk is now further enhanced through the modelling of multiple economic scenarios and the impact this is expected to have on future collections performance. All of the Company's portfolio investments have been classified as POCI, due to their credit-impaired nature at the date of purchase. Therefore, no consideration has been given to the staging requirements of IFRS 9 for the Company's portfolio assets.

The Group constructed its own proprietary data repository in 2005 and has added additional historic data on credit performance in the markets in which it operates. It now has tens of millions of records. This is used to inform collections strategies and to help establish affordable repayment plans and settlements with our customers across all geographies.

As part of credit risk, the Company is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks and foreign currencies. Counterparty risk with debt sellers is managed through contractual arrangements and warranties.

The Company generally deposits cash and undertakes currency transactions with highly rated banks, with strict limits on the level of exposure to any one institution. Institutions with lower credit ratings can only be used with board approval.

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

	2019	2018
	£000	£000
Cash and cash equivalents	24,300	53,522
Other receivables	28,077	22,202
Amounts due from group undertakings	249,998	215,235
Portfolio investments	812,811	757,300
	1,115,186	1,048,259

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by cash or another financial asset.

The table below sets out the remaining contractual maturities of the Company's financial liabilities and financial assets and includes both interest and principal cash flows, payable over the contractual life:

As at 31 December 2019	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	-	101,606	-	-	-	101,606
Lease liabilities	-	1,220	1,155	2,016	1,507	5,898
Amounts due to group undertakings	-	825,402	-	-	-	825,402
Revolving credit facility*	463	4,994	5,442	228,547	-	239,446
Total financial liabilities	**463**	**933,222**	**6,597**	**230,563**	**1,507**	**1,172,352**
Financial asset by type:						
Cash and cash equivalents	24,300	-	-	-	-	24,300
Amounts due from group undertakings	-	249,998	-	-	-	249,998
Portfolio investments	21,524	220,083	218,785	420,720	154,933	1,036,045
Total financial assets	**45,824**	**470,081**	**218,785**	**420,720**	**154,933**	**1,310,434**

*Reflects all drawings at 31 December 2019 being held to the facility maturity date of 4 January 2024.

Notes to the Financial Statements *(continued)*

19. Risks arising from financial instruments (continued)

Liquidity risk continued

As at 31 December 2018	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	-	45,431	-	-	-	45,431
Lease liabilities	-	-	-	-	-	-
Amounts due to group undertakings	-	763,493	-	-	-	763,493
Revolving credit facility*	-	8,780	9,475	248,743	-	266,998
Other borrowings	-	8,978	2,978	-	-	11,956
Total financial liabilities	**-**	**826,682**	**12,453**	**248,743**	**-**	**1,087,878**
Financial asset by type:						
Cash and cash equivalents	53,522	-	-	-	-	53,522
Amounts due from group undertakings	-	215,235	-	-	-	215,235
Portfolio investments	13,399	140,532	148,164	221,824	653,325	1,177,244
Total financial assets	**66,921**	**355,767**	**148,164**	**221,824**	**653,325**	**1,446,001**

* Reflects all drawings at 31 December 2018 being held to the facility maturity date of 02 January 2023.

Financial assets pledged as collateral

On 30 April 2019, the Group entered into a £100 million non-recourse committed asset backed securitisation facility with an advance rate of 55% of 84-month ERC.

On the same date, the Group sold £137 million of ERC (of which the Company sold £92 million of ERC) into AGL Fleetwood Limited, a wholly owned Arrow Global Group subsidiary, and borrowed an initial amount of £75 million non-recourse funding at Libor plus 3.1%, under the facility. The assets of AGL Fleetwood Limited are pledged as security against the non-recourse funding.

On 31 July 2019, the Group sold a further £44 million of ERC (of which the Company sold £30 million of ERC) into AGL Fleetwood Limited and subsequently borrowed an additional £25 million non-recourse funding on the same terms under the facility. The facility has a five year term comprising an initial two year revolving period followed by a three year amortising period with an option to extend the revolving period by one year, subject to lender consent.

As at 31 December 2019, the Company had pledged £61.5 million (2018: £nil) of portfolio investments as security in connection with the non-recourse committed asset backed securitisation.

Market risk

Market risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk principally comprises interest rate risk and currency risk considered further below.

Interest rate risk

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

The Company is exposed to interest rate risk on the intercompany balances and the rate is derived from the Group cost of funding. If the Group cost of funding increased by 50bps, and thus the interest paid by the Company, the interest payable would increase by £3,064,000 (2018: £3,064,000).

Currency risk

The Company is subject to two types of currency risk; net asset exposure and income statement exposure.

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Notes to the Financial Statements *(continued)*

19. Risks arising from financial instruments (continued)

Net asset exposure

A proportion of the Company's net assets are denominated in foreign currencies. The statement of financial position is reported in sterling and this means that there is a risk that a fluctuation in foreign exchange rates will have an impact on the net assets of the Company. Through the Group the Company aims to minimise the value of net assets denominated in Euro by funding portfolio assets with Euro denominated borrowings where possible.

Income statement exposure

As with net assets, a proportion of the Company's profit is denominated in foreign currencies but translated into sterling for reporting purposes. The result for the year is translated into sterling at the average exchange rate. A risk therefore arises that a fluctuation in the exchange rate relative to the Euro will have an impact on the result for the year.

Foreign currency sensitivity analysis

If foreign exchange rates had been 10% stronger than sterling than those at the statement of financial position 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:

	2019	2018
Equity and net assets	**£000**	**£000**
Currency		
Euro (EUR)	(17,969)	(10,447)
US Dollar (USD)	48	13
Polish Zloty (PLN)	(42)	(44)
	(17,963)	**(10,478)**
Net profit		
Currency		
Euro (EUR)	3,977	5,664
	3,977	**5,664**

If foreign exchange rates had been 10% weaker than sterling than those at the statement of financial position 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:

	2019	2018
Equity and net assets	**£000**	**£000**
Currency		
Euro (EUR)	14,702	8,548
US Dollar (USD)	(39)	(11)
Polish Zloty (PLN)	34	36
	14,697	**8,573**
Net Profit		
Currency		
Euro (EUR)	(3,254)	(4,635)
	(3,254)	**(4,635)**

The above assumes that there is no impact on retained earnings or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

Notes to the Financial Statements *(continued)*

20. Financial instruments

Fair values of financial assets and liabilities

The directors consider that there are no material differences between the asset and liability values in the statement of financial position and their fair value, other than for portfolio investments, as shown below:

	Fair value 2019	Carrying value 2019	Fair value 2018	Carrying value 2018
	£000	£000	£000	£000
Portfolio investments	823,028	812,811	786,733	757,300

Valuation models

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

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

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

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

Application to the Company's financial assets and liabilities

The fair value of amortised cost portfolio investments has been calculated by observing the compression in market yields over time and applying the difference between current average market IRRs for the Group's most recent vintage, and applying this as a premium or discount to prior years' vintages. This approach takes into account changes in market pricing factors over time, while retaining the consideration of the individual characteristics of each portfolio. As this calculation is based on unobservable inputs, these fair values would be categorised as level 3 values. The primary unobservable input to which this valuation is sensitive to is the current market rates for portfolios. A 1% rise/fall in this rate would lead to an reduction/uplift in fair value of (£9,482,000)/£9,826,000.

Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	2019	2018
Level 3	£000	£000
Assets		
Portfolio investments	291,183	135,323

Financial instruments not measured at fair value – fair value hierarchy

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

	2019	2018
Level 3	£000	£000
Assets		
Portfolio investments	521,628	621,977

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

ARROW

Notes to the Financial Statements *(continued)*

20. Financial instruments *(continued)*

The statement of financial position value of the Company's portfolio investments not measured at fair value, is derived from discounted cash flows generated by an internal model. For a fuller description of how the future cash flows are estimated, please refer to note 4. Following acquisition, the fair value will move directionally in line with carrying amount but may deviate as market conditions change.

The Company has an established control framework covering the measurement of portfolio investment values. This includes regular monitoring of portfolio performance overseen by the portfolio review committee, which considers actual versus forecast results at an individual portfolio level, re-forecasts cash flows on a semi-annual basis, reviews actual against forecast gross money multiple, approves the latest ERC forecast, assesses the carrying value of the portfolio investments and reviews revenue recognition.

A reconciliation of the opening to closing balances for the year of the portfolio investments can be seen in note 13.

The Company did not hold any other financial instruments not measured at fair value for which a fair value needs to be calculated (2018: none).

21. Borrowings

	2019	2018
	£000	£000
Borrowing at amortised cost		
Revolving credit facility (net of transaction fees of £3,720,000 (2018: £3,466,000)	213,970	224,166
Other borrowings – Non-recourse facility	-	11,634
	213,970	**235,800**
Total borrowings		
Amount due for settlement within 12 months	213,970	232,852
Amount due for settlement after more than 12 months	-	2,948
	213,970	**235,800**

Revolving credit facility ('RCF')

On 4 January 2018 the commitments under the revolving credit facility were increased from £215 million to £255 million. The maturity of the facility was extended to 2 January 2023 and the margin reduced to 2.5%.

On 1 November 2018 the commitments under the revolving credit facility were increased from £255 million to £285 million.

On 26 February 2019, the revolving credit facility was extended to 2024, with the margin unchanged.

Notes to the Financial Statements *(continued)*

21. Borrowings *(continued)*

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Revolving credit facility £000	Other borrowings £000	Total liabilities relating to cash flow from financing activity £000
Balance at 31 December 2018	**224,166**	**11,634**	**235,800**
Changes from financing cash flows			
Net proceeds from additional loans	(2,017)	(1,805)	(3,822)
Banking facility interest and other fees paid	(6,705)	-	(6,705)
Total changes from financing cash flows	**(8,722)**	**(1,805)**	**(10,527)**
Other changes liability-related:			
Interest expense and similar charges on bank loans	-	44	44
Banking facility interest and other fees	6,976	-	6,976
Amortisation of capitalised transaction fees -RCF	876	-	876
Interest and similar charges	**7,852**	**44**	**7,896**
The effect of changes in foreign exchange rates	(7,453)	(499)	(7,952)
Other borrowings restructure	-	(9,374)	(9,374)
Capitalised transaction fees	(1,127)	-	(1,127)
Other changes	(746)	-	(746)
Other changes	**(9,326)**	**(9,873)**	**(19,199)**
Balance at 31 December 2019	**213,970**	**-**	**213,970**

22. Investment in subsidiaries and associate

Details of the Company's subsidiaries at 31 December 2019 are as follows:

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Agenda Management Services Limited	England and Wales	4th Floor, Fairfax House, Merrion Street, Leeds, LS2 8BX	100	Trading	DFS
Arrow Global Portugal Investments Limited	England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGL
Arrow Global Accounts Management Limited	England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGL
Drydens Limited (DFS)	England and Wales	4th Floor, Fairfax House, Merrion Street, Leeds, LS2 8BX	100	Trading	AGL
Western Acquisition Holdings Limited	England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	50	Trading	AGL

	2019 £000	2018 £000
Arrow Global Accounts Management Limited	18,909	18,909
Dryden's Limited	10,233	-
	29,142	**18,909**

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

Notes to the Financial Statements *(continued)*

23. Commitments

Arrow Global Limited alongside fellow subsidiaries, has guaranteed on behalf Arrow Global Finance Plc the following:

- £320 million 5.125% senior secured notes
- €285 million 3.75% over three-month EURIBOR floating rate senior secured notes
- €400 million 2.875% over three-month EURIBOR floating rate senior secured notes
- £285 million revolving credit facility

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

24. 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. Registered address: Belvedere, 12 Booth Street, Manchester, United Kingdom M2 4AW.

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 publicly available from its website www.arrowglobalir.net.