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Arrow Global Group Limited

(formerly Arrow Global Group plc)

Consolidated annual report and financial statements for the year ended
31 December 2021

UK Registered No. 08649661

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Company information
Registered in England and Wales No: 08649661

Directors

Richard Roberts	(appointed 25 October 2021)
Philip Shepherd	(appointed 11 October 2021)
Maria Luis Albuquerque	(resigned 11 October 2021)
Paola Bergamaschi Broyd	(resigned 11 October 2021)
Jonathan Bloomer	(resigned 11 October 2021)
Andrew Fisher	(resigned 25 October 2021)
Matthew Hotson	(resigned 30 October 2021)
Jonathan Mitchell	(appointed 11 October 2021, resigned 25 October 2021)
Lee Rochford	(resigned 12 October 2021)
Jonathan Rosen	(appointed 11 October 2021, resigned 25 October 2021)
Lan Tu	(resigned 11 October 2021)

Secretary

Louise Brace	(appointed 8 March 2021)
Adam Westley	(resigned 8 March 2021)

Registered Office
Belvedere
12 Booth Street
Manchester
M2 4AW

Auditor
KPMG LLP

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Strategic report

Introduction and principal activities

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 "the Company" and its subsidiaries (together "the Group" or "Arrow") a leading European integrated asset manager in the non-performing and non-core assets sector. The Group's principal activities are to identify, acquire, manage and service secured and unsecured loan, real estate and other non-core investment portfolios.

Strategic review

Business model

Arrow operates a vertically integrated asset manager model with three highly synergistic businesses. These three business lines overlap to create a 'sweet spot' where the Arrow's Balance Sheet can co-invest into new assets managed by our Fund and Investment Management business. Arrow's Asset Management and Servicing business can then service the assets on behalf of both the Balance Sheet business and the Fund.

<u>Fund and Investment Management (FIM) business</u>

Arrow's investment team have a 15-year plus track record of successfully investing our balance sheet into non-performing and non-core assets. The Fund and Investment Management business currently has €4.5 billion of funds under management, including our flagship discretionary closed-end ACO 1 fund, with €1.7 billion of capital commitments.

<u>Balance Sheet business (BSB)</u>

Arrow has undertaken a pivot towards capital-light fund management. Arrow typically co-invests its balance sheet alongside third-party investor funds, managed by the Fund and Investment Management business, on approximately a 25:75% basis.

<u>Asset Management and Servicing (AMS) business</u>

Arrow's pan-European local servicing platform services a significant portion of the assets for both Arrow's Balance Sheet business and its Fund and Investment Management business, as well as for third-party clients such as other investment managers and banks.

<u>Group functions</u>

In addition to the three business segments noted above, there is a Group functions segment, recording costs relevant to overall oversight and control of the Group's activities. See note 5 to the financial statements for detailed segmental information.

Strategy

Our strategic priorities:

- Live and breathe our purpose and culture, supported by clear and ambitious Environmental, Social and Governance (ESG) goals
- Allocate capital dynamically to drive outsize returns while effectively managing risk
- Prioritise investments in high-value, granular niche products in our core markets whilst creating opportunities for platform servicing revenue
- Build a scalable and sustainable fund management platform with a diverse spread of global investors
- Develop industry-leading asset management and servicing expertise which support our investment ambitions, clients and customers
- Create a simple, efficient and flexible organisation by deploying agile practices, supported by strong leadership and a commitment to develop our people to reach their full potential

Strategic report *(continued)*

Group results for the period including key performance indicators

Arrow is a leading integrated asset manager and 2021 represented a landmark year.

The Group was taken private through the acquisition by TDR Capital LLP (TDR) in Q4 2021. In October 2021, Arrow was acquired by Sherwood Acquisitions Limited and the shares of Arrow Global Group plc were delisted from the London Stock Exchange. Sherwood Acquisitions Limited is wholly owned by Sherwood Parentco Limited, the acquisition vehicle of TDR. Following the takeover, Zach Lewy, Founder and CIO, was appointed CEO and on 27 October 2021, the Sherwood Group priced new senior secured notes of GBP equivalent £1.2 billion with the proceeds being used to prepay all existing bonds of the Group and creating over £350 million of liquidity headroom.

Under private ownership, the Group has accelerated the transition to our unique fully integrated asset manager model. The Group has realigned its organisational structure vertically to drive increased accountability within our servicing platforms and realise efficiency savings. Through the take private transaction and this realignment, we have delivered annualised costs savings of £20 million through the removal of 201 roles, with a cost to achieve of £16.1 million. ACO 1, our discretionary managed fund, deployed record levels of capital, €297 million in Q4 2021 and €804 million for the full year. Furthermore, the performance is ahead of target, with a Deal IRR (after servicing costs) of 20%, demonstrating the benefits of our off-market origination strategy (76% for ACO 1) and the focus on high quality underlying collateral (81% secured on real estate or cash in court). ACO 1 is now over 70% invested and, as such, we have now commenced the capital raise for ACO 2 in line with previous expectations of timing. We expect ACO 2 to be a circa €2.5 billion fund, with a first close anticipated during mid-2022.

On 31 December 2021, Arrow acquired a stake in Maslow Global Limited (Maslow), a real estate development finance business currently focused on the UK market. The Group has acquired an initial 49% stake, with an option to purchase the remaining 51% in the future. The investment is aligned with our capital-light strategy, and we believe we can help accelerate the growth of Maslow in an attractive segment of the market, delivering significant value.

With continued strong deployment at above target returns during the year in the Fund and Investment Management (FIM) business and a full year impact of 26 servicing mandate wins from 2020 in the Asset Management and Servicing (AMS) business, third-party AMS and FIM income is up £19.5 million to £116.5 million (2020: £97.0 million). 2021 was the largest ever year for AMS contract wins with 36 new wins and Funds Under Management (FUM) is €4.5 billion (2020: €4.3 billion).

The Balance Sheet business has seen an increasing proportion of FVTPL portfolios, reflecting the majority of new investments being made through the Fund as minority co-investments. Balance sheet collections were in line with management expectations

Net cash flow before purchases of portfolio investments was £200.2 million (2020: £151.4 million) and the Group has reinvested an element of these cash flows during the year (note 30). The loss before tax for the year of £100.9 million (2020: £114.8 million loss) was driven by non-recurring costs incurred of £113.8 million mostly associated with the acquisition of the Group by TDR and a strategic review, delivering annualised cost savings of £20 million.

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

Group financial highlights	2021	2020
Total income (£m)	317.8	167.5
Loss before tax (£m)	(100.9)	(114.8)
Net cash flow from operating activities before purchases of portfolio investments (£m)	200.2	151.4
Third-party AMS and FIM income (£m)	116.5	97.0
Balance sheet collections (£m)	367.4	338.9
FUM (€bn)	4.5	4.3

Trends and factors affecting future performance

Arrow operates 17 platforms in five European geographies. The Group's business model is designed to benefit from economic dislocation and the creation of non-core assets by loan originators, which leads to an increase in the generation of non-performing/non-core assets. Arrow's market is extremely large, with a total addressable market of around €1.0 trillion. Over half of these assets still sit on bank balance sheets and are expected to be sold over time into the capital markets, where the largest investors are often distressed debt funds.

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Strategic report *(continued)*

Although these assets are created all the time, non-performing loans formation is often created in large waves when economies falter. This was seen following the global financial crisis in 2007, where an extremely large number of such assets were created.

Covid-19 had a significant impact on a large array of sectors, which is expected to underpin a new wave of non-performing loans and as an experienced originator with restructuring and turnaround expertise, this may constitute an additional investment opportunity for the Fund. As well as presenting investment opportunities, this will also present significant asset servicing opportunity for Arrow's Asset Management and Servicing business.

The typical non-performing asset has a long life. A large amount of assets sold by European banks in recent years have been purchased by large distressed asset funds. These funds are the largest buyers of non-performing assets. Typically, the non-performing assets are held in a closed-end fund structure and will be sold on at the end of that fund's life. Given the high volume of assets that have been sold a large secondary market has been created. Arrow also expects a significant growth in the secondary market, considering the volume of non-performing loans and non-core asset sales closed in the last 6 years (over €700 billion at gross book value), as investors start to divest of acquired portfolios, representing a potentially significant opportunity for the Fund.

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.

With the record deployment of ACO 1 at above target returns, the Group is in an excellent position to raise a second fund, ACO 2. Engagement with existing and new investors is extremely encouraging, giving the Group confidence that it will execute a sizeable first close around the middle of 2022.

Risk management

At the centre of our risk management framework is our Group's values and the culture embedded within the Group. Effective risk management is closely aligned to our goal of building better financial futures, while our three lines of defence model enables all colleagues to own and manage risk in a manner which supports well-informed decision-making with a view to mitigating risks.

The enterprise-wide risk management framework defines a common approach across the whole organisation. This framework includes:

- Embedding the three lines of defence throughout the firm
- Clarity of roles and responsibilities
- Establishment of risk appetite
- Risk management aimed at understanding risks and enabling proportionate risk mitigation plans
- Controls to address new and emerging risks, such as COVID-19 related risks
- Recognition and maintenance of operational risk and resilience plans
- Escalation and risk reporting

The framework is continually monitored and reviewed to ensure it remains suitable for the size, scale and complexity of the Arrow business.

Throughout 2021, work continued to maintain and evolve the use of the risk framework to meet the demands posed in another unprecedented year due to COVID 19. This included enhanced oversight of specific and broader strategic risk themes by the board risk committee. An example of specific risks that received, and continues to receive, focus across the firm, including at the board level, is our approach to addressing COVID-19 related risks with a focus on all stakeholders, including colleagues, clients and customers. The development and growth of our Fund and Investment Management business prompted further consideration of our risk management framework to focus on the needs of this specific activity. Arrow risk management is a dynamic, business-led process that aligns to the business environment and specific focus is placed on the COVID-19 and post-COVID-19 reality, as well as Arrow's updated strategic plan.

Strategic report *(continued)*

Upon completion of the TDR acquisition of Arrow in Q4 2021, Arrow has initiated a detailed strategic review of its business and this work continues. As part of this review, the Group has aligned itself in a vertically integrated manner. Local servicing platforms have greater accountability over the activities undertaken locally and are better able to monitor and assess the local requirements. We have retained central control in certain areas, such as underwriting, origination, treasury and tax, where there are benefits of a group wide approach. The board believe that this vertically integrated model will enable the Group to better monitor, manage and control our risks. We would expect that our risk management framework will further evolve and mature to ensure the strong and effective risk management culture that already exists will be further embedded into our business and decision making.

Delivering on our commitments relies on the ability to successfully identify, assess, respond, monitor and report on risks and opportunities. There is an ongoing focus on the top risks which could impact the business, alongside horizon scanning and monitoring of macro, geo-political and other emerging risks that may affect the business or wider sector in the future. People and infrastructure commitments are in place to support these processes, ensuring increased consistency across the Group. Our risk culture, which is aligned to Arrow's values, is a commercial differentiator and a fundamental driver of our success. Our ability to deploy Group-wide, local platform or country-specific expertise, when required, is a core element of that success

Risks and uncertainties

Principal risks are identified through the risk framework and tracked via our risk teams and committees. The following summary identifies key thematic risks and mitigants based on risk framework data, management oversight and areas of business activity.

Our principal risks are captured under the headline categories of strategic, operational and financial risk. The disclosures on the following page should not be regarded as a comprehensive list of all the risks and uncertainties facing the Group, instead providing a summary of those key areas with the potential for material impact:

Strategic risks & mitigants:

A. Macro and Political:

Changes in the competitive, economic, regulatory and political environment could impact our ability to collect from portfolios, or competitively purchase and invest in line with our strategic objectives. The COVID-19 pandemic continues to pose risks to our business activities resulting from prolonged travel restrictions and economic uncertainty, with inflationary pressures and rising interest rates starting to impact the broader economy.

In recent years, the Group has demonstrated the effectiveness of our risk management framework. Our swift and effective response to COVID-19 focused, and continues to focus, on colleague welfare, operational resilience to support our customers and clients, and collection performance. Furthermore, we maintained close dialogue with our regulators in all markets we operate in, as the response to the pandemic evolves. Transition to a post-Brexit world was seamless in line with our preparations in 2020. With the strategic positioning of our business, we continue to benefit from investment and servicing opportunities emerging as a result of the COVID-19 pandemic. Successful vaccine roll-out efforts and the changing variants across our target geographies have been decreasing macro-economic and political pressures and we continue to closely monitor the developments, including inflationary and interest rate changes. The Group has included known economic impacts of COVID-19 on legacy collections and near-term underlying collateral valuations, while acknowledging downstream economic impacts that may yet to have been fully materialised.

Arrow's geographic and asset class diversification allows the Group to respond to market opportunities arising from possible disruption, including market downturn scenarios driven by macroeconomic factors. This is informed by in-country expertise across investments, operational execution and regulatory compliance, ensuring that both the opportunity pipeline and horizon scanning inform decision making Group-wide.

Management monitors the competitive, economic and political environments in which we operate to influence future strategy. The board regularly carry out reviews of the markets and strategy, with impacts managed through our governance activities in accordance with regulatory requirements and industry best practice in each jurisdiction.

The Group's focus on consumer portfolios and treatment of vulnerable customers continues aligning with increased regulatory requirements during the pandemic.

The Group is closely monitoring the emerging Ukraine conflict in Europe and its potential impact on our operations (such as increasing cyber threats) and ensuring such risks are proactively managed and mitigated. The Group does not have any material direct exposure to either Ukraine or Russia in terms of debtors, investors, investments or operations.

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Strategic report *(continued)*

B. Target Operating Model:

Failure to fully implement our target operating model in line with the long-term strategic objectives poses a risk for the Group. There is a need to ensure enterprise-wide alignment of the operating model, including fund and investment management capabilities, to prevent gaps between plans and performance.

The strategic planning has been supported by an organisation-wide review of the target operating model to provide responsibility and accountability to the local platforms to achieve alignment with the Group's objectives. This is further supported by realignment of senior leadership team roles, responsibilities and incentives, and review of governance arrangements to ensure the three lines of defence model remains robust and aligned to the risk profile of the Group. This remains underpinned by a common set of values and a Group-wide culture, which informs our performance management process.

C. New Business:

Risks might arise from the origination, underwriting, acquisition and integration of portfolio investments and/or new platforms – such as failure to assess investments during acquisition, lack of sufficient governance and oversight aligned with broader Group principles and values resulting in negative financial outcomes and reputational damage for the Group.

Before investment committee review and approval, all investment proposals go through extensive due diligence during the acquisition process and are supported by governance and oversight plans setting clear requirements and allocation of responsibilities as part of deal documentation. Post-acquisition, investments are managed by dedicated teams on a day-to-day basis and overseen by senior leadership closely through governance forums.

Financial risks & mitigants:

A. Liquidity & Funding:

The risk that the Group is unable to meet its obligations as they fall due.

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.

B. Capital Allocation and Investment Returns:

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.

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.

Operational risks & mitigants:

A. Regulation:

The Group operates in regulated environments and non-compliance with regulatory obligations, increased regulatory scrutiny due to the COVID-19 pandemic and inappropriate conduct and customer treatment could lead to a breach of regulations, resulting in censure, financial loss and reputational damage.

Group-wide standards continue to be applied across all jurisdictions. Policies and procedures are in place locally to guide colleagues on the required standards for customer outcomes, especially during the pandemic, where customer vulnerability is a particular focus area. Horizon scanning and industry body presence help to influence best practice across the sector and ensure our internal practices and training are updated accordingly. We maintain increasingly proactive relationships with our key regulators in all locations we operate.

Strategic report *(continued)*

B. Cyber Threats and Data Protection:

External cyber threats facing industry and supply chains are continuing to grow and evolve at a rapid rate. There is a risk that poor vulnerability management and limited advance threat monitoring capabilities, together with poor data management and integration across multiple systems and jurisdictions leads to cyber compromise, bad data quality and non-compliant data use, resulting in potential unauthorised data access, data loss, misalignment of data, negative customer outcomes, and poor third-party client delivery.

Arrow manages the growing risk of cyber threat by having a robust information security framework aligned with best practices and supported with policies, which are commensurate with a group of our size and the highly regulated sector in which we operate. Enterprise-wide information security/ cyber function provides technology gateway monitoring and threat detection services across all platforms. This is supported by provision of regular enterprise-wide employee education around cyber threat and mitigation. During 2021, the Group continued to invest and enhance its information security framework and successfully mitigated emerging external threats.

Delivery of data governance technologies and processes into all platforms to enhance data protection compliance with applicable data legislation and applicable third-party client obligations also continued in 2021.

C. Key Persons Dependencies:

The Group is reliant on a number of key individuals, in particular within the Fund and Investment Management business, to deploy funds currently under management by the Group, to manage investments and to raise further capital.

Arrow has undertaken a full market mapping of available talent and proceeded to hire several senior team members to add senior talent to the fund management team. In addition, a full market benchmarking has taken place for remuneration and plans are in place to ensure that Arrow continues to offer an attractive package to all of its employees. The board expects to continue similar exercises to ensure that this risk is monitored and, where possible, mitigated on an ongoing basis.

D. Scalability:

The opportunity to grow deployment and servicing volumes in line with plans as an integrated fund manager presents a risk that the necessary people, processes and systems may not be sufficiently scalable, which in turn could lead to risks that detract from the long-term success of the Group.

The Group is focused on developing people, process, and system capability to absorb new opportunities through deeper, broader, and more consistent methodologies. Operational resilience is an enabler for scalability, alongside a strong risk-aware culture. This enables the Group to expand whilst deploying resource and infrastructure improvements to front line services to maximise commercial opportunities that align with customer, regulator, and client expectations, whilst delivering on our financial commitments.

The Group has also focused on various initiatives such as attracting and retaining key talent, and capacity and succession planning. There are increasing opportunities for professional development across the Group, alongside the growth of our talent pool, in the context of a values-led, professional culture. The alignment as a vertically integrated asset manager ensures that the local servicing platforms have greater accountability over the activities undertaken locally and are better able to monitor and assess the local requirements arising from our growth plans. Further maturing and enhancing the organisation's processes and systems is a key area of focus for the board.

Environmental, Social and Governance (ESG)

Our approach to sustainability is aligned to our purpose of building better financial futures. We are committed to being a responsible participant in our markets and via our business strategy as we seek to contribute to ESG matters in order to both satisfy our responsibilities and be a thought leader regarding issues of sustainability that may impact our stakeholders. We do this through the lens of our ESG framework.

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Strategic report *(continued)*

Environmental

As an integrated asset manager operating across Europe, we recognise that our business has a direct and indirect environmental impact. Tackling the climate crisis will require innovative and bold solutions and quantifying the GHG emissions associated with our supply chain and portfolio is a foremost priority for the Group. Our board will continue to have oversight of our environmental strategy and our Sustainability and ESG Forum will review requirements for managing emissions and any potential decarbonisation strategy that may be appropriate for our business.

The scopes table below outlines our definition of material GHG emissions by source and the annual CO_2 emissions table includes our current performance.

Scope	Type	Reportable Items
1	Direct emissions by the Company	Refrigerant, natural gas and owned vehicle fleet
2	Indirect energy consumed but not owned by the Company	Electricity usage
3	Other indirect emissions not included in Scope 2	Other indirect emissions not included in Scope 2

Annual Group CO_2 emissions

Scope	CO2 emissions (tonnes) per annum 2021	CO2 emissions (tonnes) per annum 2020
1	487.1	433.8
2	436.7	506.9
Total scope 1 and 2	**923.8**	**940.7**
3	332.1	378.7
Total	**1,255.9**	**1,319.4**
Tonne of CO_2 per employee (using average number of employees for the year)	**0.5**	**0.5**

Greenhouse gas emission reporting methodology

We have followed the requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) to measure and report greenhouse gas emissions. This aligns with the disclosure requirements in The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

The financial control method, which captures the sources that fall within our consolidated financial statements, has been used. Where we operate an outsourced model working with partners, these partners do not work exclusively for the Group and, therefore, it is not deemed appropriate to include emissions outside of the Group consolidated financial statements. The reporting period aligns to the financial period (i.e. the year ended 31 December 2021).

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Strategic report *(continued)*

Energy

In response to the Streamlined Energy and Carbon Reporting requirements, we have included within the energy consumption table below our Group and UK energy consumption for the reporting period. Our business predominantly operates from our offices. We consider our average energy consumption to be in line with the industry and will investigate the possibility of renewable energy solutions across our offices by engaging with relevant third parties (e.g. landlords or energy providers) to determine an appropriate solution.

Energy consumption	**CO2 emissions (tonnes) per annum 2021**	**CO2 emissions (tonnes) per annum 2020**
Group energy consumption	2,059.8	1,853.3
UK energy consumption	554.6	691.0
Total CO_2 from energy consumption	**436.7**	**506.9**
Natural gas	40.2	17.7
Electricity	2,059.8	1,853.3
Kwh per employee (using average number of employees for the year)	**806.8**	**733.1**

Social

Employees

Learning from the COVID-19 pandemic, our focus is on the wellbeing of our people and compliance with government guidelines, as well as providing the right equipment and support required for long-term remote working. We have adopted a hybrid home-office model to retain the benefits gained from remote working, such as increased work-life balance, no daily commute and greater flexibility.

This focus on employee welfare has also reinforced via enhanced leadership communications, dedicated wellbeing and social groups on Workplace – our internal social media platform and the publication of remote working and wellbeing guides.

Gender diversity

	Directors[1]	**Senior managers (inc. directors)**[1]	**Employees**[1]
Female	–	1	1,414
Male	2	9	1,266
Total	**2**	**10**	**2,680**

[1] As at 31 December 2021.

Gender pay

In accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, the gender pay reporting is publishing on the Arrow website https://www.arrowglobal.net/en/who-we-are/corporate-governance/gender-pay-report.html. The 2020 report is available currently.

Customers

We have always sought to ensure the fair treatment of customers. To help us achieve this, our customer forums continued to bring together the best practices from around the Group with the aim of improving the customer outcomes. As well as reviewing customer feedback and customer satisfaction scores, the teams review a series of KPIs from within each country's operations allowing positive change to be implemented where it is most effective and helping to ensure we deliver consistent customer treatment using data and learned customer behaviours to guide future strategies and service enhancements. Our customer net promoter score increased, averaging 7.9 (out of 9) up from 7.7 in 2020.

Strategic report *(continued)*

With so much emphasis on the customer we were delighted, therefore, to win awards for our customer-service operations. Following the success of being awarded the Credit Strategy 'Best Outsourcing and Partnership' Initiative for Onboarding and Customer Engagement for our work with Virgin Money in 2020, our UK team followed this by winning 'Best Contact Centre Team' at the 2021 Credit Strategy Collections & Customer Service Awards. We were also a finalist in the 'Agent of the Year' and 'Excellence in Training' categories.

Communities

Arrow is also mindful of the role it plays in society and we have continued to support Junior Achievement Europe (JAE), Europe's largest non-profit provider of educational programmes for financial literacy and entrepreneurial skills for young people, amongst other community ventures.

Although Arrow operates in the highly specialised alternative investments sector, our social commitments help us be a responsible business, purpose led and an important part of the European financial ecosystem. Identifying and assessing these ESG considerations, and maintaining transparency with our investors, is a core part of our long-term view on delivering value and return to our investors. In 2021, Arrow volunteers supported 9,833 students across Europe via a mixture of in-classroom or virtual events as our locations adapted to the changing requirements of the pandemic.

Governance

Responsible investment

We focus on the core ESG principles in a systematic manner into all aspects of our investment decisions. As part of our commitment to being a responsible investor, we work across functions to assess key ESG considerations from the initial stages of a deal and we carry out a risk assessment as to whether risks related to the transaction including environmental, governance, sectoral or other areas are consistent with the risk appetite and core ESG principles of Arrow and its investors. In Q4 2021, AGG Capital Management Limited, the Jersey fund manager, became a signatory to the UN Principles for Responsible Investment.

Oversight

A Sustainability and ESG Forum, comprising of members of our Executive and Senior Leadership team has been established to oversee the ongoing delivery of the Group's sustainability agenda and to review, challenge and support the Group's approach and progress against agreed ESG initiatives. The forum is supported in its role by the director of sustainability and ESG, plus other senior leaders as matters arise which are relevant to their functional area, to drive the delivery of Arrow's environmental, social and governance initiatives.

Whistleblowing

Arrow aims to maintain the highest standards of openness, integrity and accountability in its work. All employees or consultants who work for or with Arrow are encouraged to be vigilant for signs of wrongdoing or criminal activity by individuals or organisations working with Arrow, and are encouraged to report such behaviour using our dedicated anonymous whistleblowing reporting line, which is managed by independent ethics and compliance specialist, Navex Global.

Financial crime

Arrow is committed, in the jurisdictions in which it operates, to the prevention of financial crime such as money laundering, the funding of terrorist activity, bribery and corruption, prevention of sanctions breaches, fraud and market abuse. Through risk-based internal procedures, policies and systems and controls, we strive to ensure that high standards of financial crime prevention and awareness are maintained by all employees and consultants, whether under a contract of employment or otherwise. Our procedures include the screening of new and existing customers against sanctions and PEP watchlists and monitoring existing customers through a daily monitoring regime, which ensures timely and immediate reports of any potential instances. These activities are supported by annual financial crime training, which is mandatory across the Arrow Group for all new and existing employees.

Strategic report *(continued)*

Human rights and modern slavery

Arrow operates in accordance with all relevant laws and regulations, including those relating to human rights, which are specially addressed through a range of colleague-facing polices. In addition, each year the board reviews and approves the Group's Modern Slavery Act (MSA) Statement. The existing MSA Statement was approved in March 2021 by the Arrow Global Group Limited (formerly plc) board. The board considers that the actions being taken by the Group to identify and/or address any potential modern slavery or human trafficking within its supply chain continue to be appropriate.

It is pleased to report that the assessments undertaken in respect of the Group's supply chain to date have not identified any modern slavery or human trafficking activity.

Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

The board of directors of Arrow Global Group Limited are fully aware of their responsibilities to promote the success of the Company and Group in accordance with section 172. In discharging its duties, the board has considered the factors above as well as any other factors which they considered relevant to the decision being made.

The board's aim is to make sure that its decisions are consistent, by considering the Group's strategic priorities and having a governance framework in place for key decision-making that takes into account relevant stakeholders.

Arrow's success depends on our ability to engage effectively with our stakeholders and this is consistent with the ethos of section 172. As a responsible business, we actively engage with our stakeholders to define and refine our strategy and to ensure that we deliver relevant services that meet the needs of our clients, our customers and our wider stakeholders.

For the period to the acquisition by TDR on 11 October 2021, the board of Arrow Global Group plc met regularly in accordance with an annual schedule commensurate with the requirements of a listed company and also with regard to matters concerning the acquisition. Stakeholder interests have been at the heart of strategic and operational decisions taken in this regard.

Examples of how the above factors have been considered and applied by the board are set out in the stakeholder engagement section below. These factors, namely the interests of employees and the Company's relationships with customers, have been the subject of significant additional focus in the period given the ongoing backdrop of the pandemic. Other factors considered by the board include the impact of the Company's operations on the community and environment. The board's sustainability committee, established in Q1 2021, met on a regular basis in the period up to the acquisition and delisting to oversee the delivery of the Group's sustainability agenda. Going forward, operating as a private business, the Sustainability and ESG Forum has the same remit and will review the Group's approach and progress against agreed ESG initiatives.

In relation to shareholders, engagement took place in the period to delisting in the usual governance cycle required of a listed company, including the holding of the 2021 annual general meeting. Throughout the process of the acquisition shareholder considerations were at the fore of the board's decision making. Operating as a private business since the delisting has changed the Company's shareholder base. The ongoing intention remains to behave responsibly to all shareholders and treat them fairly.

Since the acquisition and delisting and as part of a strategic review, the Company has reviewed its governance arrangements in the context of operating as a private business. This review remains ongoing and under development. The board of directors remain mindful of their duties under section 172 and each of the matters for consideration. An update in relation to the discharge of the board's duties in relation to section 172 will be provided in next year's annual report to reflect any changes in our approach.

Strategic report *(continued)*

Stakeholder engagement

Arrow's licence to operate relies, to a large extent, on how the business is perceived by its stakeholders, and specifically its customers, its clients, its employees, the communities in which it operates, its regulators and the wider industry, its Fund investors and its shareholders. The board manages and maintains this licence to operate by understanding and responding to its stakeholders' needs. Regular engagement with stakeholders enables the board to define and refine the Group's strategy and ensure that the Group delivers relevant services that meet the needs of its clients, its customers and its wider stakeholders, thereby supporting long-term value creation. While management is responsible for the majority of engagement with stakeholders, the board oversees and challenges the stakeholder management processes in place to ensure that Arrow lives up to the standards it has set itself in its purpose, its culture and its values.

Stakeholder interests are at the heart of every strategic and operational decision taken by the board. The Board continued to have oversight of our response to COVID-19 during the period which has tested the resilience of our purpose and values and we are confident that we have responded in a timely and thoughtful manner, with much success in relation to many of our stakeholders such as colleagues, clients and our markets as a whole. Our social commitments were demonstrated as customers received the additional support as required, with specific COVID-19 customer outcomes provided to help those most in need throughout the pandemic. Communication with our regulators was also key during this period. Our colleagues benefitted from swift deployment of working from home protocols supported by our IT, business continuity and crisis management teams.

As well as prioritising the safety and well-being of everybody during COVID-19, this informs our operational resilience and colleague engagement plans going forward. It also translates into benefits for both existing and new clients based upon the quality of delivery that Arrow showed even in an unprecedented operating environment – validated by industry accreditation that we are very proud of, as highlighted in the following social commitments section. Our governance focus remained strong throughout this period and into our new era as part of the TDR Capital portfolio. In each of our markets, supporting our "local" business strategy and leadership teams is a key focus of our updated operating model and this is underpinned and supported by central teams where this delivers best practice and efficiency gains.

While the board seeks to understand the views of all of the Group's key stakeholders, set out below are examples highlighting how the directors have had regard to the matters set out in section 172 when discharging their duties in relation to two key stakeholders – customers and employees – and the impact of this regard on the board's decision-making.

COVID-19: Customers: Considering stakeholders in decision-making

Arrow is driven by its purpose, to build better financial futures for our stakeholders and in particular our customers. Serving the customer is an intrinsic and fundamental element of Arrow's DNA and it is a key strategic priority for the business. Our focus on protecting and supporting our customers has been clearly demonstrated during the pandemic.

Arrow's response to the COVID-19 lockdown in Europe was proactive and rapid and the measures it implemented, and the speed with which these were achieved, meant that there was no outage in customer service delivery. Despite transitioning our customer service operations to remote working, customers were supported seamlessly at a time when other organisations were struggling to maintain service delivery. Through 2021, our customer-facing teams continued to learn from customer feedback and regular reviews of the customer experience based on key performance indicators, fostering a culture that supports best-practice sharing and improving our processes to meet or beat customer expectations. The use of technology is one such area and a new customer portal was launched in the UK to provide greater online account management functionality.

In light of the impact that the pandemic has had on individuals' finances, the focus of the board has continued to be on ensuring that Arrow continues to adhere to its values of doing the right thing, of empathising with our customers and treating them fairly. The board received regular updates throughout the year on the Arrow customer experience and treatment in order to assess the Group's performance in supporting its customers during the pandemic and its progress in meeting its ambition of creating better financial futures for its customers and improving the Group's commercial results.

COVID-19: Employees: Considering stakeholders in decision-making

As with many other organisations across the world, 2021 continued to challenge Arrow's employees. The ongoing pandemic tested the resilience of our employees but also the strength of Arrow's culture. The pandemic has also posed considerable challenges for the board operationally, tactically and strategically as it has navigated the Group through the uncharted waters created by the COVID-19 crisis.

ARROW

Strategic report *(continued)*

COVID-19: Employees: Considering stakeholders in decision-making (continued)

Arrow is a people business and its success depends, to a large extent, on the performance of its employees. The importance of our people is evidenced by the fact that two of Arrow's six strategic priorities are employee-related. As a result, the people issue has always been a key item on the board's agenda and it is consistently a major consideration in the board's deliberations and decision-making process. Throughout the year the board has been acutely aware of the challenges faced by employees and building on prior year experience it has focused on the wellbeing of colleagues and on their operational effectiveness and on maintaining the Arrow culture which is pivotal to the organisation's future success.

In addition, during 2021 a new broader D&I strategy was launched recognising that diversity extends beyond gender targets and emphasising the importance of building an inclusive environment where colleagues can thrive. We commissioned consultants to conduct a group wide audit of our people practices in relation to D&I and the results have enabled the Company to develop a roadmap of key actions that will help drive continuous improvement in this area.

Employee welfare continued to be reinforced during the pandemic through leadership communications, provision of support services such as 'Lifeworks' and continued awareness raising events and speaker sessions around a variety of health and wellbeing topics. Raising awareness around the topic of inclusivity has been a key feature for 2021 and we subscribed to 'Moving Ahead Summit Series' – a series of external speaker sessions which we additionally promoted as part of our colleague communications around Inclusion Week and International Men's Day. We have also partnered with organisations such as the Employers Network for Equality & Inclusion and 'Cool 2B Trans' who have provided education around LGBTQ+ topics. A group of volunteers from across the organisation worked to develop 'Arrow's Pride Plan' and subsequently launched our first Employee Network Group for LGBTQ+ colleagues and allies called 'Together with Pride'. The network led awareness raising initiatives, sharing their personal stories and also developing a digital guide to help raise awareness across the business. The Company is now advanced on introducing further Employee Network Groups as part of our continuing commitment to building an inclusive environment.

During 2021 we also supported the 10,000 Black Interns Programme placing two interns within our investments team during the summer of 2021 to further promote D&I and to acknowledge challenges faced across the sector. The success of the internships led to the Company continuing and building on this commitment to the programme and we look forward to welcoming new interns to Arrow in 2022.

Following the acquisition of the firm by TDR Capital, the focus on D&I has remained.

The board continued to support management's plans for a phased workplace transformation programme, Arrow Everywhere, to support longer-term remote working and to develop a vision and roadmap for future ways of working across Arrow. Whilst we hope to see many colleagues in our office locations across Europe, we also want to provide a working environment that is inclusive and balances the needs of the business and the individual.

Approved by the board of directors on 18 March 2022 and signed and authorised for issue on its behalf by:

Philip Shepherd
Director

ARROW

Directors' report

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

Going concern and outlook

The Group made a loss before tax of £100.9 million (2020: loss of £114.8 million) and generated net operating cash inflows before purchase of portfolio investments of £200.2 million (2020: £151.4 million). The loss before tax was primarily caused by one-off costs relating to the acquisition of Arrow Global Group Limited (formerly plc).

Furthermore, following the acquisition by TDR Capital, the Group refinanced its existing debt. On 6 October 2021, the Sherwood Group entered into a replacement £285 million revolving credit facility with a margin of 325bps, maturing in April 2026. On 27 October, the Sherwood Group successfully priced €400 million 4.5% Euro fixed rated bonds due 2026, €640 million 4.625% over three months EURIBOR floating rate notes due 2027, and £350 million 6% fixed rate bonds due 2026, with the proceeds being used to prepay our existing bonds and drawings under the replacement revolving credit facility. Bondholders and banks have security and restrictions on Sherwood Parentco Limited and all of its subsidiaries, which includes Arrow Global Group Limited and its subsidiaries. As such, a number of subsidiaries in Arrow Global Group Limited are guarantors under the new financing arrangements. The Group created over £350 million of liquidity headroom and has no bond maturities until 2026. At 31 December 2021, the Group had positive cash balances of £193.9 million (2020: £182.9 million) and net liabilities of £0.7 million (2020: £116.7 million net assets). The Company's business activities are set out in the general information section in note 1.1 to the financial statements.

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 outlined in note 23.

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).

Ownership

The ultimate parent Company is TDR Nominees 2016 Limited, which is incorporated in England and Wales, via funds managed by TDR Capital LLP (TDR). TDR is a leading international private equity firm, managing capital on behalf of institutional, governmental and private investors worldwide. TDR invests and partners with businesses to develop and grow their operations.

Directors' report *(continued)*

Directors

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

Richard Roberts	(appointed 25 October 2021)
Philip Shepherd	(appointed 11 October 2021)
Maria Luis Albuquerque	(resigned 11 October 2021)
Paola Bergamaschi Broyd	(resigned 11 October 2021)
Jonathan Bloomer	(resigned 11 October 2021)
Andrew Fisher	(resigned 25 October 2021)
Matthew Hotson	(resigned 30 October 2021)
Jonathan Mitchell	(appointed 11 October 2021, resigned 25 October 2021)
Lee Rochford	(resigned 12 October 2021)
Jonathan Rosen	(appointed 11 October 2021, resigned 25 October 2021)
Lan Tu	(resigned 11 October 2021)

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

Directors' indemnities

During the financial year ended 31 December 2021 and up to the date of this directors' report, the Company has maintained appropriate liability insurance for its directors and officers.

The Company has, during prior periods, granted indemnities to certain of its directors on terms consistent with the applicable statutory provisions. Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the year. The indemnities fell away following resignation of the relevant directors on the dates set out in the directors section above.

Employee consultation

The Group places considerable value on the involvement of its employees and uses a number of ways to engage with the team on matters that impact them and the performance of the Group. These generally include regular site-wide update meetings and email communication, use of the employee engagement forum, the distribution of a weekly newsletter, focus group meetings, employee surveys and regular Group-wide business update meetings and workshops. The Group uses a strategic tool, Peakon, to measure and improve engagement in teams and allows people managers to understand their strengths and priorities in improving team culture and engagement. Our people managers carry out monthly one-to-one meetings with their direct reports and the senior management team has an open-door policy, which allows all employees to discuss any concerns or new initiatives. We actively encourage and promote diversity and inclusion, with an emphasis on leader sponsorship and colleagues shaping action planning.

The Group also has a whistleblowing policy and employees are made aware of this at induction and through regular ongoing refresher training. An anonymous, externally facilitated whistleblowing helpline has also been implemented to listen to the concerns of employees and to help to enhance a culture of openness.

Disabled persons

The Group adopts a consistent, non-discriminatory approach to all applicants during both the recruitment and the on-boarding process, with due regard to their skills and abilities. In the event of an employee becoming disabled, every effort is made to ensure that their employment within the Group continues and that appropriate training and, where applicable, ergonomic arrangements are arranged. It is the policy of the Group that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Stakeholder engagement

The strategic report discusses the Group's approach with respect to stakeholder engagement on pages 12 to 13.

Carbon reporting – methodology

The methodology used for carbon reporting is set out in the ESG section of the strategic report, on pages 8 to 9.

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Directors' report *(continued)*

Branches outside of the UK

The Company has no overseas branches. The Company's subsidiaries are detailed in note 22 to the financial statements.

Risk management

Please refer to the strategic report, on page 4.

Corporate Governance Statement

Prior to its acquisition by funds managed by TDR Capital, and its subsequent de-listing and re-registration as a private company on 11 October 2021 (Delisting), the Company was required by the UK Listing Rules to comply with the 2018 UK Corporate Governance Code (the Code) (or explain why it did not). During the financial year ended 31 December 2021, the Company complied in full with the Code prior to Delisting in a manner consistent with the financial year ended 31 December 2020. Since delisting, the Company has maintained its prior governance arrangements that supported Code compliance (subject to the reconstitution of certain committees to reflect changes in the executive management team of the Group). At the reporting date, as the group no longer has a premium listing and is not subject to the FCA listing rules, it has not reported against the provisions of the Code, other than the specific DTR requirements. The Company is currently considering whether it remains appropriate to apply a corporate governance code in current and future financial years and, if so, which code may be most appropriate for the Group.

Political donations

The Company made no political donations and did not incur any political expenditure during the period.

Statement of disclosure of information to the auditor

Each of the persons who is a director at the date of approval of the financial statements confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

KPMG LLP has indicated its willingness to accept reappointment as auditor of the Company. Appropriate arrangements have been put in place concerning their re-appointment in the absence of an annual general meeting.

By order of the board and signed on its behalf by:

....

Philip Shepherd

Director

18 March 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 Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial period. Under that law they have elected to prepare the Group and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRS') 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 Group and parent Company and of the Group's profit or loss of the company for that period. In preparing these Group and Company 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;
- assess the Group and 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 Group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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 Group and to prevent and detect fraud and other irregularities.

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

By order of the board and signed on its behalf by:

....

Philip Shepherd
Director
18 March 2022

Independent auditor's report to the members of Arrow Global Group Limited

Opinion

We have audited the financial statements of Arrow Global Group Limited ("the Company") for the year ended 31 December 2021 which comprise the consolidated statement of profit or loss and other comprehensive income, consolidated and Parent statement of financial position, consolidated and Parent statement of changes in equity, consolidated and Parent statement of cash flows and related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board minutes and attending audit committee meetings;

Independent auditor's report to the members of Arrow Global Group Limited *(continued)*

- Considering remuneration incentive schemes and performance targets for management; and.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that Group and component management may be in a position to make inappropriate accounting entries; and
- the risk of bias in accounting estimates and judgements such as revenue from portfolio investments.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by posted by members of the Executive Committee or Board, those posted by unauthorized individuals, those posted to unusual or seldom accounts, those containing key words, those entries which have value of zero or are unbalanced and those posted by individuals who rarely do during ordinary course of business,
- Evaluated the business purpose of significant unusual transactions, and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Independent auditor's report to the members of Arrow Global Group Limited *(continued)*

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: data protection laws, anti-bribery, consumer protection and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Independent auditor's report to the members of Arrow Global Group Limited *(continued)*

Directors' responsibilities

As explained more fully in their statement set out on page17, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

S. Ryder

Simon Ryder (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

18 March 2022

Consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2021

		2021	2020
Continuing operations	**Note**	***£000***	***£000***
Income from portfolio investments at amortised cost	**23**	134,101	164,597
Fair value gains on portfolio investments at FVTPL	**23**	62,451	4,976
Impairment gains/(losses) on portfolio investments at amortised cost	**23**	2,709	(100,436)
Income from real estate inventories	**23**	1,963	492
Total income from portfolio investments		**201,224**	**69,629**
Income from asset management and servicing and fund and investment management	**5**	116,477	97,026
Gain on disposal of leases		–	453
Other income		98	384
Total income		**317,799**	**167,492**
Operating expenses:			
Collection activity and fund management costs	**10**	(137,169)	(130,572)
Other operating expenses	**10**	(185,113)	(94,248)
Total operating expenses		**(322,282)**	**(224,820)**
Operating loss		**(4,483)**	**(57,328)**
Finance income	**7**	22	61
Finance costs	**8**	(96,478)	(57,556)
Loss before tax		**(100,939)**	**(114,823)**
Taxation (charge)/credit on ordinary activities	**11**	(22,712)	21,206
Loss for the year		**(123,651)**	**(93,617)**
Other comprehensive (loss)/income:			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange translation difference arising on revaluation of foreign operations		(10,157)	6,741
Movement on hedging reserve		63	356
Total comprehensive loss		(133,745)	(86,520)
(Loss)/profit after tax attributable to:			
Owners of the Company		(123,805)	(92,829)
Non-controlling interest		154	(788)
		(123,651)	(93,617)
Comprehensive (loss)/ income attributable to:			
Owners of the Company		(133,899)	(85,732)
Non-controlling interest		154	(788)
		(133,745)	(86,520)

The parent company's loss after tax for the year was £10,199,000 (2020: £8,330,000).

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Consolidated and parent statement of financial position at 31 December 2021

		Group 2021	Group 2020	Parent 2021	Parent 2020
Assets	**Note**	**£000**	**£000**	**£000**	**£000**
Cash and cash equivalents		193,932	182,892	16	49
Trade and other receivables	15	93,753	71,372	251,960	224,924
Portfolio investments – amortised cost	23	682,687	793,554	–	–
Portfolio investments – FVTPL	23	302,808	187,421	–	–
Portfolio investments – real estate inventories	23	44,464	61,240	–	–
Property, plant and equipment	14	13,707	17,612	–	–
Current tax asset		–	–	313	–
Intangible assets	13	28,722	38,709	–	–
Deferred tax asset	11	3,212	31,782	–	–
Investment in subsidiary undertakings	22	–	–	321,150	308,200
Investment in associate	22	62,184	–	–	–
Goodwill	12	265,237	278,338	–	–
Asset held for sale	29	5,655	–	–	–
Total assets		**1,696,361**	**1,662,920**	**573,439**	**533,173**
Liabilities					
Bank overdrafts	28	9,630	3,648	–	–
Revolving credit facility	28	–	277,552	–	–
Derivative liability	25	25,607	83	–	–
Trade and other payables	16	1,591,953	166,965	39,958	4,057
Current tax liability		1,837	2,110	–	1,986
Other borrowings	28	2,241	3,247	–	–
Asset-backed loans	28	55,158	143,985	–	–
Senior secured notes	28	–	930,575	–	–
Deferred tax liability	11	4,961	18,056	–	–
Liabilities directly associated with the assets held for sale	29	5,655	–	–	–
Total liabilities		**1,697,042**	**1,546,221**	**39,958**	**6,043**
Equity					
Share capital	18	1,839	1,774	1,839	1,774
Share premium	18	359,686	347,436	359,686	347,436
Retained earnings		(75,819)	38,506	183,569	184,288
Hedging reserve		(4)	(67)	–	–
Other reserves		(289,853)	(274,451)	(11,613)	(6,368)
Total equity attributable to shareholders		**(4,151)**	**113,198**	**533,481**	**527,130**
Non-controlling interest		3,470	3,501	–	–
Total equity		**(681)**	**116,699**	**533,481**	**527,130**
Total equity and liabilities		**1,696,361**	**1,662,920**	**573,439**	**533,173**

Approved by the board of directors on 18 March 2022, signed and authorised for issue on its behalf by:

....

Philip Shepherd
Director
Registered in England and Wales No: 08649661

ARROW

Consolidated and parent statement of changes in equity for year ended 31 December 2021

Group	Ordinary shares	Share premium	Retained earnings	Hedging reserve	Own share reserve[1]	Translation reserve[1]	Merger reserve[1]	Total	Non-controlling interest	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2020	**1,769**	**347,436**	**129,240**	**(423)**	**(5,806)**	**2,137**	**(276,961)**	**197,392**	**4,465**	**201,857**
Loss after tax	–	–	(92,829)	–	–	–	–	**(92,829)**	(788)	**(93,617)**
Exchange differences	–	–	–	–	–	6,741	–	**6,741**	–	**6,741**
Net fair value gains – cash flow hedges	–	–	–	427	–	–	–	**427**	–	**427**
Tax on hedged items	–	–	–	(71)	–	–	–	**(71)**	–	**(71)**
Total comprehensive loss for the year	–	–	(92,829)	356	–	6,741	–	**(85,732)**	(788)	**(86,520)**
Shares issued	5	–	–	–	–	–	–	**5**	–	**5**
Repurchase of own shares	–	–	–	–	(562)	–	–	**(562)**	–	**(562)**
Share-based payments net of tax	–	–	1,946	–	–	–	–	**1,946**	–	**1,946**
Repurchase of non-controlling interest	–	–	232	–	–	–	–	**232**	(232)	**–**
Change in non-controlling interest	–	–	(83)	–	–	–	–	**(83)**	56	**(27)**
Balance at 31 December 2020	**1,774**	**347,436**	**38,506**	**(67)**	**(6,368)**	**8,878**	**(276,961)**	**113,198**	**3,501**	**116,699**
Loss after tax	–	–	(123,805)	–	–	–	–	**(123,805)**	154	**(123,651)**
Exchange differences	–	–	–	–	–	(10,157)	–	**(10,157)**	–	**(10,157)**
Net fair value gains – cash flow hedges	–	–	–	78	–	–	–	**78**	–	**78**
Tax on hedged items	–	–	–	(15)	–	–	–	**(15)**	–	**(15)**
Total comprehensive loss for the year	–	–	(123,805)	63	–	(10,157)	–	**(133,899)**	154	**(133,745)**
Shares issued	65	12,250	–	–	–	–	–	**12,315**	–	**12,315**
Deconsolidation of an entity	–	–	–	–	–	–	–	**–**	(185)	**(185)**
Repurchase of own shares	–	–	–	–	(5,245)	–	–	**(5,245)**	–	**(5,245)**
Share-based payments net of tax	–	–	9,480	–	–	–	–	**9,480**	–	**9,480**
Balance at 31 December 2021	**1,839**	**359,686**	**(75,819)**	**(4)**	**(11,613)**	**(1,279)**	**(276,961)**	**(4,151)**	**3,470**	**(681)**

[1] *Other reserves total £289,853,000 deficit (2020: £274,451,000 deficit).*

Parent	Ordinary shares	Share premium	Retained earnings	Own share reserve	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2020	**1,769**	**347,436**	**174,012**	**(5,806)**	**517,411**
Profit after tax	–	–	8,330	–	**8,330**
Total comprehensive profit for the year	–	–	8,330	–	**8,330**
Shares issued	5	–	–	–	**5**
Repurchase of own shares	–	–	–	(562)	**(562)**
Share-based payments	–	–	1,946	–	**1,946**
Balance at 31 December 2020	**1,774**	**347,436**	**184,288**	**(6,368)**	**527,130**
Loss after tax	–	–	(10,199)	–	**(10,199)**
Total comprehensive loss for the year	–	–	(10,199)	–	**(10,199)**
Shares issued	65	12,250	–	–	**12,315**
Repurchase of own shares	–	–	–	(5,245)	**(5,245)**
Share-based payments	–	–	9,480	–	**9,480**
Balance at 31 December 2021	**1,839**	**359,686**	**183,569**	**(11,613)**	**533,481**

ARROW

Consolidated and parent company statement of cash flow for year ended 31 December 2021

	Note	Group 2021 £000	Group 2020 £000	Parent 2021 £000	Parent 2020 £000
Net cash generated by operations	**30**	**10,514**	**41,510**	**5,847**	**1,288**
Investing activities					
Purchases of property, plant and equipment	**14**	(3,928)	(2,449)	–	–
Purchases of intangible assets	**13**	(10,486)	(11,375)	–	–
Proceeds from disposal of intangible assets and property, plant and equipment		57	–	–	–
Acquisition of subsidiaries, net of cash acquired		–	(27)	(700)	(700)
Acquisition of associate		(24,500)	–	–	–
Deferred consideration paid in connection with subsidiary acquisitions		(16,892)	(7,149)	–	–
Net cash used in investing activities		**(55,749)**	**(21,000)**	**(700)**	**(700)**
Financing activities					
Movements in other banking facilities		(275,659)	34,687	–	–
Financing from other Group undertakings		1,397,968	–	–	–
Proceeds from ABS issuing		–	62,440	–	–
Redemption of existing senior notes		(959,084)	–	–	–
Net proceeds from senior notes issuing		63,714	–	–	–
Repayment of ABS loans		(89,171)	–	–	–
Early senior notes repayment costs		(15,457)	–	–	–
Payment of interest on senior notes		(38,342)	(38,860)	–	–
Payment of interest on asset-backed loans		(3,947)	(3,909)	–	–
Repurchase of own shares		(5,245)	(562)	(5,245)	(562)
Issue of share capital		65	5	65	5
Bank interest received	**7**	22	61	–	–
Bank and other similar fees paid		(6,342)	(7,622)	–	–
Lease payments	**20**	(5,321)	(5,636)	–	–
Payment of deferred interest		(1,907)	(328)	–	–
Net cash flow generated/(used in) by financing activities		**61,294**	**40,276**	**(5,180)**	**(557)**
Net increase/(decrease) in cash and cash equivalents		16,059	60,786	(33)	31
Cash and cash equivalents at beginning of year		182,892	115,376	49	18
Effect of exchange rates on cash and cash equivalents		(1,667)	6,730	–	–
Cash and cash equivalents at end of year including held for sale		**197,284**	**182,892**	**16**	**49**
Cash and cash equivalents held for sale[1]		(3,352)	–	–	–
Cash and cash equivalents at end of year excluding held for sale		**193,932**	**182,892**	**16**	**49**

[1] £3,352,000 of cash and cash equivalents in respect of the Whitestar Italy platform, for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position. See note 29 for more information.

ARROW

Notes to the Financial Statements

1.1. General information

Arrow Global Group Limited ('the Company') 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, which is the Company's functional currency. All amounts have been rounded to the nearest thousand except when otherwise indicated.

The Company's subsidiaries, both direct and indirect, at 31 December 2021 are listed in note 22.

The Group's principal activity is to identify, acquire and manage secured and unsecured defaulted and non-core loan portfolios and real estate 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 Group and Company's financial statements for the year ended 31 December 2021 have been prepared in accordance with UK-adopted international accounting standards. The accounting policies have been applied consistently in the current and prior periods.

As permitted by section 408 of the Companies Act 2006, a separate income statement and related notes of the Company have not been presented in this annual report and accounts. A number of the Group's subsidiaries have chosen to take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 December 2021, with the parent Company providing a declaration of guarantee in accordance with section 479C of the *Companies Act 2006 for the relevant subsidiaries as at 31 December 2021. A full listing of the subsidiaries availing of the* guarantee and audit exemption is set out in note 22.

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

Going concern statement

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 outlined in note 23.

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

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

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss.

Contingent consideration

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2021 and the comparative period.

'Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Securitisation vehicles

Securitisation vehicles in which the Group holds an economic interest are usually operated according to predetermined criteria that are part of the initial design of the vehicles. The Group is exposed to variability of returns from the vehicles through its holding of various securities in the vehicles.

Outside the day-to-day servicing of the receivables (which may be carried out by the Group under a servicing contract), key decisions are usually required only when the intent of the participants regarding the design of the economic structure or the strategy for the collection of the underlying assets changes.

In assessing whether it has control, the Group considers whether it manages the key decisions that most significantly affect these vehicles' returns, alongside its total variability related to its economic interests in the vehicles. As a result, the Group has concluded that it controls some of these vehicles, but not all (for more information on consolidated vehicles, see note 26).

Investment funds

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove fund manager. For all funds managed by the Group, the investors are able to vote by simple majority, less than ten investors, to remove the Group as fund manager without cause.

In summary, the number of investors who are required to act together to remove the Group as fund manager without cause is low. Although similar, the investment strategies of the Group and other investors in the fund are different, with the Group having the option to not invest in certain circumstances. Therefore, despite the Group's variability of its aggregate economic interest in some cases being above 30% (depending on which items are included/excluded), the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

For further disclosure in respect of unconsolidated securitisation vehicles and investment funds in which the Group has an interest or for which it is a sponsor, see note 26.

i. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

ii. Transactions eliminated upon consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the spot exchange rates at the date of the transactions. The functional currency of the Group is pounds sterling, which is also the *presentational currency* of the Group.

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

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

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

Interest

i. Effective interest rate

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

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

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group 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 Group'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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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 ECL 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 Group'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.

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 Group's portfolio investments which are classified as FVTPL. The line item includes fair value changes, interest and dividends.

Leases

i. Group acting as a leasee

At inception of a contract, the Group 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 Group uses the definition of a lease in IFRS 16.

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

The Group 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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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 Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group 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 Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group 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, a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group 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 Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'trade and other payables' in the statement of financial position.

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

The Group 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 Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

iii. Group acting as a lessor

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

Taxation

i. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group 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 profit or loss for the period. 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.

Notes to the Financial Statements (continued)

3. Significant Accounting Policies (continued)

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 Group 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, based on business plans for individual subsidiaries in the Group.

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.

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

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Financial assets and financial liabilities
i. Recognition and initial measurement

The Group 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 Group 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 financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial 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).

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

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 Group 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 Group.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group 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 Group.

Business model assessment

The Group 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 Group'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
- frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

The Group's portfolio investments are comprised of various types of underlying credit positions. The majority of investments are held by the Group 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.

The Group's co-investment alongside its Fund and Investment Management business is deemed to be held in a different business model than 'hold to collect', as these portfolio investments are managed primarily on a fair value basis, with reporting to senior management on the performance of these assets being prepared on that basis, and key management remuneration being linked to the performance of such assets on a fair value basis. As such, the business model of these assets is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. As such, the Group's co-investment alongside its Fund and Investment Management business is classified as FVTPL.

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.

ARROW

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

In assessing whether the contractual cash flows are SPPI, the Group 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 Group considers:

- contingent events changing the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group'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 Group 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 Group changes its business model for managing financial assets.

Financial assets

The Group 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

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

In transactions in which the Group 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 Group 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 Group 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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Financial liabilities

The Group 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 Group 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 Group 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 Group 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 Group 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 Group's trading activity.

iii. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group 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 Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group 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 Group 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 Group 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 Group has not taken the low credit risk exemption for any of its financial assets.

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

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

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group 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; or
- lease receivables: the discount rate used in measuring the lease receivable.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; or
- 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 Group 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 Group on terms that the Group 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 Group has not designated any financial assets or liabilities as FVTPL in either the current or previous periods.

Cash and cash equivalents

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

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

Derivatives

All derivatives are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. For a cash flow hedge of a forecast transaction, the Group makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

ARROW

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Other assets

No ECL has been recognised for intercompany loans, cash and cash equivalents or trade and other receivables, on the basis that the ECL on such items is deemed to be immaterial.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty clearing house by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

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 Group. 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 estimated 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
Vehicles	three 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.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Intangible assets

i. Software licenses and IT platforms

Expenditure on internally developed software, such as IT platforms, is recognised as an asset when the Group 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.

Intangible assets and goodwill

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.

ii. Customer intangibles

When the Group acquires businesses which have material ongoing customer relationships, whether they are contractual or not, the principles of IFRS 3 dictate that the fair value of such customer relationships must be estimated and recognised on the balance sheet at the acquisition date. The impact of this is to effectively reduce the goodwill recognised on acquisition.

Subsequent to the initial recognition of such assets, they are amortised over the expected life of the customer relationships with the Group. This amortisation is recognised within operating expenses.

The useful lives and carrying values of customer intangibles are reviewed at each reporting date and adjusted if appropriate.

iii. Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future post-tax cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

The Group 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 Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle that obligation with an outflow of economic resources. Provisions are measured at the directors' best estimate of the consideration required to settle that obligation at the date of the consolidated statement of financial position and are discounted to present value.

Employee benefits

i. Share-based payment transactions

Share-based payment transactions in which the Group 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. Shares held in an employee benefit trust (EBT)

Transactions of the Company sponsored EBT are treated as being those of the Company and are therefore, reflected in these financial statements.

iii. Retirement benefit costs

Payments to defined contribution retirement schemes are charged as the employees provide services to the Group.

The Group 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.

Inventories

As part of the Group's investment activities, it sometimes acquires real estate positions as part of a transaction. Where such real estate is acquired for the purposes of immediate resale, or where a sale will immediately follow a period of time where capital expenditure is being applied to the asset, such investments fall under the scope of IAS 2 – Inventories.

In line with IAS 2, all assets classified as inventories are held at initial cost, plus any subsequent cost of capital expenditure. Such assets are held at the lower of cost and net realisable value, but apart from this, no gain or loss will be taken on the value of the assets until the point at which they are sold, or partially sold.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

Associates

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

Share capital and reserves

i. Share capital

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

ii. Other reserves

Other reserves include the own share reserve, the translation reserve and the merger reserve. These reserves are further explained in note 18.

Intercompany receivables

The Company holds material intercompany receivables within its statement of financial position.

These have been assessed under the 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 Group 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 Group 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.

ii. Asset management fees

The Group earns management fees from its performance of asset management services. Management fees are charged on third-party money managed by the Group and are based on an agreed percentage of either committed money, invested money or net asset value (NAV), dependent on the fund. Management fees are variable fee revenue streams, which relate to one performance obligation and contain a non-performance and performance-related fee element. The non-performance element of the fee is recognised as the services are performed, with time elapsed being the measure of progress. Performance related fees are discussed below.

iii. Performance-related fees

Performance-related fees are recognised only where it is highly probable that the revenue will not be reversed in the future. This is generally near the end of the performance period or upon early liquidation of a fund. Performance-related fees will only be crystallised when a performance hurdle is met. The estimate of performance fees is made with reference to the liquidation profile for the fund, which factors in portfolio exits and timeframes. A constraint is applied to the estimate to reflect uncertainty of future fund performance.

Notes to the Financial Statements *(continued)*

3. Significant Accounting Policies *(continued)*

iv. 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 Group's contract balances can be found in note 6.

Operating expenses

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

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn income and incur expenses, including income and expenses relating to transactions with any of the Group's other components, whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Group's board (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Deferred and contingent consideration

During the normal course of business, the Group 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 Group 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 Group 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 consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group'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 portfolio investment assets

The Group holds the majority of its portfolio investments at amortised cost, due to the fact that management have determined that these assets 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 Group 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 Group'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 Group employs for the majority of its portfolios.

Another judgement that has been made regarding the Group'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 Group, 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.

For some portfolio investments, the SPPI criteria is not met, or there is an element of subordination within the holding structure. In such instances, these portfolio investments are held at FVTPL. Furthermore, some portfolio investments, such as those involving real estate, do not meet the definition of a financial instrument for accounting purposes. This leads to a portion of the Group's portfolio investments being classified as 'inventories', under the scope of IAS 2.

The Group's co-investment alongside its Fund and Investment Management business is deemed to be held in a different business model than 'hold to collect', as these portfolios are managed primarily on a fair value basis, with reporting to senior management on the performance of these assets being prepared on that basis, and key management remuneration being linked to the performance of such assets on a fair value basis. As such, the business model of these assets has been judged to be neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. As such, the Group's co-investment alongside its Fund and Investment Management business is classified as FVTPL.

ii. Determination of control over investees

Arrow holds an economic interest in a number of entities which it determines under IFRS 10, that it does not control. As such, these entities are not consolidated into the Group's financial statements, but rather, the investment in such entities is recognised as a single asset within the appropriate balance sheet classification, usually portfolio investments, but also investment in associates

Conversely, the Group also consolidates entities into its financial statements which it does not have 100% ownership of, but the Group is judged to control regardless.

The judgement as to whether or not the Group has control over an entity is taken on a case-by-case basis by management, and is firstly based upon whether the Group can exercise any power over the relevant activities of the entity, and if this is the case, whether there is deemed to be a link between such power and the variability of the Group's returns which arise from the entity.

In many cases, the determination of control is clear. Cases where management must apply more judgement can occur where the Group holds a minority equity-level financial interest in a structured entity, as well as providing services to these entities in a typical supplier-customer relationship capacity. In these cases, the Group mainly assesses the relative share of marginal variable returns which flow to third parties versus the share which flows to the Group as a primary indicator of whether the Group is exercising any power it may have to influence the variable returns of the structured entity, either for its own benefit, or for the benefit of third parties in the structure. In the case of the former, the entity will usually be consolidated, whereas under the latter, the entity will usually not be consolidated.

The Group went into significant consideration as to whether the Group's acquired stake in Maslow Global Limited and option to purchase the remaining 51% in the future required consolidation or not, and concluded that it should be treated as an investment in associate, see page 66 for more detail.

Assumptions and estimation uncertainties

i. Carrying value of portfolio investments

The carrying value of portfolio investments is £1,029,959,000 at 31 December 2021 (2020: £1,042,215,000). The majority of these portfolio investments are measured at amortised cost.

Notes to the Financial Statements *(continued)*

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

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/-1% would impact the closing carrying value of the amortised cost and FVTPL portfolio investments as at 31 December 2021 by +/- £9,855,000 (2020: +/- £9,810,000). 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 £7,020,000/(£9,594,000) (2020: £8,637,000/(£11,012,000)). Note that there are a large number of inputs that 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.

ii. Impairment assessment of goodwill balances

The carrying amount of goodwill is £265,237,000 at 31 December 2021 (31 December 2020: 278,338,000). In line with the Group's accounting policies, the goodwill balance is assessed for impairment at each annual reporting date. The impairment assessment is carried out on a value in use basis, using discounted cash flow models for each cash generating unit (CGU) to determine whether the ongoing value in use of each CGU is higher than its carrying amount. No impairment was recognised as a result of the assessment performed as at 31 December 2021. This assessment is sensitive to the discount rate applied, and management's forecast future cash flows for each CGU. Further information about the methodology applied and sensitivities to these factors are disclosed in note 12.

Notes to the Financial Statements *(continued)*

5. Segmental reporting

Segmental information has been provided in line with what is reviewed on a regular basis by the chief operating decision maker (CODM), which is the board of directors collectively, as defined in IFRS 8. The principal business categories are as follows:

Balance Sheet business	All portfolio investments that the Group owns, and the income and costs associated with them.
Asset Management and Servicing business (AMS)	Income and costs associated with managing debt portfolios on behalf of the Group and external servicers.
Fund and Investment Management business (FIM)	Income and costs associated with investment management.
Group functions	Costs not directly associated with the other three segments, but relevant to overall oversight and control of the Group's activities.

These segments represent how the Group manages the wider business in 2021 and 2020, and the organisational structure is aligned to these segments. Therefore, this has been deemed to be the appropriate level of disaggregation to provide information to the CODM.

The intra-segment elimination column below removes charges made from the AMS business segment to the Balance Sheet business segment and the FIM business segment on behalf of the Group for servicing and collection of the Group and FIM's portfolio investments and performance fees charged by the FIM business in respect to its investments on behalf of the Group. The intra-segment charge is calculated on equivalent commercial terms to charging third parties.

2021	**Balance Sheet business**	**AMS business**	**FIM business**	**Group functions**	**Intra-segment elimination**	**Adjusting items**	**Total inc. adjusting items**	**Total exc. adjusting items**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Total income	185,943	133,092	55,019	98	(56,353)	–	**317,799**	**317,799**
Collection activity and fund management costs	(87,578)	(77,819)	(28,125)	–	56,353	–	**(137,169)**	**(137,169)**
Gross margin	**98,365**	**55,273**	**26,894**	**98**	**–**	**–**	**180,630**	**180,630**
Gross margin %	*52.9%*	*41.5%*	*48.9%*					
Other operating expenses excluding depreciation, amortisation and forex	(9,909)	(44,348)	(15,752)	(101,628)	–	80,478	**(91,159)**	**(171,637)**
EBITDA	**88,456**	**10,925**	**11,142**	**(101,530)**	**–**	**80,478**	**89,471**	**8,993**
EBITDA margin %	*47.6%*	*8.2%*	*20.3%*					
Depreciation, amortisation and forex	(6,531)	(2,518)	(3,057)	(1,370)	–	–	**(13,476)**	**(13,476)**
Operating (loss)/profit	**81,925**	**8,407**	**8,085**	**(102,900)**	**–**	**80,478**	**75,995**	**(4,483)**
Net finance costs	–	–	–	(96,456)	–	33,290	**(63,166)**	**(96,456)**
***(Loss)/profit before tax* and adjusting items**	**81,925**	**8,407**	**8,085**	**(199,356)**	**–**	**113,768**	**12,829**	**(100,939)**
Adjusting items	–	–	–	–	–	(113,768)	**(113,768)**	–
Loss before tax	**81,925**	**8,407**	**8,085**	**(199,356)**	**–**	**–**	**(100,939)**	**(100,939)**

ARROW

Notes to the Financial Statements *(continued)*

5. Segmental reporting *(continued)*

2020	Balance Sheet business	AMS business	FIM business	Group functions	Intra-segment elimination	Total
	£000	£000	£000	£000	£000	£000
Total income	64,882	125,361	36,774	837	(60,362)	**167,492**
Collection activity and fund management costs	(98,446)	(71,164)	(21,324)	–	60,362	**(130,572)**
Gross margin	**(33,564)**	**54,197**	**15,450**	**837**	–	**36,920**
Gross margin %	*(51.7)%*	*43.2%*	*42.0%*			
Other operating expenses excluding depreciation, amortisation and forex	(10,724)	(38,599)	(12,800)	(12,472)	–	**(74,595)**
EBITDA	**(44,288)**	**15,598**	**2,650**	**(11,635)**	–	**(37,675)**
EBITDA margin %	*(68.3)%*	*12.4%*	*7.2%*			
Depreciation, amortisation and forex	(5,094)	(4,903)	(513)	(9,143)	–	**(19,653)**
Operating (loss)/profit	**(49,382)**	**10,695**	**2,137**	**(20,778)**	–	**(57,328)**
Net finance costs	–	–	–	(57,495)	–	**(57,495)**
(Loss)/profit before tax	**(49,382)**	**10,695**	**2,137**	**(78,273)**	–	**(114,823)**

Total income includes income from portfolio investments, fund and investment management and performance fees, asset management and servicing and other income.

2021	*UK, Ireland and Jersey*	Portugal	Italy	Netherlands	*Intra-Group trading*	Total
	£000	£000	£000	£000	£000	£000
Total income	164,486	97,006	54,133	58,527	(56,353)	**317,799**
Third-party AMS and FIM income	60,628	38,082	38,306	35,814	(56,353)	**116,477**
Non-current assets	97,644	73,863	80,151	56,008	–	**307,666**

2020	UK, Ireland and Jersey	Portugal	Italy	Netherlands	Intra-Group trading	Total
	£000	£000	£000	£000	£000	£000
Total income	74,787	65,518	43,299	44,250	(60,362)	**167,492**
Third-party AMS and FIM income	42,795	34,868	42,336	37,389	(60,362)	**97,026**
Non-current assets	109,546	79,587	85,029	60,497	–	**334,659**

Income from contracts with customers has been disaggregated on a geographical basis, as a similar set of services are provided to customers across the geographies, and therefore this was deemed to be the most appropriate level of disaggregation for this disclosure.

Non-current assets are assets with a useful life of more than one year with the exception of deferred tax which has been excluded.

Gross AMS income includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-Group income for these services.

Notes to the Financial Statements *(continued)*

5. Segmental reporting *(continued)*

Gross FIM income includes fund management and performance fees and intra-Group income for these services.

	2021	2020
	£000	£000
Third-party AMS income	95,316	83,482
Intra-Group AMS income	37,776	41,879
Gross AMS income	**133,092**	**125,361**
Third-party FIM income	21,161	13,544
Intra-Group FIM income	18,577	18,483
Income reallocation from Balance Sheet business	15,281	4,747
Gross FIM income	**55,019**	**36,774**
Balance sheet business income	201,224	69,629
Income reallocation to FIM business	(15,281)	(4,747)
Gross Balance Sheet income	**185,943**	**64,882**
Other income	**98**	**837**
Gross income	**374,152**	**227,854**

Gross income includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-Group income for Asset Management and Servicing, fund and investment management and performance fees and intra-Group income for Fund and Investment Management, total income for the Balance Sheet business, and other income.

6. Income from AMS and FIM

Asset management and servicing income

Income from AMS contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it satisfies a performance obligation related to a service it has undertaken to provide to a customer.

Servicing income makes up the majority of AMS income, and in itself comprises a broad range of services, including secured and unsecured collection activity, real estate asset realisation, legal title holding, due diligence activities, initial platform migration and on-boarding activities, securitisation vehicle set-up and ongoing management activities, new origination activities, litigation and court process management and third-party sub-servicer management.

In all material cases, the services are provided at a point in time that corresponds to the satisfaction of the related performance obligations. As such, revenue arising from servicing income is normally recognised as the services are provided to the customer, with no deferral or acceleration of revenue across the life of the contract.

Fund and investment management income

Fund and investment management income encompasses services provided in relation to the discretionary and semi-discretionary allocation and management of third-party capital. Fees for fund and investment management services are normally calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a regular basis. Income from fund and investment management services is recognised over time as the services are provided.

Contract balances

At 31 December 2021, the Group had assets relating to contracts with customers in the amount of £9,860,000 (31 December 2020: £8,765,000). These assets fully relate to up-front costs which were incurred to acquire customers within the Group's Fund and Investment Management business, and will be released to the comprehensive statement of profit and loss across the same period as the associated income will be recognised, which is the lifetime of the related fund.

A key *judgement made in recognising these costs which were incurred to acquire customers was whether or not the* investors in the fund met the definition of a customer in accordance with IFRS 15. Given the small number of larger, institutional investors which were engaged with on an individual basis as part of the customer acquisition process, this was deemed to meet the definition of a customer under IFRS 15 guidance. The weighted average life remaining on these contract balances is 6 years and 4 months (31 December 2020: 7 years and 9 months). The contract balances have amortised in the period, resulting in a £2,014,000 of amortisation expensed to the comprehensive statement of profit and loss during the year (2020: £655,000).

Notes to the Financial Statements *(continued)*

7. Finance income

	2021 £000	2020 £000
Bank interest	22	61
	22	**61**

8. Finance costs

	2021 £000	2020 £000
Interest and similar charges on bank loans	6,654	8,324
Interest and similar charges on senior secured notes	34,576	38,648
Interest and similar charges on asset-backed securitisation	8,017	6,205
Interest rate swap and forward exchange contract hedge costs	59	370
Lease liability interest	1,010	1,107
Intercompany interest paid	11,053	-
Other interest	1,819	2,902
Recurring finance costs	**63,188**	**57,556**
Refinancing	33,290	–
	96,478	**57,556**

9. Auditor remuneration

The analysis of auditor remuneration is as follows:

	2021 £000	2020 £000
Fees payable for audit services – Company	60	60
Fees payable for audit services – Group	1,975	1,451
Fees payable in respect of prior periods for audit services – Group	–	167
Total fees payable for audit services	**2,035**	**1,678**
Fees payable for audit-related assurance services	294	304
Fees payable for regulatory assurance services	–	69
Total fees payable for audit-related and regulatory assurance services	294	373
Fees payable for other assurance services	360	247
Total fees payable for non-audit services	**654**	**620**
Total fees payable	**2,689**	**2,298**

Notes to the Financial Statements *(continued)*

10. Collection activity and fund management costs, other operating expenses and staff costs

10.a Total operating expenses

Total operating expenses are made up of direct and indirect costs, the detail of each is shown in the following tables:

Collection activity and fund management costs	**2021**	**2020**
	£000	**£000**
External collection costs	24,077	28,345
Staff costs (see note 10b)	71,899	62,458
Direct temp labour	3,966	4,981
Direct operating costs	24,442	22,828
Legal disbursements	11,035	8,944
Other collection activity costs	1,750	3,016
Total collection activity and fund management costs	**137,169**	**130,572**

Other operating expenses	**2021**	**2020**
	£000	**£000**
Staff costs (see note 10b)	48,980	40,074
Other related staff costs	7,775	6,389
Premises	3,158	4,485
IT	14,502	14,459
Depreciation and amortisation	16,338	18,910
Write off of PPE and intangible assets	–	249
Net foreign exchange (gains)/losses	(2,793)	743
Contingent consideration remeasurement	–	(5,755)
Other operating expenses	16,675	14,694
Recurring other operating expenses	**104,635**	**94,248**
Takeover costs	48,469	–
Organisational restructure costs	16,063	–
Non-cash write-down	12,718	–
Other acquisition costs	3,228	–
Total other operating expenses	**185,113**	**94,248**

The other staff-related costs caption largely relates to temporary labour, recruitment and training.

10b. Staff costs	**2021**	**2020**
	£000	**£000**
Wages, bonuses and share options	92,812	82,889
Pension costs	4,350	4,415
Social security costs	13,663	13,037
Share-based payments	10,054	1,753
Other	–	438
	120,879	**102,532**

The total executive and non-executive directors' remuneration during the year was £14,136,000 (2020: £1,309,000), *including £90,000 in relation to pension costs (2020: £87,000) and £9,591,000 in relation to share-based payments. In* respect of the highest paid director, salaries and performance related bonus was £462,000, pension-related benefits were £69,000 and share-based payments were £5,412,000.

ARROW

Notes to the Financial Statements *(continued)*

11. Tax

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax.

a. Amounts recognised in profit and loss	**2021**	**2020**
	£000	**£000**
Current tax charge/(credit):		
Tax charge at standard UK corporation tax rate	4,858	6,241
Changes in estimate related to prior years	(1,335)	(5,374)
Total current tax charge	**3,523**	**867**
Deferred tax charge/(credit):		
Origination and reversal of temporary differences	15,558	(23,212)
Adjustment in relation to prior years	3,994	297
Effect of changes in tax rates	(363)	842
Total deferred tax charge/(credit)	**19,189**	**(22,073)**
Total income tax expense/(credit)	**22,712**	**(21,206)**

The differences in the effective tax rate for the period and the standard rate of corporation tax in the UK at 19% (2020: 19%) are as follows:

b. Reconciliation of effective tax rate	**2021**	**2020**
	£000	**£000**
Loss before tax	(100,939)	(114,823)
Tax credit at standard UK corporation tax rate	(19,178)	(21,816)
Effect of tax rates in foreign jurisdictions	285	1,950
Expenses not deductible for tax purposes	4,994	2,293
Foreign tax suffered	520	–
Changes in corporate tax rates in the year	(363)	842
Movements in unrecognised deferred tax	33,795	602
Changes in estimate relating to prior years	2,659	(5,077)
Total income tax expense/(credit)	**22,712**	**(21,206)**

c. Amounts recognised in OCI		**2021**			**2020**	
	Before tax	**Tax expense**	**Net of tax**	**Before tax**	**Tax expense**	**Net of tax**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Items that are/may be reclassified to profit or loss:						
Movement in hedging reserve:						
Effective portion of changes in fair value	78	(15)	63	427	(71)	356
Net amount reclassified to profit or loss	–	–	–	–	–	–
Total movement in hedging reserve	**78**	**(15)**	**63**	**427**	**(71)**	**356**

ARROW

Notes to the Financial Statements *(continued)*

11. Tax *(continued)*

Deferred tax

The Group has recognised a deferred tax asset in relation to losses of £1,849,000 (2020: £27,684,000), of which £nil (2020: £18,669,000) relate to the UK.

The Group has not recognised a deferred tax asset in respect of £49,759,000 (2020: £2,864,000) of tax losses carried forward, due to lack of certainty over future utilisation of the losses. These losses may be available for offset against future profits and have no expiry date. There are no unrecognised deferred tax liabilities.

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 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. This has resulted in a credit of £363,000 arising in the period in respect of timing differences recognised in the UK. No further tax rate changes were enacted during the year in respect of overseas territories in which the group operates.

Movement in deferred tax balances

2021	Net balance 1 January	Recognised in profit or loss	Recognised in OCI/ equity	Reclassification	Foreign exchange	Net balance 31 December	Deferred tax asset[1]	Deferred tax liability
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed assets	**904**	(904)	–	–	–	–	–	–
IFRS and fair value transitional adjustments	**(16,392)**	1,507	–	11,454	928	**(2,503)**	**2,120**	**(4,623)**
Share schemes	**923**	(349)	(574)	–	–	–	–	–
Hedging reserve	**16**	(1)	(15)	–	–	–	–	–
Other temporary differences	**591**	(974)	–	11	34	**(338)**	–	**(338)**
Losses	**27,684**	(18,468)	–	(6,815)	(552)	**1,849**	**1,849**	–
Total including held for sale	**13,726**	**(19,189)**	**(589)**	**4,650**	**410**	**(992)**	**3,969**	**(4,961)**
						Total moved to assets held for sale	**(757)**	–
						Total excluding held for sale	**3,212**	**(4,961)**

[1] *Deferred tax asset includes £757,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position. See note 29 for more information.*

2020	Net balance 1 January	Recognised in profit or loss	Recognised in OCI/ equity	Reclassification	Foreign exchange	Net balance 31 December	Deferred tax asset	Deferred tax liability
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed assets	727	177	–	–	–	**904**	**904**	–
IFRS and fair value transitional adjustments	(15,634)	1,191	–	(1,080)	(869)	**(16,392)**	**1,664**	**(18,056)**
Share schemes	868	(138)	193	–	–	**923**	**923**	–
Hedging reserve	87	–	(71)	–	–	**16**	**16**	–
Other temporary differences	721	(191)	–	(24)	85	**591**	**591**	–
Losses	6,353	21,034	–	–	297	**27,684**	**27,684**	–
	(6,878)	**22,073**	**122**	**(1,104)**	**(487)**	**13,726**	**31,782**	**(18,056)**

Tax impact of the UK giving notice to withdraw from the EU

Given that the UK has now exited the EU (at 31 January 2020), the Group considered the impact of Brexit from a tax perspective. The only impact foreseen is an increase in withholding tax (WHT) suffered on the payment of interest and/or dividends from Portugal and Italy, which is not expected to be material.

Notes to the Financial Statements *(continued)*

11. Tax *(continued)*

Uncertainty over income tax treatments

The current tax liability of £1,837,000 represents the amount of income taxes payable in respect of current and prior year periods, including a provision in relation to uncertain tax positions.

As for most multi-nationals, the current tax environment is creating increasing levels of uncertainty and the Group is potentially subject to tax audits in many jurisdictions. By their nature, these are often complex and could take a significant period of time to be agreed with the tax authorities. The Group estimates and accrues taxes that will ultimately be payable when reviews or audits by tax authorities of tax returns are completed. The levels of risk arising from tax audits may change as a result of legislative change, tax authority guidance or practice and correspondence with the tax authorities during a specific audit. It is not possible to quantify the impact that such future developments may have on the tax positions taken in the financial statements.

12. Goodwill

	Total
	£000
Cost	
At 1 January 2020	270,009
Exchange rate differences	10,638
At 31 December 2020	**280,647**
Exchange rate differences	(13,101)
At 31 December 2021	**267,546**
Amortisation and impairment	
At 31 December 2021 and 31 December 2020	2,309
Carrying amount	
At 31 December 2021	**265,237**
At 31 December 2020	**278,338**

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to four aggregated CGUs on the basis that these represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the single operating segment defined under IFRS 8 (Operating Segments).

Goodwill CGU allocation

In relation to goodwill, the four CGUs identified are UK, Ireland and Jersey, comprising the UK and Ireland servicing platforms, the Jersey Fund Manager, and portfolio investments based in the UK and Ireland; Portugal, comprising of the Portugal servicing platforms and portfolio investments in Portugal; Netherlands, comprising of the Netherlands servicing platforms and portfolio investments in Netherlands and Italy, comprising the Italy servicing platforms and portfolio investments in Italy. The UK, Ireland and Jersey CGU represents the cash flows generated principally from collections on acquired portfolio investments, management and servicing of third-party debt and fund management fees. Portugal, The Netherlands, and Italy CGUs, represent the cash flows generated principally from collections on acquired portfolio investments, fund and investment management and management and servicing of third-party debt.

The discount rate was a post-tax rate based on the yield of average European 10-year government bonds, adjusted for a risk premium to reflect both the increased risk of investing in equities generally, the systemic risk of the specific CGU, and the non-systematic risk imputed from the reconciliation to the expected return on the purchase of the Group by TDR.

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined as the lower of the nominal gross domestic product rates for the countries in which the CGU operates and the long-term compound annual profit before taxes, depreciation and amortisation growth rate estimated by management.

Notes to the Financial Statements *(continued)*

12. Goodwill *(continued)*

Budgeted profit before taxes, depreciation and amortisation were based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated growth for the next five years.

The key assumptions described above may change as economic and market conditions change. The Group estimates that likely possible changes in these assumptions would not cause the recoverable amount of any CGU to decline below the carrying amount.

The Group's goodwill balance has been assessed and no part of the overall balance is deemed to be deductible for tax purposes.

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

	2021 £000	2020 £000
UK , Ireland and Jersey	78,900	78,900
Portugal	68,824	73,662
The Netherlands	40,292	43,124
Italy	77,221	82,652
	265,237	**278,338**

An impairment review was carried out at 31 December 2021 that resulted in no impairment to goodwill. The goodwill was assessed to be appropriately stated. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGUs is determined as the higher of fair value, less cost to sell and value in use. Discount rate and forward-looking growth assumptions applied in the value in use calculations were as follows:

	2021				*2020*			
	UK, Ireland and Jersey	**Portugal**	**The Netherlands**	**Italy**	**UK, Ireland and Jersey**	**Portugal**	**The Netherlands**	**Italy**
Discount rate %	10.5%	9.5%	8.9%	10.5%	8.9%	9.3%	8.4%	9.4%
Growth rate used to extrapolate forecasts	2.1%	1.5%	1.8%	1.4%	2.0%	2.2%	2.0%	1.7%

Discount rates

Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Post-tax rates are used alongside post-tax cash flows, as the post-tax discount rate is more readily derived from observable market information. Any potential differences between post-tax discount rates and cash flows and the pre-tax method under IAS 36 – Impairment of assets have been considered, and no material differences between approaches have been identified.

The starting point for determining the discount rates for each CGU was to use the Group's weighted average cost of capital (WACC) and adjust this for specific factors for each of the CGUs to derive a market participant's rate. The factors took into account the risks inherent in each of the CGUs; such as currency, regulatory, and economic risks and the different operations in the CGUs were also considered.

In determining the appropriate WACC to use in the current impairment test, in line with advice from experts, management took into account both the current and target leverage structure of the Group, as well as pre-COVID-19 and post-COVID-19 market conditions. An average of these approaches provided a balanced view of the appropriate discount rate to use for the value in use calculation in the midst of the uncertainty created by COVID-19.

Notes to the Financial Statements *(continued)*

12. Goodwill *(continued)*

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows into perpetuity. The forecasts assume growth rates in collection activity which in turn drive forecast collections and cost figures. These assumptions are in keeping with the directors' expectations of future growth. Appropriate tax rates are applied to the cash flow forecasts for each CGU. The analysis has been prepared using post-tax cash flows and discount rates, as post-tax discount rates can be more readily derived from observable market data. The Group is satisfied that this is materially equal to performing the analysis on pre-tax cash flows and discount rates.

The result of the goodwill impairment review was that no impairment was deemed to exist as at 31 December 2021. The Group has conducted a sensitivity analysis over the key inputs used in the impairment test of the CGU's carrying value. The CGUs would become impaired based on a net post-tax cash flow reduction set out below, or based on an increase in the discount rate noted below:

	A cash flow reduction	**A discount rate increase of**
UK, Ireland and Jersey	62%	8%
Portugal	35%	5%
Italy	44%	3%
The Netherlands	23%	2%

Notes to the Financial Statements *(continued)*

13. Intangible assets

	Custome intangibles	Contractual rights	IT Platform[1]	Software licences	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost					
At 1 January 2020	27,119	1,412	46,227	13,664	88,422
Exchange rate differences	1,373	80	1,445	308	3,206
Additions	–	4	2,964	8,407	11,375
Reclassifications	–	–	181	(175)	6
Disposals	–	–	–	(676)	(676)
At 31 December 2020	**28,492**	**1,496**	**50,817**	**21,528**	**102,333**
Exchange rate differences	(345)	(98)	(1,986)	(409)	(2,838)
Additions	–	–	1,281	9,205	10,486
Write-offs	–	–	(583)	(9,403)	(9,986)
Disposals	–	–	(222)	(1,839)	(2,061)
At 31 December 2021	**28,147**	**1,398**	**49,307**	**19,082**	**97,934**
Accumulated amortisation					
At 1 January 2020	17,195	895	22,114	10,059	50,263
Exchange rate differences	903	54	709	262	1,928
Amortisation for the year[2]	4,063	211	4,538	2,811	11,623
Reclassifications	–	–	181	56	237
Disposals	–	–	–	(427)	(427)
At 31 December 2020	**22,161**	**1,160**	**27,542**	**12,761**	**63,624**
Exchange rate differences	–	(77)	(1,071)	(377)	(1,525)
Amortisation for the year[2]	2,526	81	4,572	3,837	11,016
Write-offs	–	–	–	(2,102)	(2,102)
Disposals	–	–	–	(1,801)	(1,801)
At 31 December 2021	**24,687**	**1,164**	**31,043**	**12,318**	**69,212**
Carrying amount					
At 31 December 2021	**3,460**	**234**	**18,264**	**6,764**	**28,722**
At 31 December 2020	**6,331**	**336**	**23,275**	**8,767**	**38,709**

[1] *An intangible asset relating to a software upgrade is included within IT platform. The asset has a carrying value of €5,107,000 (31 December 2020: €5,550,000) and a remaining amortisation period of 8 years and 3 months.*

[2] *Amortisation and depreciation are shown within the other operating costs line of the consolidated statement of profit or loss.*

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Notes to the Financial Statements *(continued)*

14. Property, plant and equipment

	Leasehold improvements	Computer equipment £000	Furniture £000	Vehicles £000	Right-of-use asset[1] £000	Total £000
Cost						
At 1 January 2020	7,525	5,399	1,999	299	26,674	41,896
Exchange differences	220	146	57	30	646	1,099
Additions	7	531	7	5	1,899	2,449
Reclassifications	(58)	(157)	(97)	(76)	(372)	(760)
Disposals	(601)	(171)	(42)	(53)	(4,760)	(5,627)
At 31 December 2020	**7,093**	**5,748**	**1,924**	**205**	**24,087**	**39,057**
Exchange differences	(253)	(183)	(61)	(32)	(810)	(1,339)
Additions	271	151	119	164	3,223	3,928
Reclassifications	431	2	–	237	180	850
Write-offs	(438)	(278)	(133)	(179)	(1,662)	(2,690)
Disposals	(52)	(2,046)	(1)	(173)	(1,094)	(3,366)
At 31 December 2021	**7,052**	**3,394**	**1,848**	**222**	**23,924**	**36,440**
Accumulated depreciation						
At 1 January 2020	4,328	3,689	1,333	131	7,894	17,375
Exchange differences	111	94	32	21	210	468
Charge for the year	1,357	905	222	55	4,748	7,287
Reclassifications	(58)	(162)	(68)	(37)	(364)	(689)
Disposals	(140)	(163)	(42)	(53)	(2,598)	(2,996)
At 31 December 2020	**5,598**	**4,363**	**1,477**	**117**	**9,890**	**21,445**
Exchange differences	(198)	(133)	(45)	(42)	(416)	(834)
Charge for the year	455	699	209	63	3,896	5,322
Reclassifications	(326)	(36)	–	251	309	198
Write-offs	(431)	(208)	(30)	(28)	368	(329)
Disposals	(38)	(2,039)	–	(173)	(819)	(3,069)
At 31 December 2021	**5,060**	**2,646**	**1,611**	**188**	**13,228**	**22,733**
Carrying amount						
At 31 December 2021	**1,992**	**748**	**237**	**34**	**10,696**	**13,707**
At 31 December 2020	**1,495**	**1,385**	**447**	**88**	**14,197**	**17,612**

[1] See note 20 for a detailed analysis of right-of-use assets.

Notes to the Financial Statements *(continued)*

15. Trade and other receivables

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Trade receivables	30,758	39,899	–	–
Contract balances	9,860	8,765	–	–
Other receivables	6,840	17,687	413	277
Due from other Group undertakings	41,393	–	251,547	224,647
Prepayments	6,448	5,021	–	–
Total including assets held for sale	**95,299**	**71,372**	**251,960**	**224,924**
Trade and other receivables moved to assets held for sale[1]	(1,546)	–	–	–
Total excluding assets held for sale	**93,753**	**71,372**	**251,960**	**224,924**

[1] Trade and other receivables include £1,546,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position. See note 29 for more information.

16. Trade and other payables

	Group		Company	
Current	2021 £000	2020 £000	2021 £000	2020 £000
Trade payables	10,793	9,889	–	777
Deferred consideration on acquisition of subsidiaries	313	18,497	–	–
Deferred consideration on portfolio investments	27,854	10,538	–	–
Taxation and social security	4,013	2,001	–	–
Due to other Group undertakings	1,397,968	–	39,958	3,280
Accruals	46,337	33,300	–	–
Liabilities arising on acquisition of bankruptcy portfolios	–	12,959	–	–
Provisions	12,825	479	–	–
Other liabilities	22,585	4,644	–	–
Lease liability	4,059	3,560	–	–
	1,526,747	**95,867**	**39,958**	**4,057**
Non-current				
Trade payables	11,562	8,137	–	–
Deferred consideration on acquisition of subsidiaries	1,190	1,633	–	–
Deferred consideration on portfolio investments	–	1,500	–	–
Taxation and social security	189	(124)	–	–
Accruals	3,830	887	–	–
Liabilities arising on acquisition of bankruptcy portfolios	29,409	23,367	–	–
Other liabilities	12,256	21,057	–	–
Lease liability	13,422	14,641	–	–
	71,858	**71,098**	**–**	**–**
Total including held for sale	**1,598,605**	**166,965**	**39,958**	**4,057**
Trade and other payables moved to liabilities held for sale[1]	(6,652)	–	–	–
Total excluding held for sale	**1,591,953**	**166,965**	**39,958**	**4,057**

[1] Trade and other payables include £6,652,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Liabilties held for sale' on the condensed consolidated statement of financial position. See note 29 for more information.

Notes to the Financial Statements *(continued)*

16. Trade and other payables *(continued)*

Included within other liabilities is €4,267,000 (£3,582,000) (2020: €3,361,000 (£3,043,000)) relating to deferred pay for the Italian employees. The employees are part of statutory indemnity schemes, compulsory by law, that entitles them to deferred pay, typically at the end of their employment, the 'Trattamento di fine rapport' (TFR). A liability is recognised to reflect that the indemnity will be paid at a future date, when the employees leave employment. The liability is included within trade and other payables on the statement of financial position and is calculated by an independent expert through an actuarial valuation, the key assumptions used are detailed below:

	2021	2020
Discount rate	0%-1%	0%-0.4%
Annual inflation rate	1%-2%	1%
Wage inflation	2%-3%	2%-3%
Probability of leaving employment for reasons other than retirement (employees aged 18-60)	2%-15% per annum	0%- 0% per annum

17. Contingent liabilities

Through the ordinary course of business, the Group exposes itself to potential liabilities which at present it is not aware of, and may or may not arise in the future. As such, it would not be practical to try and quantify their future financial impact. However, set out below are broad areas of the Group's ordinary business activities which may in the future lead to potential claims or liabilities being incurred by the Group.

Conduct and regulatory compliance

Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies, the media and politicians, there is a possibility that certain aspects of the current or historic business, including, amongst other things, collections practices and general treatment of customers, may be determined by the FCA and other regulatory bodies or the courts as, in their opinion, not being conducted in accordance with applicable laws or regulations, or fair and reasonable treatment.

Contractual disputes

In carrying out its ongoing business, the Group enters into numerous contracts in any given year with a various third-party entities. There is always a risk that a contractual dispute may arise in the future, which may lead to a claim against the Group in respect of any damages or losses incurred by the third party.

18. Share capital and reserves

Share capital and share premium

	2021	2020
Issued, fully paid and authorised:	**£000**	**£000**
183,877,340 (2020: 177,378,244) ordinary shares of 1p each	**1,839**	**1,774**
Offset by own shares	–	(5)
	1,839	1,769

Total consideration for the shares was £361,525,000 (2020: £349,180,000), giving rise to a share premium of £359,686,000 (2020: £347,436,000). There has been an increase in the share premium and consideration due to an issuance of loan notes to fund the investment in associate of Maslow Global Limited.

Own shares consist of treasury shares and shares held within an employee benefit trust. The Company has an employee benefit trust for the granting of shares to applicable employees. There are no 'own shares' in the current year, as they ceased to exist upon the delisting of the Parent Company.

	2021	2020
Issued, fully paid and authorised:	**£000**	**£000**
Nil (2020: 628,874) opening own shares of 1p each	-	6
Changes in the period	–	(1)
Nil (2020: 502,656) closing shares of 1p each	-	**5**

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Notes to the Financial Statements *(continued)*

18. Share capital and reserves *(continued)*

Nature and purpose of reserves

Hedging reserve

The hedging reserve comprises the net cumulative fair value adjustments on the derivative contracts used in the Group's hedging activities which are deemed to be effective.

Own share reserve

The own share reserve comprises the cost of the Company's ordinary shares held by the Group. At 31 December 2021, *the Company held no ordinary shares of 1p each (2020: 502,656 ordinary shares of 1p each) held in an employee benefit* trust. This represents 0% of the Company's share capital as at 31 December 2021.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Merger reserve

The merger reserve represents the reserve generated upon consolidation of the Group following the Group reconstruction as part of the IPO where Arrow Global Group Limited (formerly plc) became the Parent Company.

19. Dividends

No dividends were paid or declared during 2020 or 2021 and no final dividend are proposed.

20. Leases

The Group has leases for offices premises, vehicles 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 Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 14).

Leases of vehicles are usually limited to a lease term of two to four years. Leases of property generally have a lease term ranging from five years to ten years. Lease payments are generally fixed, however there are a limited number of property leases where rentals are linked to annual changes in an index (either the retail price index or consumer price index).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

Notes to the Financial Statements *(continued)*

20. Leases *(continued)*

Right-of-use assets

Right-of-use assets relate to leased office premises and vehicles that are presented within property, plant and equipment (see note 14).

	Office premises	Vehicles £000	Computer equipment £000
Balance at 31 December 2020	**12,647**	**1,326**	**224**
Depreciation charge for the year	(3,497)	(322)	(77)
Additions	2,010	552	661
Disposals	(271)	(4)	–
Reclassifications	(114)	21	(36)
Exchange differences	62	(348)	(108)
Write-offs	(2,028)	–	(2)
Balance at 31 December 2021	**8,809**	**1,225**	**662**

Maturity analysis – contractual undiscounted cash flows

See note 24 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	1,010	1,107
Depreciation charge for the year on right of use assets	3,896	4,748
Expenses relating to short-term leases	97	560

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	5,321	5,636

Notes to the Financial Statements *(continued)*

21. Related party transactions

Related party balances

Related party balances as at each year end were as follows:

Group	Amounts due from group undertakings		Amounts due to group undertakings	
	2021	2020	2021	2020
	£000	£000	£000	£000
Sherwood Parentco Limited	5	N/a[1]	–	N/a[1]
Sherwood Financing plc	43	N/a[1]	–	N/a[1]
Sherwood Financing 2 Limited	20,526	N/a[1]	(1,372,367)	N/a[1]
Sherwood Acquisitions Limited	20,819	N/a[1]	(25,601)	N/a[1]
Total	**41,393**	**–**	**(1,397,968)**	**–**

[1] *On 11 October 2021, Sherwood Acquisitions Limited completed the acquisition of Arrow Global Group plc (now Arrow Global Group Limited) with the shares delisted from the LSE on 12 October 2021, therefore the Sherwood entities were not related parties in 2020 and also did not exist in 2020.*

Company	Amounts due from group undertakings		Amounts due to group undertakings	
	2021	2020	2021	2020
	£000	£000	£000	£000
Arrow Global Group Holdings Limited	–	–	–	(1,367)
Arrow Global Limited	13,499	–	(25,178)	(1,913)
Arrow Global One Limited	238,008	224,607	(11,155)	-
Vesting Finance Datachering B.V.	40	40	(294)	-
AGG Capital Management Limited	–	–	(502)	–
Arrow Global Investment Holdings Limited	–	–	(2,829)	-
Total	**251,547**	**224,647**	**(39,958)**	**(3,280)**

The material receivable balance due from subsidiary undertakings from Arrow Global One Limited relates primarily to final dividends declared by Arrow Global One Limited in 2018. In the current period, the movement in this balance relate primarily to interest being charged on the loan. Balances relate to intercompany loans that are repayable on demand, with this being the longest contractual period and are, therefore, held as current liabilities or assets.

As a loan repayable on demand, expected credit losses were estimated on the assumption that repayment of the loan is demanded at the reporting date. It was assessed that loan was not in default as (i) the repayment had not been demanded, and (ii) the subsidiary was considered to be performing.

The maximum period over which expected impairment losses were measured was the period needed to transfer the cash once demanded.

As at 31 December 2021, Arrow Global One Limited could repay the outstanding balance of the receivable in full within two months, with the majority of the payment being received immediately. Accordingly there is no material expected credit loss.

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Notes to the Financial Statements *(continued)*

21. Related party transactions *(continued)*

Key management

Key management personnel, defined as permanent members of the board plus the executive committee in the current year and as permanent members of the board plus all non-executive directors in the prior year, were awarded the following compensation for the financial year since being key management:

	2021	2020
Remuneration	**£000**	**£000**
Salaries and performance related bonus	4,455	1,222
Pension-related benefits	90	87
Share-based payments	9,591	–
	14,136	**1,309**

The number of key management during the year was 17 (2020: 7).

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

22. Investments in subsidiaries and associate

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* *Company no. 04637581*	UK (England & Wales)	Note 1	100	Trading	DFS
AGG Capital Management (Holdco) Limited (ACM(H)L)* *Company no. 12272877*	UK (England & Wales)	Note 2	100	Trading	AGGL
AGL Fleetwood Limited* *Company no. 11889566*	UK (England & Wales)	Note 2	100	Trading	AFTL
AGL Fleetwood 2 Limited* *Company no. 12660006*	UK (England & Wales)	Note 2	100	Trading	AF2TL
AGL Fleetwood 2 Topco Limited (AF2TL)* *Company no. 12655329*	UK (England & Wales)	Note 2	100	Trading	AGIHL
AGL Fleetwood 3 Limited (AF3L)* *Company no. 12660015*	UK (England & Wales)	Note 2	100	Trading	AF2TL
AGL Fleetwood Topco Limited (AFTL)* *Company no. 11886176*	UK (England & Wales)	Note 2	100	Trading	AGIHL
Arrow Global (Holdings) Limited (AG(H)L)* *Company no. 05606576*	UK (England & Wales)	Note 2	100	Trading	AGIHL
Arrow Global Accounts Management Limited* *Company no. 05478076*	UK (England & Wales)	Note 2	100	Trading	AGL
Arrow Global Adviser Limited* *Company no. 12311219*	UK (England & Wales)	Note 2	100	Trading	AGIHL
Arrow Global Europe Limited* *Company no. 09296946*	UK (England & Wales)	Note 2	100	Trading	AGIHL
Arrow Global Finance Plc* *Company no. 08361735*	UK (England & Wales)	Note 2	100	Trading	AGIHL
Arrow Global Guernsey Limited* *Company no. 08768171*	UK (England & Wales)	Note 2	100	Dormant	AG(H)L
Arrow Global Investments Holdings Limited (AGIHL)* *Company no. 06568603*	UK (England & Wales)	Note 2	100	Trading	AGGHL
Arrow Global Legh Limited* *Company no. 08612068*	UK (England & Wales)	Note 2	100	Dormant	AG(H)L
Arrow Global Limited (AGL)* *Company no. 05606545*	UK (England & Wales)	Note 2	100	Trading	AG(H)L
Arrow Global Luna Limited* *Company no. 08898157*	UK (England & Wales)	Note 2	100	Trading	AG(H)L
Arrow Global Management Limited* *Company no. 07373491*	UK (England & Wales)	Note 2	100	Dormant	AG(H)L
Arrow Global Massey Limited* *Company no. 08612076*	UK (England & Wales)	Note 2	100	Dormant	AG(H)L
Arrow Global One Limited (AGOL)* *Company no. 08649653*	UK (England & Wales)	Note 2	100	Trading	AGGL

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Notes to the Financial Statements *(continued)*
22. Investments in subsidiaries and associate *(continued)*

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Arrow Global Portugal Investments Limited* *Company no. 09312429*	UK (England & Wales)	Note 2	100	Trading	AF3L
Arrow Global Portugal Limited* *Company no. 07243769*	UK (England & Wales)	Note 2	100	Trading	AF3L
Arrow Global Receivables Management Limited* *Company no. 05875306*	UK (England & Wales)	Note 2	100	Trading	AG(H)L
Arrow SMA LP Limited (ASLL) * *Company no. 12272894*	UK (England & Wales)	Note 2	100	Trading	AGIHL
Bergen Capital Management Limited* *Company no. 07553297*	UK (England & Wales)	Note 2	100	Trading	MAL
Capquest Debt Recovery Limited (CDRL)* *Company no. 03772278*	UK (England & Wales)	Note 2	100	Trading	CGL
Capquest Group Limited (CGL)* *Company no. 04936030*	UK (England & Wales)	Note 2	100	Trading	QNL
Capquest Investments Limited* *Company no. 05245825*	UK (England & Wales)	Note 2	100	Trading	CGL
Capquest Mortgage Servicing Limited* *Company no. 05821008*	UK (England & Wales)	Note 2	100	Trading	AGOL
Drydens Limited (DFS)* *Company no. 06765260*	UK (England & Wales)	Note 1	100	Trading	AGL
Erudio Customer Management Limited* *Company no. 08612113*	UK (England & Wales)	Note 2	100	Dormant	AG(H)L
Mars Acquisition Limited (MAL)* *Company no. 08522909*	UK (England & Wales)	Note 2	100	Trading	AGIHL
Mars Capital Finance Limited* *Company no. 05859881*	UK (England & Wales)	Note 2	100	Trading	MAL
Mars Capital Management Limited* *Company no. 06483032*	UK (England & Wales)	Note 2	100	Trading	MAL
Quest Bidco Limited (QBL)* *Company no. 07653281*	UK (England & Wales)	Note 2	100	Trading	QTL
Quest Newco Limited (QNL)* *Company no. 07715012*	UK (England & Wales)	Note 2	100	Trading	QBL
Quest Topco Limited (QTL)* *Company no. 07653295*	UK (England & Wales)	Note 2	100	Trading	AGIHL
Western Acquisition Holdings Limited* *Company no. 11341725*	UK (England & Wales)	Note 2	50	Dormant	AGL
Mars Capital Management Ireland DAC	Republic of Ireland	Note 3	100	Trading	MAL
Mars Capital Finance Ireland DAC	Republic of Ireland	Note 3	100	Trading	MAL
Arrow Global Guernsey Limited	Guernsey	Note 4	100	Dormant	AGIHL
Arrow Global Guernsey Holdings Limited (AGGHL)	Guernsey	Note 4	100	Trading	AGOL
AGG Capital Management Limited (AGGCML)	Jersey	Note 5	100	Trading	ACM(H)L
Arrow SMA GP Limited (ASGL)	Jersey	Note 5	100	Trading	ASLL
Arrow Global SMA I LP	Jersey	Note 5	100	Trading	ASLL/ ASGL
Arrow Global Investments Holdings Italia S.R.L. (AGIHIS)	Italy	Note 6	100	Trading	AGIHL
Zenith Service S.p.A. (ZSS)	Italy	Note 6	100	Trading	AGIHIS
Zen Finance Management S.R.L.	Italy	Note 6	50	Trading	ZSS
Arrow Global Italia S.R.L. (AGIS)	Italy	Note 6	100	Trading	AGIHL
VAR Reoco S.R.L.	Italy	Note 6	100	Trading	AGIS
Europa Investimenti Spa (EIS)	Italy	Note 7	71.7	Trading	AGIS
Europa Investimenti Trading S.R.L. (EITS)	Italy	Note 7	100	Trading	EIS
Fieramosca Dieci S.R.L.	Italy	Note 7	100	Trading	EIS
Sagitta SGR Spa	Italy	Note 7	97.26	Trading	EIS
Europa Investimenti Aziende S.R.L. (EIAS)	Italy	Note 7	100	Trading	EIS
Europa Investimenti Gestione Attivi S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Due S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Cinque S.R.L.	Italy	Note 7	100	Trading	EIS
Europa Investimenti Corporate Finance S.R.L.	Italy	Note 7	100	Trading	EIS

Notes to the Financial Statements *(continued)*

22. Investments in subsidiaries and associate *(continued)*

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Lanzone Diciannove S.R.L. (LDS)	*Italy*	*Note 7*	100	*Trading*	EIS
Lanzone Dodici S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Ventidue S.R.L.	Italy	Note 7	100	Trading	EIS
Lanzone Quindici S.R.L.	*Italy*	*Note 7*	100	*Trading*	EIS
Lanzone Ventuno S.R.L.	Italy	Note 8	70	Trading	LDS
LeaseCo First Srl	Italy	Note 6	100	Trading	ZSS
Whitestar S.R.L (WS)	*Italy*	*Note 9*	100	*Trading*	AGIS
New Call S.R.L.	Italy	Note 9	100	Trading	WS
Giardini di Sacro Monte Eco-Immobiliare S.r.l.	Italy	Note 6	100	Trading	AGIS
Etna SPV S.R.L	*Italy*	*Note 6*	100	*Trading*	AGIS
Etna Reoco S.R.L.	Italy	Note 6	0	Trading	N/A
Forest SPV S.R.L	Italy	Note 6	100	Trading	AGIS
Haywave SPV S.R.L	*Italy*	*Note 6*	100	*Trading*	N/A
Leonardo Investment Opportunities	Italy	Note 6	0	Trading	N/A
SPV Project 156 S.R.L	Italy	Note 6	100	Trading	AGIS
SPV Project 158 S.R.L	*Italy*	*Note 6*	0	*Trading*	N/A
SPV Project 1608	Italy	Note 6	0	Trading	N/A
SPV Project 1713 S.R.L	Italy	Note 6	100	Trading	AGIS
Vulcan SPV S.R.L	*Italy*	*Note 6*	100	*Trading*	AGIS
Zeus Finance S.R.L	Italy	Note 6	0	Trading	N/A
PARR SH. P.K.	Albania	Note 10	100	Trading	WS
Strzala Sp. z o.o.	Poland	Note 11	100	Dormant	AG(H)L/AGL
Capquest Debt Recovery S.A (pty) Limited	South Africa	Note 12	100	Dormant	CDRL
AGHL Portugal Investments Holdings, S.A. (AGHLPIH)	Portugal	Note 13	100	Trading	AGIHL
Every Possibilities – Unipessoal LDA (EPUL)	Portugal	Note 13	100	Trading	AGHLPIH
Little Turbilhão SA	*Portugal*	*Note 13*	100	*Trading*	AF3L
Hefesto STC, S.A.	Portugal	Note 14	100	Trading	AGHLPIH
Norfin Investimentos, S.A.(NISA)	Portugal	Note 15	100	Trading	AGHLPIH
Norfin – Sociedade Gestora de Organismos de Investimento Coletivo, S.A	Portugal	Note 14	100	Trading	NISA
Norfin – Serviços, S.A	*Portugal*	*Note 15*	100	*Trading*	NISA
Sandalgreen, Assets, S.A.	Portugal	Note 13	100	Trading	AF3L
Sucesso Delicado, S.A.	Portugal	Note 13	100	Trading	AGHLPIH
Whitestar Asset Solutions, S.A.	Portugal	Note 14	100	Trading	AGHLPIH
Amstelveste Vastgoed B.V.	the Netherlands	Note 16	100	Trading	AGIHB/VFS
Arrow Global Investments Holdings Benelux B.V. (AGIHB)	the Netherlands	Note 16	100	Trading	AGIHL
Focum Groep B.V. (FG)	the Netherlands	Note 16	100	Trading	AGIHB
Focum Solutions B.V.	the Netherlands	Note 16	100	Trading	FG
Fiditon Holding B.V. (FH)	the Netherlands	Note 16	100	Trading	AGIHB
Focum Commerce B.V.	the Netherlands	Note 16	100	Trading	FG
Focum Finance B.V.	the Netherlands	Note 16	100	Trading	FG
Incassobureau Fiditon B.V.	the Netherlands	Note 16	100	Trading	FH
KU88 B.V.	the Netherlands	Note 16	100	Trading	AGBH
Universum Inkasso B.V. (UI)	the Netherlands	Note 16	100	Non-Trading	AGIHB
Vesting Finance Detachering B.V.	the Netherlands	Note 16	100	Trading	VFH
Vesting Finance Holding B.V. (VFH)	the Netherlands	Note 16	100	Trading	AGIHB
Vesting Finance Incasso B.V.	the Netherlands	Note 16	100	Trading	VFH
Vesting Finance Servicing B.V. (VFS)	the Netherlands	Note 16	100	Trading	AGIHB

Notes to the Financial Statements *(continued)*

22. Investments in subsidiaries and associate *(continued)*

Name	Place of incorporation (or registration) and operation	Registered office	Proportion of ordinary shares ownership (%)	Current status	Parent company
Arrow Global Benelux (Holdings) B.V. (AGBH)	the Netherlands	Note 16	100	Trading	AGIHB
Spark Hypotheken B.V.	the Netherlands	Note 16	100	Trading	AGBH
Bow Advisers S.á r.l	Luxembourg	Note 17	100	Trading	AGGCML
Bow (Co-invest) Advisers S.á r.l	Luxembourg	Note 17	100	Trading	AGGCML
Bow (SMA)Advisers S.á r.l	Luxembourg	Note 17	100	Trading	AGGCML
Focum Belgium (BVBA)	Belgium	Note 18	100	Trading	AGIHB/FG

* Subsidiaries which have chosen to take advantage of the audit exemption set out within section 479A of the Companies Act 2006, with Arrow Global Group Limited providing a declaration of guarantee as at 31/12/2021.

Notes	Registered addresses
Note 1	10th Floor, West One, 114 Wellington Street, Leeds, LS1 1BA
Note 2	Belvedere, 12 Booth Street, Manchester, M2 4AW
Note 3	One Warrington Place, Dublin, D02 HH27
Note 4	First Floor, Albert House, South Esplanade, St Peter Port, Guernsey
Note 5	27 Esplanade, St Helier, Jersey, JE1 1SG
Note 6	Via V. Betteloni 2, 20131 Milan
Note 7	Via Lanzone 31, 20123 Milan
Note 8	Via Niccolo Tommaseo 68, 35131 – Padova
Note 9	Via Pieve Torina, 44–46/a, 00156 Rome
Note 10	Kryqezimi i Rruges Irfan, Tomini me Bulevardin, Gjergj Fishta – Tirana
Note 11	Al. Jerozolimskie nr 148, 02–326, Warszawa
Note 12	Office Suite 15, Canal Edge 1, Tyger Waterfront, Carl Cronje Drive, Bellville, Western Cape, 7530, South Africa
Note 13	Edifício D. Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, 2770 203 Paço de Arcos, Portugal
Note 14	Avenida Almirante Gago Coutinho, nº. 30, piso 0 1000-017 Lisboa
Note 15	Avenida da República, nº 35, 4º, 1050–186, Lisboa–Portugal
Note 16	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands
Note 17	6D, route de Treves, L-2633 Senningerberg, Grand Duchy of Luxembourg
Note 18	Koralenhoeve 15, 2160 Wommelgem, Belgium

All subsidiaries are included in the Group consolidation, including where the Group does not own 100% of the ordinary shares of the Company. This may arise where the Group exercises control over the relevant activity of the entity and can use this control to impact the variability of returns from the entity. The Group, at times, must exercise judgement as to whether the combination of control and exposure to variability of returns arising from an entity means it is acting primarily as an agent, or as a principal for its own interests and should therefore consolidate the entity into the results of the Group. The Group went into significant consideration as to whether the Group's acquired stake in Maslow Global Limited and option to purchase the remaining 51% in the future required consolidation or not, and concluded that it should be treated as an investment in associate, see page 66 for more detail. The Group did not consolidate any entity which individually had material non-controlling interest balances, and, as such, no further disclosure on non-controlling interests have been provided in this note.

Financial support given to structured entities

During the year, the Group issued no guarantees (2020: nil) to holders of notes issued by structured entities that the Group consolidates.

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Notes to the Financial Statements *(continued)*

22. Investments in subsidiaries and associate *(continued)*

Company: investment in subsidiaries

	2021 £000	2020 £000
AGG Capital Management (Holdco) Limited	1,400	700
Arrow Global One Limited	319,750	307,500
Total	**321,150**	**308,200**

The investments in subsidiaries are all stated at cost less accumulated impairment, the latter which is zero.

Associate

On 31 December 2021, the Group acquired 49% of the share capital of Maslow Global Limited (Maslow). Maslow currently specialises in UK real estate development finance, the acquisition of which enhances the Group's capabilities in this sector of the market and enhances the pivot to a capital-light integrated fund manager. The total consideration for the investment is £36,750,000 including cash of £24,500,000 and £12,250,000 of equity instruments via 3,983,740 shares in the parent company Sherwood Topco Limited. In addition, the Group entered into a share option agreement to acquire the remaining 51%. At the date of acquisition, the share option was valued at £25,434,000 and forms part of the consideration.

Maslow's principal place of business and country of incorporation is Guernsey, with a focus on the UK market. As at the year end the Group held 49% of the ownership interest.

The investment in Maslow has been recognised as an investment in associate and has been equity accounted.

The following is summarised financial information for Maslow as at the year end, modified for fair value adjustments on acquisition. No summary of comprehensive income has been presented as the investment occurred at the end of the period.

	2021 £000
Maslow's summarised financial information	
Current assets	8,633
Non-current assets	11,992
Current liabilities	(1,693)
Net assets	**18,932**
Attributable to investee's shareholders	18,932
Group's interest in investee	
Group's interest in net assets of investee at the year end	9,277
Goodwill	52,907
Carrying amount of interest in investee at the year end	**62,184**

Notes to the Financial Statements *(continued)*

23. Portfolio investments

Split of portfolio investments by period:

	2021 £000	2020 £000
Expected falling due after 1 year	722,783	742,153
Expected falling due within 1 year	307,176	300,062
	1,029,959	**1,042,215**

The movements in portfolio investments were as follows:

As at 31 December 2021	**Amortised cost £000**	**FVTPL £000**	**Real estate inventories £000**	**Total £000**
As at the beginning of the year	793,554	187,421	61,240	1,042,215
Portfolios purchased during the year	35,518	154,145	-	189,663
Balance sheet cash collections in the year	(280,999)	(73,923)	(12,464)	(367,386)
Income from portfolio investments at amortised cost	134,101	-	-	134,101
Fair value gain on portfolio investments at FVTPL	-	62,451	-	62,451
Income from portfolio investments – real estate inventories	-	-	1,963	1,963
Net impairment losses	8,629	-	(5,920)	2,709
Exchange and other movements	(8,116)	(27,286)	(355)	(35,757)
As at the year end	**682,687**	**302,808**	**44,464**	**1,029,959**

As at 31 December 2020	**Amortised cost £000**	**FVTPL £000**	**Real estate inventories £000**	**Total £000**
As at the beginning of the year	932,199	169,799	61,626	1,163,624
Portfolios purchased during the year	47,169	62,681	–	109,850
Balance sheet cash collections in the year	(287,662)	(46,074)	(5,136)	(338,872)
Income from portfolio investments at amortised cost	164,597	–	–	164,597
Fair value gain on portfolio investments at FVTPL	–	4,976	–	4,976
Income from portfolio investments – real estate inventories	–	–	492	492
Net impairment losses	(100,022)	–	(414)	(100,436)
Exchange and other movements	37,273	(3,961)	4,672	37,984
As at the year end	**793,554**	**187,421**	**61,240**	**1,042,215**

Amortised cost portfolios and real estate inventories have decreased in the year, while FVTPL portfolios have increased. This reflects the Group's pivot to an integrated fund manager such that the majority of investments in the year have been through the Fund as minority co-investments.

Note that for real estate inventories, which are not financial instruments, the balance sheet cash collections figure above is analogous to total sales of inventories, and the net of balance sheet cash collections and income from portfolio investments – real estate inventories, is analogous to cost of sales of inventories. Sales of inventories are accounted for as revenue under IFRS 15, as they are not financial instruments, but are presented alongside the other portfolio investments for ease of reference.

Notes to the Financial Statements *(continued)*

23. Portfolio investments *(continued)*

Incorporation of forward-looking information

Note 4 includes a description of how the future cash flows are estimated for the Group's portfolio investments. Additionally, the Group incorporates forward-looking information in the measurement of portfolio investments held at amortised cost. The Group formulates three economic scenarios: a base case, which is the central scenario, developed based on consensus forecasts, and two less likely scenarios – one upside and one downside scenario.

These scenarios are calculated by an external and independent macroeconomic forecasting company and are reviewed internally before being used in the Group's models. To derive these scenarios, multiple sources of information are considered, including economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund, and selected private-sector and academic forecasts.

The Group has identified and documented key drivers of credit risk for its portfolio investments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key drivers for credit risk for portfolio investments are: HPI's and unemployment rates, with all countries using the international labour organisation definition across countries. For exposures to specific regions, the key drivers also include relevant real estate prices.

Scenario modelling information

To assist with the understanding of how the Group has modelled the future cash flows which ultimately drive the valuation of the portfolio investment assets, the below table shows the probability that has been assigned to each macroeconomic scenario when preparing the cash flow forecasts.

Key sensitivities

The estimated future cash flows generated by portfolio investments are the key estimates/judgements in these financial statements. Flexing the expected future gross cash flows by -1/+1% would impact the closing carrying value of the portfolio investments as at 31 December 2021 by £9,855,000 (31 December 2020: £9,700,000). Note that this sensitivity applies only to 'amortised cost' and 'FVTPL' portfolio investments, as this is not a critical estimate for real estate portfolio assets.

A key input into the estimate of future cash flows is the probability assigned to each of the 'base', 'downside' and 'severe' cases. If 100% probability was assigned to the most optimistic/pessimistic scenario, the impact is shown in the below table, split by geography and asset class. Note that this sensitivity applies only to 'amortised cost' and 'FVTPL' portfolio investments, as this is not a critical estimate for real estate portfolio assets, as these are only assessed for impairment each period, and such an assessment does not necessarily take into account the multiple future economic scenarios.

2021	**Carrying balance 2021**	**Upside variance 2021**	**Downside variance 2021**
Geography	**£000**	**£000**	**£000**
UK and Ireland	374,808	12,174	(13,620)
Portugal	227,760	20,342	(15,145)
Netherlands	159,961	21,585	(15,173)
Italy	267,430	3,728	(2,905)
	1,029,959	**57,829**	**(46,843)**

Notes to the Financial Statements *(continued)*

23. Portfolio investments *(continued)*

2020	**Carrying Balance 2020**	**Upside variance 2020**	**Downside Variance 2020**
Geography	**£000**	**£000**	**£000**
UK and Ireland	382,889	5,617	(6,336)
Portugal	255,255	11,855	(21,304)
Netherlands	140,175	1,200	(1,389)
Italy	263,896	3,010	(12,200)
	1,042,215	**21,682**	**(41,229)**

2021	**Carrying balance 2021**	**Upside variance 2021**	**Downside variance 2021**
Asset class	**£000**	**£000**	**£000**
Secured	349,695	26,445	(19,103)
Unsecured	635,800	31,384	(27,740)
Real estate inventories	44,464	N/a	N/a
	1,029,959	**57,829**	**(46,843)**

2020	**Carrying Balance 2020**	**Upside variance 2020**	**Downside Variance 2020**
Asset class	**£000**	**£000**	**£000**
Secured	330,128	6,297	(17,889)
Unsecured	650,847	15,385	(23,340)
Real estate inventories	61,240	N/A	N/A
	1,042,215	**21,682**	**(41,229)**

24. Risks arising from financial instruments

Risk management

Credit risk

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

An investment process is in place to approve investments on the Arrow balance sheet and in respect of Arrow's participation in fund investments through its separately managed account. The Group also monitors its exposure to geographic concentration of assets. This process exists to scrutinise all aspects of a portfolio acquisition from reputational and regulatory risk through to the financial assumptions and maximum bid price.

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

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

With the introduction of IFRS 9 in 2018, the Group'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 balance sheet cash collections performance. All of the Group'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 Group's portfolio assets.

Given the nature of the portfolios the Group 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 Group'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 Group considers a number of macroeconomic scenarios, including assumptions on unemployment and 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 Group's unsecured portfolio investments.

As all of the Group's amortised cost portfolio assets are POCI, 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.

The following tables sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated the amounts in the table represent gross carrying amounts.

As at 31 December 2021	**Stage 1-3**	**POCI**	**Total**
	£000	**£000**	**£000**
Portfolio investments – amortised cost	–	682,687	682,687
Loss allowance	–	N/a	N/a
Carrying amount	**–**	**682,687**	**682,687**

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

As at 31 December 2020	**Stage 1-3**	**POCI**	**Total**
	£000	**£000**	**£000**
Portfolio investments – amortised cost	–	793,554	793,554
Loss allowance	–	N/a	N/a
Carrying amount	–	**793,554**	**793,554**

The following table sets out a geographical analysis of all portfolio investments:

	2021	**2020**
All portfolio balances	**£000**	**£000**
UK and Ireland	374,808	382,889
Portugal	227,760	255,255
Netherlands	159,961	140,175
Italy	267,430	263,896
	1,029,959	**1,042,215**

The following tables sets out further credit analysis for portfolio investments measured at amortised cost:

As at 31 December 2021

	Secured	**Unsecured**	**Total**
Amortised cost portfolio balances	**£000**	**£000**	**£000**
UK and Ireland	33,777	277,412	311,189
Portugal	41,022	121,596	162,618
Netherlands	1,251	40,743	41,994
Italy	45,057	121,829	166,886
Carrying amount	**121,107**	**561,580**	**682,687**

As at 31 December 2020

	Secured	**Unsecured**	**Total**
Amortised cost portfolio balances	**£000**	**£000**	**£000**
UK and Ireland	42,718	298,163	340,881
Portugal	69,473	137,433	206,906
Netherlands	2,299	53,498	55,797
Italy	72,163	117,807	189,970
Carrying amount	**186,653**	**606,901**	**793,554**

Portfolio balances are based on the customer's country of domicile

The Group's maximum exposure to credit risk on portfolio investments is considered equal to the current carrying balance of such portfolio investments.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

Information on collateral held against amortised cost secured loans

The following table stratifies credit exposures from secured portfolio investments held at amortised cost by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral is based on the most recent appraisals. LTV stratification is deemed a more relevant measure of the value of collateral held against secured loans than gross collateral values held, which may include an amount which is not due to the Group upon realisation.

LTV Ratio	2021 £000	2020 £000
Less than 50%	35,029	56,070
51-70%	9,565	13,315
71-90%	10,545	16,250
91-100%	3,153	4,749
More than 100%	62,815	96,269
	121,107	186,653

Other types of credit enhancements

In addition to the collateral included in the tables above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

Assets obtained by taking possession of collateral

There have been no instances of financial or non-financial assets, obtained by the Group during the year, by taking possession of collateral held as security against portfolio investments.

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operation.

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 Group is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks and foreign currency and derivative financial instruments. Counterparty risk with debt sellers is managed through contractual arrangements and warranties.

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

No collateral or credit enhancements are held in respect of any financial derivatives. The maximum credit risk on derivatives and trade receivables is the full carrying amount. The maximum exposure to counterparty risk is as follows:

	2021 £000	2020 £000
Cash and cash equivalents[1]	197,284	182,892

[1] *Includes £3,352,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position.*

The table represents a worst-case scenario of the counterparty risk that the Group is exposed to. The 31 December 2021 balance is spread across a number of counterparties with the top five accounting for 61% of the total (2020: 65%). The maximum exposure to one counterparty is £71 million (2020: £75 million).

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

The cash and cash equivalents are held with banks and financial institution counterparties whose external credit ratings, by either S&P Global Ratings or Moody's Investor Service, are as follows:

	2021	2020
	%	%
AA	4	3
A	62	72
Below A	34	25
Total cash and cash equivalents	**100**	100

Treasury-related risks

The board approves treasury policies and the treasury function manages the day-to-day operations. Treasury activities and compliance with treasury policies are reported to the board on a regular basis and are subject to periodic independent reviews and audits, both internal and external. Treasury policies are designed to manage the main financial risks faced by the Group in relation to funding and liquidity risks, counterparty credit risk and market risks being interest rate risk and foreign currency risk. This is to ensure the Group is properly funded, that financial counterparties are of appropriate credit quality and that interest rate and currency risks are managed within set limits. Policies also set out the specific instruments that can be used for risk management.

The treasury function enters into derivative transactions, principally interest rate swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's business operations. No transactions of a speculative nature are undertaken, and written options may only be used when matched by purchased options. No treasury-related written options were entered into during 2021 (2020: £nil).

Liquidity risk

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

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plans for growth. The treasury policy adopted by the Group serves to reduce this risk by setting a specific policy parameter that there are sufficient committed debt facilities and cash and cash equivalents to meet contractual maturities on borrowing facilities plus an operational headroom. In addition, the Group has a medium-term target to maintain leverage of circa 3 times, there is an appropriate refinancing profile and it has diversified funding sources with no over-reliance on a single or small group of lenders or type of funding. At 31 December 2021, the Group's asset-backed security transaction had an average period to maturity of 0.6 years (2020: 3.7 years) the movement year on year being due to the Group's senior secured notes and revolving credit facility as at 31 December 2021, being repaid in the Group and refinanced into a sister company, so no longer included within these results. Total cash and undrawn facilities, which excludes cash that may be subject to constraints regarding when the balance can be remitted, were £185.8 million at 31 December 2021 (2020: £174.6 million).

The treasury function monitors cash through daily reporting, the management accounts and periodic review meetings. Management has well-established models used to predict collectability of cash receipts and this represents a key performance indicator of the business. The Group is highly cash generative with regular cash receipts and portfolio purchases (except forward flows) are discretionary, which helps to mitigate liquidity risk.

ARROW

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

The key measure used by the Group for managing liquidity risk is liquidity headroom, which includes cash and cash equivalents and the headroom under the two committed facilities, being the revolving credit facility and the asset-backed security facility. Liquidity headroom excludes 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. Details of the liquidity headroom as at the reporting date and during the reporting period were as follows:

	2021[1]	**2020**
	£000	**£000**
At 31 December	185,771	174,648
Average for the period	174,518	174,738
Maximum for the period	219,738	225,463
Minimum for the period	111,602	129,020

[1] Includes £3,352,000 of cash and cash equivalents in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position.

Maturity analysis

The table below sets out the remaining contractual maturities (undiscounted) of the Group's financial liabilities and financial assets and includes both interest and principal cash flows, payable over the contractual life of the non-derivative financial liabilities.

Group

As at 31 December 2021	**Less than 1 month £000**	**Within 1 year £000**	**1-2 years £000**	**3-5 years £000**	**More than 5 years £000**	**Total £000**
Financial liability by type:						
Trade and other payables	13,406	112,133	56,085	39,390	6,098	**227,112**
Lease liabilities	–	2,193	5,781	–	1,355	**9,329**
Asset-backed securitisation	1,188	44,196	11,720	–	–	**57,104**
Other borrowings	–	1,072	1,133	36	–	**2,241**
Bank overdrafts	9,630	–	–	–	–	**9,630**
Amounts due to group undertakings	1,397,968	–	–	–	–	**1,397,968**
Total financial liabilities	**1,422,192**	**159,594**	**74,719**	**39,426**	**7,453**	**1,703,384**
Financial asset by type:						
Cash and cash equivalents[1]	197,284	–	–	–	–	**197,284**
Amounts due from group undertakings	41,393	–	–	–	–	**41,393**
Portfolio investments	32,100	287,081	273,492	669,670	179,248	**1,441,591**
Total financial assets	**270,777**	**287,081**	**273,492**	**669,670**	**179,248**	**1,680,268**

[1] Includes £3,352,000 of cash and cash equivalents in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

Group As at 31 December 2020	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	2,338	90,421	20,949	28,082	7,431	149,221
Lease liabilities	373	3,843	4,415	6,844	5,703	21,178
€400 million secured senior note (2.875% plus 3-month Euribor)	789	9,544	10,333	385,241	–	405,907
€285 million secured senior note (3.75% plus 3-month Euribor)	764	8,839	9,603	28,809	258,479	306,494
£320 million secured senior note (5.125%)	713	15,687	16,400	352,800	–	385,600
Revolving credit facility[1]	790	8,495	9,251	289,558	–	308,094
Asset-backed securitisation	1,552	85,414	47,653	19,874	–	154,493
Other borrowings	–	632	1,483	1,132	–	3,247
Bank overdrafts[2]	3,648	–	–	–	–	3,648
Total financial liabilities	**10,967**	**222,875**	**120,087**	**1,112,340**	**271,613**	**1,737,882**
Financial asset by type:						
Cash and cash equivalents	182,892	–	–	–	–	182,892
Portfolio investments	23,064	279,912	303,676	656,036	188,058	1,450,746
Total financial assets	**205,956**	**279,912**	**303,676**	**656,036**	**188,058**	**1,633,638**

[1] *Reflects all drawings at 31 December 2020 being held to the facility maturity date of 4 January 2024.*

[2] *Includes £3,352,000 of cash and cash equivalents in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position.*

The above tables includes a maturity analysis for financial assets that it holds as part of managing liquidity risk – e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities – to enable the user to evaluate the nature and extent of the Group's and the Company's liquidity risk.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents which can be readily used to meet liquidity requirements. In addition, the Group maintains a committed revolving credit facility provided by a syndicate of banks.

The non-derivative financial liabilities and financial assets are calculated based upon the undiscounted cash flows, which include estimated interest payments. The analysis above includes the contractual cash flow for borrowings and the total amount of interest payable over the life of the loan. Where borrowings are subject to a floating rate, an estimate of interest payable is taken. The rate is derived from interest rate yield curves at the statement of financial position date.

Company As at 31 December 2021	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	–	39,958	–	–	–	39,958
Total financial liabilities	–	**39,958**	–	–	–	**39,958**
Financial asset by type:						
Cash and cash equivalents	16	–	–	–	–	16
Total financial assets	**16**	–	–	–	–	**16**

ARROW

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

Company **As at 31 December 2020**	**Less than 1 month £000**	**Within 1 year £000**	**1-2 years £000**	**3-5 years £000**	**More than 5 years £000**	**Total £000**
Financial liability by type:						
Trade and other payables	777	3,280	–	–	–	4,057
Total financial liabilities	**777**	**3,280**	**–**	**–**	**–**	**4,057**
Financial asset by type:						
Cash and cash equivalents	49	–	–	–	–	49
Total financial assets	**49**	**–**	**–**	**–**	**–**	**49**

In addition to the above, the Group has entered into certain forward flow agreements to purchase investment portfolio assets to which it has committed to pay an estimated £18,000,000 (2020: £48,000,000) during 2022.

The following analysis shows the gross non-discounted contractual cash flows in respect of foreign currency contract derivative assets and liabilities:

	2021		**2020**	
	Outflow £000	**Inflow £000**	**Outflow £000**	**Inflow £000**
Not later than one month	–	–	21	–
Later than one month and not later than six months	–	–	21	–
Later than six months and not later than one year	2,614	2,503	42	–
Later than one year and not later than two years	–	–	–	–
Later than two years and not later than five years	–	–	–	–
Total	**2,614**	**2,503**	**84**	**–**

The above table shows the gross contractual undiscounted cash flows receivable and payable on the derivative financial instruments.

The net cash flow exposure as at 31 December 2021 is £111,000 (2020: £29,000).

Financial assets pledged as collateral

See note 28 for more information.

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 and are considered further below. Note that the Group does not hold any trading portfolios for the purposes of these disclosures.

Interest rate risk

The Group has an exposure to interest rate risk arising on changes in interest rates on its borrowings, principally on the floating rate senior secured notes, and therefore seeks to limit this exposure. This is achieved by the use of techniques to fix interest rate costs, including fixed-rate funding (predominantly longer-term bond funding), bank borrowing loan draw down periods and interest rate hedging instruments. These techniques are used to hedge the interest rate costs on a proportion of borrowings over a certain period of time. Most hedging is for up to three years.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

	2021	2020
Fixed-rate instruments	**£000**	**£000**
Financial liabilities	–	320,000
	–	**320,000**
Variable-rate instruments		
Financial assets[1]	(197,284)	(182,892)
Financial liabilities	65,171	1,047,521
Effect of interest rate swaps	–	(161,734)
	(132,113)	**702,895**

[1] *Includes £3,352,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position.*

If interest rates across all countries of operation increased by 50 basis points this would have the following impact:

	2021	2020
	£000	**£000**
Reduction in profit before taxation	6	(671)

This sensitivity analysis is based on the following assumptions:

- the change in market interest rates occurs in all countries where the Group has borrowings and/or derivative financial instruments;
- where financial liabilities are subject to fixed interest rates or have their interest rate fixed by hedging instruments it is assumed that there is no impact from a change in interest rates; and
- changes in market interest rates affect the fair value of derivative financial instruments.

Currency risk

The Group is subject to three types of currency risk: cash flow exposure, net asset exposure and income statement exposure.

Cash flow exposure

The Group is subject to currency risk in respect of future cash flows which are denominated in foreign currency. The policy of the Group is to hedge a large proportion of this currency risk in respect of cash flows which are highly likely to arise in the following 12 months. Where cash flow hedges have been entered into, they are designated as cash flow hedges on specific future transactions.

Net asset exposure

A proportion of the Group's net assets are denominated in Euro. The Group limits its exposure to currency risk on non-functional funding through forward currency contracts. 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 Group. The Group aims to minimise, to an acceptable level of appetite, 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 Group's profit is denominated in Euro but translated into Sterling for reporting purposes. The result for the period 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 consolidated result for the period. This risk is managed by the Group matching Euro asset purchases with Euro funding wherever possible, to achieve an element of natural hedging.

ARROW

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

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 Group's net assets and net profit for each significant denomination of currency would increase as follows:

	2021	2020
Equity and net assets	**£000**	**£000**
Currency		
Euro (EUR)	(37,322)	21,456
	(37,322)	**21,456**
Net profit		
Currency		
Euro (EUR)	(3,196)	298
	(3,196)	**298**

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).

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 Group's net assets and net profit for each significant denomination of currency would increase as follows:

	2021	2020
Equity and net assets	**£000**	**£000**
Currency		
Euro (EUR)	30,742	(17,555)
	30,742	**(17,555)**
Net Profit		
Currency		
Euro (EUR)	2,615	(244)
	2,615	**(244)**

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).

Capital risk management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group is currently not required to hold regulatory capital but has a medium-term target to maintain leverage (calculated as secured net debt over Adjusted EBITDA) of circa 3.0. During the impacts of COVID-19, leverage increased to 5.1 times as at 31 December 2020, above the target range.

The Group aims to maintain appropriate capital to ensure that it has a strong statement of financial position but at the same time is providing a good return on equity to its shareholders. The Group's long-term aim is to ensure that the capital structure results in an optimal ratio of debt and equity finance.

The capital structure of the Group consists of cash, cash equivalents debt and equity.

Notes to the Financial Statements *(continued)*

24. Risks arising from financial instruments *(continued)*

Management reviews the capital structure on an ongoing basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group's position as at 31 December 2021 was:

	2021 £000	2020 £000
Ordinary share capital and premium	361,525	349,210
Other reserves	(365,676)	(236,012)
Total equity and reserves	**(4,151)**	**113,198**

25. Financial assets and liabilities

Fair values of financial assets and liabilities

The fair value and carrying value of the financial assets and liabilities of the Group are set out below. The Group does not apply 'offsetting' to any of its financial assets and liabilities.

As at 31 December 2021	**Mandatorily at FVTPL** **£000**	**Amortised cost** **£000**	**Total carrying amount** **£000**	**Total fair value** **£000**
Portfolio investments	302,808	682,687	985,495	1,006,042
Cash and cash equivalents	–	193,932	193,932	193,932
Other receivables classified as financial assets	–	88,851	88,851	88,851
Total financial assets	**302,808**	**965,470**	**1,268,278**	**1,288,825**

As at 31 December 2021	**Mandatorily at FVTPL** **£000**	**Amortised cost** **£000**	**Total carrying amount** **£000**	**Total fair value** **£000**
Asset-backed loans	–	55,158	55,158	55,158
Bank overdrafts[1]	–	9,559	9,559	9,559
Other borrowings	–	2,241	2,241	2,241
Derivative liability	25,607	–	25,607	25,607
Trade and other payables classified as financial liabilities	495	1,513,435	1,513,930	1,513,930
Total financial liabilities	**26,102**	**1,580,393**	**1,606,495**	**1,606,495**

[1] Includes £71,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Liabilities held for sale' on the condensed consolidated statement of financial position. Therefore, there is £9,630,000 of bank overdrafts on the consolidated statement of financial position.

As at 31 December 2020	**Mandatorily at FVTPL** **£000**	**Amortised cost** **£000**	**Total carrying amount** **£000**	**Total fair value** **£000**
Portfolio investments	187,421	793,554	980,975	1,036,819
Cash and cash equivalents	–	182,892	182,892	182,892
Other receivables classified as financial assets	–	57,586	57,586	57,586
Total financial assets	187,421	1,034,032	1,221,453	1,277,297

Notes to the Financial Statements *(continued)*
25. Financial assets and liabilities *(continued)*

As at 31 December 2020	Mandatorily at FVTPL	Amortised cost	Total carrying amount	Total fair value
	£000	£000	£000	£000
Senior secured notes	–	930,575	930,575	926,762
Revolving credit facility	–	277,552	277,552	277,552
Asset-backed loans	–	143,985	143,985	143,985
Bank overdrafts	–	3,648	3,648	3,648
Other borrowings	–	3,247	3,247	3,247
Derivative liability	83	–	83	83
Trade and other payables classified as financial liabilities	475	112,225	112,700	112,700
Total financial liabilities	558	1,471,232	1,471,790	1,467,977

Fair value estimation

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For instruments that trade infrequently and have little price transparency, fair value is less objective, and required judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

The Group 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 the differences between the instruments.

Application to the Group'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 £(10,249,000)/£10,626,000.

The fair value of cash and cash equivalents and the revolving credit facility are deemed to be equal to their carrying amount.

The carrying value of other receivables and payables classified as financial assets/liabilities is deemed to be a good approximation of their fair value, due to their short maturity and low credit risk. These would be considered as level 3 fair values.

Notes to the Financial Statements *(continued)*

25. Financial assets and liabilities *(continued)*

The carrying value of asset-backed loans is deemed to be a good approximation of their fair value. Given the significant collateral underpinning the asset-backed loans, it is deemed appropriate to not adjust the carrying value for expected credit losses when deriving the fair value of the loans. Additionally, the market rate is not deemed to have materially changed since the issuance of the asset-backed loans. The fair value would be categorised as a level 3 value.

The fair value of the senior secured notes has been calculated by reference to broker quotes that are based on observable market inputs and therefore would be included as level 2 in the fair value hierarchy table should the liability have been held at fair value.

Derivative financial instruments are held at fair value, which is equal to the discounted expected future cash flows arising as a result of the derivative transaction. For other financial assets and liabilities, which are all short-term in nature, the carrying value is a reasonable approximation of fair value.

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	2020
Level 2	**£000**	**£000**
Liabilities:		
Interest rate swaps	–	(83)
	–	**(83)**

	2021	2020
Level 3	**£000**	**£000**
Assets:		
Portfolio investments	302,808	187,421
Liabilities:		
Contingent consideration	(495)	(475)
Derivative liabilities	(25,607)	-
	276,706	**186,946**

There have been no transfers between level 2 or level 3. However, it has been determined that contingent consideration liabilities qualify as level 3 financial liabilities held at FVTPL. As such, they are now included within this disclosure.

The fair value of derivative financial instruments used for risk management purposes has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at 31 December 2021.

The fair value of derivative financial instruments relating to the Maslow acquisition share option has been calculated using a binomial lattice model.

Total gains on portfolio investments recognised at FVTPL have been presented in the income statement as 'Fair value gains on portfolio investments at FVTPL'. The fair value of portfolio investments recognised as FVTPL has been calculated by using a discounted cash flow model. The significant unobservable inputs used in the calculation of portfolio investments categorised as level 3 in the fair value hierarchy are estimated future cash flows (ERCs) derived from management forecasts and the discount rate appropriate to the investment and the anticipated rate of return.

The total 84-month ERC value for the Group's portfolio investments held at FVTPL is £407,494,000, with an average discount rate of 15.1%. An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at FVTPL of £3,028,000/(£3,028,000). An increase/decrease in the discount rate of 1% would lead to a decrease/increase in the carrying value of portfolio investments held at FVTPL of (£5,474,000)/£5,674,000.

Notes to the Financial Statements *(continued)*

25. Financial assets and liabilities *(continued)*

The total ERC value for the Group's portfolio investments held at amortised cost is £986,768,000, with an average discount rate of 21.7%. An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at amortised costs of £6,827,000/(£6,827,000). An increase/decrease in the discount rate of 1% would lead to a decrease/increase in the carrying value of portfolio investments held at amortised of (£10,249,000)/£10,626,000. A full reconciliation between the opening and closing portfolio investments held at FVTPL has been provided in note 23. For a fuller description of how the future cash flows are estimated, please refer to note 4.

Reconciliation of level 3 fair values – contingent consideration

Contingent consideration – level 3	**2021 £000**	**2020 £000**
As at the beginning of the year	475	12,549
Contingent consideration remeasurement to deferred consideration	–	(5,755)
Transfer to trade and other payables	–	(6,774)
Unwind of discounting	20	–
Foreign exchange gain	–	455
As at the year end	**495**	**475**

Contingent consideration has arisen as a result of business combinations in prior periods. The outstanding balance of £495,000 relates to the acquisition of Drydens and has a minimum/maximum pay-out of £nil/£500,000. Of the remaining 2020 balance, £475,000 relates to the acquisition of Drydens and has a minimum/maximum pay-out of £nil/£500,000.

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments, receipts and exposure to currency rate fluctuations. The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2021 is £2,614,000 (2020: nil). The fair value as at 31 December 2021 £105,000.

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.

Level 3	**2021 £000**	**2020 £000**
Assets:		
Portfolio investments – amortised cost	**682,687**	**793,554**

There have been no transfers in or out of level 3. However, it has been determined that deferred consideration liabilities qualify as level 3 financial liabilities held at amortised cost. The statement of financial position value of the Group'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 Group 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 assets and reviews revenue recognition. A reconciliation of the opening to closing balances for the year of the portfolio investments can be seen in note 23.

Notes to the Financial Statements *(continued)*

25. Financial assets and liabilities *(continued)*

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).

Derivatives designated as cash flow hedges

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Instrument type	£000	£000	£000	£000
Interest rate swaps	–	–	–	83
Total derivatives designated as cashflow hedges	–	–	–	**83**

Interest rate hedging

As at the end of 2021, the Group has no interest rate swaps outstanding. As at 31 December 2020, the Group had Euro interest rate swaps, which hedged floating 3-month Euribor with a zero percent floor to a fixed rate and have been designated as cash flow hedges, in place for a Sterling equivalent notional amount of £161,734,000. These interest rate swaps covered current borrowings, being the floating rate senior secured Euro notes. An amount of £83,000 has been credited to equity for the Group in the period in respect of cash flow hedges (2020: £427,000 credit). All hedge relationships have been effective in the year and are expected to maintain effectiveness.

Hedge effectiveness is assessed based upon the relative changes in cash flows arising from the specified portion of the Group's floating rate borrowings, relative to the change in cash flows of the interest rate swaps (using the hypothetical derivative method). The hedges were deemed to be highly effective in the current and prior period. In such hedge relationships, the main source of potential hedge ineffectiveness is counterparty credit risk, of both parties, including the Group. There are no other material sources of hedge ineffectiveness.

Interest rate swaps in place at the statement of financial position date are designated, and are effective under IFRS 9, as cash flow hedges, and their fair value has been recognised in the hedging reserve. All interest rate swaps are categorised as highly effective and no ineffectiveness charge has been made to the statement of profit or loss and other comprehensive income in the year (2020: no charge). No re-classifications into or out of the hedging reserve were made in relation to interest rate swaps.

The Company did not hold any interest rate swaps at 31 December 2021 (31 December 2020: £nil). The interest payable and receivable under the interest rate swaps are expenses directly to the statement of profit and loss and no charge has been made to the Company's equity.

At 31 December 2021, the Group held the following instruments to hedge exposures to changes in interest rates.

	2021		2020	
	Less than 1 year	1-5 years	Less than 1 year	1-5 years
Interest rate risk	£000	£000	£000	£000
Interest rate swaps				
Nominal amount (£000)	–	–	180,000	–
Average fixed interest rate	–	–	0.05%	–

Reconciliation of components of equity

	Hedging reserve
Reconciliation of components of equity	£000
Balance at 1 January 2021	(67)
Cash flow hedges	
Effective portion of changes in fair value:	
Interest rate risk	78
Related tax	(15)
Balance at 31 December 2021	**(4)**

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Notes to the Financial Statements *(continued)*

26. Unconsolidated structured entities

Unconsolidated structured entities are all structured entities that the Group has an interest in, but does not control. The Group uses structured entities in the normal course of business to facilitate acquisitions of portfolios in accordance with local law, to allow co-investment with other parties, or to implement the financing required to acquire portfolios.

In addition to exposures to unconsolidated structured entities, the Group also undertakes Asset Management and Servicing activities for certain structured entities in which the Group has no other interests. Such activities are charged at a market rates, on terms normal for the industry, and are considered to be a typical customer/supplier relationship per the meaning of this term set out in 'IFRS 12 – Disclosure of Interests in Other Entities'.

Nature and risks associated with Group interests in unconsolidated structured entities:

Geography of operations

As at 31 December 2021	**UK and Ireland**	**Portugal**	**Italy**	**Netherlands**
Underlying asset type				
Loan receivables	10	6	3	5
Real estate	–	2	–	–
Number of entities	**10**	**8**	**3**	**5**

As at 31 December 2021	**UK and Ireland**	**Portugal**	**Italy**	**Netherlands**
Portfolio investments	**£000**	**£000**	**£000**	**£000**
FVTPL	45,309	47,837	69,308	117,967
Amortised cost	–	–	–	–
Total assets	**45,309**	**47,837**	**69,308**	**117,967**
Total liabilities	–	–	–	–

As at 31 December 2020	**UK and Ireland**	**Portugal**	**Italy**	**Netherlands**
Underlying asset type				
Loan receivables	2	6	2	5
Real estate	2	3	–	2
Number of entities	4	9	2	7

As at 31 December 2020	**UK and Ireland**	**Portugal**	**Italy**	**Netherlands**
Portfolio investments	**£000**	**£000**	**£000**	**£000**
FVTPL	18,991	23,718	37,459	81,833
Amortised cost	–	1,929	–	–
Total assets	18,991	25,647	37,459	81,833
Total liabilities	–	–	–	–

The maximum exposure to loss is the carrying value of the instruments summarised above, due to the nature of the Group's holdings at the fact that no additional support has been provided or committed to the vehicles.

Unconsolidated structured entities in which the Group holds an interest are typically financed by a form of junior profit participation note, and in some instances also have senior secured or senior unsecured liabilities to which the junior positions are subordinated.

Notes to the Financial Statements *(continued)*

27. Share-based payments – Group and Company

On the 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. As part of the delisting and acquisition, share-based payment charge was accelerated, which otherwise would not have been incurred in the reporting period. Outstanding share options were paid with no remaining options being held. The option vesting criteria and respective requirements as discussed below. In light of the TDR acquisition, all outstanding options vested in full during the period, excluding the 2021 LTIP issuance, which vested by a third.

Share incentive plan (SIP)

In 2021 (and previously 2014 to 2020), the Company offered to all UK employees the opportunity to participate in a SIP, where the Company gives the participating employees one matching share for each partnership share acquired on behalf of the employee using the participating employees' gross salaries. The shares vest at the end of three years on a rolling basis as they are purchased, with employees required to stay in employment for the vesting period to receive the shares.

On 30 December 2014, the Group provided eligible employees with a free share award worth £500, with a grant date price per share of £2.29 as part of the Arrow Global Group SIP. The free shares vested in 2017, with restrictions attached to these shares ceasing to have effect from the vesting date.

Long-term incentive plan (LTIP)

On 9 April 2021 and 25 June 2020, nil-cost share options and conditional awards were granted to eligible employees based on a maximum of 200% of base salary. The LTIP awards vest at the end of three years, subject to the achievement of performance conditions.

On 20 June 2019, nil-cost share options were granted to eligible employees based on a maximum of 200% of base salary. The LTIP awards vest at the end of three years subject to the achievement of performance conditions. On the same dates, tax-qualifying options were granted as part of the LTIP awards ('CSOP options') to eligible UK employees.

On 27 June 2018, 31 March 2017, 8 April 2016 and 19 May 2016, 30 June 2015 and 15 June 2015, nil-cost share options were granted to eligible employees based on a maximum of 150% of base salary. The LTIP awards vest at the end of three years subject to the achievement of performance conditions. On the same dates, CSOP options were granted as part of the LTIP awards to eligible UK employees.

Each CSOP option is subject to the same performance targets as apply to the nil-cost option part of the awards. If a CSOP option is exercised at a gain, the number of shares that may be delivered under the above associated nil-cost option under the LTIP will be reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award delivered to the participant is not increased by the grant of the CSOP option.

Awards granted on or after 27 June 2018 awards do not include the right to receive a dividend equivalent.

2021 LTIP award criteria

For each eligible employee, 33.3% of the LTIP awards were subject to the following ROE criteria:

Performance condition	Percentage vesting
Less than 25% average ROE over the three performance years	0%
25% average ROE over the three performance years (threshold performance)	25%
30% average ROE over the three performance years (maximum performance)	100%
Between 25% and 30% average ROE over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

ARROW

Notes to the Financial Statements *(continued)*

27. Share-based payments – Group and Company *(continued)*

For each eligible employee, 33.3% of the LTIP awards were subject to the following total shareholder return criteria, being share price growth plus the value of dividend. The Group is compared against the FTSE 350 Index, with the LTIP awards vesting as follows:

Performance condition	**Percentage vesting**
Below median ranking	0%
Median ranking (top 50%) ('threshold performance')	25%
Upper quartile ranking (top 25%) ('maximum performance')	100%
Between top 50% and top 25% ranking	Between the threshold performance and maximum performance on a straight-line basis

For each eligible employee, 33.3% of the LTIP awards were subject to the following FCF performance conditions:

Performance condition	**Percentage vesting**
Less than £700 million cumulative FCF over the three performance years	0%
£700 million cumulative FCF over the three performance years (threshold performance)	25%
£850 million cumulative FCF over the three performance years (maximum performance)	100%
Between £700 million and £850 million cumulative FCF over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

2020 LTIP award criteria

For each eligible employee, 33.3% of the LTIP awards were subject to the following ROE criteria:

Performance condition	**Percentage vesting**
Less than 20% ROE in the final year of the plan (2022)	0%
20% ROE in the final year of the plan (2022) (threshold performance)	25%
30% ROE in the final year of the plan (2022 (maximum performance)	100%
Between 20% and 30% average ROE over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

For each eligible employee, 33.3% of the LTIP awards were subject to the following total shareholder return criteria, being share price growth plus the value of dividend measured over a period of three years from the date of grant. The Group is compared against the FTSE 350 Index.

Performance condition	**Percentage vesting**
Below median ranking	0%
Median ranking (top 50%) ('threshold performance')	25%
Upper quartile ranking (top 25%) ('maximum performance')	100%
Between top 50% and top 25% ranking	Between the threshold performance and maximum performance on a straight-line basis

Notes to the Financial Statements *(continued)*

27. Share-based payments – Group and Company *(continued)*

For each eligible employee, 33.3% of the LTIP awards were subject to the following FCF performance conditions:

Performance condition	Percentage vesting
Less than £500 million cumulative FCF over the three performance years	0%
£500 million cumulative FCF over the three performance years (threshold performance)	25%
£600 million cumulative FCF over the three performance years (maximum performance)	100%
Between £500 million and £600 million cumulative FCF over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

2019 LTIP award criteria

For each eligible employee, 50% of the LTIP awards were subject to the following ROE criteria:

Performance condition	Percentage vesting
Less than 24% Average ROE over three performance years	0%
24% average ROE over the three performance years (threshold performance)	25%
30% average ROE over the three performance years (maximum performance)	100%
Between 24% and 30% average ROE over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

For each eligible employee, 25% of the LTIP awards were subject to the following total shareholder return criteria, being share price growth plus the value of dividend. The Group is compared against the FTSE 350 Index.

Performance condition	Percentage vesting
Below median ranking	0%
Median ranking (top 50%) ('threshold performance')	25%
Upper quartile ranking (top 25%) ('maximum performance')	100%
Between top 50% and top 25% ranking	Between the threshold performance and maximum performance on a straight-line basis

For each eligible employee, 25% of the LTIP awards were subject to the following FCF performance conditions:

Performance condition	Percentage vesting
Less than £715 million cumulative FCF over the three performance years	0%
£715 million cumulative FCF over the three performance years (threshold performance)	25%
£757 million cumulative FCF over the three performance years (maximum performance)	100%
Between £715 million and £757 million cumulative FCF over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

LTIP Awards 2015, 2016, 2017 and 2018 criteria

For each eligible employee, 50% of the LTIP awards were subject to the following underlying basic EPS growth criteria:

Performance condition	Percentage vesting
Less than 10% EPS growth per annum	0%
10% EPS growth per annum over the vesting period ('threshold performance')	25%
20% EPS growth per annum over the vesting period ('maximum performance')	100%
Between 10% and 20% EPS growth per annum over the vesting period	Between the threshold performance and maximum performance on a straight-line basis

Notes to the Financial Statements *(continued)*

27. Share-based payments – Group and Company *(continued)*

For each eligible employee, 25% of the LTIP awards were subject to the following total shareholder return criteria, being share price growth plus the value of dividend. The Group is compared against the FTSE 350 Index.

Performance condition	Percentage vesting
Below median ranking	0%
Median ranking (top 50%) ('threshold performance')	25%
Upper quartile ranking (top 25%) ('maximum performance')	100%
Between top 50% and top 25% ranking	Between the threshold performance and maximum performance on a straight-line basis

LTIP awards 2018

For each eligible employee, 25% of the LTIP awards were subject to the following ROE criteria:

Performance condition	Percentage vesting
Less than 26% average ROE over the three performance years	0%
26% average ROE growth over the three performance years ('threshold performance')	25%
30% average ROE growth over the three performance years ('maximum performance')	100%
Between 26% and 30% average ROE growth over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

LTIP awards 2015, 2016 and 2017

For each eligible employee, 25% of the LTIP awards were subject to the following ROE criteria:

Performance condition	Percentage vesting
Less than 20% average ROE over the three performance years	0%
20% average ROE growth over the three performance years ('threshold performance')	25%
26% average ROE growth over the three performance years ('maximum performance')	100%
Between 20% and 26% average ROE growth over the three performance years	Between the threshold performance and maximum performance on a straight-line basis

Restricted share awards

Restricted share awards were made in April 2021, June 2020 and May 2019. Prior to the delisting and acquisition, these awards were due to vest on 16 March 2022, 25 June 2022 and 10 May 2021 respectively, subject to continuity of employment. Awards made on 10 May 2018, 31 March 2017, 19 May 2016 and 15 June 2015 vested on 10 May 2020, 31 March 2019, 19 May 2018 and 11 May 2017 respectively. Due to the delisting and acquisition, the vesting has been accelerated with all awards vesting.

Deferred share bonus plan (DSBP)

Up to 50% of the bonus earned by the executive directors is deferred into shares for up to three years via the DSBP, subject to continued employment during the vesting period. DSBP awards were made on 8 April 2020, 26 March 2019 and 27 March 2018.

Deferred shares granted on 9 April 2015, 8 April 2016 and 31 March 2017 vested on 9 April 2018, 8 April 2019 and 31 March 2020 respectively.

Buy-out awards

Buy-out share awards were made on 2 January 2018, in respect to compensation of forfeited awards for Paul Cooper as a result of his resignation from his former employer, in connection with Paul Cooper's resignation the awards which were due to vest in 2020 and 2021 lapsed.

Notes to the Financial Statements *(continued)*

27. Share-based payments – Group and Company *(continued)*

Grant information

The terms and conditions of the grant were as follows:

Name Grant date/employees entitled	Method of settlement accounting	Number of instruments	Vesting period	Contractual life of options
Equity settled award – SIP	Equity	81,298	3 years	31 October 2016
Equity settled award – SIP	Equity	90,252	3 years	30 December 2017
Equity settled award – SIP	Equity	16,676	3 years (rolling)	May-June 2017
Equity settled award – LTIP	Equity	1,483,532	3 years	15 June 2018
Equity settled award – LTIP	Equity	32,739	3 years	15 June 2018
Equity settled award – SIP	Equity	55,003	3 years (rolling)	May-June 2018
Equity settled award – LTIP	Equity	1,563,299	3 years	8 April 2019
Equity settled award – SIP	Equity	73,261	3 years (rolling)	April 2019
Equity settled award – LTIP	Equity	1,430,117	3 years	31 March 2020
Equity settled award – LTIP	Equity	74,052	3 years	31 March 2020
Equity settled award – SIP	Equity	50,106	3 years (rolling)	May-June 2020
Equity settled award – DSBP	Equity	65,374	3 years	31 March 2020
Equity settled award – LTIP	Equity	1,814,874	3 years	27 June 2021
Equity settled award – SIP	Equity	111,097	3 years rolling	May-June 2021
Equity settled award – DSBP	Equity	70,891	3 years	26 March 2021
Equity settled award – buy out	Equity	49,951	1 year 4 months	30 April 2019
Equity settled award – LTIP	Equity	2,107,612	3 years	22 June 2022
Equity settled award – restricted	Equity	359,934	2 years	10 May 2021
Equity settled award – SIP	Equity	103,981	3 years rolling	May-June 2022
Equity settled award – DSBP	Equity	132,737	3 years	26 March 2022
Equity settled award – LTIP	Equity	5,723,288	3 years	25 June 2023
Equity settled award – restricted	Equity	359,934	2 years	25 June 2022
Equity settled award – SIP	Equity	773,822	3 years rolling	May-June 2023
Equity settled award – DSBP	Equity	148,149	3 years	8 April 2023
Equity settled award – LTIP	Equity	1,855,148	3 years	9 April 2024
Equity settled award – restricted	Equity	64,357	1 year	23 March 2022
Equity settled award – SIP	Equity	106,414	3 years rolling	May-June 2024

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Notes to the Financial Statements *(continued)*

27. Share-based payments – Group and Company *(continued)*

The following table shows the weighted average exercise prices (WAEP)/fair values (FV) and number of options movements during the year.

	2021		2020	
	WAEP £000	**Number of options £000**	**WAEP £000**	**Number of options £000**
Outstanding at the beginning of the year	1.47	10,942,336	2.63	5,433,806
Granted during the year	3.04	2,025,919	0.90	6,875,607
Forfeited during the year	2.95	(1,385,302)	1.67	(247,733)
Exercised during the year	1.46	(10,373,026)	3.27	(467,946)
Expired during the year	2.49	(1,209,927)	3.51	(651,398)
Outstanding at 31 December		**-**	**1.47**	**10,942,336**
Exercisable at 31 December		**-**	**2.83**	**2.62**

The weighted average price of shares exercised in the year was £3.07 (2020: £0.91). The share options outstanding at 31 December 2021 have a weighted average contractual life of nil years (2020: 1.7 years) and an exercise price in the range of £2.86 to £3.08. The weighted average fair value of options granted during the year was £2.84 (2020: £0.85). The majority of options granted to date are nil-cost options (2020: nil-cost options).

The fair value of equity settled share-based payments has been estimated as at date of grant using the Black-Scholes model. The inputs to the models used to determine the valuations fell within the following ranges:

Name	**9 April 2021**	**6 April 2021**	**May 2021**
Expected life of options (years)	3	1	3
Share prices at date of grant	£3.04	£3.04	£3.05
Expected share price volatility (%)	74.1%	N/a	N/a
Risk free interest rate (%)	0.16%	N/a	N/a

The total expenses recognised for the year arising from share-based payments are as follows:

	2021 £000	**2020 £000**
Equity settled share-based payment expense spread across vesting period	10,054	1,753
Total equity settled share-based payment expense recognised in the statement of comprehensive income	9,480	1,946

Notes to the Financial Statements *(continued)*

28. Borrowings

	2021	2020
	£000	£000
Senior secured notes net of transaction fees of £nil (2020: £10,480,000)	–	930,575
Revolving credit facility net of transaction fees of £nil (2020: £2,790,000)	–	277,552
Asset-backed loans net of transaction fees of £636,000 (2020: £4,708,000)	55,158	143,985
Bank overdrafts[1]	9,559	3,648
Other borrowings	2,241	3,247
Total borrowing including held for sale	**66,958**	**1,359,007**
Bank overdraft moved to liabilities held for sale[1]	71	–
Total borrowings excluding held for sale	**67,029**	**1,359,007**
Total borrowings		
Amount due for settlement within 12 months	53,440	362,427
Amount due for settlement after 12 months	13,518	996,580

[1] Bank overdraft includes £71,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Liabilities held for sale' on the condensed consolidated statement of financial position. Therefore, there is £9,630,000 of bank overdrafts on the consolidated statement of financial position. See note 29 for more information.

Senior secured notes

On 27 October, the ultimate Group successfully priced into a sister company Sherwood Financing plc €400 million 4.5% Euro fixed rated bonds due 2026, €640 million 4.625% over three months EURIBOR floating rate notes due 2027, and £350 million 6% fixed rate bonds due 2026, with the proceeds being used to prepay all the outstanding bonds at that time and certain drawings under the revolving credit facility. The formal facilities have been replaced with internal funding from a sister company, which can be seen in note 16.

Revolving credit facility

On 6 October 2021, the ultimate Group entered into a new £285 million revolving credit facility into a sister company Sherwood Financing 2 Limited, with a margin of 325bps, maturing in April 2026. The facility has a similar security package to the cancelled facility and a leverage financial covenant. On 11 October 2021, the previous revolving credit facility was cancelled.

Asset-backed securitisation

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 a wholly owned subsidiary, AGL Fleetwood Limited, 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 portfolio investments, set out in note 23, are pledged as collateral for the asset-backed securitisations.

Notes to the Financial Statements *(continued)*

28. Borrowings *(continued)*

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

	Senior secured notes £000	Asset-backed loans £000	Revolving credit facility £000	Lease liabilities £000	Deferred and contingent consideration £000	Other borrowings £000	Total £000
		£000	£000	£000	£000	£000	£000
Balance at 31 December 2020	**930,575**	**143,985**	**277,552**	**18,201**	**32,168**	**6,978**	**1,409,459**
Changes from financing cash flows							
Movement in other banking facilities	–	–	(280,488)	–	–	4,829	(275,659)
Net proceeds from additional loans	63,714	–	–	–	–	–	63,714
Redemption of issued notes	(959,084)	–	–	–	–	–	(959,084)
Early bond repayment costs	(15,457)	–	–	–	–	–	(15,457)
Repayment of asset-backed loans	–	(89,171)	–	–	–	–	(89,171)
Repayment of interest on issued notes	(38,342)	–	–	–	–	–	(38,342)
Repayment of interest on asset-backed loans	–	(3,947)	–	–	–	–	(3,947)
Payments on lease liabilities	–	–	–	(5,321)	–	–	(5,321)
Banking facility interest and other fees paid	–	–	–	–	–	(6,320)	(6,320)
Payment of deferred interest	–	–	–	–	(1,907)	–	(1,907)
Total changes from financing cash flows	**(949,169)**	**(93,118)**	**(280,488)**	**(5,321)**	**(1,907)**	**(1,491)**	**(1,331,494)**
Liability-related							
Interest expense on issued notes	32,457	3,492	–	–	–	–	35,949
Amortisation of capitalised transaction fees	2,119	4,525	980	–	–	–	7,624
Banking facility interest and other fees	–	–	5,674	–	–	(22)	5,652
Interest rate swap and hedge costs	–	–	–	–	–	59	59
Other interest including on lease liabilities	–	–	–	1,010	582	1,237	2,829
Refinancing	26,009	–	7,281	–	–	–	33,290
Total interest and similar charges	**60,585**	**8,017**	**13,935**	**1,010**	**582**	**1,274**	**85,403**
The effect of changes in foreign exchange rates	(41,488)	(3,175)	(7,134)	(537)	(342)	(458)	(53,134)
Capitalised transaction fees	–	(294)	1,844	–	–	–	1,550
Net deferred consideration commitments	–	–	–	–	(1,144)	–	(1,144)
Issue of share option derivative						25,434	25,434
Other changes	(503)	(257)	(5,709)	4,128	–	5,670	3,329
Total liability-related changes	**(41,991)**	**(3,726)**	**(10,999)**	**3,591**	**(1,486)**	**30,646**	**(23,965)**
Balance at 31 December 2021	**–**	**55,158**	**–**	**17,481**	**29,357**	**37,407**	**139,403**

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Notes to the Financial Statements *(continued)*

28. Borrowings *(continued)*

Other borrowings

	2021	2020
	£000	**£000**
Other borrowings	2,241	3,247
Bank overdrafts[1]	9,559	3,648
Derivative liability	25,607	83
	37,407	**6,978**

[1] Bank overdraft includes £71,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Liabilities held for sale' on the condensed consolidated statement of financial position. Therefore, there is £9,630,000 of bank overdrafts on the consolidated statement of financial position

29. Disposal group held for sale

During the second half of 2021, Arrow Global committed to a plan to dispose of the business operations of Whitestar Italia S.r.l. (Whitestar Italy). Whitestar Italy is part of the AMS segment, seen in note 5. Accordingly, the relevant assets and liabilities are presented as a disposal group held for sale. The sale is expected to complete in the first quarter of 2022.

Impairment losses relating to the disposal group

Impairment losses of £1,107,000 have been recognised in other operating expenses, in addition to an acquisition impairment of £817,000 in the opening balance sheet. The impairment losses have been applied to reduce the carrying amount of property, plant and equipment and other intangible assets to nil within the disposal group as well as recognising further liabilities for expected selling costs.

Assets and liabilities of disposal group held for sale

	Note	£000
Cash and cash equivalents		3,352
Trade and other receivables	**15**	1,546
Deferred tax asset	**11**	757
Assets held for sale		**5,655**
Trade and other payables	**16**	(6,652)
Bank overdraft	**28**	71
Current tax liability		926
Liabilities held for sale		**(5,655)**

Cumulative income or expenses included in OCI

There are no cumulative income or expenses included in the OCI relating to the disposal group.

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Notes to the Financial Statements *(continued)*

30. Notes to the statement of cash flows

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Loss/(profit) after tax	(123,651)	(93,617)	(10,199)	8,330
Adjusted for:				
Balance sheet cash collections in the year	367,386	338,872	–	–
Income from portfolio investments	(136,064)	(165,089)	–	–
Fair value gains on portfolios	(62,451)	(4,976)	–	–
Net impairment (gains)/losses	(2,709)	100,436	–	–
Depreciation and amortisation	16,338	18,910	–	–
Loss/(profit) on write-off and disposal of property, *plant and equipment*	2,199	(453)	–	–
Loss on write-off and disposal of intangible assets	8,144	249	–	–
Net interest payable	95,446	56,388	–	–
Lease liability interest	1,010	1,107	–	–
Foreign exchange (gains)/losses	(2,793)	743	–	–
Equity settled share-based payment expenses	10,054	1,753	–	–
Tax charge/(credit)	22,712	(21,206)	(313)	2,746
Operating cash flows before movement in working capital	**195,621**	**233,117**	**(10,512)**	**11,076**
Decrease/(increase) in other receivables	13,820	(30,551)	(136)	(95)
Decrease in amounts (due to)/from other group undertakings	(41,456)	–	19,258	(9,980)
Increase/(decrease) in trade and other payables	40,600	(44,715)	(777)	287
Cash generated by operations	**208,585**	**157,851**	**7,833**	**1,288**
Income taxes and overseas taxation paid	(8,408)	(6,491)	(1,986)	–
Net cash flow from operating activities before purchases of portfolio investments	**200,177**	**151,360**	**5,847**	**1,288**
Purchase of portfolio investments	(189,663)	(109,850)	–	–
Net cash generated by operating activities	**10,514**	**41,510**	**5,847**	**1,288**

31. Parent Undertaking

On the 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.

The ultimate parent company is TDR Nominees 2016 Limited, which is incorporated in England and Wales.

Notes to the Financial Statements *(continued)*

32. Post balance sheet events

Since the year end, we have seen the development concerning the Ukrainian crisis and related international sanctions. At present, it is not possible to assess the detailed impact of the emerging risk but there is growing concern about the impact on the European economy and the financial markets. There has been a significant correction in the financial markets in the last few weeks. The Group continue to monitor events and are keeping the board updated on the economic impact, if any, to the Group.

The Group agreed the sale of subsidiaries Whitestar Italia S.r.l, New Call S.r.l and PARR S.H.P.K (together "Whitestar Italy") on 11 March 2022. The disposal concerned business process outsourcing of Italian utility collections, which is considered non-core to the Group's operations. The secured and unsecured investment portfolios and their collections activity previously undertaken by Whitestar Italy were moved to other Arrow subsidiaries pre-disposal.