

# Arrow Global Limited

Annual report and financial  
statements for the year ended  
31 December 2021

UK Registered No. 05606545

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## **Company information**

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

### **Directors**

Lee Rochford	(resigned 12 October 2021)
Matthew Hotson	(resigned 30 October 2021)
Jim Appleby	(appointed 30 March 2022)
Philip Shepherd	(appointed 12 October 2021)
Oliver Stratton	(appointed 12 October 2021)

### **Corporate Secretary**

Oakwood Corporate Secretary Limited  
3rd Floor  
1 Ashley Road  
Altrincham  
Cheshire  
United Kingdom  
WA14 2DT

### **Registered Office**

Belvedere  
12 Booth Street  
Manchester  
M2 4AW

## Strategic report

### Principal activities

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

On 11 October 2021, the entire issued and to be issued share capital of Arrow Global Group plc (now Arrow Global Group Limited) was acquired by Sherwood Acquisitions Limited, a newly formed company owned by investment funds managed by TDR Capital. On 12 October 2021, the Financial Conduct Authority cancelled the listing of Arrow shares on the London Stock Exchange.

TDR Nominees 2016 Limited owns Arrow Global Group Limited and its subsidiaries (together "the Group" or "Arrow") a leading European integrated asset manager in the non-performing and non-core assets sector. The Company is a subsidiary of Arrow Global Group Limited.

### Strategic review

Cash collections were in line with management expectations. Operating cash flows were £302,162,000 (2020: £64,442,000) 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 cash balances at the year end. The loss after tax for the year of £96,605,000 (2020: £37,836,000) was primarily driven by refinancing and restructuring costs of £63,530,000 (2020: losses on portfolio investments of £67,517,000).

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

	2021	2020
	£000	£000
Total cash collections in the year on portfolio investments	241,338	270,869
Operating loss	(34,854)	(42,123)
Net operating cash flows before purchase of portfolio investments	302,162	64,442
Net (liabilities) / assets	(96,674)	124
Cash and cash equivalents	79,247	90,958

### Risks and uncertainties

The Company 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.

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

#### Operational risk

Risk that the business is unable to withstand significant business disruption that could pose a threat to customer outcomes, corporate reputation and/or financial performance.

The Company relies on Group core systems for customer and data management, including 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 and/or reputational damage. Business and wider economic disruption from external events such as COVID-19 places a sharp focus on the Company's ability to provide the necessary resilience for the wellbeing of all stakeholders.

#### Key mitigating actions

Our core systems are regularly tested, backed up and managed through a set of quality and security policies, supported by disaster recovery and business continuity plans. We are in the process of deploying a One Arrow IT infrastructure, which will enable us to be more efficient, drive process automation and manage data more effectively and securely. This is governed at a Group level, with aligned strategies for IT, digital, security and data.

## Strategic report (*continued*)

### **Conduct risk**

Risk of non-compliance with regulatory obligations, increased regulatory scrutiny and inappropriate conduct and customer treatment.

*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, financial loss and reputational damage.*

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**

Regulatory conduct and Treating Customers Fairly (TCF) are at the heart of our business and Arrow has clearly defined, documented and communicated policies and procedures in place to guide colleagues on the required standards for customer outcomes. Employees and third parties acting on our behalf receive mandatory training, with particular emphasis on vulnerable customers especially during the pandemic through our established Group-wide customer experience forums.

Horizon scanning and industry body presence helps to influence best practice across the sector and ensures our internal practices and training are updated accordingly. We maintain increasingly proactive relationships with our regulators.

### **Financial risk**

The risk that the Group is unable to meet its obligations as they fall due. The Company has access to the liquidity provided by the Group through an intercompany loan facility, and therefore the Company risk considers the ability of the Group to meet its obligations as they fall due.

Note 20 of these financial statements describes the Company's financial risk exposures.

#### **Key mitigating actions**

During 2021, this risk has been mitigated through the covenant restructure in 2020 and bond tap supported by good collection performance, strong governance and regular reporting of the key metrics. Improved budget planning process in 2021 with planning owned by segment leaders has eased this risk further during the year.

*This risk has been significantly reduced in Q4 2021 upon completion of the acquisition by TDR Capital as the Sherwood Group issued £1.2 billion of bonds with a longer maturity and better covenant terms to repay existing debt. Furthermore, the refinancing created additional cash liquidity to provide the business with significant buffer to be able to invest in new portfolios and grow in line with strategic plans.*

### **Investment risk**

The risk that investments generate adverse returns against forecast and/or are outside risk appetite limits due to inadequate portfolio purchase analysis and consequent mispricing, or inadequate assessment of cost to collect and/or subsequent portfolio performance impacting estimated remaining collections.

#### **Key mitigating actions**

The risk is mitigated through undertaking robust due diligence and scenario testing during acquisition process, strong governance via investment and portfolio management committees, and robust capital allocation planning and monitoring. Furthermore, the Group's portfolio is well diversified across geographies, asset classes and secured investments and supported by in-depth local market expertise.

## Strategic report (*continued*)

### Outlook

The Group has made good progress during 2021 under private ownership. The move to a new organisational structure to better support the business in the future has also realised material annualised cost savings. Our capital-light strategy has been further augmented with the acquisition of a stake in Maslow. The business operates in a growing market segment and is expected to continue to deliver attractive returns for investors.

### 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 Limited ("AGGL"), 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 AGGL has considered the matters set out in s172 (for the wider Arrow Global group and for the entity) is set out on page 11 of AGGL's 2021 annual report and accounts, which does not form part of this report.

Approved by the board of directors on 26 September 2022 and signed and authorised for issue on its behalf by:



**Philip Shepherd**  
Director

## Directors' report

The directors present their annual report on the affairs of the Company, together with the financial statements, for the year ended 31 December 2021.

### Going concern and outlook

The Company made a loss after tax of £96,605,000 (2020: £37,836,000) from continuing activities and generated net operating cash inflows before purchase of portfolio investments of £302,162,000 (2020: £64,442,000). At 31 December 2021, the Company had positive cash balances of £79,247,000 (2020: £90,958,000) and net liabilities of £96,674,000 (2020: net assets of £124,000). The Company's business activities are set out in the principal activities section above and the Company is part of the Arrow Global Group Limited group of companies.

The assessment of the going concern basis of preparation for the Company has considered both the position at 31 December 2021 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 for the Group as at 31 December 2021, the directors have undertaken a thorough analysis of forecast cash flow models and scenarios for a period of at least 12 months from the date of approval of these accounts, with the primary focus of detailed forecasting running to the end of 2022.

A base case forecast, and several downside scenarios, have been prepared reflecting the Group's current financial position and expected future performance. Key items considered within each forecast were the future outlook for HPI and unemployment, including the length and severity of any potential macroeconomic shock, and the impact these may have on the Group's cash flows. These cash flows were considered against the Group's future liquidity position, taking into account that there are no bond maturities until 2026. Adherence to the Group's single financial covenant, its leverage covenant, was also considered in all scenarios.

The results of this scenario analysis show that in a severe but plausible downside scenario, before considering any management actions (such as cost reductions, slowing purchases and collection acceleration) as required, the Group is able to maintain sufficient liquidity, operate within banking covenants, and to continue as a going concern. This scenario was aligned to the severe downside forecasts.

Finally, a reverse stress test has also been prepared to identify the magnitude of a downside stress that needs to occur to cause the group to breach its liquidity headroom and/or leverage covenant. It has been concluded that this represents an overly severe and implausible scenario. Based on all of the above indicators, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

### Dividends

No dividend was paid during the year (2020: £nil) and the directors do not propose a final dividend (2020: £nil).

### Directors

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

Lee Rochford	(resigned 12 October 2021)
Matthew Hotson	(resigned 30 October 2021)
Jim Appleby	(appointed 30 March 2022)
Philip Shepherd	(appointed 12 October 2021)
Oliver Stratton	(appointed 12 October 2021)

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 (2020: nil).

### Directors' indemnities

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

## **Directors' report (*continued*)**

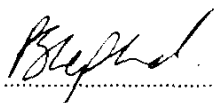
### **Audit**

For the year ending 31 December 2021 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

*The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476.*

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

By order of the board



**Philip Shepherd**

Director

26 September 2022



## 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 UK-adopted international accounting standards 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 UK-adopted international accounting standards;
- 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



**Philip Shepherd**

Director

26 September 2022

## Statement of profit or loss and other comprehensive income for year ended 31 December 2021

		2021	2020
	Note	£000	£000
Income from portfolio investments at amortised cost	13	109,246	138,801
Fair value gains / (losses) on portfolio investments at FVTPL	13	13,000	(9,042)
Impairment losses on portfolio investments at amortised cost	13	(2,284)	(58,475)
<b>Total income from portfolio investments</b>		<b>119,962</b>	<b>71,284</b>
Income from asset management and servicing		13,231	5,371
Other income		1,254	212
<b>Total income</b>		<b>134,447</b>	<b>76,867</b>
<b>Operating expenses:</b>			
Collection activity costs	9	(79,376)	(71,877)
Professional fees and services		(3,623)	(8,081)
Other operating expenses	9	(86,302)	(39,032)
<b>Total operating expenses</b>		<b>(169,301)</b>	<b>(118,990)</b>
<b>Operating loss</b>	5	<b>(34,854)</b>	<b>(42,123)</b>
Finance income	6	19,443	15,146
Finance costs	7	(68,319)	(52,797)
Dividend income		-	28,000
<b>Loss before tax</b>		<b>(83,730)</b>	<b>(51,774)</b>
Taxation (charge) / credit on ordinary activities	10	(12,875)	13,938
<b>Loss for the year attributable to equity shareholders</b>		<b>(96,605)</b>	<b>(37,836)</b>

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 12 to 44 form part of these financial statements.

## Statement of financial position at 31 December 2021

		2021	2020
Assets	Note	£000	£000
Cash and cash equivalents		79,247	90,958
Trade and other receivables	14	19,602	16,718
Amounts due from Group undertakings	19	1,110,991	289,091
Current tax asset		2,458	1,334
Portfolio investments – amortised cost	13	550,045	671,112
Portfolio investments – FVTPL	13	54,249	55,284
Property, plant and equipment	12	2,384	3,934
Intangible assets	11	6,160	8,246
Deferred tax asset	15	1,716	17,086
Investment in subsidiary undertakings	23	29,317	29,317
<b>Total assets</b>		<b>1,856,169</b>	<b>1,183,080</b>
<b>Liabilities</b>			
Revolving credit facility	22	-	259,581
Trade and other payables	16	69,906	47,194
Amounts due to Group undertakings	19	1,882,937	876,181
<b>Total liabilities</b>		<b>1,952,843</b>	<b>1,182,956</b>
<b>Equity</b>			
Share capital	17	-	-
Share premium	17	990	990
Additional paid in capital		18,107	18,107
Retained earnings		(115,771)	(18,973)
Translation reserve		-	-
<b>Total equity attributable to equity shareholders</b>		<b>(96,674)</b>	<b>124</b>
<b>Total equity and liabilities</b>		<b>1,856,169</b>	<b>1,183,080</b>


For the year ending 31 December 2021 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

The notes on pages 12 to 44 form part of these financial statements.

Approved by the board of directors on 26 September 2022, signed and authorised for issue on its behalf by



Philip Shepherd

Director

Registered in England and Wales No: 05606545

## Statement of changes in equity for year ended 31 December 2021

	Ordinary shares £000	Share premium £000	Additional paid-in capital £000	Retained earnings £000	Total £000
<b>Balance at 1 January 2020</b>	-	990	18,107	18,557	37,654
Loss for the year	-	-	-	(37,836)	(37,836)
Deferred tax on share options	-	-	-	306	306
<b>Balance at 31 December 2020</b>	-	990	18,107	(18,973)	124
Loss for the year	-	-	-	(96,605)	(96,605)
Deferred tax on share options	-	-	-	(193)	(193)
<b>Balance at 31 December 2021</b>	-	990	18,107	(115,771)	(96,674)

The notes on pages 12 to 44 form part of these financial statements.

## Statement of cash flow for year ended 31 December 2021

	2021 £000	2020 £000
<b>Cash flows from operating activities</b>		
Loss before tax	(83,730)	(51,774)
<b>Adjusted for:</b>		
Balance sheet cash collections in the year	241,338	270,869
Income from portfolio investments	(109,246)	(138,801)
Fair value (gains) / losses on portfolio investments	(13,000)	9,042
Net impairment losses	2,284	58,475
Loss / (profit) on disposal of fixed assets	6,918	(167)
Depreciation and amortisation	5,253	4,097
Net interest payable	48,574	37,311
Lease liability interest	302	340
Foreign exchange (gains) / losses	(3,428)	1,664
Equity settled share-based payment expenses	-	1,753
Dividends receivable	-	(28,000)
<b>Operating cash flows before movement in working capital</b>	<b>95,265</b>	<b>164,809</b>
Increase in other receivables	(4,528)	(1,824)
Increase in amounts due from Group undertakings	(820,748)	(23,203)
Increase / (decrease) in amounts due to Group undertakings	1,004,951	(29,137)
Increase / (decrease) in trade and other payables	25,850	(57,457)
<b>Cash generated by operations</b>	<b>300,790</b>	<b>53,188</b>
Income taxes and overseas taxation received	1,372	11,254
<b>Net cash flow from operating activities before purchases of portfolio investments</b>	<b>302,162</b>	<b>64,442</b>
Purchase of portfolio investments	(23,871)	(59,513)
<b>Net cash generated by operating activities</b>	<b>278,291</b>	<b>4,929</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(755)	(55)
Purchases of intangible assets	(7,780)	(7,493)
Acquisition of subsidiaries, net of cash acquired	-	(175)
Dividends received from subsidiaries	-	28,000
<b>Net cash flow (used in) / generated by investing activities</b>	<b>(8,535)</b>	<b>20,277</b>
<b>Cash flows from financing activities</b>		
Movements in revolving credit facility	(256,315)	33,764
Borrowings refinancing costs	(17,995)	-
Bank interest received	3	10
Lease payments	(1,360)	(1,123)
Net bank fees paid	(5,708)	(7,010)
<b>Net cash flow (used in) / generated by financing activities</b>	<b>(281,375)</b>	<b>25,641</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(11,619)</b>	<b>50,847</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>90,958</b>	<b>37,711</b>
Effect of exchange rates on cash and cash equivalents	(92)	2,400
<b>Cash and cash equivalents at end of year</b>	<b>79,247</b>	<b>90,958</b>

Included within cash and cash equivalents is £11,513,000 (2020: £11,617,000) of cash which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated securitisation structure awaiting a payment date.

## Notes to the Financial Statements

### 1.1. 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, both direct and indirect, at 31 December 2021 are listed in note 23.

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

### 1.2. Basis of preparation and going concern

The Company's financial statements for the year ended 31 December 2021 have been prepared in accordance with UK-adopted international accounting standards ("UK-adopted IFRS"). The accounting policies have been applied consistently in the current and prior periods.

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 Sherwood Topco Limited (see note 24), which prepares group accounts.

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.

#### Going concern statement

The assessment of the going concern basis of preparation for the Company has considered both the position at 31 December 2021 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 for the Group as at 31 December 2021, the directors have undertaken thorough analysis of forecast cash flow models and scenarios for a period of at least 12 months from the date of approval of these accounts, with the primary focus of detailed forecasting running to the end of 2022.

A base case forecast, and several downside scenarios, have been prepared reflecting the Group's current financial position and expected future performance. Key items considered within each forecast were the future outlook for HPI and unemployment, including the length and severity of any potential macroeconomic shock, and the impact these may have on the Group's cash flows. These cash flows were considered against the Group's future liquidity position, taking into account that there are no bond maturities until 2026. Adherence to the Group's leverage covenant was also considered in all scenarios.

The results of this scenario analysis show that in a severe but plausible downside scenario, before considering any management actions (such as cost reductions, slowing purchases and collection acceleration) as required, the Group is able to maintain sufficient liquidity, operate within banking covenants, and to continue as a going concern. This scenario was aligned to the severe downside forecasts.

Finally, a reverse stress test has also been prepared to identify the magnitude of a downside stress that needs to occur to cause the group to breach its liquidity headroom and/or leverage covenant. It has been concluded that this represents an overly severe and implausible scenario. Based on all of the above indicators, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

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

### 2. Accounting Standards

#### New standards

The following new standards and interpretations are mandatory for the year beginning 1 January 2021:

- Interest rate benchmark reform phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

The Company also chose to early adopt the 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7' early in 2019.

During 2021, these new standards and interpretations had an insignificant effect on the financial statements of the Company.

#### 2.1 Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted the 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:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements to IFRS Standards 2018-2020;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Reference to the Conceptual Framework (Amendments to IFRS 3);
- IFRS 17 Insurance Contracts;
- Classification of liabilities as current or non-current (Amendments to IAS 1);
- Accounting policies, changes in accounting estimates and errors: definition (Amendments to IAS 8); and
- Amendments to IAS 1 presentation of financial statements and IFRS practice statement 2 making material judgements.

### 3. Significant Accounting Policies

#### 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.

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

### 3. Significant Accounting Policies *(continued)*

#### 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 the expected credit loss (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.

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.

##### *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. Subsequently, the carrying value of the portfolios is adjusted by updating future cash receipts and discounting them using the original credit adjusted effective interest rate with the subsequent remeasurement recognised as impairment through the statement of profit or loss.

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



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

### 3. Significant Accounting Policies *(continued)*

#### 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

##### *i. Company acting as a lessee*

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.

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.

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.

## Notes to the Financial Statements (continued)

### 3. Significant Accounting Policies (continued)

#### 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. 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'.

#### 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.

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

### 3. Significant Accounting Policies *(continued)*

#### 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 or minus, in the case of a financial asset or liability not at FVTPL, transaction costs that are directly attributable to its acquisition or issue of a financial asset or liability. 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.

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.

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

### 3. Significant Accounting Policies *(continued)*

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.

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.

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

### 3. Significant Accounting Policies (*continued*)

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.

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.

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

### 3. Significant Accounting Policies *(continued)*

#### *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.

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'.

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

### 3. Significant Accounting Policies *(continued)*

#### 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.

#### 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.

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

### 3. Significant Accounting Policies *(continued)*

#### 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 Company 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.

##### *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
Right-of-use assets	based on contractual terms

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.



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

### 3. Significant Accounting Policies *(continued)*

#### **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.

#### **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 makes 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 within its statement of financial position. These have been assessed under IFRS 9 ECL criteria, measuring expected losses over the longest contractual period the company is exposed to credit risks. The Company has concluded that these assets have no material ECL.

#### **Income from asset management and servicing**

##### *i. Servicing fees*

The Company undertakes various asset servicing and collection roles on behalf of its customers. The majority of this activity is performed at a point in time, and the service is deemed to have been provided to the customer either due to the passage of time, or upon the completion of an action such as making a collection or sending a notification to the customer. Therefore, in accordance with IFRS 15, the revenue from asset management and servicing activities is recognised either upon the completion of such actions. Where the Company is contracted to perform activities over time, such as master servicing arrangements, the fee is recognised as the services are performed, with time elapsed being the measure of progress.

## Notes to the Financial Statements (continued)

### 3. Significant Accounting Policies (continued)

#### ii. Contract balances

In some instances, fees may be paid to a third party which are directly linked to the acquisition of a long-term contract with a customer. In line with IFRS 15 requirements, such costs are taken to the balance sheet as a cost to acquire a customer contract, and are released to the comprehensive statement of profit or loss over time, on a profile corresponding with the period over which economic benefits will be derived from the contract. Further information on the Company's contract balances can be found in note 14.

#### 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 cost 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 an 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 with the remeasurement to the income statement as an other operating expense.

### 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.

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

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

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 £604,294,000 at 31 December 2021 (2020: £726,396,000). The majority of these portfolio investments are measured at amortised cost.

Historically, a bottom-up approach was taken whereby each individual portfolio's cash flow has been modelled based on a number of factors, including balance sheet cash collections history and an array of data concerning the status of the individual loans within these portfolios, for example account-specific balance sheet cash collections history, account statuses, property statuses and valuations (for secured accounts), servicer history, and supporting data from third parties such as credit files or geo-demographics. This data has then been used in conjunction with the predicted effectiveness of any additional collection initiatives to forecast future balance sheet cash collections for each portfolio.

For the 31 December 2020 reforecast, as management believed the nature of the Covid crisis had caused a temporary dislocation in cash collections, the Group sought to determine how the more volatile macroeconomic environment impacted the bottom-up portfolio-level ERC forecasts, via a series of overlays, taking into account forecast future macroeconomic circumstances at the time. Using statistical methods and consideration to external macroeconomic forecasts, balance sheet cash collections performance throughout the year and local in-house knowledge, 'top-down' adjustments were applied to the base portfolio ERC from the prior year forecast.

As at 31 December 2021, management returned to the bottom-up approach as deployed for 2019, using a combination of asset-specific forecasts and statistical models to determine each portfolio's expected cash flows. The same range of factors as described for 2019 were used, but with further calibration to reflect recent collection performance and adjusted for initiatives that are expected to improve collections performance. ERCs also include specific considerations of multiple economic scenarios and the impact of collections, in line with IFRS 9. Numerical disclosures and sensitivities have been set out in note 23, to assist the users of these statements in understanding the financial impact of the most recent reforecast.

The portfolio-level ERC curves were then discounted at the appropriate rate (EIR for amortised cost portfolios, a rate reflective of assumptions that market participants would use when pricing the asset for FVTPL portfolios), to obtain the revised NPV and hence carrying value of the amortised cost and FVTPL portfolio investments. For REO portfolio investments, the revised ERC curve was used to determine the net realisable value in assessing each portfolio for potential impairment.

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% would impact the closing carrying value of the portfolio investments as at 31 December 2021 by +/- £6,043,000 (2020: +/- £7,264,000). 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 2021 by £5,635,000/(£12,658,000) (2020: £7,619,000/(£10,481,000)). 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.

## Notes to the Financial Statements (continued)

### 5. Profit for the year

Profit for the year has been arrived at after charging:

	2021	2020
	£000	£000
Net foreign exchange (gains) / losses	(3,428)	1,664
Depreciation of property, plant and equipment	2,300	2,377
Amortisation of intangible assets	2,953	1,720
Staff costs (see note 9)	39,091	24,951

### 6. Finance income

	2021	2020
	£000	£000
Bank interest	-	10
Interest on intercompany loans	19,440	15,136
Other interest	3	-
	<b>19,443</b>	<b>15,146</b>

### 7. Finance costs

	2021	2020
	£000	£000
Interest and similar charges on bank loans	7,135	8,587
Lease liability interest	302	340
Other interest	136	1,265
Interest on intercompany loans	42,751	42,605
<b>Recurring finance costs</b>	<b>50,324</b>	<b>52,797</b>
Refinancing	17,995	-
	<b>68,319</b>	<b>52,797</b>

### 8. Auditor remuneration

The analysis of auditor remuneration is as follows:

	2021	2020
	£000	£000
Fees payable for audit services in respect of the Company	-	-

There is no audit fee for 2021 (2020: Nil) as the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

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

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

	2021 £000	2020 £000
External collection costs	28,812	38,429
Staff costs (see note 9b)	8,195	227
Direct temp labour	777	63
Direct operating costs	1,529	986
Legal disbursements	4,661	4,068
Other collection activity costs	35,402	28,104
<b>Total collection activity costs</b>	<b>79,376</b>	<b>71,877</b>

	2021 £000	2020 £000
Staff costs (see note 9b)	30,896	24,724
Other related staff costs	4,282	3,846
Premises	695	1,552
IT	4,882	4,105
Depreciation and amortisation	3,949	4,097
Net foreign exchange (gains) / losses	(3,428)	1,664
Other operating expenses	(509)	(956)
<b>Recurring other operating expenses</b>	<b>40,767</b>	<b>39,032</b>
Takeover costs	27,130	-
Organisational restructure costs	5,253	-
Non-cash write down	9,931	-
Other acquisition costs	3,221	-
<b>Total other operating expenses</b>	<b>86,302</b>	<b>39,032</b>

<i>b. Staff costs</i>	2021 £000	2020 £000
Wages, bonuses and share options	36,588	20,930
Pension costs	925	669
Social security costs	1,578	1,599
Share-based payments	-	1,753
	<b>39,091</b>	<b>24,951</b>

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

	2021 number	2020 number
Operations and asset servicing	185	141
Finance	54	47
Fund and investment management and origination	44	24
Legal and risk	37	24
HR and communications	32	21
	<b>352</b>	<b>257</b>

## Notes to the Financial Statements (continued)

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

The total director's remuneration paid during the year was £10,600,000 (2020: £1,144,000), which includes £88,000 in relation to pension-related benefits (2020: £87,000). Each director received a monthly cash allowance in lieu of participation in a pension arrangement. The total number of directors eligible for defined contribution pension contributions is 4 (2020: 2). The remuneration of the highest paid director during the year was £5,941,000 (2020: £702,000), which includes £69,000 in relation to pension-related benefits (2020: £69,000). At 31 December 2021 there was an accrual in respect of pension costs of £nil (2020: £nil).

All the directors provided services to the wider Arrow Global Group although all their remuneration is borne by the company as it is not practicable to allocate directors' remuneration between Group companies. Lee Rochford, Matthew Hotson, Philip Shepherd and Oliver Stratton provided services to other entities in the group.

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

### 10. Tax

The effective tax rate for the year ended 31 December 2021 is higher (2020: higher than) the standard rate of corporation tax in the UK at 19% (2020: 19%), the differences are as follows:

	2021 £000	2020 £000
Loss before tax	(83,730)	(51,774)
Tax credit at standard UK corporation tax rate of 19% (2020: 19%)	(15,909)	(9,837)
Adjustment in respect of prior years	(107)	461
Expenses not deductible for tax purposes	4,332	582
Group relief surrendered	770	-
Income not taxable	-	(5,320)
Effects of changes in rates	(339)	(287)
Share options	(3,855)	463
Movement in deferred tax not recognised	27,983	-
<b>Current tax charge / (credit) on the loss for the year</b>	<b>12,875</b>	<b>(13,938)</b>
<b>Effective tax rate</b>	<b>(15.4%)</b>	<b>26.9%</b>

	2021 £000	2020 £000
<i>Current tax charge:</i>		
Current tax based on loss for the year	-	-
Adjustment in respect of previous periods	(2,496)	456
<b>Total current tax (credit) / charge</b>	<b>(2,496)</b>	<b>456</b>
<i>Deferred tax charge:</i>		
Origination and reversal of temporary differences	13,321	(14,112)
Adjustment in respect of previous periods	2,389	5
Effect of changes in tax rates	(339)	(287)
<b>Total deferred tax charge / (credit)</b>	<b>15,371</b>	<b>(14,394)</b>
<b>Total tax charge / (credit)</b>	<b>12,875</b>	<b>(13,938)</b>

The rate of UK corporation tax, as enacted under Finance Act 2021, is expected to increase to 25% from 1 April 2023. 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.

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

### 11. Intangible assets

	IT Platform £000	Software licences £000	Total £000
<u>Cost</u>			
<b>At 1 January 2020</b>	<b>584</b>	<b>6,074</b>	<b>6,658</b>
Additions	-	7,493	7,493
Disposals	-	-	-
<b>At 31 December 2020</b>	<b>584</b>	<b>13,567</b>	<b>14,151</b>
Additions	-	7,780	7,780
Disposals	-	(8,735)	(8,735)
<b>At 31 December 2021</b>	<b>584</b>	<b>12,612</b>	<b>13,196</b>
<u>Accumulated amortisation</u>			
<b>At 1 January 2020</b>	<b>223</b>	<b>3,962</b>	<b>4,185</b>
Charge for the year	71	1,649	1,720
Eliminated on disposals	-	-	-
<b>At 31 December 2020</b>	<b>294</b>	<b>5,611</b>	<b>5,905</b>
Charge for the year	73	2,880	2,953
Eliminated on disposals	-	(1,822)	(1,822)
<b>At 31 December 2021</b>	<b>367</b>	<b>6,669</b>	<b>7,036</b>
<u>Carrying amount</u>			
<b>At 31 December 2021</b>	<b>217</b>	<b>5,943</b>	<b>6,160</b>
<b>At 31 December 2020</b>	<b>290</b>	<b>7,956</b>	<b>8,246</b>

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment

	Leasehold improvements £000	Computer equipment £000	Furniture £000	Right-of- use asset £000	Total £000
<u>Cost</u>					
At 1 January 2020	1,461	1,492	506	6,355	9,814
Additions	-	55	-	-	55
Disposals	-	-	-	167	167
At 31 December 2020	1,461	1,547	506	6,522	10,036
Additions	265	5	-	485	755
Disposals	-	(495)	-	-	(495)
At 31 December 2021	1,726	1,057	506	7,007	10,296
<u>Accumulated depreciation</u>					
At 1 January 2020	744	997	406	1,578	3,725
Charge for the year	460	318	35	1,564	2,377
At 31 December 2020	1,204	1,315	441	3,142	6,102
Charge for the year	108	196	33	1,963	2,300
Eliminated on disposals	-	(490)	-	-	(490)
At 31 December 2021	1,312	1,021	474	5,105	7,912
<u>Carrying amount</u>					
At 31 December 2021	414	36	32	1,902	2,384
At 31 December 2020	257	232	65	3,380	3,934



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

### 13. Portfolio investments

	2021 £000	2020 £000
Expected falling due after 1 year	471,012	571,329
Expected falling due within 1 year	133,282	155,067
	<b>604,294</b>	<b>726,396</b>

The movements in portfolio investments were as follows:

#### As at 31 December 2021

	Amortised cost £000	FVTPL £000	Total £000
As at the year brought forward	671,112	55,284	726,396
Portfolios purchased during the year	17,336	6,535	23,871
Balance sheet cash collections in the year	(222,811)	(18,527)	(241,338)
Income from portfolio investments at amortised cost	109,246	-	109,246
Fair value gains on portfolio investments at FVTPL	-	13,000	13,000
Net impairment losses	(2,284)	-	(2,284)
Exchange and other movements	(22,554)	(2,043)	(24,597)
<b>As at the year end</b>	<b>550,045</b>	<b>54,249</b>	<b>604,294</b>

#### As at 31 December 2020

	Amortised cost £000	FVTPL £000	Total £000
As at the year brought forward	554,302	291,183	845,485
Transfer to other classification	202,282	(202,282)	-
Portfolios purchased during the year	59,270	243	59,513
Balance sheet cash collections in the year	(245,627)	(25,242)	(270,869)
Income from portfolio investments at amortised cost	138,801	-	138,801
Fair value losses on portfolio investments at FVTPL	-	(9,042)	(9,042)
Net impairment losses	(58,475)	-	(58,475)
Exchange and other movements	20,559	424	20,983
<b>As at the year end</b>	<b>671,112</b>	<b>55,284</b>	<b>726,396</b>

## Notes to the Financial Statements (continued)

### 14. Trade and other receivables

	2021	2020
	£000	£000
Trade receivables	4,065	3,378
Prepayments	2,607	2,394
Other receivables	3,164	2,181
Contract balances	9,766	8,765
	<b>19,602</b>	<b>16,718</b>

### 15. Deferred tax asset

	2021	2020
	£000	£000
Property, plant and equipment	-	141
Share options	-	888
Other temporary differences (IFRS 16 & IFRS 9)	1,716	1,607
Losses	-	14,450
	<b>1,716</b>	<b>17,086</b>

### 16. Trade and other payables

	2021	2020
	£000	£000
Trade payables	7,531	8,630
Taxation and social security	757	1,267
Deferred consideration on acquisition of subsidiaries	495	6,300
Deferred consideration on portfolio investments	15,821	8,196
Other liabilities and accruals	40,722	17,590
Lease liability	4,580	5,211
	<b>69,906</b>	<b>47,194</b>

### 17. Share capital

	2021	2020
	£	£
Issued and fully paid:		
2 ordinary shares of £1 each	<b>2</b>	<b>2</b>

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 (2020: £990,000).

### 18. Leases

The Company has leases for offices and computer equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 12).

Leases of property generally have a lease term ranging from five years to ten years and lease payments are fixed.

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

### 18. Leases (*continued*)

#### Right-of-use assets

Right-of-use assets relate to leased office premises and computer equipment that are presented within property, plant and equipment (see note 12).

	Office premises £000	Computer equipment £000
As at the year brought forward	3,380	-
Depreciation charge for the year	(1,922)	(41)
Additions	-	485
<b>Balance at 31 December 2021</b>	<b>1,458</b>	<b>444</b>

#### Maturity analysis – contractual undiscounted cash flows

See note 20 for maturity analysis of lease liabilities as at 31 December 2021 and 31 December 2020.

#### Amounts recognised in profit or loss

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

	2021 £000	2020 £000
Interest on lease liabilities	302	340
Depreciation charge for the year on right of use assets	1,963	1,564

#### Amounts recognised in statement of cash flows

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

	2021 £000	2020 £000
Total cash outflow for leases	1,360	1,123

## Notes to the Financial Statements (continued)

### 19. Related party transactions

	Amounts due from group undertakings		Amounts due to group undertakings	
	2021	2020	2021	2020
	£000	£000	£000	£000
Arrow Global Portugal Limited	-	-	(1,085)	(712)
Arrow Global (Holdings) Limited	-	-	(1,650)	(1,552)
Arrow Global Receivables Management Limited	-	-	(9,546)	(8,792)
Strzala Sp. z.o.o.	-	-	(968)	(1,036)
Arrow Global Investments Holdings Limited	265,922	206,917	-	-
Arrow Global Group Limited	12,532	2,107	-	-
Arrow Global Accounts Management Limited	501	3,857	-	-
Arrow Global Finance Plc	662,143	-	-	(307,693)
Arrow Global Guernsey Holdings Limited	-	3,166	-	-
Arrow Global Portugal Investments Limited	-	126	(18)	-
Capquest Investments Limited	-	-	(55,926)	(56,281)
Capquest Debt Recovery Limited	-	-	(39,790)	(35,767)
Arrow Global Europe Limited	-	-	(395,080)	(364,174)
Arrow Global One Limited	-	-	(28)	(2,756)
Gesphone – Servicos de Tratamento e Aquisicao de Dividas, S.A.	-	4,571	-	-
Quest Topco Limited	241	241	-	-
Whitestar Asset Solutions, S.A.	-	-	(1,075)	(1,332)
Redrock Capital Partners, S.A.	-	44	-	-
Vesting Finance Servicing B.V.	-	-	-	(52)
Arrow Global Luna Limited	3,446	3,798	-	-
Arrow Global Investments Holdings Italia S.R.L.	-	-	-	(362)
Whitestar S.R.L.	-	-	-	(20)
Arrow Global Italia S.R.L.	-	-	(806)	(531)
Mars Capital Management Limited	-	-	-	(44)
Europa Investimenti SPA	44	-	-	-
Drydens Limited	4,884	6,077	-	-
AGL Fleetwood Limited	-	-	(36,292)	(71,145)
AGL Fleetwood 2 Topco Limited	-	-	-	(23,757)
Sandalgreen, Assets, S.A.	4,268	-	-	-
Bergen Capital Management Limited	281	161	-	-
AGG Capital Management (Holdco) Limited	-	-	(175)	(175)
AGG Capital Management Limited	653	242	-	-
Arrow SMA LP Limited	113,692	28,238	-	-
Arrow Global SMA I LP	25,090	28,766	-	-
AGL Fleetwood 2 Topco Limited	15,529	-	-	-
Arrow Global Adviser Limited	685	780	-	-
Lanzone Ventidue S.r.l.	36	-	-	-
Spear Transaction Incentive Plan Limited	216	-	-	-
AGG Adviser USA Inc	682	-	-	-
Sherwood Parentco Limited	5	-	-	-
Sherwood Topco Limited	5	-	-	-

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

### 19. Related party transactions *(continued)*

	Amounts due from group undertakings		Amounts due to group undertakings	
	2021 £000	2020 £000	2021 £000	2020 £000
Sherwood Midco Limited	5	-	-	-
Mars Capital Management Limited	71	-	-	-
AGL Fleetwood 2 Limited	17	-	-	-
Sherwood Financing Plc	43	-	-	-
Sherwood Financing 2 Limited	-	-	(1,334,811)	-
Mars Capital Management Ireland DAC	-	-	(349)	-
Arrow Global Investments Holdings Benelux B.V.	-	-	(409)	-
Sherwood Acquisitions Limited	-	-	(4,782)	-
Zenith Service S.p.A.	-	-	(147)	-
<b>Total</b>	<b>1,110,991</b>	<b>289,091</b>	<b>(1,882,937)</b>	<b>(876,181)</b>

## Notes to the Financial Statements (continued)

### 19. Related party transactions (continued)

The Company had the following reportable transactions with related parties:

	Portfolio services recharges		Interest receivable / (payable)	
	2021 £000	2020 £000	2021 £000	2020 £000
Arrow Global (Holdings) Limited	-	-	(96)	368
Arrow Global Receivables Management Limited	-	-	(572)	(896)
Arrow Global Investments Holdings Limited	-	-	12,408	13,085
Arrow Global Accounts Management Limited	-	-	(323)	(1,102)
Arrow Global Finance Plc	-	-	(10,171)	(18,105)
Capquest Debt Recovery Limited	(17,124)	(9,332)	(1,949)	(3,741)
Arrow Global Europe Limited	-	-	(12,902)	(13,106)
Arrow Global One Limited	-	-	(69)	(156)
Arrow Global Luna Limited	-	180	219	226
Drydens Limited	(4,871)	(4,072)	367	367
Europa Investimenti S.p.A	(18)	-	62	-
Vesting Finance Servicing B.V.	-	(373)	-	-
Whitestar Asset Solutions, S.A.	(11,556)	(12,232)	-	-
Whitestar S.R.L	-	(141)	-	-
Arrow Global Italia S.R.L.	(823)	(533)	-	-
Zenith Service S.p.A.	(672)	(1,422)	-	-
AGG Capital Management Limited	660	-	-	-
AGL Fleetwood Limited	-	-	(1,782)	(2,942)
AGL Fleetwood 2 Topco Limited	-	-	(3,810)	(2,192)
Arrow SMA LP Limited	-	-	4,295	555
Arrow Global Adviser Limited	618	212	-	-
Arrow Global SMA I LP	-	-	-	170
Lanzone Ventidue S.r.l.	-	-	37	-
Arrow Global SMA 1 LP	-	-	2,052	-
Sherwood Financing Plc	-	-	(567)	-
Sherwood Financing 2 Limited	-	-	(10,510)	-
Arrow Global Investments Holdings Benelux B.V.	(361)	-	-	-
<b>Total</b>	<b>(34,147)</b>	<b>(27,713)</b>	<b>(23,311)</b>	<b>(27,469)</b>

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

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

### 20. 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 management of non-performing and non-core consumer and commercial unsecured and 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.

An investment process is in place to approve investment, 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.

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.

Given the nature of the portfolios the Company purchases, most arrangements entered into with our customers are of a non-contractual nature, where we work to establish, or re-establish, suitable payment plans that are affordable and sustainable.

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

#### Credit quality analysis

The Company's purchased portfolio investments have been classified as purchased or originated as credit impaired (POCI) as they include financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses (ECL) against POCI exposures are always calculated on a lifetime basis (cumulative changes in ECL since initial recognition), and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, any changes in lifetime ECL after initial recognition are recognised in profit or loss. The ECL calculation for POCI assets is based on an ECL over 84-months.

In determining ECLs, the assessment of forward-looking economic assumptions, which are sourced from an independent specialist forecasting company, the Company considers a number of macroeconomic scenarios, including assumptions on unemployment, interest rates and CPI, and where appropriate, HPI. These scenarios are probability weighted according to their likely occurrence. The scenarios include a central scenario, based on the current economic environment, as well as upside and downside scenarios. The estimation and application of this forward-looking information requires significant judgement and is subject to appropriate internal governance.

Impairment gains/losses are changes to carrying values, discounted at the EIR rate, of the acquired debt portfolios as a result of reassessments of their estimated future cash flows and are recognised in the line item 'impairment gains on portfolio investments at amortised cost'. There are generally no credit risk mitigants relating to the Company's unsecured portfolio investments.

## Notes to the Financial Statements (continued)

### 20. Risks arising from financial instruments (continued)

As all of the Company's amortised cost portfolio assets are POCL, the cash flows are subject to reassessment each period. For any portfolios that may be sold to a third party from time to time, these are first subject to a cash flow reassessment. Expected cash flows in such a scenario would be linked to the likely sale proceeds, meaning that all such assets would be written to their expected selling price via an impairment gain/loss, before being sold.

#### Significant increase in credit risk

There are no significant increases or decreases in credit risk since origination as all portfolio investments have been deemed to be purchased or originated credit impaired on initial recognition.

#### Cash and cash equivalents

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:

	2021	2020
	£000	£000
Cash and cash equivalents	79,247	90,958
Trade and other receivables	19,601	16,718
Amounts due from group undertakings	1,110,991	289,091
Portfolio investments	604,294	726,396
	<b>1,814,133</b>	<b>1,123,163</b>

#### 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 (undiscounted) of the Company's financial liabilities and financial assets and includes both interest and principal cash flows, payable over the contractual life:

	Less than 1 month	Within 1 year	1-2 years	3-5 years	More than 5 years	Total
As at 31 December 2021	£000	£000	£000	£000	£000	£000
<b>Financial liability by type:</b>						
Trade and other payables	-	65,326	-	-	-	65,326
Lease liabilities	15	1,365	868	2,162	710	5,120
Amounts due to group undertakings	1,882,937	-	-	-	-	1,882,937
Revolving credit facility	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>1,882,952</b>	<b>66,691</b>	<b>868</b>	<b>2,162</b>	<b>710</b>	<b>1,953,383</b>
<b>Financial asset by type:</b>						
Cash and cash equivalents	79,247	-	-	-	-	79,247
Amounts due from group undertakings	1,110,991	-	-	-	-	1,110,991
Portfolio investments	14,389	175,431	206,437	346,065	122,034	864,356
<b>Total financial assets</b>	<b>1,204,627</b>	<b>175,431</b>	<b>206,437</b>	<b>346,065</b>	<b>122,034</b>	<b>2,054,594</b>



## Notes to the Financial Statements (continued)

### 20. Risks arising from financial instruments (continued)

	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
<b>As at 31 December 2020</b>						
<b>Financial liability by type:</b>						
Trade and other payables	-	41,983	-	-	-	41,983
Lease liabilities	134	1,257	1,203	2,162	1,431	6,187
Amounts due to group undertakings	876,181	-	-	-	-	876,181
Revolving credit facility*	790	8,495	9,251	289,558	-	308,094
<b>Total financial liabilities</b>	<b>877,105</b>	<b>51,735</b>	<b>10,454</b>	<b>291,720</b>	<b>1,431</b>	<b>1,232,445</b>
<b>Financial asset by type:</b>						
Cash and cash equivalents	90,958	-	-	-	-	90,958
Amounts due from group undertakings	289,091	-	-	-	-	289,091
Portfolio investments	14,019	158,037	163,057	329,954	134,623	799,690
<b>Total financial assets</b>	<b>394,068</b>	<b>158,037</b>	<b>163,057</b>	<b>329,954</b>	<b>134,623</b>	<b>1,179,739</b>

\*Reflects all drawings at 31 December 2020 being held to the facility maturity date of 4 January 2024

#### Financial assets pledged as collateral

The Group has two non-recourse committed asset-backed securitisation term loans.

The first loan of £38.2 million as at 31 December 2021, secured on UK unsecured assets, pays LIBOR plus 3.1%. The Group initially established a £100 million asset-backed facility in April 2019 with £137 million of ERC being sold to AGL Fleetwood Limited, a wholly owned Arrow Global Group subsidiary, and further ERC has been sold to AGL Fleetwood Limited at various times since the initial set up allowing further borrowings to be drawn.

Since 1 January 2020, there has been one such drawing. On 31 March 2020, the Group sold £30 million of ERC into AGL Fleetwood Limited and on 2 April 2020 borrowed an additional £21 million non-recourse funding on the same terms under the facility.

During July 2020, the Group entered into further arrangements in connection with the non-recourse facility to mitigate potential balance sheet cash collections impacts of COVID-19. An additional £33 million of 84-month ERC was sold into the structure with no additional borrowings made. In consideration of the additional ERC pledged, the lender agreed to amend certain performance criteria.

Since January 2022, the loan has been amended to reflect the transition from LIBOR to SONIA.

During July 2020, the Group entered into a second non-recourse fully drawn amortising loan of €104.7 million. This loan was secured against €356 million of Portuguese 84-month ERC at a margin of 4.25%. The outstanding amount of the loan as at 31 December 2021 was €17.4 million. The loan was fully repaid in January 2022.

As at 31 December 2021, £262.6 million of the Company's portfolio investments, set out in note 13, are pledged as collateral for the asset-backed securitisations.

#### 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 charged / paid by the Company, the reduction in profit before tax would be £1,943,000 (2020: £2,289,000).

## Notes to the Financial Statements (continued)

### 20. Risks arising from financial instruments (continued)

#### Currency risk

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

#### Net asset exposure

A proportion of the Company's net assets are denominated in Euro. 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 Euro 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:

	2021	2020
	£000	£000
<b>Equity and net assets</b>		
<b>Currency</b>		
Euro (EUR)	(31,367)	(21,019)
US Dollar (USD)	657	13
Polish Zloty (PLN)	(36)	(44)
	<u>(30,746)</u>	<u>(21,050)</u>
<b>Net profit</b>		
<b>Currency</b>		
Euro (EUR)	1,172	(1,314)
	<u>1,172</u>	<u>(1,314)</u>

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:

	2021	2020
	£000	£000
<b>Equity and net assets</b>		
<b>Currency</b>		
Euro (EUR)	25,870	17,197
US Dollar (USD)	(537)	(11)
Polish Zloty (PLN)	30	36
	<u>25,363</u>	<u>17,222</u>
<b>Net Profit</b>		
<b>Currency</b>		
Euro (EUR)	(959)	1,075
	<u>(959)</u>	<u>1,075</u>

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*)

### 21. 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:

As at 31 December 2021				
	Mandatorily at FVTPL	Amortised cost	Total carrying amount	Total fair value
	£000	£000	£000	£000
Portfolio investments	54,249	550,045	604,294	676,201
As at 31 December 2020				
	Mandatorily at FVTPL	Amortised cost	Total carrying amount	Total fair value
	£000	£000	£000	£000
Portfolio investments	55,284	671,112	726,396	763,027

#### 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 a reduction/uplift in fair value of (£10,368,000)/£10,674,000.

#### 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.

	2021 £000	2020 £000
<b>Level 3</b>		
<b>Assets</b>		
Portfolio investments	54,249	55,284

## Notes to the Financial Statements (continued)

### 21. Financial instruments (continued)

#### 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.

	2021 £000	2020 £000
<b>Level 3</b>		
<b>Assets</b>		
Portfolio investments	<u>550,045</u>	<u>671,112</u>

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

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 carrying 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 (2020: none).

### 22. Borrowings

	2021 £000	2020 £000
<b>Borrowing at amortised cost</b>		
Revolving credit facility (net of transaction fees of £Nil, 2020: £2,790,000)	-	<u>259,581</u>
	<u>-</u>	<u>259,581</u>
<b>Total borrowings</b>		
Amount due for settlement within 12 months	-	<u>259,581</u>
	<u>-</u>	<u>259,581</u>

## Notes to the Financial Statements (continued)

### 22. Borrowings (continued)

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

	Revolving credit facility £000	Total liabilities relating to cash flow from financing activity £000
<b>Balance at 31 December 2020</b>	259,581	259,581
<b>Changes from financing cash flows</b>		
Repayment of RCF	(256,315)	(256,315)
RCF refinancing costs	(7,281)	(7,281)
<b>Total changes from financing cash flows</b>	<b>(263,596)</b>	<b>(263,596)</b>
<b>Liability-related:</b>		
Banking facility interest and other fees	5,276	5,276
Amortisation of capitalised transaction fees -RCF	711	711
Refinancing	7,281	7,281
Interest and similar charges on bank loans	13,268	13,268
The effect of changes in foreign exchange rates	(6,055)	(6,055)
Capitalised transaction fees	2,078	2,078
Other changes	(5,276)	(5,276)
<b>Total liability-related other changes</b>	<b>(9,253)</b>	<b>(9,253)</b>
<b>Balance at 31 December 2021</b>	-	-

### 23. Investment in subsidiaries

Details of the Company's subsidiaries at 31 December 2021 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	UK – England and Wales	10th Floor, West One, 114 Wellington Street, Leeds, LS1 1BA	100	Trading	DFS
Arrow Global Accounts Management Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	100	Trading	AGL
Drydens Limited (DFS)	UK – England and Wales	10th Floor, West One, 114 Wellington Street, Leeds, LS1 1BA	100	Trading	AGL
Western Acquisition Holdings Limited	UK – England and Wales	Belvedere, 12 Booth Street, Manchester M2 4AW	50	Dormant	AGL
AGG Capital Management Limited	Jersey	27 Esplanade, St Helier, Jersey, JE1 1SG	100	Trading	AGL / ACM(H)L
			<b>2021</b>		<b>2020</b>
			<b>£000</b>		<b>£000</b>
Arrow Global Accounts Management Limited			18,909		18,909
Dryden's Limited			10,233		10,233
AGG Capital Management Limited			175		175
			<b>29,317</b>		<b>29,317</b>

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

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

### **24. Parent Undertaking**

The immediate parent Company is Arrow Global (Holdings) Limited. The ultimate parent company is TDR Nominees 2016 Limited, which is incorporated in England and Wales.

The largest group in which the results of the Company is consolidated is that headed by Sherwood Topco Limited.