MINISTERO DELLO IMPRESE E DEL MADE IN ITALY

DIREZIONE GENERALE PER LA RICONVERSIONE INDUSTRIALE E LE GRANDI FILIERE PRODUTTIVE DIVISIONE II – AMMINISTRAZIONE STRAORDINARIA GRANDI IMPRESE IN STATO DI INSOLVENZA

*** * ***

Amministrazione Straordinaria n. 2/2002

"Federici Stirling S.p.A. in AS"

Commissari Straordinari: Prof. Avv. Luigi Farenga, Prof. Avv. Lucio Francario, Prof. Avv. Attilio Zimatore

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RICORSO PER CONCORDATO AI SENSI E PER GLI EFFETTI DELL'ART. 78 D.LGS 270/1999 e artt. 214 e 124 R.D. 267/1942 L.F.

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Allegato 24

- Bilancio 2020 Arrow Global –

Annual Report and Accounts 2020

ARROW
GLOBAL

Building Better Financial Futures

Arrow is a leading European investor and asset manager in the non-performing and non-core assets sector. We apply smart thinking and intelligent execution to unlock the value others cannot realise.

We are evolving our model by developing a discretionary Fund and Investment Management business in order to capitalise on market opportunities. We are confident we will succeed because we have the right proposition, strategy, model, culture and people.

For further information visit: www.arrowglobal.net

See overleaf for our business at a glance

We are specialists in unlocking value from high-return niches

Arrow is a leading European investor and asset manager in the non-performing and non-core assets sector. We are evolving our model by developing a discretionary Fund and Investment Management business in order to capitalise on market opportunities.

What we do

We identify, acquire and manage secured and unsecured loan and real estate portfolios from and on behalf of financial institutions, such as banks, institutional fund investors and specialist lenders.

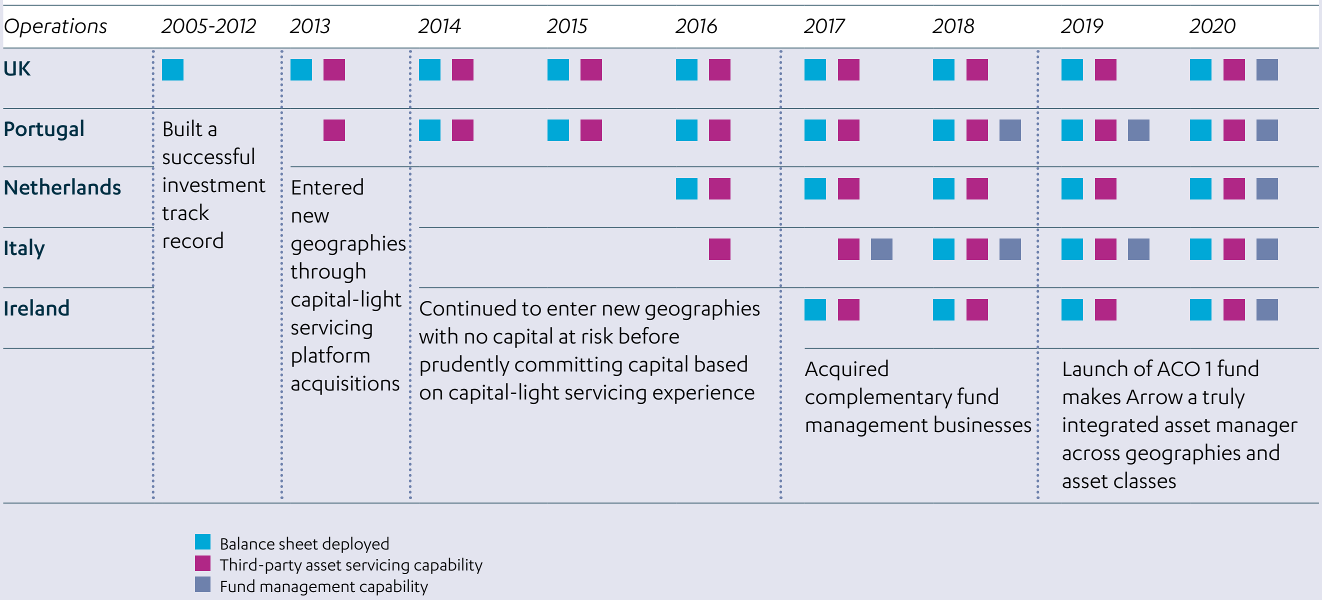
An active role

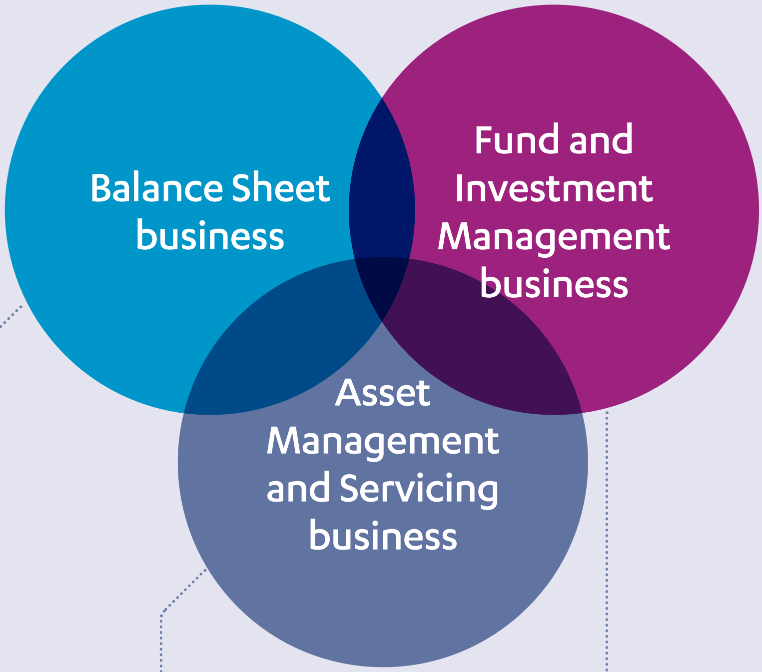
We help our customers build better financial futures through affordable repayment programmes aiding them to improve their credit score. We enable financial institutions to reduce their balance sheets and recapitalise to increase mainstream lending. By purchasing and managing non-performing loans and other non-core assets, we provide valuable capital and expertise to a growing European market.

A regulated business

We are a regulated business in all our European markets, managing a wide range of assets across five key geographies with over 2,500 employees.

Arrow's journey from balance sheet investor to alternative asset manager





Balance Sheet business

Arrow's investment strategy is highly differentiated from the typical large credit fund. Arrow's local operating platforms and operational expertise allow us to focus on smaller, high-return niches. This has resulted in the majority of Arrow's deals being executed outside of competitive auctions in off-market bilateral trades – in 2020, approximately 70% of Arrow's investments were transacted off-market. Arrow also has a track record of co-investing with investment clients to diversify risk.

Asset Management and Servicing business

Arrow services a large amount of assets for both its own investment business and for its clients. Arrow's co-investment strategy with its investment clients means it increasingly services entire portfolios where it has only a small balance sheet equity exposure, earning servicing fees from other capital providers, which drives capital-light income. In 2020, we secured a record 26 new contract wins. In addition, financial institutions are increasingly utilising Arrow to service assets owed by them.

Fund and Investment Management business

With our strong track record of successfully investing our capital into assets and servicing assets on behalf of clients, developing a discretionary Fund Management business was the logical next step. Investor demand is strong for the exposure that Arrow can provide to our specialist, high-return asset class is strong from a wide range of alternative investors. In 2020, Arrow announced the final close of Arrow Credit Opportunities Scsp (ACO 1) at €1.7 billion.

Total income
£167.5m (50.7)%
(2019: £339.5m)

(Loss)/profit before tax
£(114.8)m
(2019: £51.3m)

Basic earnings per share (EPS)
£(0.52)
(2019: £0.20)

Return on equity
(63.7)%
(2019: 17.9%)

Free cash flow
£156.6m (40.1)%
(2019: £261.4m)

Leverage
5.1x
(2019: 3.4x)

Funds Under Management (FUM)
€4,274.5m 15.7%
(2019: €3,693.8m)

Balance sheet cash collections
£338.9m (23.4)%
(2019: £442.3m)

Third-party Asset Management and Servicing (AMS) income
£97.0m 2.8%
(2019: £94.4m)

Capital-light % of Group EBITDA
(48.4)% *
(2019: 33.3%)

* Negative Group EBITDA

Fund and Investment Management (FIM) EBITDA margin %
7.2%
(2019: 38.6%)

AMS EBITDA margin
12.4%
(2019: 17.9%)

Important notes:

IFRS and cash metrics are important to understand the key drivers of the business. Reconciliations on pages 179 to 181 have been prepared to aid this understanding, which helps to support the commentary of the financial review for the year.

A list of alternative performance metrics and a glossary of definitions can be seen on pages 182 to 185.

Our determination to succeed is matched by our drive to do things the right way, ensuring we create a sustainable business and fulfil our purpose to build better financial futures for our stakeholders.

Throughout the report we will identify how our employees and the strength of our culture has enabled us to fulfil our purpose and create better financial futures for stakeholders.


Adelle Smith
Our employees
See page 13
Our customers
See page 7
Hugo Monteiro
Jan Wade
Our shareholders and fund investors
See page 25
Our communities
See page 39
Our clients
See page 29
Federico Silva
Gina White

The Arrow Advantage

Arrow is a unique business. We have a compelling vision and a purpose that resonates with all our stakeholders. Our organisational structure will deliver our strategy and together this will ensure we deliver long-term sustainable growth. We are guided by our values and culture which provide consistency across the Group and help to make Arrow a great place to work.

Our model

Structure: How we are optimally organised to deliver our strategy

Our people

Values: What guides our individual decision making and behaviour

The right culture

Our culture defines Arrow and our unique points of differentiation

The brands we trade under

capquest, Mars Capital, Erudio Student Loans, Bergen, drydensfairfax solicitors, Vesting Finance, Focum, Whitestar Asset Solutions

Our strategy

Clear strategic priorities are detailed in our strategy

1. Live and breathe our purpose and culture, supported by clear and ambitious ESG goals
2. Allocate capital dynamically to drive outsize returns while effectively managing risk
3. Prioritise investments in high-value, granular niche products in our core markets whilst creating opportunities for platform servicing revenue

STRATEGY

4. Build a scalable and sustainable fund management platform with a diverse spread of global investors
5. Develop industry-leading asset management and servicing expertise which support our investment ambitions, clients and customers
6. 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

Our proposition

Purpose: What we are doing for all our stakeholders – it is our philosophical heartbeat. Our stakeholders include:

- Customers
- Shareholders/Limited Partners
- Employees
- Clients
- Communities

Vision: An aspirational description of what we want to achieve in the future

PURPOSE

Building Better Financial Futures

VISION

The innovative and valued partner in credit and asset management

"I am extremely proud of the hard work and dedication shown by the entire Arrow team to ensure the business ended the year in a position to look ahead to 2021 with confidence and optimism."

Jonathan Bloomer
Chair

A year where Arrow delivered on its core purpose of supporting customers with their finances

The impact of COVID-19 meant that 2020 proved to be an extremely challenging year for all of us. Arrow's purpose is to help its customers to build better financial futures. By acquiring their debt from banks at a discount we are able to set them up on repayment plans against a lower principal balance without charging any interest. We have always been focused on supporting customers through difficult financial times and this became more important than ever in 2020. We were able to work closely with customers to appraise their evolving financial situations and adapt their payment plans or offer total forbearance wherever necessary. It is a source of great pride that our overall customer satisfaction levels actually increased in 2020, despite the unprecedented interruption to peoples' lives on both a personal and professional level. I believe this outcome proves that Arrow lives and breathes its purpose and culture on a daily basis, ensuring we are there for our customers when they need us most.

Arrow's Environmental, Social and Governance (ESG) programme

Our focus on excellent customer service and outcomes forms a key part of our ESG approach. We recognise that to be successful in the long term we need to have the right approach in place that ensures that we continue to operate ethically, give back to local communities and help to safeguard the environment for future generations. During 2020, the Group chief executive officer and board made the decision to establish both board and executive-level sustainability committees and worked to firmly embed ESG within our strategic priorities. We launched our Group ESG policy and framework, accompanied by a roadmap defining our key areas of focus and development. Our roadmap intends to build on our current ESG reporting, pinpointing specific areas of focus to deliver against internal and external expectations. Arrow's operations are intertwined with stakeholders across the financial services industry, with the board focused on ensuring best practice across the entire range of the Group's activities. At the consumer level, this means placing strong emphasis on customer treatment – something that we excelled at in 2020. We remain committed to working closely with relevant regulatory bodies, including the FCA, to ensure best practice and favourable customer outcomes continue to be delivered.

The right strategy to deliver shareholder value

Arrow's strategy is to continue to grow into its large and expanding market via an increasingly capital-light business model. The Group is therefore focusing on growing earnings and funds under management from its Fund and Investment Management and Asset Management and Servicing businesses. Progress in 2020 was encouraging, as Arrow deployed its first discretionary third-party fund, ACO 1, at attractive returns and won 26 new servicing mandates. This momentum has continued in 2021, with ACO 1 now 35% deployed or committed and further contract wins already recorded in the AMS business. The Group's five-year targets are firmly aligned to this strategy and good execution will result in a business with a significantly larger proportion of its earnings originating from recurring, capital-light sources, combined with lower leverage and net debt. This will generate significant value creation for our shareholders.

Continued on p9 ▶

BUILDING BETTER FINANCIAL FUTURES

for our customers

"With so much emphasis on the customer we were delighted to win a number of awards for our customer service operations, most notably the 'Best Outsourcing and Partnership' initiative with Virgin Money, as well as a four-time finalist at the Credit Strategy Collections and Customer Service Awards. We have a great team, and I'm very proud of them all."

Adelle Smith
Operations Director, Capquest

Culture indicator:
Family Values

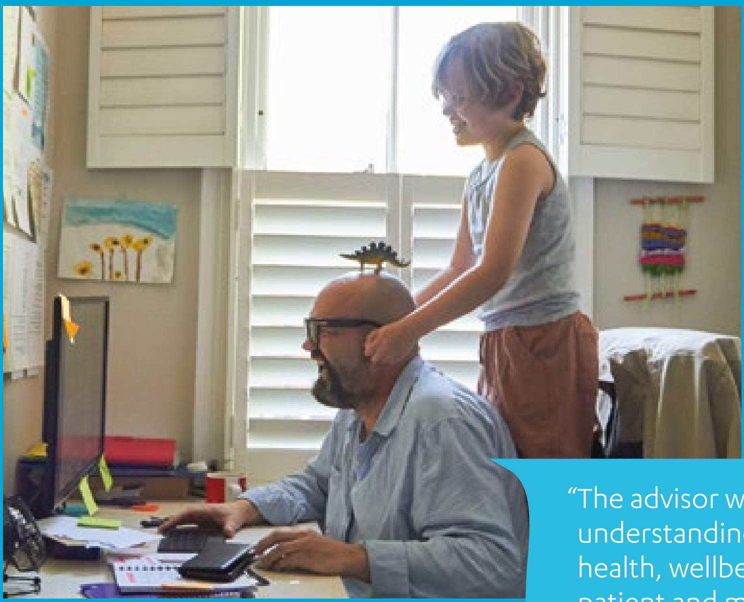
Supporting our customers through increased forbearance

Despite the massive economic and social dislocation caused by the global pandemic, Arrow has continued to build better financial futures for its customers.

Successfully transitioning all our employees to remote working, we have continued to service our customers uninterrupted, many of whom have been under increased pressure during the year. With more than 2,500 employees working remotely across the Group, including 1,800 in our customer-facing operating teams, we are proud of how we have proactively supported them and ensured we have done the right thing for all our customers.

Complementing our vulnerable customer policy, our COVID-19 customer support programme provided additional support including an informal payment plan of up to three months, as well as other payment and interest arrangements. Recognising the severity of the situation, we continued with our guiding principle of treating customers fairly, managing the situation based on individual requirements in order to offer support and guidance at a time when they needed us most. Our outreach was also helped by an enhanced digital capability, including a new interactive SMS service which allowed customers to contact us when it most suited them. In doing so, we have continued to help our customers rehabilitate their financial statuses, but in a way that is fair, empathetic and acutely alert to their individual circumstances. It is impressive that our customer satisfaction scores have increased during 2020, as we worked hard to ensure the fair treatment of our customers.

With so many lives turned upside down, we remain focused on protecting our people, treating our customers with utmost forbearance and compassion, and preparing for the future.



"The advisor was courteous, kind and understanding. Took many notes about my health, wellbeing and state of mind. He was patient and mindful of my feelings and was in no way condescending. I was able to speak openly, and I appreciated it."

Customer feedback on our COVID-19 response

Shareholder returns impacted by COVID-19 in 2020

Given the severity of the global economic shock experienced in 2020, Arrow's operational performance was robust with continued cash generation despite the challenges of European-wide lockdowns.

This was facilitated by management's decisive action to preserve cash and secure the balance sheet. As a result, the Group withdrew its dividend in 2020. Following a refined approach taken to revalue the assets held on our balance sheet against an uncertain economic outlook, Arrow registered a non-cash impairment of portfolio investments, leading to a Group loss before tax of £114.8 million. Like many companies, while this has clearly resulted in no returns for shareholders this year, the underlying health of the business has been sustained and the Group is now well positioned to capture the investment opportunities presented by the current economic dislocation.

Experienced board and management team

The board continues to be made up of highly experienced individuals, all of whom contribute valuable skills and thinking to Arrow's operations. Our Group chief executive officer, Lee Rochford, has been instrumental in shaping the Group's strategy and executing the pivot to become a more capital-light alternative asset manager. Working closely with our Group chief financial officer, Matt Hotson, he has also succeeded in steering the Group through the existential challenges presented by a difficult year. Both Lee and Matt have my gratitude for their tireless work to ensure the business finished 2020 in the strong position that it did. We welcomed a newly appointed member of the board in 2020, Paola Bergamaschi Broyd. Paola's long career holding senior positions at international financial services companies makes her a highly valuable addition. Paola chairs the Group's risk committee and I would like to thank her and the other non-executives for the significant contribution they have made this year.

Looking forward

While 2020 has been an exceptionally challenging year, I am extremely proud of the hard work and dedication shown by the entire Arrow team to ensure the business ended the year in a position to look ahead to 2021 and beyond with confidence and optimism. Arrow's business model is set up to take advantage of economic dislocation and the current environment will present significant opportunities. I believe that the Group has the right strategy to grow its capital-light earnings significantly, while reducing leverage and net debt.

On 22 February 2021, Arrow received a preliminary, conditional proposal from TDR Capital LLP, in its capacity as manager of various TDR Capital LLP managed investment funds, for a possible cash offer of 307.5 pence per share for the entire issued and to be issued ordinary share capital of Arrow. The board of Arrow has confirmed to TDR Capital LLP that it is minded to recommend a firm offer for Arrow at this price, subject to the agreement of terms relating to the proposal.

Jonathan Bloomer
Chair
23 March 2021

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 directors of Arrow Global Group plc 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. Further details on how the Arrow board operates and the way in which it reaches decisions, including the matters discussed and debated during the year, can be found in the corporate governance report on pages 58 to 69. Please also refer to the case studies on pages 70 to 73, which exemplify how the board takes into account the various section 172 factors in its deliberations and decision-making.

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 continually 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. Although the majority of the business engagement is carried out by Arrow's commercial and functional business teams, the board has regular and direct engagement with employees and investors.

On page 31, we report on how Arrow responds to its stakeholders' needs. In particular, we explain why we engage, the key areas of interest and the way in which we have had regard during the year to the need to foster the Group's business relationship with customers, suppliers and other stakeholders.

"We announced an updated set of five-year targets that better reflect our ambition to grow into a fully scaled integrated alternative asset manager."

Lee Rochford
Group chief executive officer

An exciting new chapter for Arrow

Putting our purpose and values front and centre

The unique challenges presented by the events of 2020 meant that we were determined that our response would be shaped by our purpose and values. Our foremost priority was to safeguard the health and wellbeing of our colleagues and ensure the continuity of service for customers and clients. I believe Arrow succeeded on both counts. We ensured that 100% of our workforce could work from home effectively within three weeks of the pandemic's outbreak. We maintained full service to clients, while also offering customers appropriate levels of forbearance where necessary through an enhancement of our already comprehensive vulnerable customer policy. The Group's policy of offering forbearance to those in financial distress or ill health was expanded by implementing a specific COVID-19 customer support programme enabling us to help customers directly affected by the virus.

Arrow proved its resilience in a challenging operating environment

Trading conditions in the first half of 2020 were dominated by the global COVID-19 pandemic. The business started the year strongly before the impact from the global crisis. After outperforming Estimated Remaining Collections (ERC) in January and February 2020, Balance Sheet (BS) cash collections began to be impacted by the end of March 2020 and reduced to a low point in April 2020, as the macroeconomic environment deteriorated and the business's ability to operate was significantly restricted due to European lockdowns. Since then, we have seen improvements in cash collections in H2 2020, where cash collections outperformed the reforecast ERC by 24.6%.

Third-party Asset Management and Servicing (AMS) income also remained robust, with performance relatively flat on FY 2019, demonstrating the resilience of the business's capital-light cash flows, the impact of a record 26 new contract wins and the early signs of the benefits to AMS from our ACO 1 fund launch.

Overall, this resilient operational performance meant that the Group returned strongly to profitability in H2 2020.

Decisive action taken to secure the balance sheet and enhance liquidity

The Group also took a highly proactive response to the crisis's impact on our balance sheet. Early on, we sought to compensate for COVID-19 induced cash collection weakness by reducing investments and costs. We also raised additional funds through the execution of a €104.7 million ABS facility and completed a long-term support agreement with our revolving credit facility banks, providing ample covenant headroom to deliver fully against our strategy. Post year end we issued €75 million senior secured notes maturing 2026. Taken together, these actions ensure that we can look forward to capturing the significant investment opportunities presented by COVID-19 economic dislocation with confidence, backed by a strong and highly liquid balance sheet with long-term lender support.

Refined approach taken to revalue balance sheet assets against uncertain economic outlook

At the interim results, we ran a number of macroeconomic scenarios through our ERC model and booked a reforecast ERC asset which we believe represents a blend of 'baseline' and 'downside' macroeconomic scenarios. Detailed disclosure of the assumptions we made can be found in note 24 of this report. This led to a balance sheet write down of portfolio investments and associated non-cash charge of £133.6 million to the statement of profit or loss at H1 2020, subsequently reducing to £95.5 million at FY 2020, resulting in an accounting loss before tax for the year of £114.8 million. We have re-assessed this approach at the end of the year and reaffirmed our view of the appropriateness of this valuation approach. Following this write down the Group's balance sheet cash collections strongly outperformed our reforecast ERC. While this is clearly positive, it is the Group's view that as the substantial levels of economic support that has been provided by governments across Europe begins to fall away in 2021, there will be a deterioration in the near-term macroeconomic outlook which will have an adverse impact on the operating environment. Therefore, no material changes in the valuation of the ERC following our reforecasting exercise at H1 2020 have been made.

Completed the strategic pivot to a more capital-light model and successfully raised our inaugural distressed credit fund, ACO 1

We announced the first close of our inaugural pan-European fund, ACO 1, in December 2019. Fundraising continued throughout 2020, with final close of €1.7 billion announced in November 2020, representing one of the largest ever first-time fundraises in the European private credit market. I am enormously proud of this achievement as it not only entailed passing the stringent due diligence tests set by some of the most sophisticated alternative asset allocators in the world, but was also conducted during the current global pandemic where the usually necessary face-to-face contact was rendered impossible. Our success in raising such a large first-time fund, therefore, not only represents the attractiveness of Arrow's fund management offering, but also the confidence sophisticated investors have in our long track record of delivering strong through-the-cycle returns.

At our fund and investment management analyst seminar in November 2020, we unveiled a new segmental structure which reflects the Group's new model better. Alongside Arrow's current Balance Sheet business and Asset Management and Servicing business, we launched a new Fund and Investment Management business segment. This segment comprises the new fund manager, AGGCM, alongside our current Fund and Investment Management businesses of Norfin, Europa Investimenti and Arrow Portfolio Management, which manages Arrow's balance sheet assets. Together Arrow's Fund and Investment Management business has total Funds Under Management (FUM) of €4.3 billion at the end of 2020. We are confident we can grow FUM to over €10.0 billion by the end of 2025.

New five-year targets underline our ambition to become a scaled integrated alternative asset manager and significantly grow capital-light earnings

Following the successful final close of ACO 1, we announced an updated set of five-year targets that better reflect our ambition to grow into a fully scaled integrated alternative asset manager. These targets underline our belief that we can increase both the quantum and quality of our earnings as we grow profits from our capital-light Asset Management and Servicing and Fund and Investment Management businesses, while simultaneously significantly reducing net debt and leverage.

Five-year targets:

- Greater than €10.0 billion of FUM by end 2025
- Greater than 50% of EBITDA from capital-light businesses (Fund and Investment Management business (FIM) and Asset Management and Servicing business (AMS)) by FY end 2025
- 40% EBITDA margin from FIM and at least 25% EBITDA margin in AMS by end 2025
- Return on equity of greater than 25% through-the-cycle between FY 2021 – FY 2025
- Greater than £500 million of cash generation after fund investments between FY 2021 – 2025
- Leverage of circa 4.0x by end 2021 and within target range of 3.0-3.5x by 2023

Business well positioned to take advantage of the significant market opportunity

Arrow's business model is structured to benefit from times of economic dislocation. Even prior to COVID-19, Arrow's addressable market was extremely large with around €1.5 trillion of non-core and non-performing assets estimated across Europe, with around €1 trillion of these still sitting on bank balance sheets. This is despite over €800 billion of assets being sold by banks into the capital markets in the last seven years; this alone is expected to generate a secondary market of around €300 billion over the next four years as these assets are characterised by their long lives and initial buyers will sell on many of the assets. Based on the provisions that banks incurred in 2020, early estimates suggest that the non-performing loan market will increase at least 50% to around €500 billion in the coming years.

"Alongside an attractive investment market opportunity, there is also a significant opportunity for Arrow to grow its Asset Management and Servicing business."

While Arrow's market is growing rapidly, deployment of capital into attractive market opportunities was limited in the first half as the Group looked to preserve liquidity and assess the market pricing and availability of assets. Deployment picked up in the second half of 2020, with attractive returns available, as markets began to reopen following European-wide lockdowns. In 2020, the Group had deployed or committed the ACO 1 fund at a current net deal IRR of 17%. We expect capital deployment to pick up significantly in 2021. ACO 1 was 35% deployed or committed by the end of February 2021; we expect this to have increased by the end of Q1 2021 and to have deployed 70% of the ACO 1 fund by early 2022, with Arrow's balance sheet expected to constitute around 25% of that investment volume. We also continue to see evidence of available returns increasing.

Alongside an attractive investment market opportunity, there is also a significant opportunity for Arrow to grow its Asset Management and Servicing business. This will be driven by an increase in banks requiring more support to service their non-performing assets and institutional investors requiring a servicer to manage their investment assets. Arrow won a record 26 new Asset Management and Servicing contracts in 2020, providing us with further confidence that we can meet our ambitious targets to grow revenues in this business by 10% per annum over the next five years.

A message for the entire Arrow team

2020 has been an extraordinarily tough year for the entire world. I am enormously proud of how my Arrow colleagues rose to the challenge of adapting so quickly to a drastically new way of working in the face of the global COVID-19 pandemic. Recent events have been the ultimate test of every company's resilience and culture and I believe that Arrow rose to that challenge on both fronts. The work of our support functions to enable the entire company to work fully operationally from home by the end of March and of our operations teams, who supported our customers and clients through this difficult time, meant we were able to ensure quality continuity of service. Our underwriting and investment teams worked tirelessly to ensure we appropriately revalued our back book of assets, as well as access new investment opportunities in response to client demand. The external recognition we have received, is testament to the quality of service we have continued to deliver this year and we were delighted, therefore, to win awards for our customer-service operations, most notably the Credit Strategy 'Best Outsourcing and Partnership' Initiative for Onboarding and Customer Engagement, in recognition of our work with Virgin Money.

Outlook

We are looking forward to 2021 with optimism. I am confident that our approach to the valuation of the assets on our balance sheet in line with our cautious view on the macro-economic outlook means we are well insulated against further economic shocks. However, we remain highly alert for any signs of further macroeconomic deterioration that could impact operations. Our analysis of the impact of the pandemic on the balance sheets of European financial institutions shows that our addressable market is set to increase significantly due to economic dislocation, providing strong tailwinds for our investment and servicing activities. The raising of €1.7 billion within our ACO 1 fund means we are well positioned to be a leading investor in the European non-performing loan (NPL) market, with a record amount of dry investment powder at a time when the cycle has turned significantly in our favour, increasing the likelihood of investment returns rising. The work we undertook this year to maximise liquidity and renegotiate our banking covenant under favourable terms means we have ample liquidity to invest into this market opportunity through our 25% co-investment alongside ACO 1, which means that Arrow will continue to grow strongly while simultaneously reducing capital intensity and increasing capital-light earnings from the Fund and Investment Management and Asset Management and Servicing businesses. Our confidence in our ability to deliver this capital-light strategy is reflected in the new set of five-year targets, announced as part of our Q3 results in November 2020, that reflect our commitment to scale significantly the Group's funds under management and increase the proportion of our earnings that come from capital-light sources to at least 50% over the next five years. This will result in a significantly higher quality of earnings with significantly less leverage and net debt. This is a strategy I am hugely excited to deliver.

Lee Rochford
Group chief executive officer
23 March 2021

BUILDING BETTER FINANCIAL FUTURES

for our employees

"I'm really proud of how all our people responded to the pandemic. Our people have shown real resilience and have been open and eager to embrace new digital ways of working. Moreover, we have worked hard to foster a safe supportive community and trusted our people to make the right decisions."

Jan Wade
European HR director

Culture indicator:
Trust our people

Empowering our people with 'Arrow Everywhere' workplace transformation

Without question, the unprecedented and unplanned events of 2020 have tested our resilience and professionalism like never before. Arrow is a relatively new business, only becoming a publicly listed business in 2013, and yet we have weathered one of the biggest economic and social dislocations in the best way possible.

For Arrow to successfully navigate this crisis, we moved decisively and quickly, putting business continuity plans into operation, and focusing on the wellbeing of all our employees as well as their families. This meant moving all our people to remote working and providing the right support and equipment. With so many unknowns, we also began a significant change programme, called Arrow Everywhere, with the aim to support sustainable remote working and, in doing so, retain the benefits including a better work-life balance and greater flexibility. During 2020, we seamlessly transitioned from traditional, co-located work to full remote working, with an ambition to transition to activity-based working when the pandemic fully passes; a model arguably more dynamic, flexible and productive.

Encouragingly, when questioned via the Leesman Employee Experience survey, over 90% of our people reported working productively from home and 80% noted a healthy work-life balance. This gave us confidence that our employees were resilient to the demands of remote working and comfortable with our response. This was helped by a wide range of supporting materials, including wellbeing and digital-user guides, the roll-out of a confidential employee assistance programme across the Group, enhanced leadership communications, social and wellbeing groups on Workplace – our internal communications and engagement platform – and the considered use of government job retention schemes in the UK and Portugal to safeguard as many jobs as possible.

We have also used this period to reflect on wider issues, ensuring that our diversity and inclusion programme extends beyond traditional diversity targets such as gender, and addresses important issues such as mental health, diversity of thought and empowering our people to drive change from the ground up.

"Throughout 2020, Arrow put a lot of emphasis on employee wellbeing alongside business continuity. I appreciated the quick transition to home working and have never felt any pressure to return to the office – I know when it happens, it'll be at the right time."

Sian Howitt
Procurement director, Group transformation and change

Driving the right culture

We recognise that having the right culture in place is central in making Arrow an even better place to work and delivering our long-term growth potential. We had the ambitious goal of not only defining an aspirational culture that would shape Arrow and be a unique point of differentiation, but to actively nurture those behaviours to deliver long-term sustainable growth.

2020 has been an unprecedented year, and we are confident our vibrant culture has enabled us to weather the storm and grow stronger, as people have supported one another through difficult times. Working from home, with less social contact, has fundamentally changed how we have worked; perhaps forever as Arrow has begun a careful transition to a hybrid model with activity-based working determining where we complete different tasks.

Having defined our culture in 2019, in September 2020, we took the next step to measure the main cultural attributes. We did this using Peakon, a new online measurement tool that gives people managers a bespoke dashboard to see how engagement and culture are scored across their own teams. This is part of our strategy to make engagement and culture 'everyone's business' and not just a top-down executive management or HR-led responsibility. Improvements will be driven through bespoke action plans that are created and owned by individual teams.

Following the launch of Peakon, we were pleased to see our colleagues score our cultural attributes highly. Our highest-rated cultural attributes were working together, family values and diverse community.

We have seen these cultural attributes play out strongly in 2020. Our family values have helped us look after the wellbeing of all our employees, as well as their families, through a rapid transition to home working and assistance services, such as our confidential employee assistance programme and a range of supportive materials including wellbeing and digital-user guides. These family values, that see us work in a safe and supportive community, were also inherent in our approach to at-risk customers with a unified vulnerable customer strategy, which enabled a swift response to COVID-19 including an immediate hold on litigation, informal payment plans and other forbearance arrangements.

Our ambition, entrepreneurial drive and ability to work at pace was apparent with the building of our Fund and Investment Management business and the successful close of our first pan-European NPL fund.

Elsewhere, we embraced new ways of working through our rapid adoption of new digital tools like MS Teams and Workplace in our day-to-day interactions and through key Group events such as our Group results, fund management seminar and senior leadership conference that brought 50 of our most senior leaders under one 'virtual roof'. While face-to-face remains highly engaging for our investors and employees, we will, in future, also consider digital tools for cost and environmental benefits.

We also continued our journey towards a more diverse workplace, enriched by our local identities, with a new diversity and inclusion strategy; one that extends beyond gender targets and includes important issues such as mental health in the workplace. Our female representation on the board is 42.9%. We also made important female appointments to our board and management team during the year, including Paola Bergamaschi Broyd, chair of the risk committee, Martina Swart, Group chief legal and risk officer and Maria Pace, Group chief of staff.

You can read more on how our culture shapes Arrow in our sustainability section on pages 32 to 43 and in our purpose-led stakeholder cases studies that are distributed throughout the report. More information on how the board responds to workforce engagement is included in the wider stakeholder engagement statement on page 73.

Cultural attributes employee scores

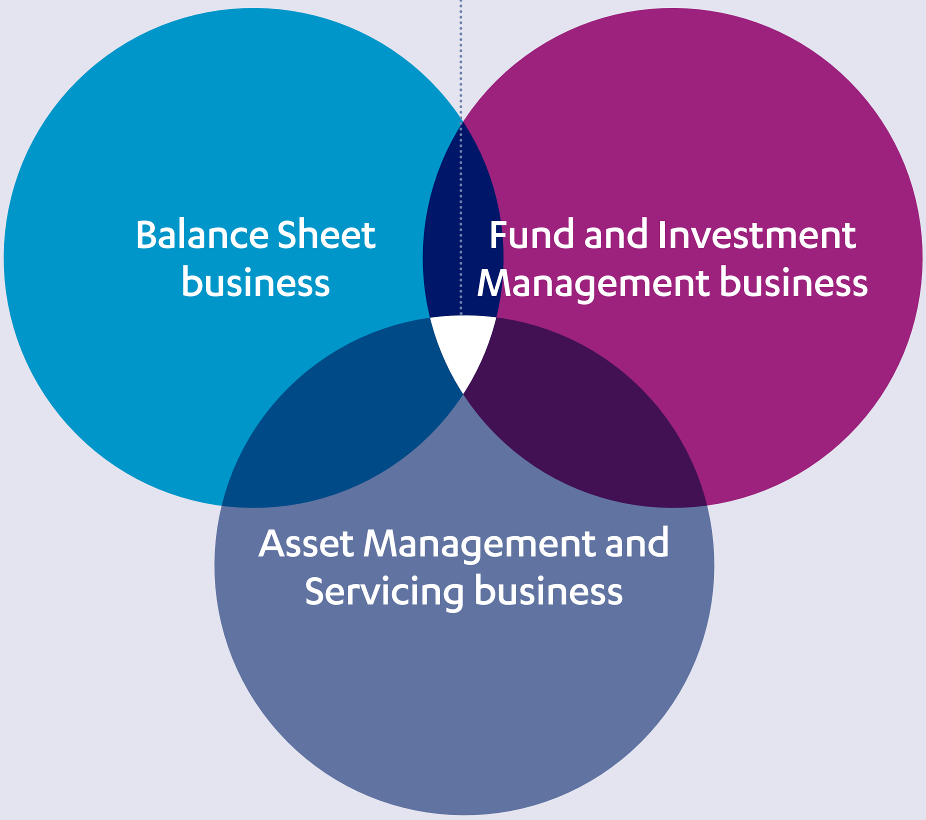
Source: Peakon, September 2020.

Arrow's culture statement

"Arrow is an ambitious company. Our determination to succeed is matched by our drive to do things the right way – ensuring we create a sustainable business that builds better financial futures for our stakeholders. We are entrepreneurial, fast-paced and decisive. Proud of our family values, we cherish working together in a safe, supportive community. We trust our people to make the right decisions – and we back them all the way. We're also brave enough to acknowledge mistakes – and to learn from them. We celebrate success and reward those who take personal accountability to help us achieve exceptional long-term results. We're open and eager to embrace new ways of working. Ours is a diverse community, enriched by our local identities, working collaboratively to build a powerful, unified and dynamic organisation. This collective identity is One Arrow."

Arrow has successfully executed the pivot to becoming a fully integrated alternative asset manager

Arrow's business model is highly synergistic. Our three business lines overlap to create the 'sweet spot' where Arrow's Balance Sheet can co-invest into new assets managed by Fund and Investment Management. Arrow's Asset Management and Servicing business can then service the assets on behalf of both.



Balance Sheet business

Arrow's investment team have a 15-year plus track record of successfully investing our balance sheet into non-performing and non-core assets. Arrow typically co-invests our balance sheet alongside third-party investor funds, managed by the Fund and Investment Management business, on approximately a 25:75% basis on investments that it makes.

Asset Management and Servicing business

Arrow's pan-European servicing platform services a large amount of 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.

Fund and Investment Management business

The Fund and Investment Management business currently has €4.3 billion of funds under management, including our flagship ACO 1 fund.

Group functions

In addition to the three business segments noted above, is a Group functions segment, recording costs relevant to overall oversight and control of the Group's activities. See page 137 for detailed segmental information.

Advantages of the integrated asset management model

Arrow's model is very different from other institutional fund models in the market. The majority of debt funds have a small team based in an international capital centre and access the entire circa €1.5 trillion non-performing loan and non-core asset market by mainly targeting large bank asset auctions of greater than €100 million. Arrow's model is different. Because Arrow has a large local presence in each of its markets, with local asset servicing businesses providing deep asset expertise on a granular basis, it is able to form strong relationships with potential asset sellers and develop a detailed knowledge of a wide range of asset classes on a granular level. This has resulted in the Group consistently doing more of its investments in non-competitive, off-market bi-lateral trades that are smaller in size and offer higher returns.

How Arrow's integrated asset model maximises shareholder value

Each of Arrow's business segments work synergistically to extract the most value possible from its investments. Each new deal in ACO 1 is invested on approximately a 25:75% co-investment basis between Arrow's Balance Sheet business and the Fund and Investment Management business on behalf of third-party investors. This means that Arrow is generating strong returns on its invested equity while simultaneously delivering capital-light management fees on the invested capital from the Fund and Investment Management business.

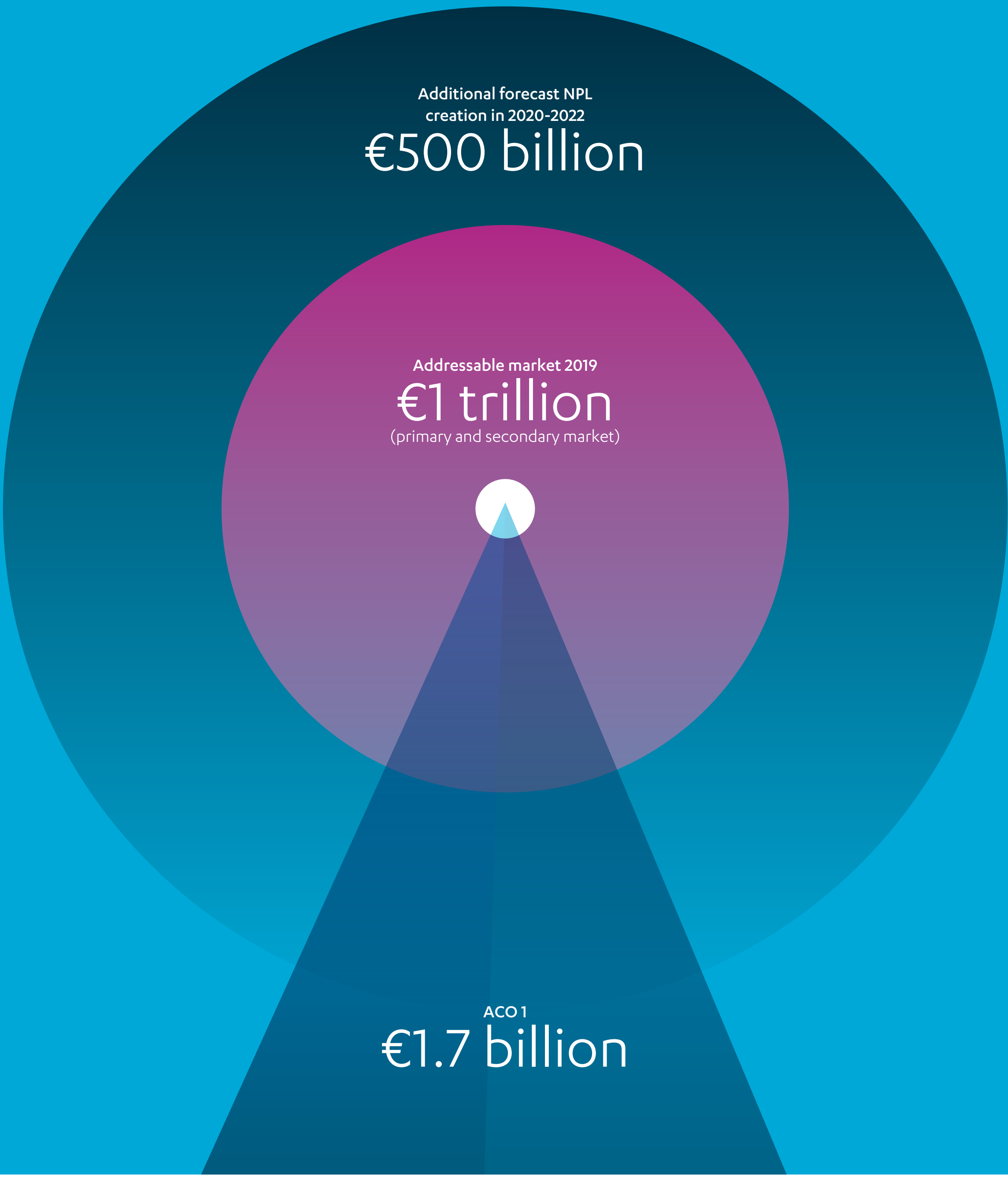
In the majority of cases, Asset Management and Servicing will be the sole servicer to the asset that has been bought, providing a further source of capital-light income. The result of this model is that Arrow can continue to grow strongly while being less capital intensive and generating higher quality, capital-light earnings for shareholders.

How we create value for our wider stakeholders

		See pages
Customers	Supporting our customers through increased forbearance	7,8
Employees	Empowering our people with 'Arrow Everywhere' workplace transformation	13,14
Capital providers	Largest first-time European private market fund raise of 2020	25,26
Clients	Remaining resilient and acting decisively for our clients	29,30
Communities	Delivering financial education and work-life skills	39,40

On target:
Arrow's market is large and growing

ACO 1 fund is predominantly dry powder and well positioned to invest quickly at attractive returns



Arrow operates in five European geographies. The Group's business model is designed to benefit from economic dislocation, which leads to an increase in the generation of non-performing assets. Even prior to the recent crisis, Arrow's market was already extremely large, with a total addressable market of around €1.0 trillion. Over half of these assets still sit on bank balance sheets and will need to be sold into the capital markets, where the largest investors are often distressed debt funds. Although these assets are created all the time, non-performing loans (NPL) 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. The economic dislocation currently being seen is already heralding historically high bank provisioning for bad loans, which will begin to be sold in significant volume in the coming years.

Economic dislocation will lead to an even larger market opportunity

Current forecasts based on bank provisions and forecast defaults suggest that the economic impact of COVID-19 will lead to a circa 50% increase in Arrow's addressable market. This equates to around €500 billion of additional non-performing loans being created on bank balance sheets.

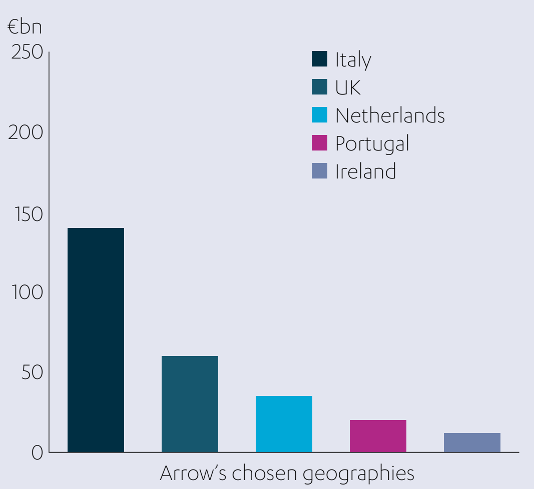
European banks will be under increasing economic and regulatory pressure

Prior to the current economic dislocation, European Banks' NPL ratios had only just begun to approach the levels targeted by the European Banking Authority and European Central Bank. This had followed significant regulatory pressure for banks to recognise impaired assets faster and to deleverage. The result was a period of transformational European bank balance sheet restructuring that led to over €800 billion of assets being sold from bank balance sheets into the capital markets. The wave of new non-performing assets that is projected to be created following the current economic dislocation will continue to mean that regulation is likely to prioritise bank deleveraging resulting in another large wave of non-performing asset sales in the coming years. As well as presenting investment opportunities, this will also present significant asset servicing opportunity for Arrow's Asset Management and Servicing business.

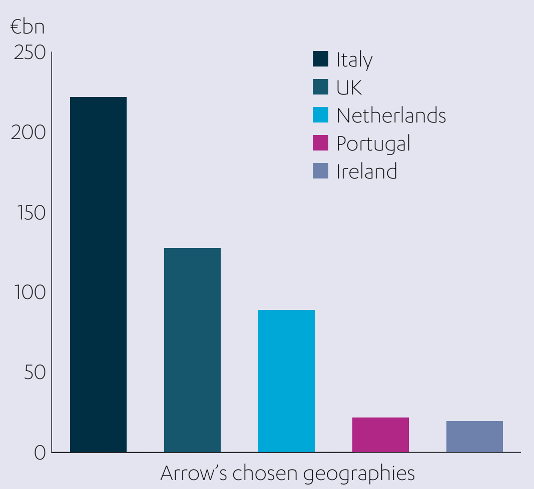
A significant and growing secondary market

The typical non-performing asset has a long life. The majority of the €800 billion of assets that have been 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 forecasts that another €300 billion of non-performing loans will come to market over the next four years. A large number of these already sit on Arrow's servicing platforms, providing the Group with a unique pipeline of potential investment opportunities where the performance of the asset is already well known. This greatly enhances risk-adjusted returns should Arrow purchase that asset, which it often does.

Euros of European NPLs in chosen markets[1] (€bn)



Completed deals by country since 2014[1] (€bn)



1. Sources: Deloitte deleveraging Europe 2019 report and European Banking Authority risk dashboard.

The Arrow engine for growth

We believe we have the right strategy in place to drive growth and create value for our shareholders.

Strategic priorities	Our approach
1 **Live and breathe our purpose and culture, supported by clear and ambitious ESG goals**	• Enable customers to build better financial futures by helping them to rehabilitate their credit scores and gain access to future credit • Use industry-leading data and analytics to better understand our customers' financial situations and tailor our interactions with them on an individual basis • Work with debt charities and other organisations that provide free impartial services to ensure that customers get the best possible advice • Clear ESG framework built
2 **Allocate capital dynamically to drive outsize returns while effectively managing risk**	• Make value accretive capital allocations depending on the prevailing market and economic environment • Strike a balance between investing for growth, increasing returns to shareholders and deleveraging • Ensure all investments are made on a prudent risk-adjusted returns basis
3 **Prioritise investments in high-value, granular niche products in our core markets whilst creating opportunities for platform servicing revenue**	• Leverage expertise in granular asset classes to target high-return niches • Use local knowledge and experience of our local in-country teams to drive performance • Maintain underwriting discipline • Maintain diversity by geography and asset class • Invest in assets that provide returns significantly above our mid-teens IRR target • Provide quality asset servicing solutions for third-party clients • Deliver consistent asset serving results for our Fund and Investment Management business
4 **Build a scalable and sustainable fund management platform with a diverse spread of global investors**	• Raise further funds at larger scale • Grow the number and diversity of limited partner investors in our funds • Grow FUM to over €10 billion by end 2025 • Increase the Group's proportion of higher quality capital-light earnings
5 **Develop industry-leading asset management and servicing expertise which support our investment ambitions, clients and customers**	• Retain current talent • Ensure we can offer attractive opportunities to new investment talent that can complement and expand on our current expertise • Deliver the highest quality of service to clients • Ensure we have the most up-to-date expertise to ensure that customer satisfaction and welfare are always successfully delivered
6 **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**	• Identify opportunities to increase productivity • Identify opportunities to reduce costs • Ensure maximum working flexibility for employees facilitated by leading technology solutions • Prioritise development of our employees

Link to risks

A Macro and political

B Target operating model

C Liquidity/funding risk

D Capital allocation and investment returns

E Regulatory scrutiny

F Operational resilience

G Fund and investment management executive and business transformation

H Scalability

I Fund management personnel

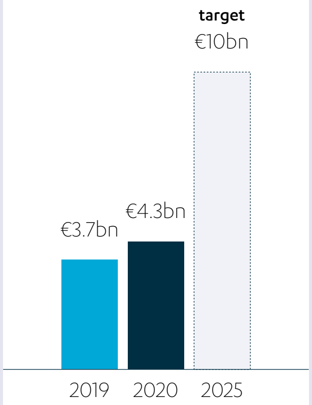
Read more on our principal risks and uncertainties on pages 48 to 52.

Progress in 2020	Key priorities in 2021	Link to risks
• Finalist for 11 industry awards, winning seven • Maintained our strong relationship with Citizens Advice in the UK • Worked closely with and funded StepChange, Payplan and Christians Against Poverty on consumer debt issues • Customer engagement via digital routes continued to increase • New sustainability framework, which was approved by the board	• Continue to focus on excellent customer outcomes • Increase customers' digital interaction with us • Maintain staff incentives based on positive customer outcomes • Deliver against ESG targets	B,E
• Prioritised liquidity preservation in H1 due to COVID-19 pandemic economic uncertainty • Grew investment volume in H2 to take advantage of investment opportunities presented by the economic dislocation • Prioritised investments backed by hard, quality assets	• Monitor the macro-economic environment • Deploy increased investment volume should returns increase • Continue to focus on high-quality secured assets	A,B,C,D,G
• Arrow invested through its separately managed agreement (SMA) in the ACO 1, which as a whole invested at a rolling IRR of 17% in 2020 • Created a diverse investment vintage by geography and asset class • 26 new third-party servicing contracts won • Arrow's owned platforms are the primary servicer on 73% of ACO 1's fund investments and are involved as a servicer on 88% of ACO 1 fund investments	• Continue to invest prudently and at attractive returns across a diversified vintage • Drive internal and third-party collections performance	A,C,D,G
• Raised first discretionary third-party fund – ACO 1 • FUM grew by €0.6 billion to €4.3 billion	• Deploy ACO 1 fund at attractive returns • Maintain focus on offering our clients excellent service and solutions • Consider attractive new investment strategies for future fundraisings	A,C,D,F,G,H,I
• Continued to retain senior members of the investment team • Hired new talent with accretive expertise • Customer satisfaction levels increased despite the impact of COVID-19 • Won the Credit Strategy award in relation to client service	• Continue to prioritise retention of investment talent • Identify new talent that fits well with the Group's strategy, purpose and culture • Continue to ensure that client and customer experience are best-in-class	B,E,F,H,I
• Embarked upon a £10 million cost reduction programme • Reduced costs by £8.9 million year on year • Enabled 100% of employees to work from home while also improving productivity scores	• Continue to identify opportunities to reduce costs and improve productivity • Continue to ensure that employees are able to work with flexibility	B,H,I

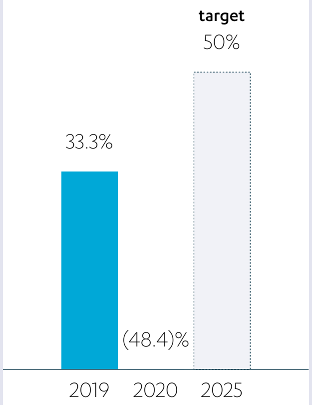
Measuring our performance

Our KPIs are linked to our long-term strategic goals, announced in November 2020, and allow investors to track our performance.

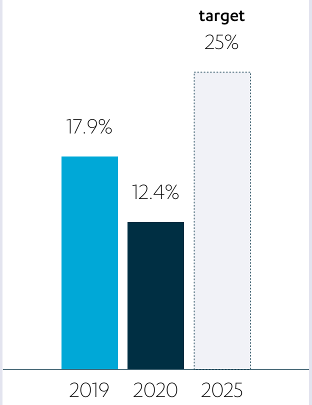
FUM
€4.3bn
(2019: €3.7bn)



Capital-light % of Group EBITDA
(48.4)%
(2019: 33.3%)



AMS EBITDA margin
12.4%
(2019: 17.9%)



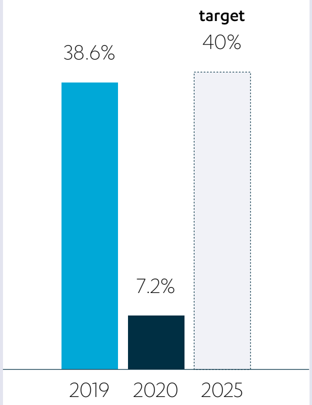
Definition	• Funds Under Management (FUM) represents the gross discretionary capital that the Group is responsible for managing in some capacity, including any of its own capital, which is committed to invest alongside third parties	• Capital-light % of Group EBITDA represents AMS and FIM segment EBITDAs as a percentage of total EBITDA. See page 183 for more detail	• Asset Management and Servicing (AMS) EBITDA margin represents AMS segment EBITDA over AMS segment total income. See note 5 on page 137 for more detail
Importance	• It is used to understand the scale of the Group's Fund and Investment Management business and how this compares with others in the market	• The Group is moving to an increasingly capital-light business model, to be less capital intensive and generate higher quality, capital-light earnings for shareholders	• The Group is moving to an increasingly capital-light business model, to be less capital intensive and generate higher quality, capital-light earnings for shareholders
Five-year targets	• Greater than €10 billion FUM by end 2025	• Greater than 50% of EBITDA from capital-light businesses (FIM and AMS) by end 2025	• EBITDA margin of at least 25% by end 2025
Link to strategy	• Arrow intends to grow its Fund and Investment Management business significantly over the next five years	• Arrow sees significant potential to improve the quality of its earnings as it grows its Fund and Investment Management business	• Arrow aims to increase efficiencies within its business lines • Arrow aims to make more of its profit from higher quality, capital-light sources

Moving to a more capital-light business model, the KPIs have been updated during the year accordingly.

FIM EBITDA margin

7.2%

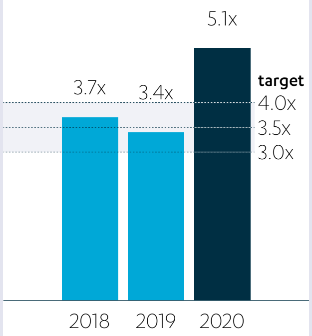
(2019: 38.6%)



Leverage ratio

5.1x

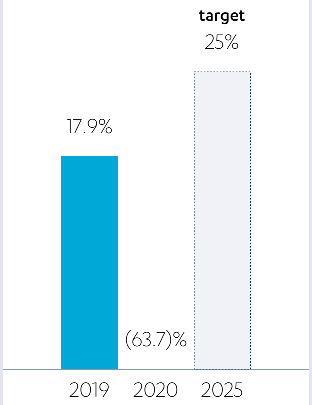
(2019: 3.4x)



ROE

(63.7)%

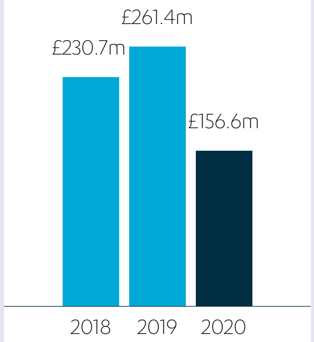
(2019: 17.9%)



Free cash flow generation

£156.6m

(2019: £261.4m)



• Fund and Investment Management (FIM) EBITDA margin represents FIM segment EBITDA over FIM segment total income. See note 5 on page 137 for more detail	• Leverage is calculated as secured net debt over Adjusted EBITDA (12 months rolling average). See page 185 for the secured net debt breakdown and page 181 for the Adjusted EBITDA detail	• Return On Equity (ROE) is calculated by taking profit/loss after tax over the average equity attributable to shareholders, being the average quarterly equity from 2019 to 2020	• Free cash flow generation (FCF) represents current cash generation on a sustainable basis, calculated as Adjusted EBITDA less cash interest, tax paid, purchase of property, plant and equipment and purchase of intangible assets. See page 180 for more detail
• The Group is moving to an increasingly capital-light business model, to be less capital intensive and generate higher quality, capital-light earnings for shareholders	• It provides an indication of the level of indebtedness of the Group, relative to its cash earnings and is a financial covenant stipulated within the Group's revolving credit facility provided by a syndicate of banks	• It measures the ability of the Group to generate profits from its shareholders' investments and is a metric used for the long-term incentive plan valuation criteria	• It provides a measure of how much cash the Group generates across the reporting period and is a metric used for the long-term incentive plan valuation criteria
• EBITDA margin of 40% by end 2025	• Circa 4.0x by end 2021 and within target range of 3.0x-3.5x by 2023	• Greater than 25% through the cycle over the next five years (2021-2025)	• Greater than £500 million of cash generation after fund investments over five years (2021-2025)
• Arrow aims to increase efficiencies within its business lines • Arrow aims to make more of its profit from higher quality, capital-light sources	• As the Group grows FUM and generates more earnings from capital-light businesses, it anticipates faster deleveraging	• Focusing on strong and consistent investment returns will drive a high return on equity • Growing capital-light earnings will be highly accretive to return on equity	• Reducing capital intensity and increasing earnings from capital-light sources will drive significant cash generation

"With a landmark fundraise during an unprecedented year and all business lines remaining resilient, I look forward with optimism."

Matt Hotson
Group chief financial officer

Decisive action to protect the business and take advantage of opportunities

Overview

In what has been an unprecedented year, Arrow responded rapidly to the challenges presented by the COVID-19 pandemic, taking early and decisive action to secure the balance sheet and enhance liquidity. At the half year, the Group undertook a comprehensive exercise to review the Estimated Remaining Collections (ERC) balance sheet asset in light of the significant economic uncertainty present in all its markets. This led to a write down of portfolio investments generating a non-cash impairment of £133.6 million, subsequently reducing to £95.5 million at FY 2020, and was the main driver for the Group's pre-tax loss of £114.8 million (2019: £51.3 million pre-tax profit). At the end of 2020, the 84-month ERC was £1,555.8 million (2019: £1,817.9 million). See the cash ERC to portfolio investments reconciliation on page 179 for more detail. In the second half of the year, we returned strongly to profitability, principally driven by a resilient performance in collections, action to reduce costs, contract wins in AMS and a targeted approach to deploying capital in response to uncertain external market conditions.

The Group reached an important landmark in November 2020, with the final close of ACO 1, which raised total capital commitments of €1.7 billion. We also invested significant time and resource to ensure we have the right strategy in place to scale the Fund and Investment Management business. At our fund and investment management analyst seminar in November 2020, we presented our updated five-year targets and segmental business model aligned with our ambition to drive significant growth through our capital-light businesses. As a result, Arrow's financial reporting has been updated to disclose four segments to better reflect the development of the Group's fund management capabilities: Balance Sheet, Asset Management and Servicing, Fund and Investment Management and Group functions.

Balance Sheet business

The Balance Sheet predominantly reflects the performance of the assets purchased with Arrow's own capital. In 2020, balance sheet cash collections from our portfolio asset base were £338.9 million (2019: £442.3 million).

Continued on p27

BUILDING BETTER FINANCIAL FUTURES

for our shareholders, bondholders and fund investors

"I'm proud to report that ACO 1 is the largest first-time European private market fund closed in 2020 and is among the largest European first-time credit funds ever raised. Raising such a significant pool of discretionary third-party capital in the current environment is a fantastic achievement and means we are well placed to be a leading investor into a large and fast-growing market with an improving returns trend, underpinning our target to manage €10 billion of FUM by 2025."

Federico Silva
Head of origination and business development, Europa Investimenti

Culture indicator:
Trust our people

€1.7 billion of capital secured in largest first-time European private market fundraise of 2020

The last 12 months have been transformational for Arrow, as we successfully executed our strategy to transition to a capital-light fund management firm raising our inaugural fund. AGG Capital Management, a wholly owned independent manager, with access to Arrow's servicing, pricing and sourcing model, successfully raised ACO 1, to focus on opportunities in the European NPL market.

Despite clear market and operational challenges caused by the COVID-19 pandemic, we're delighted the Fund received strong support from some of the largest and most sophisticated global investors from diverse sectors and geographies, including the UK, Benelux, Nordics, Italy, Germany, Switzerland, East Coast US, West Coast US, Canada, Australia and Asia. With a final close of €1.7 billion in November 2020, the Fund received commitments from a broad range of investors, including pension funds, insurance companies, sovereign wealth, university endowments and family offices with an average commitment of circa €80 million. We were delighted to be nominated in the PDI (Private Debt Investor) awards 2020 in the Fundraise of the Year EMEA category.

The Fund marks a watershed moment for Arrow as it marks our entry into the European private credit fund market with one of the largest pools of capital raised in the sector this year, successfully diversifying Arrow's business model, revenue source and client offer. It also reflects our confidence in the European NPL market, which we will maximise by co-investing approximately 25% of the Fund size alongside our investors.

Aiming to drive market leading returns through the economic cycle, the Fund reflects our confidence to grow earnings, increase the contribution from capital-light revenues and servicing operations, and significantly reduce our leverage. At the same time as raising our first Fund with deployment already underway, we're also pleased that our balance sheet and liquidity remains very robust with no bond refinancing until 2024.

"We are thrilled to have worked with Arrow to raise a private fund and ultimately help build a new asset management business. The fact that we have collectively been able to raise a record amount of capital in a challenging fundraising environment is a testament to Arrow's leading platform, long-term vision and demonstrates strong investor appetite for unique and differentiated strategies, like those found in the European NPL market."

Steve Eaton
co-head of EMEA, Eaton Partners

Whilst recent collections performance has been encouraging, Arrow remains cautious and the Group anticipates that there continues to be high probability of a deterioration in the economic outlook in 2021 and beyond as government support that has been provided throughout the pandemic begins to recede. Balance sheet segment income was £65.0 million (2019: £226.5 million) as the revaluation of the ERC balance sheet asset at the half year resulted in a non-cash impairment of portfolio investments of £133.6 million, subsequently reducing to £95.5 million at FY 2020. Cash collections performed strongly against revised estimates in the second half, outperforming by 24.6%. However, due to the significant level of uncertainty, no material changes in the valuation of the ERC balance sheet asset have been made. Gross margin was (51.7)% (2019: 51.0%) so collections costs in absolute terms declined year on year in line with volumes.

Due to the COVID-19 pandemic, we proactively managed cash in H1 2020 and took decisive action to reduce capital deployment. We saw a slowdown in the market, predominantly driven by financial institutions taking a prudent approach to valuations and banks focusing on initial provisioning over asset sales in H1 2020, returning to significant investment opportunities in H2 2020. Going forward, we are well positioned to invest at substantial volume into a growing market opportunity. Full-year purchases for 2020 were £109.9 million (2019: £303.7 million), partly due to COVID-19 impact discussed above and also due to our new investment model. In 2020, Arrow's balance sheet was typically invested alongside ACO 1 fund investments. Participation in the current ACO 1 fund was around 25%. We expect this percentage to reduce over time and for Arrow balance sheet investments to remain at around £150 million per annum. Arrow still runs investment committees on all deals and has carve-outs to support policy requirements, thereby having strong control over liquidity risk.

The co-invest model, where Arrow invests alongside most ACO 1 investments, requires lower Arrow balance sheet investment volume than historic levels, likely leading to a faster deleveraging profile and absolute net debt reduction. 2020 year-end leverage was 5.1x (2019: 3.4x), within covenant levels and secured net debt was £1,181.0 million (2019 as re-presented: £1,107.6 million. See note 16 on page 146 for more detail). Strong trading in 2021, provides increased confidence that leverage will reduce to circa 4x by the end of 2021 – significantly lower than the amended covenant requirements – and return back to the Group's target range of 3.0x to 3.5x by the end of 2023. Leverage is expected to peak towards the middle of 2021, as the negative impact of H1 2020 COVID-19 lockdowns on collections remain in the Group's trailing 12-month secured net debt to Adjusted EBITDA leverage calculation. See page 23 for more detail on leverage and page 185 for more detail on net debt.

In addition, the co-invest structure with the ACO 1 fund will simplify Arrow's accounting profile. As assets purchased through the fund co-invest structure increase, the proportion of income accounted for on a fair value basis through the Arrow SMA and Fund special purpose vehicles will increase, and the share of portfolios accounted for on an amortised cost basis will therefore decline.

Asset Management and Servicing business

Segment AMS income remained robust at £125.4 million (2019: £128.8 million), demonstrating the resilience of this capital-light income stream through a significant economic downturn. Throughout 2020, we secured a record 26 new contract wins. The Group is well placed to win further new third-party AMS contracts as a servicing partner for financial institutions which require additional collections capacity with growing non-performing loan volumes as a result of the pandemic. There are also significant opportunities for the AMS business created by the ACO 1 fund launch. It is estimated that around 75% of fund purchases will be serviced on Arrow's servicing platforms and that the ACO 1 fund will pay market referenced fees for servicing. As a result of the above, the AMS business is in a strong position for future growth, with total income expected to increase at a 10% CAGR over next five years. Profitability for the AMS business is steadily increasing as we continue to develop our operational efficiency. The AMS EBITDA margin for the year was 12.4% (2019: 17.9%) and the Group is targeting a 25% EBITDA margin from the AMS business by 2025.

Fund and Investment Management business

This segment comprises the new ACO 1 fund, alongside our current Fund and Investment Management businesses of Norfin, Europa Investimenti, Sagitta and Arrow Portfolio Management. Limited Partners in ACO 1 will pay AGG Capital Management, the fund and investment manager, fees predominantly on drawn capital with a small amount paid on committed capital.

In addition, Limited Partner investors incentivise the fund manager of ACO 1 through performance fees. Arrow participates in this performance fee regime with a 30 to 40% share, which represents an income stream to the Fund and Investment Management business.

Europa Investimenti and Norfin earn fees relating to fund and investment activity. Income earned by Arrow Portfolio Management is predominantly intra-segmental and relates to the commercial charges between Arrow's Balance Sheet business and the Fund and Investment Management business. These commercial charges cover portfolio management services relating to the assets held on Arrow's balance sheet at a rate of 150bps on net asset value and for the Arrow SMA based on a rate of 175bps during 2020 and 150bps from 1 January 2021 on drawn capital during the investment period. The total blended fee rate for Fund and Investment Management is 0.9% of FUM.

Fund and Investment Management's EBITDA margin was 7.2% (2019: 38.6%). During the year we have continued to build the Fund and Investment Management business alongside the ACO 1 fund raise and have therefore incurred £3.7 million of set-up costs as part of the overall investment. We are targeting a 40% EBITDA margin from Fund and Investment Management by 2025.

Group function costs

These relate predominantly to support functions and reflect those costs incurred as a result of running an international group, which is a listed business in the UK, comprising predominantly plc executives and plc Group oversight costs. This segment made a loss for the year of £78.3 million (2019: £82.1 million), with all costs included in the underlying trading result with no adjusting items.

Across all segments we have continued to focus on efficiency and strong cost control throughout 2020. Total operating expenses were £224.8 million, which represents a reduction on 2019 on a cash basis (2019: £233.7 million). The £10 million cost reduction programme announced at the half year is on track.

"Despite the events of 2020, the Group demonstrated a resilient performance across its business lines in the context of significant macroeconomic uncertainty."

Finance costs and tax

Net interest and financing costs of £57.5 million were 5.5% higher than 2019 (2019: £54.5 million) linked to the additional ABS facility, which was raised to secure the balance sheet and provide additional financing during the COVID-19 pandemic.

The taxation credit for the year was £21.2 million (2019: £14.0 million taxation charge) with an effective tax rate of (18.5)% (2019: 27.3%). The rate is in line with the UK corporation tax rate, which is reflective of the Group's full-year result having been primarily generated in the UK.

Leverage, cash and liquidity

The Group maintained a strong cash and liquidity position, having raised an additional €104.7 million through ABS financing and a covenant amendment agreement with the revolving credit facility banks. Liquidity headroom was £174.6 million (2019: £152.9 million).

The Group's secured net debt position was £1,181.0 million (2019 as re-presented: £1,107.6 million. See note 16 on page 146 for more detail). Leverage at the year end was 5.1x (2019: 3.4x), the increase being predominantly related to lower cash flows in H1 2020 due to the impact of European lockdowns. Free cash flow was £156.6 million (2019: 261.4 million). Arrow's increased focus on reducing capital intensity and growing earnings from its capital-light businesses should result in high levels of cash generation. The Group is targeting £500 million of cash generation after fund investments over the next five years and expects leverage to circa 4.0x by end of 2021 and within our target 3.0x-3.5x range by 2023. This is well in advance of the first bond refinancing requirement in 2024.

The Group's borrowing facilities weighted average period to maturity is 3.7 years (2019: 4.8 years), with a weighted average cost of debt 3.7% (2019: 3.7%).

Returns to shareholders

Return on equity (ROE), one of the key performance metrics for the Group, was (63.7)% (2019: 17.9%), which was adversely impact by external events and the subsequent losses in the first half. ROE in the second half of the year was 11.6% (2019 H2: 6.7%) and represents a return to profitability from the first half of 2020 as well as an improvement from the second half of 2019.

The Group currently expects to resume dividend payments at year-end 2021.

Summary and outlook

Despite the events of 2020, the Group demonstrated a resilient performance across its business lines in the context of significant macroeconomic uncertainty. The pre-tax loss in the first half of 2020, was the result of the non-cash impact of the impairment of portfolio investments of £133.6 million, subsequently reducing to £95.5 million at FY 2020, due to the reforecast ERC balance sheet asset in light of the Group's view that the macroeconomic environment will continue to deteriorate in 2021. In the second half of the year, the Group outperformed its reforecast significantly, with cash collections 24.6% above forecasts and Arrow registered a strong return to profitability in H2 2020. Despite this outperformance, no material revaluations of the ERC balance sheet asset were considered necessary at the full year as the Group remains cautious regarding the macroeconomic outlook for 2021 and beyond.

The completion of the ACO 1 fundraise is a landmark achievement for the Group. The accelerated capital-light strategy and five-year targets underline our confidence that Arrow can quickly evolve into a fully fledged integrated alternative asset manager with the majority of its earnings originating from higher quality, capital-light sources in our Fund and Investment Management and Asset Management and Servicing businesses. The restructure of our income statement into four segments demonstrates our commitment to be measured against this ambition and allow the market to value each business line independently.

Due to the decisive action taken throughout the year to secure the balance sheet, liquidity and cash position, Arrow is well positioned to take advantage of the significant market opportunities likely to be presented by the current economic dislocation being seen across the world's economies. It is encouraging that trading has started strongly in 2021 and I am optimistic about the improved prospects for the Group's performance in 2021 and beyond.

Matt Hotson
Group chief financial officer
23 March 2021

BUILDING BETTER FINANCIAL FUTURES
for our clients

"Client feedback has been universally positive and focused on our ability to provide essential support during a period of unprecedented disruption. I am proud of our response which has enabled us to consistently deliver our commitments to our clients and their customers."

Gina White
Group commercial director

Culture indicator:
Trust our people

Remaining resilient and acting decisively for our clients

2020 saw Arrow secure a record number of new third-party servicing mandates, 26 in total, evidence of increased demand for Arrow's services. One of our key points of differentiation was our ability to protect service continuity across the Group and minimise any potential impact on our clients and their customers.

As a business, learning lessons from the global financial crisis, we knew that businesses that responded decisively and quickly were best placed to weather the storm and emerge unscathed from the crisis. As such, Arrow very quickly established a Group Business Continuity Management (BCM) emergency response team made up of a central command team and local country-level response teams to drive a coordinated response. The BCM group monitored government updates, guidance and restrictions in all our geographies to ensure we had the appropriate safeguards to remain fully operational and protect colleague wellbeing, regulatory and contractual compliance, customers service and cash collections.

We are delighted that due to these efforts, business continuity in all areas was not only maintained throughout but recognised by our peers across the industry sector. In November, we won the 'Best Outsourcing & Partner Initiative' with Virgin Money Group at the Credit Strategy Awards as well as a being four-time finalist at the Collections and Customer Service Awards. In Portugal, our business was recognised not only as a Top Employer, but accredited as the Best Credit Portfolio Management Company (Global Banking and Finance Review) and Best Asset Management Servicer (International Investor).

The Virgin Money award is particularly appreciated as we worked very closely with them this year in their response to the COVID-19 pandemic. In response to their requirements, we doubled the size of our core collections team through a phased redeployment of experienced Capquest agents onto the Virgin Money team. This involved delivering three consecutive training programmes on all client processes and systems to provide the additional resource over a carefully planned 12-week period. We also quickly established a dedicated informal payment plans team of 35 employees, who were recruited and trained over an eight-week period during the height of lockdown. In line with guidelines at the time, all team members were set up to work remotely with an integrated dialler technology to optimise performance.

"I'm really pleased at how Arrow supported our clients and customers throughout 2020. Our operations were very resilient, delivering uninterrupted service to our customers with increased forbearance when required. This commitment was, in turn, recognised by our customers with higher satisfaction scores than prior to the pandemic – a superb result for our servicing team."

Jim Appleby
Managing Director, Asset Management and Servicing, UK and Netherlands

Responding to our stakeholders' needs

Our key stakeholders are those who impact our strategy materially or are impacted by it directly. As a responsible business building long-term shareholder value, we listen to our stakeholders regularly to help guide our strategy, and ensure we continue to deliver relevant services that meet the needs of our clients, investors and customers.

	Why we engage	Key areas of interest
Customers See page 37	Understanding our customers' financial situations is vital to ensure we treat them in the most responsible and sustainable way possible. We also use this understanding to refine our processes, train our people and improve our industry-leading service.	• Affordable repayment plans which repay debt in a sustainable and realistic time frame • Flexible repayments and payment methods • Convenience and functionality to support customers' preferred method of contact • Empathetic and approachable conversations • Trusted and responsible servicing panel and credit manager • Clear and transparent communications
Employees See page 36	It is important to attract, retain and engage people who have the skills, values and expertise to implement our strategy, and ensure our clients and customers are serviced to the best of our ability. Engaged employees will make us more successful, more sustainable and act as business ambassadors.	• Professional development and career development • Recognition and fair reward • Diversity and inclusion • Transparent and timely communications • Clarity on vision, purpose, values and culture • Responsible and fair treatment of customers • Safe and productive working environment
Communities See page 38	We believe that we can add considerable value by engaging and working with the communities where our customers and employees live. Specifically, we believe that we can bring our purpose 'building better financial futures' to life through financial education. Consumers who are well informed can make more responsible financial decisions.	• Affordable repayment plans • Employment • Financial literacy programme via Junior Achievement Europe • Wider community support programmes, i.e. charity fundraising, volunteering
Regulators and industry See page 82	We proactively work with regulators to help influence regulation that delivers a positive outcome for consumers and business. We have also been in regular dialogue concerning our operational resilience and customer forbearance in response to COVID-19.	• Compliance with EU and national regulations • Data protection • Control and supervision • Affordable repayment plans • Treating vulnerable customers fairly • Taxation
Capital providers See pages 25 to 26	As a publicly listed organisation and institutional fund manager, we are required to provide fair, balanced and understandable information on a timely and regular basis to enable investors to fully understand our business, so they may make an informed and educated investment decision.	• Strategy and performance • Investment skills and track record • Risk management and corporate governance • Outlook • Executive remuneration • Dividend policy • Access to senior management • Site visits
Clients See pages 29 to 30	A deep understanding of our clients and the challenges they are facing is essential if we are to build sustainable partnerships. We use this understanding to inform our decisions, refine our solutions and differentiate ourselves from our competitors.	• Our capability and the solutions we can provide • How we treat our customers • Our understanding of the industry and the challenges the businesses within it are facing • Ability to demonstrate that our values are aligned with those of our clients • Investment in digital and new technologies

Further detail on our engagement with stakeholders can be found within our ESG review on the following pages.

Aiming to achieve sustainability via our ESG framework

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 and we seek to contribute to environmental, social and governance matters in order to both satisfy our responsibilities and be a thought leader regarding issues of sustainability that may impact our stakeholders.

Arrow remains fully committed to meeting our stakeholders' expectations of being a responsible corporate citizen and addressing key sustainability issues, viewed through the lens of our Environmental, Social and Governance (ESG) framework. We recognise long-term sustainable success is linked to the fortunes of the stakeholders that we serve. As society's expectation of businesses continues to grow, Arrow aims to stay ahead of those expectations. We believe that by integrating sustainability or ESG considerations throughout our operations we can enhance our business performance, support the financial health of our customers and better support the diverse communities within which we operate. In doing so, we support our purpose of building better financial futures for all of our stakeholders. During 2020, the board ensured that ESG ambitions were embedded as one of the Group's strategic initiatives and set significant commitments in both the pursuit of our business operations being carbon-neutral by 2030 and delivering 1% profit after tax to charity and good causes aligned with our purpose from 2021. Overseeing our ESG ambitions and initiatives, a board sustainability committee has been established comprising all non-executive directors and chaired by Maria Luís Albuquerque, with a supporting executive sustainability committee, which is responsible for driving and measuring the delivery of Arrow's ESG initiatives. In addition, a new Sustainability function has been created to manage the delivery of Arrow's ESG commitments.

Arrow has a track record of working for the good of all stakeholders and playing an active role in the communities where we operate. To enhance our approach in 2020, further investment has been made in conjunction with Deloitte LLP to review activities ranging from strategic initiatives through to specific aspects of climate-related reporting. To underpin this, a board sustainability committee has been initiated to bring together our existing social and governance activities alongside those new areas of focus that will be critical to support the pressing environmental agenda. In doing so, the Group will continue to look to the guiding principles set out in the United Nations Sustainable Development Goals and supports the FCA adopting an approach consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We welcome broader initiatives aimed at common standards and harmonisation to provide consistent and reliable information for all financial services stakeholders, whilst delivering on key commitments to our customers, clients and communities.

The Group response to COVID-19 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 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 2020, with additional levels of decision-making control being used during the pandemic in addition to our existing country-level, executive and board committees.

Naturally, the changes to facilitate home working, reducing business travel and office usage have created immediate environmental benefits and we have embraced the lessons learned from this experience. Arrow has already invested in a programme supported by third-party expertise to support a more sustainable and flexible set of working practices. Importantly, these changes are based on direct colleague feedback, taking into account the wellbeing of our staff as well as the effect commuting has on the environment. We want to build a human-centric workplace and provide a positive work environment for all of our people, supporting a diversity of working styles and appealing to a wider talent pool whilst retaining our talented people who want autonomy and choice. We are committed to completing this journey and are looking at areas for further environmental gain, such as the way we think about business travel and developing and promoting sustainable workplaces.

Our ESG framework

The following sections provide more information on our sustainability highlights as viewed through our Environmental, Social and Governance framework.

Building better financial futures

e

Environment

We are aware of our impact on the natural environment and our effort to improve it

s

Social

We understand and respond to the needs of our people and customers

g

Governance

We are a responsible business and investor

"Sustainability is central to Arrow's purpose of building better financial futures. I am pleased to be the board sponsor for this area as we continue to improve our environmental, social and governance capabilities, which is essential in order to meet all of our stakeholders' expectations."

Maria Luís Albuquerque
Non-executive director and
chair of the board sustainability committee

"Now is the ideal time to build upon Arrow's successful record as a responsible and socially aware organisation. We have great opportunities to embed ESG principles throughout all facets of our activity as evidenced by our investment in internal and external expertise and a new board oversight committee to ensure we deliver benefits across the Group."

Martina Swart
Group chief legal and risk officer

Environment – we are aware of our impact on the natural environment and our effort to improve it

Arrow recognises the responsibility to reduce our impact on the natural world whether that be our use of offices and travel or the products and services we provide to clients. Management of the environmental effect we have and the risks that may face our business today and over a long-term horizon are increasingly in focus.

Climate change

As an asset manager operating across Europe, we recognise that our business has a direct and indirect environmental impact. This section covers how our business is responding to climate change and energy management.

Climate change represents a material financial risk to the global economy. Over this reporting period, the Group has reflected on the climate change focus evident across the global and European political and regulatory landscape including the UK Government's commitment to be a net-zero carbon economy by 2050. The board were briefed extensively by experts on the urgency of the climate crisis and the Group has initiated a long-term plan for identifying, measuring and managing climate-related risk. Our board sustainability committee has been tasked with leading our response to the Task Force for Climate-related Financial Disclosures (TCFD) recommendations, as part of our commitment to being a responsible business and ensuring that we operate to a common set of international standards that can be deployed across all of our European operations. We understand that UK regulatory and government policy is moving toward integrated reporting on climate-related risk within listed company annual report and accounts. This is a key priority for the Group and will be a long-term focus of our board sustainability committee, its structure reflecting the key areas of:

1. Strategy
2. Governance
3. Risk management
4. Metrics and targets

The Group's emissions for the 2020 period materially decreased, representing a reduction of 53.9%, which was largely a result of the COVID-19 global pandemic. From March, the majority of our offices were closed and all business travel reduced. During 2020, improvements were made to how we collect and report our Scope 1, 2 and 3 greenhouse gas emissions (GHG), forming part of our overall approach to managing climate-related risk. The scopes table below outlines our definition of material GHG emissions by source and the annual CO_2 emissions table includes our current and historic performance.

Scopes

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	Business travel

Annual Group CO_2 emissions

Scope	CO_2 emissions (tonnes) per annum 2020	CO_2 emissions (tonnes) per annum 2019
1	433.8	485.2
2	506.9	1,499.1
Total Scope 1 and 2	**940.7**	**1,984.3**
3	378.7	875.6
Total	**1,319.4**	**2,859.9**
Tonne of CO_2 per employee (using average number of employees for the year)	0.5	1.2

Greenhouse gas emission reporting methodology

In line with previous years, 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 Part 7 of the Companies Act 2006 (Strategic report and Directors' report) Regulations 2013.

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 2020).

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

Energy consumption	**2020 '000**	2019 '000
Group energy consumption	**1,853.3**	3,638.2
UK energy consumption	**691.0**	730.2
Total CO_2e from energy consumption	**506.9**	1,499.1
Natural gas	**17.7**	59.0
Electricity	**1,853.3**	3,579.3
Kwh per employee (using average number of employees for the year)	**733.1**	1,489.0

Read how we empowered our people with 'Arrow Everywhere' workplace transformation on pages 13 to 14.

Our place in a net-zero world

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 sustainability committee will continue to scope our decarbonisation strategy, which centres on our ambition for business operations to be carbon-neutral by 2030. We have already identified a number of external partners to support with defining our Group's role in the net-zero carbon economy. Over the next year, the Group will work to determine and manage our indirect impact on global warming and establish science-based targets for our direct GHG emissions and we are actively pursuing enhanced measures and reporting to support TCFD disclosures during the next annual reporting period. We are committed to being a responsible business and investor and recognise that our plans will need to be refined and updated to keep abreast of the latest intellectual capital and regulatory standards.

S Social – we understand and respond to the needs of our people and customers

At Arrow, we take our sustainability responsibilities seriously. Under our social programmes we aim to understand and respond to the needs of all our employees and customers, but we also extend this responsibility to the communities in which we operate.

Read how we remained resilient and acted decisively for our clients on pages 29 and 30.

Employees

For our employees, the unprecedented events of 2020 tested our resolve and put our culture under the spotlight, but we are delighted that we have weathered an unprecedented crisis in the best way possible.

From the beginning of the pandemic, we mobilised our business continuity plans across the Group, focusing on the wellbeing of our people and compliance with government guidelines. This meant moving all our employees to remote working, within three weeks, and ensuring we provided the right equipment and support. With no certainty to how long the pandemic would last, we also began a significant change programme, Arrow Everywhere, to support longer-term remote working and the retention of benefits such as increased work-life balance, no daily commute and greater flexibility. We will do this through a hybrid home-office model as we look towards the future.

Encouragingly, when questioned via the Leesman Employee Experience survey, over 90% of our people reported working productively from home and 80% noted a healthy work-life balance. This gave us confidence that our employees were resilient to the demands of remote working and comfortable with our response.

Supportive of maintaining full operational resilience, we gave all our people access to LifeWorks, a confidential employee assistance programme covering employees and their families. Recognising that every day brings new changes and challenges, LifeWorks provides professional and personal support 24/7, 365 days a year. The launch of LifeWorks was consistent with our culture to build a safe, supportive community with family values at its heart. It was this ethos that also drove our decision to top up government funding for any employee furloughed to match their existing salary – meaning none of our employees would be financially worse off. We did this both in the UK and Portugal where we utilised government job retention schemes, although in the UK we have subsequently repaid all furlough claims having delivered a better than anticipated financial performance.

This focus on employee welfare was 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. As well as responding to the pandemic, we also closely followed other external events such as the Black Lives Matter movement and our Group chief financial officer hosted discussion groups to surface opinions and identify areas where Arrow could improve as an organisation. Following this, a new diversity and inclusion strategy will be reviewed and evaluated by the board, which will include, amongst other items, participation in the 100 Black Interns Programme, as well as a recognition that diversity extends beyond gender targets. Although we continue to see good progression towards our 40% gender diversity in senior leadership roles, presently standing at 33%, a much broader focus is now reflected in our policies and processes. Inherent in this wider diversity programme, a mental health awareness initiative was launched beginning with Paul McGregor, founder of 'Every Mind at Work', sharing his experiences on normalising mental health conversations in the workplace in support of International Men's Day.

Moreover, we have enlisted the support of specialist organisations, such as the Clear Company and Moving Ahead, to continuously improve our approach to diversity and inclusion (D&I) across the Group.

We have also invested in a new online tool called Peakon, which allows us to measure engagement and our cultural characteristics across the Group. This tool is central to our strategy of empowering line managers to own engagement themselves and make it everybody's business, not just an executive management or HR initiative. This is a long-term commitment and the continuation of a journey to improve the working lives of all our colleagues across the Group; in particular, helping line managers identify their strengths and priorities and co-create team-based solutions. Our Group-wide engagement score was rated Good (7.5/10) and our management and employees will be working hard to improve this score. Maria Luís Albuquerque, our workforce engagement representative on the board, continued to engage with employees throughout 2020. These immersion sessions covered all geographies and included country-wide, functional and values-based teams. Here, it was also made clear that the work done to keep everyone safe and provide the right support to work remotely was widely recognised across the Group.

Read how we supported our customers through increased forbearance on page 8.

Customers

Our operational resilience and the care we gave our employees naturally flowed through to our customers. It was driven, as always, by our purpose, which is to build better financial futures. Responding proactively to lockdowns across Europe, we implemented actions including the transition of our customer service operations to remote working. Our early intervention here meant we had no outage in service delivery, and we responded to all customer queries at a time when some organisations were struggling to maintain their service levels. To align demand with capacity, we moved to an 'on demand' capacity model, moving from traditional shift patterns and adapting to the changing needs of our customers. Recognising the severity of the situation, we continued with our guiding principle of treating customers fairly, managing the situation based on individual requirements in order to offer support and guidance at a time when they needed us most. Finally, our social outreach was helped by an enhanced digital capability including a new interactive SMS service which allowed customers to contact us when it most suited them.

Irrespective of our COVID-19 response, placing customers at the heart of everything is central to how Arrow operates, and we have always sought to ensure the fair treatment of customers. To help us achieve this, our Group Customer Forum (GCF) brings together the best practices from around the Group with the aim of improving the customer outcomes. The GCF is essential in sharing best practice within each country's operations and driving forward positive change. It is also tasked with ensuring we deliver consistent customer treatment – as evidenced by our COVID-19 response – and using data and learned customer behaviours to guide future strategies and service enhancements. The GCF is currently in the process of devising standardised customer experience metrics including how we utilise vulnerable customer and complaint management information to improve process and policies.

"We do not evaluate our D&I performance based on financial performance or just increasing the number of underrepresented people – this is not our measure of success. Our goal is to take a broader perspective based on whether we can harness diversity in terms of learning, innovation, flexibility, equity and respect and build a truly inclusive culture where everyone within our ecosystem can bring their whole selves to work."

Matt Hotson
Group chief financial officer

We're confident our local and Group customer forums are driving real value, and during 2020 we achieved the following:

- increase in our customer satisfaction scores, averaging 7.7 (out of 9);
- customer framework governing our commitment to customers and guiding principles for collection activities;
- unified vulnerable customer strategies which enabled a swift response to the COVID-19 crisis, including an immediate hold on litigation activities, informal payment plans of up to three months, as well as other payment arrangements including a switch to interest-only or a reduction and cessation of interest, depending on circumstance;
- standardised customer key performance indicators, including customer satisfaction, abandonment and breakage rates, complaints and digital uptake;
- expansion of customer payment and communication channels, including SMS, virtual IBAN, customer portals, live chat and online appointment bookings;
- enhancements to our websites, specifically more customer-friendly language and easier access;
- finally, a deep dive of our vulnerable customer strategy found high levels of satisfaction with focused improvements made to the digital experience and customer reviews.

With so much emphasis on the customer we were delighted, therefore, to win awards for our customer-service operations. Most notably, we were awarded the Credit Strategy 'Best Outsourcing and Partnership' Initiative for Onboarding and Customer Engagement, in recognition of our work with Virgin Money. Following this, we were also pleased to be a four-time finalist at the Credit Strategy Collections and Customer Service Awards, in November. In Portugal, our business was recognised not only as a Top Employer but accredited as the Best Credit Portfolio Management Company (Global Banking and Finance Review), Best Asset Management Servicer (International Investor) and Best Practice Operator of the Year (ACQ5, Country Awards 2020).

We are also pleased to report that regular updates are provided to the Group's board, helping to facilitate a full and transparent disclosure of how we are treating customers fairly, how we listen to them, and how we put customers at the centre of everything we do.

Fulfilling our social commitments more broadly, during the year, we continued to support the activities of the major debt charities which provide free impartial advice to our customers, particularly in the UK where we fully support StepChange, Payplan and Christians Against Poverty by way of FairShare contributions.

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.

In the first quarter of the year, we focused on classroom-based learning before we rapidly transitioned to online-based activities; this move was consistent with our broader organisational culture of embracing new ways of working.

In the classroom, we continued with our flagship 'Learn to Earn' programme, whereby Arrow volunteers help to equip students with the tools and knowledge to make good financial choices as well as providing them with information on career opportunities for life after education.

Read how we supported our communities alongside Junior Achievement Europe (JAE) on page 40.

Continued on p41

BUILDING BETTER FINANCIAL FUTURES

for our communities

"Working with JAE helps us deliver our purpose in a way that young people can grasp and put into practice once they leave full-time education. It's a personal highlight working with young people knowing we are making a positive difference."

Hugo Monteiro
Communications and marketing director,
Whitestar Asset Solutions

Culture indicator:
Trust our people

Supporting our communities

In 2020, we continued to deepen the relationship that we have with Junior Achievement Europe (JAE), Europe's largest non-profit provider of educational programmes for financial literacy and entrepreneurial skills for young people.

This is our third year working with JAE and we're pleased the relationship continues to build, notwithstanding the unprecedented challenges 2020 brought to our classroom-based tuition.

In the first quarter it was very much business as usual, but as schools across Europe began to close, we worked alongside JAE to transition our activities to remote learning. This transition embodied our broader culture of embracing new ways of working and the move saw volunteers record educational videos, known as 'Talking Heads', for students aged 11-15 covering a range of topics including interview and presentation skills, CV writing as well as broader topics covering leadership and entrepreneurship. As we moved into the latter part of the year, our plans to reintroduce our classroom flagship programme, 'Learn to Earn', were again put on hold, but we used the time to deliver online financial literacy webinars, as well as planning for a digital mentoring programme that will see Arrow employees form mini-mentoring groups to help students set up and run a company. Our mentors will be assigned to student teams, over a nine-month period, to support them in JAE's flagship initiative, the 31st 'Company of the Year' competition, that sees thousands of students aged 15-18 across Europe compete for the prestigious prize, tackling real business issues such as branding, product development, production, finance and marketing. In 2020, we were also delighted that João Bugalho, managing director, from our Asset Management and Servicing business unit, joined the headline judging panel, helping to select a winner from 175 finalists spanning 39 countries.

Over the course of 2020, working in partnership with JAE, our Arrow volunteers provided tuition to more than 11,636 students in financial education and work-ready skills. In 2021, with the continued build-out of our digital programme, we aim to increase this number and in return help our employees develop new coaching, mentoring and leadership skills.

"I supported both classroom-based teaching and remote learning in 2020. Naturally, there was a big difference in experience, for both students and the Arrow volunteers, but I was pleased to be able to support both initiatives and know that we could still help young people – even in these unprecedented times."

Nick Jones
Corporate communications director

"We are proud to partner with Arrow to equip over 11,000 young Europeans this year with financial literacy skills that will empower them to take charge of their economic future. Our joint programmes develop sound financial decision-making skills as well as broader life skills that increase students' employability prospects."

Salvatore Nigro
CEO JA Europe

Transitioning online, our focus for the rest of the year has been on educational videos as well as developing a mentoring programme for young people. The educational videos, known as 'Talking Heads', see volunteers talk about a range of topics such as interview and presentation skills and CV writing, as well as broader topics covering leadership and entrepreneurship. The videos are subsequently shared across schools helping to instruct thousands of young people with important life skills.

Taking this concept one step further, our Portuguese volunteers delivered an online financial literacy webinar in support of International Student Day that focused on building responsible financial futures. The event reached 65 schools and 1,500 students in major cities including Lisbon, Porto and Viseu. This live tuition has also been replicated in Italy with volunteers tutoring seven schools in the final quarter of the year despite a renewed lockdown.

Collectively, our financial education programme consisting of the classroom and virtual learning has reached 11,636 children – a considerable achievement given that schools were shut for extended periods of the year, and all our employees were working remotely.

In the UK, we complemented our core JAE programme by supporting City Year, a Manchester-based charity, helping to run virtual interview skills workshops as well as involvement in their Bridge Builder mentoring programme that sees Arrow volunteers support the development of new mentors. For the second consecutive year an Arrow employee, Carrie Thompson, won Mentor of the Year, an accolade we are immensely proud of.

Outside of our core financial literacy and mentoring programmes, our colleagues in Portugal continued their sponsorship of a school in the Nampula province of Mozambique, in partnership with Helpo ONG, and they also supported the Make-a-Wish charity helping seriously ill and often disadvantaged children realise their dreams. In Italy, our business supported the San Raffaele Hospital in Lombardy that was at the centre of efforts to treat desperately ill COVID-19 patients. Crowdfunding, we raised over €50,000 to purchase vital intensive care equipment including respirators and monitoring systems, and in the Netherlands, Easter donations were sent to health care workers and other essential workers in care homes as a thank you. In the UK, we organised the collection of toys, books and clothes for the Wood Street Mission for low-income families at Christmas and supported the NSPCC 'Letter from Santa' appeal.

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.

Key Performance Indicators (KPIs)

Employees (internal)	2020 performance	2025 targets
Group engagement score	7.5/10	8.5/10
Share Incentive Plan (SIP) participation[1]	45% UK	30% Group
Leadership team gender diversity	33%	40%[2]
Everyone can be their true self at work	7.8/10	8.5/10
Everyone can use their differences to make Arrow a better, more successful place to work	8.0/10	8.5/10

1. Currently the SIP is only on a UK basis, however the Group is rolling out an international SIP during 2021, and therefore the 2025 target is based on Group participation.
2. 2023 target.

Customers, communities (external)	2020 performance	2025 targets
Customer satisfaction	7.7/9	8.0/9
Calls abandoned	6.7%	<5%
Total beneficiaries of JAE programme	11,636	15,000

In addition to FairShare in the UK, the Group will contribute 1% of profit after tax towards good causes by 2021.

Employee gender diversity[1]

- Male – 1,097
- Female – 1,435

Board gender/senior manager gender diversity

- Male – 4
- Female – 3

1. At the 31 December 2020.

Governance – we are a responsible business and investor

Arrow is committed to achieving our purpose of building better financial futures and to meeting our stakeholders' expectations on environmental, social and governance issues. We will deliver on these commitments by being a responsible business and investor and by embedding and maintaining the highest standards of business conduct and risk management.

A new sustainability function, led by Paul Woods, Group head of sustainability, will drive the delivery of Arrow's ESG commitments.

Responsible investment

As part of Arrow's transformational journey over the last 18 months into a vertically integrated European asset manager, we have continued to focus on further integrating core ESG principles in a systematic manner into all aspects of our Fund and Investment Management business. 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. 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. As we continue to build our Fund and Investment Management business, a key focus will be to continue to embed robust and transparent processes to assess ESG considerations in a manner that is consistent with the evolving vision of the board's sustainability committee.

Business conduct and risk

Our regulators, customers, employees, suppliers, investors and shareholders expect Arrow to uphold the highest standards of business conduct and risk management. We are committed to meeting and, wherever possible exceeding these expectations and we have developed a robust governance framework which is reviewed on an ongoing basis to suit the size, scale and nature of our business as well as address developing risks. We seek to achieve the highest standards in conduct and risk management, much of which is already part of our values and governance model as a regulated financial services group and aligns well with our core expertise in areas such as the fair treatment of customers.

Board sponsorship and oversight

A board sustainability committee, comprising all of Arrow's non-executive directors and the Chair, has been established to oversee the delivery of the Group's sustainability agenda and to review, challenge and support the Group's approach and progress against agreed sustainability initiatives. The board sustainability committee reports to the Arrow Global Group PLC board on the Group's sustainability work and progress on a quarterly basis. The board sustainability committee is supported in its role by the executive sustainability committee which drives the delivery of Arrow's environmental, social and governance initiatives and the director of sustainability who is responsible for managing the delivery of our ESG commitments. Arrow has engaged with external specialists such as Deloitte LLP to support the development of its ESG policy and during the second half of 2021, a dedicated section of our corporate website will be built to highlight our ESG initiatives and our key performance metrics, which will be independently and externally verified by the end of the year. In addition, Arrow is exploring whether its ESG/sustainability programme might benefit from partnering with third-party ESG rating agencies.

Group values

Inherent in our culture statement (see page 15), our values play an active role in life at Arrow and help us act in an ethical and responsible way. They are Arrow's North Star and coupled with our culture, they guide the organisation towards achieving its purpose and serving our customers in the best way possible. Launched in 2016, our values are fully embedded across the Group and help us reward the behaviours that will make us more sustainable and more successful. See page 15 for further information on our purpose, values and culture.

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.

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 with oversight by the Group chief people officer and senior management in each jurisdiction. In addition, each year the board reviews and approves the Group's Modern Slavery Act (MSA) Statement. The existing MSA Statement was approved in May 2020. 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. In addition, all of Arrow's senior managers completed modern slavery training during the year.

Data privacy and security

Cyber threats facing industry and supply chains are continuing to grow and evolve at a rapid rate, even more so during COVID-19. Arrow manages this growing threat by having a robust information security framework aligned to the international standard for information security – ISO 27001, which is commensurate with a group of our size and the highly regulated sector in which we operate. For further information, see the section on risk management on page 44.

Tax transparency

The board and senior management are committed to a sustainable tax strategy which embeds core principles of integrity, compliance and the discouragement of aggressive tax avoidance policies. The tax strategy is aligned to the broader vision and values of the Group and includes ensuring that all taxes are paid where they fall due, and full compliance with applicable legislative and governance requirements. The Group's effective tax rate is reflective of the profit mix and tax rates in the jurisdictions in which it operates. The Group publishes its tax strategy on its website, which clearly sets out the aim of managing its tax affairs in a responsible and transparent manner, meeting all reporting and notification obligations and working closely with the tax authorities in the countries in which it is a taxpayer. The tax strategy can be found here https://bit.ly/3sDwZMq.

KPIs

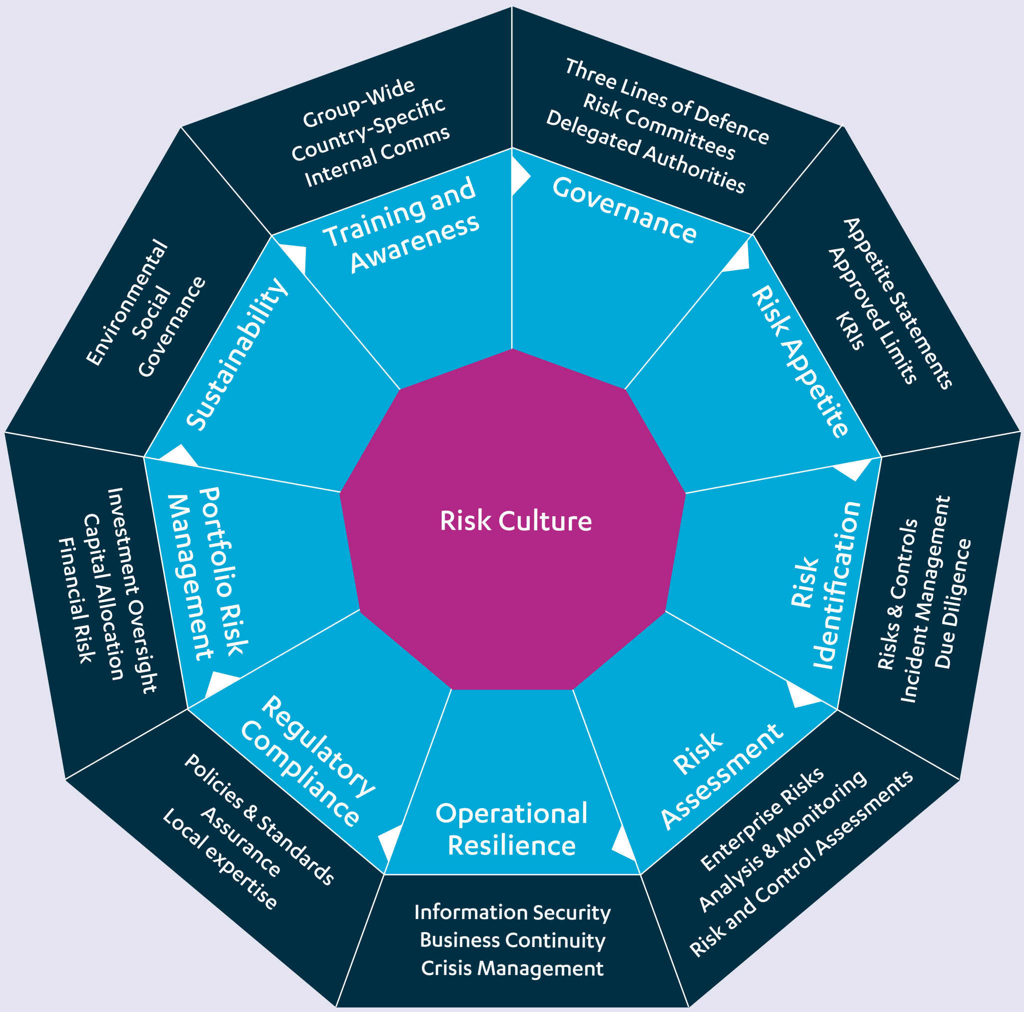
KPIs	2020 performance
Number of cases of confirmed financial crime and corruption	No confirmed cases
Whistleblowing cases reported	2
Whistleblowing report upheld/ prosecuted	No cases upheld or prosecuted
% of the top 25 suppliers who participated in the modern slavery act questionnaire process	100
Tax paid £000	6,491

Effectiveness reviews

The effectiveness of Arrow's sustainability governance framework is subject to Arrow's internal assurance processes. Periodic reviews of the key elements of Arrow's sustainability programme are undertaken by the Group internal audit team and the findings of these audits presented to the audit committee for consideration.

Our approach to 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.



Risk framework

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 2020, work continued to maintain and evolve the use of the risk framework to meet the demands posed in an unprecedented year. This included continual and 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. Focus continues to be in refining the risk management model to include a more detailed risk appetite reporting framework and emphasising the three lines of defence with focus on first line accountabilities and assurance. The development 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. This work will continue in 2021, to ensure all areas of the business have a consistent risk culture and approach to appetite and decision-making. The overall framework continues to be based upon our three core risk categories: strategic, financial and operational, with related details cascading from these areas. A significant area of development has been the successful pivot from country-driven reporting to a business line focus, allowing for our risk framework to recognise the Group structure whilst still being focused on specific jurisdictional risk matters. With this, has come the additional benefit of increased first line ownership of reporting and greater ability to refine use of risk methodologies for greater business benefit.

The governance structure is overseen by the board via a board risk committee, which is supported by the Group executive risk committee and country risk committees alongside functional risk reports. The board risk committee sets the tone for our approach, tracking progress and challenging management to ensure that the Group continues to embed and mature risk management processes which effectively identify, report, measure and manage risk. Country risk committees continue to be run independently and focus on our country-based regulatory status. This approach allows for risks to be raised and mitigated with accountability where it is needed. We would expect this to evolve further as the Group continues to review governance arrangements in support of the ongoing development of our organisational structure in a way that balances the needs of our jurisdictional and regulatory responsibilities, alongside Group-wide operating protocols. During the immediate response to COVID-19, a more centralised command and control operating mode was deployed to align all senior leaders on matters of colleague safety and wellbeing, continuation of services and support for our customers and clients and the financial risk management steps required to ensure the successful, long-term viability of the Group. Following the successful delivery of operational resilience outcomes and secure financial positioning, the firm deployed an updated delegated authority structure to place decision-making accountability where needed, in order to provide the business with a more efficient operating model in which the role of second line will increasingly focus on providing assurance across key areas of the business. All risk committees continued to operate throughout the year in support of short and long-term risk mitigation priorities and there is an ongoing focus on enhancing risk management practices into our fund operations as our Fund and Investment Management business grows.

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 or country-specific expertise, when required, is a core element of that success.

The ongoing investment in a risk management system facilitates the evolution of our risk culture, helping to support a proactive and consistent approach to the identification and management of risks. Notably, it provides transparency and allows for actions across all three lines of defence to be addressed promptly and managed to completion via a single data source, with additional oversight through the risk committee structure, audit committee and via local regulated board meetings to gather additional insights on their respective control environments.

Three lines of defence

A three lines of defence model allows us to operationalise our approach, driving clear accountability into the first line. Senior leaders retain approved person status where applicable. This enables a formalised approach to responsibility and ensures embedded behaviours support the long-term sustainability of the business through increased accountability, which is exercised within a framework of high governance standards. This has been particularly evident with the establishment of the Senior Managers and Certification Regime in the UK, which has provided rigour to the structured approach already adopted. It has formalised the basis around which decisions are taken and executed whilst ensuring we maintain a focus on customer conduct issues throughout all parts of the business. This is an approach that runs throughout the Group's culture and values and is, therefore, evident in our businesses, which operate in different regulatory regimes.

Key areas of the Group risk framework are covered by the risk and information security teams who discharge their responsibilities with strong policies and procedures dealing with:

- Enterprise and operational risk
- Investment and financial risk
- Regulatory compliance
- Cyber risk, information security and data privacy
- Our three lines of defence

The third line internal audit activity is delivered by the Group head of internal audit with support from country audit teams and Deloitte LLP. Reporting to the audit committee, the role also ensures a clear distinction between responsibilities in the second and third lines, as well as being an attendee at the Group executive risk committee and the board risk committee.

Key considerations in 2020

The assessment and management of risks arising from COVID-19 dominated the risk management agenda in 2020. Due to the wide-ranging nature of the risks posed, these elements have been addressed across all areas of the risk profile, including, at different stages, those that related to our customers, clients, colleagues, financial risks or investment strategy. Several key focus areas are highlighted in more detail on the following page.

First line business owners – ownership and accountability
- Day-to-day ownership, management and reporting of risks
- First line implementation and quality control to ensure adherence to risk framework and processes
- Responsible for control environment

Second line risk and compliance – oversight and challenge
- Business partner and regulatory interface via advice, consultation and communication
- Develop and maintain risk framework and partner with first line
- Provide oversight, monitoring and challenge to provide assurance to relevant boards and governance forums

Third line internal audit – independent assurance
- Independent assurance through formal reviews
- Review and challenge of first and second lines

Development of the Fund and Investment Management business

Risk and compliance teams were fully involved throughout the process of launching and developing the Fund and Investment Management business in line with the Group's stated ambition to realise opportunities to deploy third-party capital. In 2020, focus was on investment risk appetite monitoring and reporting with the emergence of COVID-19, ensuring regulatory compliance matters were addressed with internal and external experts working in tandem, enhancing processes to support the operating model, and ensuring governance and delegated authorities were restructured to meet the new requirements. In addition, direct consideration was given to ensuring that the established Group-wide culture and values were extended to the fund and investment management activities and where the risk committee can lead and support via consistent governance and risk management standards and practice. Embedding, updating and refining these operational protocols with appropriate second line oversight will remain in focus in 2021.

Brexit

We maintained a watching brief on Brexit developments during 2020, whilst continuing to benefit from our multi-jurisdictional base provided by our existing footprint. Whilst this meant cross-border regulatory issues were less challenging given our individual country-based permissions and relationships, Brexit still posed a risk to data flows as well as the impacts on working and travel arrangements for colleagues. COVID-19 may have reduced the immediacy of the latter's challenge, however it was still prevalent, with targeted information provided to colleagues on the implications of Brexit for them and their personal circumstances. We continued to take the necessary steps to prepare ourselves based on the work of internal subject matter experts supported by external advisors. The individual operating licences held by our individual businesses, alongside our balance sheet strength, meant that we were well positioned to navigate a range of Brexit outcomes.

Regulatory scrutiny

Our widespread footprint, both geographically and in terms of asset class coverage, means a broad spread of regulatory interactions across our compliance framework. This involves all parts of the business, both functionally and at all levels, which means strong engagement and deep understanding of the Group's regulatory role as well as colleagues' individual responsibilities. We continue to be regulated in each of our jurisdictions, including the UK's Financial Conduct Authority, the Dutch Authority for Financial Markets, Banka D' Italia, Central Bank of Ireland and the Portuguese Securities Market Commission. Regulatory compliance is one of the pillars of our business; learning from the best-in-class across the Group to develop and achieve the same standards in all businesses and placing the customer journey and customer impact assessments at the heart of how we operate.

Whilst other regulators move progressively towards the approach, standards and framework of the FCA in the UK, we are well placed to meet and surpass these standards elsewhere because of the approach we already adopt. The embedding of the Senior Manager and Certification Regime during 2020 is a prime example of this approach, with it being adopted at Group level. Whilst we continue to maintain full focus on future developments from the Debt Respite Scheme Regulations in the UK to the Senior Executive Accountability Regime in Ireland and the AML Directives which affect all of our jurisdictions.

COVID-19 brought the treatment of customers, and especially those who may be more vulnerable, into sharp focus for all organisations. At Arrow, this represented a continuation of our approach to treating customers fairly and responding to individual needs and so the Group was well positioned to work with our customers and regulators as the pandemic evolved.

Information security and operational resilience

A fundamental area of operational risk management and operational resilience is our approach to information security. Data is key to our value proposition and is, therefore, safeguarded for everyone's benefit including our colleagues, customers and clients.

We baseline our minimum information security standards against the international standard of good practice for information security – ISO 27001. Our framework involves identifying what our critical data is and applying strong protection controls to safeguard that data. However, we acknowledge that the cyber-risk landscape is continually evolving, and we respond to this by investing in our people, processes and technology to protect our colleagues, customers and clients. This strengthens our ability to detect, respond to, and recover from cyber threats. As cyber attacks are inevitable, we continue to focus on deploying resources and building our resilience.

Although cyber risk forms a critical component of our operational resilience and scenario testing, we acknowledge that it is not the only business disruptor that can have significant impact on the Group's operations. We are building our business operating model capabilities encompassing our culture, behaviours, processes and systems to allow our business to deliver the Group strategy in the face of disruption, regardless of source. This will enable Arrow to anticipate, protect and plan for operational recovery at all times. COVID-19 represented a real-time test of operational resilience and the ability of the Group to respond positively to that has been critical to our stakeholders. Notably, this also provided accelerated learning towards an evolved resilience approach to meet the needs of the future office and remote working environments.

Principal risks

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

Key risk	Key mitigating actions
Strategic risk	
A. Macro and political	Geographic and asset class diversification, in-country expertise
B. Target operating model	Updated organisational design, realignment of senior roles and responsibilities, governance and delegated authorities
Financial risk	
C. Liquidity/funding	High levels of liquidity headroom, no debt maturities until 2024, Fund and Investment Management business reduces bond and debt market reliance, short-term pressure eased through covenant restructure
D. Capital allocation and investment returns	Risk appetite framework, due diligence and underwriting track record, significant off-market purchases, adaptable investment strategy
Operational risk	
E. Regulatory scrutiny	Three lines of defence, policy, processes and training, local expertise, stakeholder engagement
F. Operational resilience	Testing, business continuity and disaster recovery plans, information security standards
G. Fund and investment management execution and business transformation	Organisational design, infrastructure, change management, process improvement, governance
H. Scalability	Targeted investment in people, processes and systems to support strategy
I. Fund management personnel	Attracting new talent, and retaining and incentivising existing fund management personnel, to support current performance and deliver strategy for Fund and Investment Management business

More broadly, 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. Further financial risks are discussed in note 25 to the financial statements.

Link to strategic priority

1. Live and breathe our purpose and culture, supported by clear and ambitious ESG goals
2. Allocate capital dynamically to drive outsize returns while effectively managing risk
3. Prioritise investments in high-value, granular niche products in our core markets whilst creating opportunities for platform servicing revenue
4. Build a scalable and sustainable fund management platform with a diverse spread of global investors
5. Develop industry-leading asset management and servicing expertise which supports our investment ambitions, clients and customers
6. 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

Read more on our strategic priorities on pages 20 to 21

Risk trend key

▲ Risk increased from 31 December 2019 to 31 December 2020

► Risk stable from 31 December 2019 to 31 December 2020

▼ Risk decreased from 31 December 2019 to 31 December 2020

Key risk	Description	Mitigating actions
Strategic risk		
A. Macro and political Changes in the competitive, economic or political environment in the UK or Eurozone, which could impact our ability to collect from portfolios, or competitively purchase and invest in line with our strategic objectives, consolidation or changing appetite within the sector. 2 3 4 ▲	Management monitor 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 has included known economic impacts of COVID-19 on legacy collections and near-term underlying collateral valuations, while acknowledging downstream economic impacts of COVID-19 that are yet to materialise fully. The Group has continued to assess the risks associated with Brexit, including disruption within the UK political landscape, ensuring that procedural and strategic mitigants are in place.	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. The Group is ready for opportunities arising from COVID-19 in the form of future portfolios using the strategic positioning of the Fund and Investment Management business to benefit across asset classes and geographies. A comprehensive review and consequent ERC adjustment ensures legacy portfolio impacts of COVID-19 have been absorbed, based on the known and expected effects over the medium-term horizon. A Brexit working group made up of cross-functional senior management has continued to monitor Brexit-related risks; specifically, in relation to people and data with mitigants in place.
B. Target operating model The need to ensure enterprise-wide alignment of the updated model, including fund and investment management capabilities, to prevent gaps between plans and performance. 1 2 5 6 ►	Long-term strategy, risk appetite and financial planning are aligned with the aim of providing greater depth of analysis and management tools for decision-making, all of which inform the necessary business structures and operating model. The next step in Arrow's corporate evolution is the addition of Fund and Investment Management operations as a core part of an enhanced offering to deliver the strategic vision.	The strategic plan has been supported by an organisation-wide review of the target operating model, the outputs of which are now being embedded through a series of initiatives including: • updated organisational design of three distinct but interdependent business lines, supported by central functions; • realignment of senior leadership team roles and responsibilities and incentives, with appropriate succession planning and diversification of key roles; 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 statement, which informs our performance management process.

Key risk	Description	Mitigating actions
Financial risk		
C. Liquidity/funding risk The risk that the Group is unable to meet its obligations as they fall due. 2 3 4 ▲	Despite the unprecedented impact of COVID-19, the Group has maintained a strong and secure balance sheet. Funding and liquidity risks are managed by the central treasury team, with the Group seeking to maintain minimum levels of liquidity headroom, leverage of between 3.0 to 3.5 times, diverse funding sources and a balanced maturity profile of its debt facilities. Whilst leverage has risen to above the Group's target due to the impact of COVID-19, the Group remains highly cash generative. The strong focus on collections and reduced investment in new portfolios has enabled the Group to preserve liquidity and generate free cash flow of £156.6 million for the year. The healthy liquidity position, alongside the renegotiation of its financial covenants over the medium term, the additional €104.7 million of funding raised and the maturity profile of the Group's bonds, with no maturities until 2024, all serve to reduce the liquidity risk of the Group.	Strong governance and alignment with risk appetite is managed via the ALCO committee, with regular reporting of the key metrics. Through the regular budgeting and forecasting processes, the Group continues to assess the required level of liquid resources, funding plans and risk appetite. At the year end, the liquidity headroom was £174.6 million, leverage was 5.1 times and, except for the amortisation of the asset-backed securitisation, the Group has no contractual debt maturities until 2024. Going forward, the Group has increased flexibility regarding investment levels, as it is able to increase investments through third-party funds it manages. This enables the Group to curtail investment volumes funded by the Group and conserve liquid resources, without impacting the franchise of the businesses. Overall, the Group is well positioned take advantage of investment opportunities as they arise, given the profile of its liabilities.
D. 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. 2 3 4 ►	With the launch of the Fund and Investment Management business, the Group now typically invests alongside the Fund and successful investments are the culmination of a series of activities spanning first and second line teams. The Group has a risk appetite framework and seeks to deploy capital across the five geographies and asset classes with a balanced approach to maximise returns. Newly proposed investments are subject to legal and regulatory due diligence, challenge to models and assumptions to help accurately price new investment opportunities, second line oversight by Group risk and executive review through an investment committee process in accordance with agreed mandate levels prior to purchase.	Given the uncertainty created as a result of the pandemic, there has been a heightened risk that portfolio investments may be mispriced due to incorrect assumptions and, as such, the Group has adopted a cautious approach to capital deployment. Committed portfolio investments were £109.9 million during the year compared with £303.7 million in 2019. In addition, the Group has sought to further minimise risk on portfolio investments by undertaking additional due diligence procedures, focusing on shorter life investments with portfolios containing predominantly secured or lower risk assets, whilst also raising the target IRRs expected.

Key risk	Description	Mitigating actions
Operational risk		
E. Regulatory scrutiny Risk of non-compliance with regulatory obligations, increased regulatory scrutiny and inappropriate conduct and customer treatment. 1 5	We operate in increasingly highly regulated environments in both the UK and across our European locations, this having extended as a result of the launch of the Fund and Investment Management business. Any actions leading to poor customer outcomes or customer detriment could lead to a breach of regulations, resulting in censure, financial loss and reputational damage. Poor customer outcomes or customer detriment could arise through the debt collection activities within our in-house operations or the third-party servicer network of collection agencies, whether we are collecting debt we have acquired or whilst working on behalf of clients. Best-in-class Group-wide standards continue to be applied across all jurisdictions.	Regulatory conduct and Treating Customers Fairly (TCF) are at the heart of our business and Arrow has clearly defined, documented and communicated policies and procedures in place to guide colleagues on the required standards for customer outcomes. Employees and third parties acting on our behalf receive mandatory training, with particular emphasis on vulnerable customers especially during the pandemic through our established Group-wide customer experience forums. Horizon scanning and industry body presence helps to influence best practice across the sector and ensures our internal practices and training are updated accordingly. The cross-sector bodies have been especially helpful in achieving a consensus approach to our COVID-19 customer responses which in turn has helped develop a deeper understanding of the sector and its challenges by regulators. We maintain increasingly proactive relationships with our key regulators in all locations where there is continued evidence of the approach of FCA being adopted by other jurisdictions including the Senior Managers and Certification Regime.
F. Operational resilience Risk that the business is unable to withstand significant business disruption that could pose a threat to customer outcomes, corporate reputation and/or financial performance. 4 5	The Group relies on core systems and processes for customer and data management, including data analytics. Should these systems experience performance issues or outage through, for example, cyber attack, our customers would be impacted, and we could experience financial loss and/or reputational damage. Business and wider economic disruption from external events such as COVID-19 places a sharp focus on the Group's ability to provide the necessary resilience for the wellbeing of all stakeholders.	The Group had previously recognised the need to invest in operational resilience and business continuity mechanisms commensurate with the external and internal threats which exist. The reality of COVID-19 meant that these protocols were tested in real-time and on a scale and timescale that could not have been forecast. Being able to leverage existing planning, investment and expertise allied with a willing and agile team culture, ensured that the response to the pandemic was swift, successful and lasting. Additional command and control governance structures were deployed to fulfil dynamic, action-oriented leadership requirements which worked for the early stage response to protect colleagues and the business, before ensuring clarity of message and coordinated timing of actions to emerge well positioned to meet future challenges and opportunities. In addition, our core systems are regularly tested, backed up and managed through a set of quality and security policies, supported by disaster recovery and business continuity plans. We are in the process of deploying a One Arrow IT infrastructure, which will enable us to be more efficient, drive process automation and manage data more effectively and securely. This is governed at a Group level, with aligned strategies for IT, digital, security and data.

Key risk	Description	Mitigating actions
Operational risk		
G. Fund and investment management execution and business transformation Risk that poorly executed or misaligned operations processes result in reputational risk, financial loss and/or poor investor outcomes. 2 3 4	With the additional clarity of Arrow's evolved business line structure comes the need to carefully design and execute on more efficient and cost-effective operational processes in all areas of the business. This is especially critical in relation to the fund operations, taking into account new processes, jurisdictions and third parties.	Despite delays due to COVID-19, organisational design and process improvements have been established with governance, leadership and clarity of responsibility formalised along with progress in management oversight. There is an ongoing focus on enhancing risk management practices into our Fund operations as our Fund and Investment Management business grows.
H. Scalability Risk that the Group is unable to respond appropriately and efficiently to scaled opportunities as a result of the increased market opportunity arising from the Fund and Investment Management business. 4 5 6	The opportunity to grow volumes in line with the updated funding model presents a risk that the necessary people, processes and systems may not be available to maximise potential demand which in turn could lead to strategic, financial or operational 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, including standardisation of data processing activities. 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. 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.
I. Fund management personnel The risk that the Group will face challenges in attracting new talent, and retaining and incentivising existing fund management personnel, which may materially and adversely affect its ability to support current performance and achieve objectives for future expansion. 4 5 6	The Group is reliant on a number of key individuals within the Fund and Investment Management business to deploy funds currently under management by the Group, to manage investments and to raise further capital. If the Group fails to retain or adequately incentivise these key individuals, and/or is unable to attract new talent of an equivalent calibre, and complementary, to existing fund management personnel and so diversify its fund management personnel and reduce reliance on key individuals, this could have a material and adverse effect on its ability to deliver its strategy for the Fund and Investment Management business.	The board has undertaken a full market mapping of available talent and proceeded to hire several senior team members to add bench strength 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.

Statement of viability

Provision 31 of the UK Corporate Governance Code requires the board to make an assessment of the prospects of the Group over a period it has determined and why it considers that to be appropriate and explain how it has assessed the prospects of the Company, taking account of the Group's current position and principal risks.

The board have considered the Group's viability in detail over a three-year period to December 2023, taking account of the current position of the Group and the Group's principal risks as detailed in the strategic report on pages 48 to 52. The board have placed additional focus on the Group's viability assessment in light of COVID-19, ensuring that baseline and stress scenarios gave due consideration to potential pandemic impacts. The board has given this matter due consideration through a review of forecast cash flow models, current cash availability and possible future scenarios relating to liquidity and banking covenant headroom.

The main considerations were:

The Group has prepared a three-year base forecast predicated on a detailed year one budget, which was approved by the board and a five-year strategic plan previously approved by the board, which has been updated to reflect material changes in key assumptions. It is the first three years of the forecast which command the greater focus and have the greater certainty over the forecasting assumptions used. The board has therefore concluded that the viability assessment should cover a period of three years.

In addition to remaining highly cash generative, the Group recently launched its Fund and Investment Management business, which provided an acceleration towards the Group's capital-light strategy and plans to de-lever over the short to medium term. Furthermore, the Group has a long track record of generating predictable cash flows over many years via its interconnected Balance Sheet and Asset Management and Servicing businesses.

Following the impact of COVID-19 on 2020 results, the Group's leverage has risen to 5.1x. However, this is expected to move back within our target range by the end of 2021. Aside from the amortisation under the asset-backed security facility, the Group has no contractual debt maturities until 2024. In addition, the Group has recently completed a €75 million Eurobond tap which demonstrates the Group's access to the funding market. The board has reviewed the available cash headroom and liquidity forecasts of the Group and confirmed that the Group has sufficient resources to meet its future obligations as they fall due.

The financial covenants for the Group are contained within the Group's revolving credit facility and, in August 2020, the Group executed an amendment agreement to amend covenants from September 2020 up to and including June 2022 under the facility to reflect the potential impact on the business of COVID-19. The principal covenant is leverage, calculated as secured net debt divided by the 12-month rolling Adjusted EBITDA, and the amended levels, which change quarterly, provided suitable headroom based upon the Group's downside projections at that time. The Group continues to forecast suitable headroom and the covenant reduces back to the pre-amendment level of 4.2x from June 2022.

The board reviewed the Group's financial projections, based on the three-year forecast and funding plan, and are happy they show covenant compliance across the assessment period.

In addition, the Group now has significant balance sheet flexibility with the launch of the third-party FIM business. The Group is now able to invest third-party managed funds with greater flexibility around whether to do so from its own Balance Sheet business and, therefore, the franchise is less reliant on either the external debt markets or its own balance sheet. This enables the Group to reduce portfolio purchases without impacting the underlying business.

Several stress tests have been performed against the forecast, considering the principal risks faced by the Group. The most material risk in relation to the Group's liquidity headroom and leverage covenant, are reductions in expected cash collection levels. The Group utilised its IFRS 9 severe downside scenario, which it considers severe but plausible, as the basis for its stress testing. Using this scenario, collections performance deteriorates from the base case ERC, resulting in lower cash generation. The leverage ratio remains below the maximum covenant level with significant liquidity headroom.

The board also reviewed a reverse stress test scenario that outlined a more severe reduction in the collection profiles, designed to cause a covenant breach. Several management actions were identified that the Group could deploy to avoid a covenant breach and to maintain sufficient levels of liquidity in the event of this scenario being realised.

As a result of the analysis performed on the forecast future position of the Group, the board concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their detailed assessment.

Approval of strategic report

The strategic report for the year ended 31 December 2020 has been approved by the board and was signed on its behalf by:

Lee Rochford
Group chief executive officer
23 March 2021

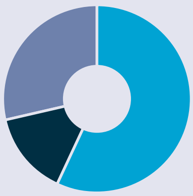
Board gender diversity

- Male – 4 (57.1%)
- Female – 3 (42.9%)

Board tenure

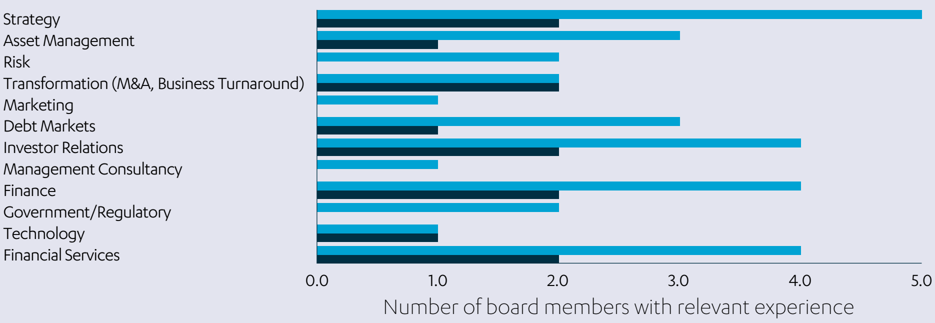
- 0-3 years – 2 (28.6%)
- 3-5 years – 2 (28.6%)
- 5-7 years – 3 (42.9%)

Board balance



- Non-executive director – 4 (57.1%)
- Chair – 1 (14.3%)
- Executive director – 2 (28.6%)

Areas of experience



- Non-executive directors
- Executive directors

Jonathan Bloomer MBE

Non-executive chair

Appointment
5 October 2013

Committee membership
Nomination (chair) and Remuneration

Skills and experience
Jonathan has a wealth of experience in the financial services industry and has significant board experience both as an executive and non-executive. His previous positions include chief executive of Prudential plc, chair of the employee benefit business of Jardine Lloyd Thompson plc, senior independent director of Hargreaves Lansdown plc, chair of the practitioner panel of the FSA, board membership of the Geneva Association and membership of the code committee of the takeover panel.

External appointments
Jonathan is currently chair of Morgan Stanley International, chair of DWF Group plc, and chair of SDL Property Group Ltd.

Lan Tu

Non-executive director

Appointment
9 March 2015

Committee membership
Remuneration (chair), Audit, Nomination and Risk

Skills and experience
Lan is currently chief executive officer of Virgin Money Unit Trust Managers, a joint venture between Virgin Money and Standard Life Aberdeen, having joined Standard Life Aberdeen as chief strategy officer in April 2016. Before this, she spent over ten years at American Express in a variety of senior leadership roles. Until 2015, Lan ran its Emerging Payment and Services business in Europe, Middle East and Africa; was the general manager for its UK and Nordics Merchant Services business; and previously led its international strategic planning group. Previous experience also includes 12 years at McKinsey & Company, working primarily in the financial services sector.

External appointments
Lan is chief executive officer of Virgin Money Unit Trust Managers Limited and non-executive director of King's College London.

Maria Luís Albuquerque

Non-executive director

Appointment
7 March 2016

Committee membership
Audit, Nomination and Risk

Additional board role
Board representative for workforce engagement.

Skills and experience
Maria Luís was Portuguese minister of state and finance from 2013 to 2015, and deputy minister for treasury from 2011 to 2013. She has held a number of senior finance/treasury positions in the Portuguese public sector, including head of issuing and markets at the Portuguese treasury and debt management agency, and director of the department of financial management at REFER, the rail infrastructure company. She is an economist who lectured at the Universidade Lusíada of Lisbon from 1991 to 2006.

External appointments
Former member of the European Commission high-level forum on capital markets union. Chaired the sub-group focusing on the area of "Investment choice and accessibility to capital markets services to promote greater retail investors' participation", which concluded on 10 June 2020. A member of the advisory board for INDEG-ISCTE executive education.

Andrew Fisher

Non-executive director

Appointment
9 December 2016 (Andrew Fisher became senior independent director on 28 May 2019)

Committee membership
Audit (chair), Risk, Remuneration, Nomination and Disclosure

Skills and experience
Andrew, a chartered accountant, was the finance director of Provident Financial plc until he stepped down in December 2018. He has spent over 20 years as a finance director of major-listed companies where he has accumulated broad international experience and a considerable depth of knowledge across a variety of consumer credit asset classes. Prior to working in the financial services industry, he was a partner with Price Waterhouse LLP.

External appointments
None.

Paola Bergamaschi Broyd

Non-executive director

Appointment
17 June 2020

Committee membership
Risk (chair), Audit and Nomination

Skills and experience
Paola has broad experience of international financial services, including capital markets and asset management. Until May 2020, Paola was a member of the Board of Big Society Capital where she was interim chair of the audit, risk and compliance committee during 2018 and 2019. Also, until October 2019, Paola was a non-executive director of Millennium & Copthorne Hotels. Her appointment brings over 30 years of financial services experience to Arrow with roles having included senior positions at State Street, Credit Suisse and Goldman Sachs.

External appointments
Paola is currently on the board of BNY Mellon International, Arca Fondi SGR and Wells Fargo Securities International where she is also chair of the remuneration committee. She holds positions on a number of risk and audit committees as part of these roles.

Lee Rochford

Group chief executive officer

Appointment
3 January 2017

Committee membership
Disclosure (chair)

Skills and experience
Prior to joining Arrow, Lee was chief financial officer at Virgin Money between 2013 and 2015, seeing the Group through its successful IPO and subsequent Stock Exchange listing. Before this, he held a number of roles at RBS between 2007 and 2013, culminating as managing director and head of the Financial Institutions Group. A significant amount of his focus from 2008 onwards was advising banks and non-bank lenders on balance sheet restructuring after the global financial crisis and subsequent new capital regimes, as well as working with funds and other buyers of assets from the lending industry. Earlier in his career, Lee was managing director of Wachovia Securities' Principal Finance team, managing director and head of European asset finance at Credit Suisse, and head of Northern European securitisation at BNP Paribas. Lee has a degree in Philosophy, Politics and Economics from Oxford University.

External appointments
None.

Matt Hotson

Group chief financial officer

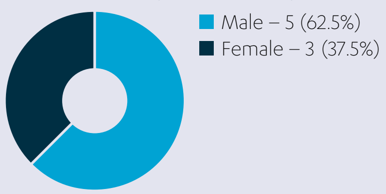
Appointment
08 October 2019

Committee membership
Disclosure

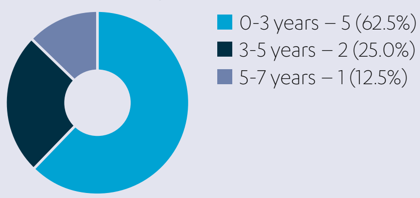
Skills and experience
Matt is a highly experienced finance professional, having worked for more than 25 years at leading FTSE 100 companies. His experience spans core finance, strategy, investor relations and business leadership. In 2019, he joined Arrow from RSA Insurance Group plc, where he was chief financial officer, UK and International. Prior to this, Matt was at Cable and Wireless Worldwide plc, following 14 years at Legal & General Group plc where he held a variety of senior finance and business roles. Matt holds Masters degrees in Natural Sciences from Cambridge University and Neuropharmacology at the Open University, and is currently studying for a PhD in Digital Economics at Exeter University.

External appointments
None.

Executive management team gender diversity



Executive management team tenure



Lee Rochford

Group chief executive officer

Skills and experience

Prior to joining Arrow, Lee was chief financial officer at Virgin Money between 2013 and 2015, seeing the Group through its successful IPO and subsequent Stock Exchange listing. Before this, he held a number of roles at RBS between 2007 and 2013, culminating as managing director and head of the Financial Institutions Group. A significant amount of his focus from 2008 onwards was advising banks and non-bank lenders on balance sheet restructuring after the global financial crisis and subsequent new capital regimes, as well as working with funds and other buyers of assets from the lending industry. Earlier in his career, Lee was managing director of Wachovia Securities' Principal Finance team, managing director and head of European asset finance at Credit Suisse, and head of Northern European securitisation at BNP Paribas. Lee has a degree in Philosophy, Politics and Economics from Oxford University.

Matt Hotson

Group chief financial officer

Skills and experience

Matt is a highly experienced finance professional, having worked for more than 25 years at leading FTSE 100 companies. His experience spans core finance, strategy, investor relations and business leadership. In 2019, he joined Arrow from RSA Insurance Group plc, where he was chief financial officer, UK and International. Prior to this, Matt was at Cable and Wireless Worldwide plc, following 14 years at Legal & General Group plc where he held a variety of senior finance and business roles. Matt holds Masters degrees in Natural Sciences from Cambridge University and Neuropharmacology at the Open University, and is currently studying for a PhD in Digital Economics at Exeter University.

Zachary Lewy

Founder and Group chief investment officer

Skills and experience

Zachary Lewy is the Founder and Group chief investment officer of Arrow. Zachary was the chief executive officer of the business from its inception until 2011, when his focus changed to running the investment business. Prior to Arrow, Zachary was an officer of Sallie Mae, a director at Vertex (the BPO division of United Utilities), and a founder and executive director of 7C (a UK BPO company acquired by Vertex). Zachary has previously chaired SCOR and was also the chair of the UK Debt Buyers Association. He was named an Ernst and Young Entrepreneur of the Year in 2010.

Zachary is on the board of the English National Ballet, the English National Ballet School, and the organising committee for the Marie Curie Charity fundraiser. He graduated from Princeton University with a BA in Economics with Honours and a Certificate in Applied and Computational Mathematics with Honours.

Clare Dyer

Group chief people officer

Skills and experience

Clare is a highly experienced strategic and performance-focused HR director, with a proven track record within the digital technology and media sectors. With more than 20 years' experience, her expertise includes building agile, simple organisations that deliver purpose and meaning alongside profit and growth. Before joining Arrow in December 2019, Clare was the HR strategy and transformation director at BT, leading a number of enterprise-wide programmes to transform the organisation's operating model. Prior to BT, Clare was the chief people officer at KCOM.

Clare is an accredited executive, leadership and systems coach with the International Coaching Federation.

Dave Sutherland

Group chief operating officer

Skills and experience

Dave has over 20 years of experience operating at board level as chief operating officer and managing director. Dave joined Arrow from a fast-growth SME financial services business, where he was managing director. Before this, he was the chief operating officer at TD Wealth International. Dave's experience includes banking and financial services, retail, operations, technology and process transformation. He was previously chief operating officer for Santander Cards UK, chief operating officer and transformation director of GE Money UK and Regional Director for Boots plc.

Dave has an MSc in IT and Management from Sheffield Hallam University and an MBA from the University of Leeds.

Oliver Stratton

Group chief commercial officer

Skills and experience

Oliver has over 18 years of experience in financial services. He joined Arrow in 2013 and has held various operational and commercial leadership roles, including UK chief operating officer and UK country manager, before becoming Group chief commercial officer in 2019. Prior to Arrow, Oliver spent over 10 years as an investment banker with Deutsche Bank and a corporate lawyer with Allen & Overy LLP in London, specialising in UK corporate finance and equity capital markets.

Oliver is a qualified solicitor, holds an LLB (Hons) from the University of Sheffield and the ICAEW's Corporate Finance Qualification, and is a member of the Chartered Institute of Securities and Investment.

Martina Swart

Group chief legal and risk Officer

Skills and experience

Martina is an executive with over 20 years of international experience in the legal and financial services sectors and has held numerous senior management roles in the legal, risk, compliance, insurance, CoSec and ESG space across financial services firms. Martina's roles included Group Head of Legal Equity and Fixed Income Finance Prime Brokerage at Barclays Bank (and similar roles at other large international banks), legal roles at the hedge fund Citadel and asset management with Orbis Investment Advisory Limited and most recently Group Head of Governance at Maitland Group.

Martina has also advised boards in relation to governance, strategy, organisational change, law and global regulation in the context of business growth and organisational integrity.

Martina is a qualified lawyer and holds B.Comm (Law) and LLB Degrees from the University of Stellenbosch. She is also a member of the New York State Bar.

Maria Pace

Group chief of staff

Role

Maria provides support and advice to the Group chief executive officer on strategic priorities and oversight of key cross-functional projects.

Skills and Experience

Maria is a senior finance manager with over 14 years of extensive experience within financial services and industrial sectors, covering financial planning and analysis, controllership and financial reporting. Maria joined Arrow in January 2019 as Italy controller and finance transformation leader. Before this, at Accenture she worked mainly on finance integration & accounting transformation projects, after which she transitioned to ever-increasing controllership and financial planning roles at GE Capital. During her last assignment at GE Capital, she led Southern Europe closing & reporting processes and teams.

Maria has a Masters degree in International Economics and Development and a MSc in International Economics both from the Università degli Studi di Roma Tor Vergata.

Corporate governance report

"Strong and effective corporate governance is at the heart of Arrow's business, it is embedded in our purpose, our values, our vision and, above all, our culture."

Jonathan Bloomer
Chair

Chair's governance report

On behalf of the board, I am pleased to present the Group's governance report for the year ended 31 December 2020.

At Arrow, we recognise the importance of effective corporate governance in supporting the long-term success and sustainability of our business and in enabling us to deliver on our purpose of creating better financial futures for our customers. It is critical to delivering our strategy, retaining our licence to operate and in creating long-term value for our shareholders and our stakeholders generally. Strong and effective corporate governance is at the heart of Arrow's business, it is embedded in our purpose, our values, our vision and, above all, our culture. At no time has the importance of strong governance been more relevant than during the current COVID-19 pandemic. Arrow's strong governance and its inherent agility have enabled us to navigate the COVID-19 crisis effectively, protecting the interests of our employees, customers, investors and other stakeholders, and have provided the foundations for the Group to thrive in the future. This commitment to our stakeholders is further underpinned by the establishment of a sustainability committee, which reports directly to the board. More information on Arrow's sustainability committee can be found on pages 36 to 37.

COVID-19

The COVID-19 crisis has been unprecedented and has brought new levels of uncertainty. The Group's speed of response to the pandemic has enabled the business to operate effectively throughout the crisis. The deployment of the right people, processes and technology has been extremely important in ensuring seamless business continuity during the COVID-19 period. However, what our response to the pandemic has also demonstrated is the strength of Arrow's culture. Our culture underpins everything we do and has allowed us to navigate the crisis effectively to ensure that the Group will thrive in the future.

The resilience of Arrow's corporate governance framework has been tested during the pandemic and has proven to be highly effective. The introduction of a command and control approach to business continuity across the Group allowed the organisation to transition to the new ways of remote working within a few weeks. The executive committee held daily meetings throughout the pandemic to evaluate the highly unpredictable situation and to ensure the Group responded appropriately and maintained operational focus. The board received weekly updates from the executive and discussions at the monthly board meetings focused on colleague and customer impact, cash retention, future funding requirements, customer collections and operational updates. Throughout the crisis, Arrow has maintained a sharp focus on its purpose of ensuring that better financial futures are being provided for our customers through payment breaks and forbearance measures and through following regulatory guidance on the fair treatment of customers during COVID-19.

Strategy review

In 2018, the Group defined its overarching vision and strategic priorities, including the five-year strategic plan and financial targets for 2023. In light of recent market developments, including the impact of COVID-19, and changes to the business, such as the launch of the Fund business and the implementation of a new organisational structure, a significant review of the strategic plan has been undertaken during the year. The review of the five-year strategic plan, together with new five-year financial targets, comprised two dedicated board sessions, in July and September, and these culminated in six strategic priorities being agreed, details of which can found on pages 20 to 21.

Board's performance

As chair, I am responsible for providing leadership to ensure the operation of an effective board. We review our effectiveness as a board on an annual basis, including an assessment of the board and its committees.

For the year under review, we carried out an internal evaluation, having previously undertaken an external evaluation in 2018. The next external evaluation will be carried out in 2021 as required under the Code. I am pleased that the review was positive overall and confirmed that the board and its committees continue to perform their duties and responsibilities effectively. The results of the effectiveness review are set out on pages 64 and 65.

I will continue to work with my fellow directors and with the company secretary to seek enhancements to the effectiveness of the board and its committees and create further focus on those areas that the board believes will make the most impact on the Group's continuing success.

Remuneration

The current Arrow remuneration policy was approved at our annual general meeting in 2018 and covers the period from 2018 to 2020. In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations, we would ordinarily be bringing forward a new policy for consideration covering the period from 2021 to 2023 at this year's annual general meeting.

The remuneration committee have carefully considered whether this is an appropriate time to make substantive changes to our remuneration policy and has elected to extend the current policy for a further year, subject to shareholder approval at the annual general meeting. In arriving at this decision, we have considered numerous internal and external factors such as the impact which COVID-19 may have on market practice, the uncertainty surrounding the Brexit process, the ongoing transformation of the organisation and our intention to conduct a full review of the remuneration proposition for the wider workforce to which executive compensation must be aligned.

Further information on the Group's approach to remuneration is set out on pages 86 to 105.

Section 172 of the Companies Act 2006

Stakeholder interests are at the heart of every strategic and operational decision taken by the board. Our focus on discharging our responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006 and the impact our decisions will have on our stakeholder groups has remained undimmed during the COVID-19 crisis and these considerations are at the forefront of our minds at each and every board and committee meeting.

A coordinated programme of stakeholder engagement is undertaken throughout the year. Further information on our stakeholders, how we have considered them in decisions during the year and our engagement with these stakeholders is set out on pages 70 to 73.

Sustainability committee

We are committed to furthering the Group's agenda on environmental, social and governance (ESG) issues and to meeting the expectations of our stakeholders, our regulators and society in general. We recognise that Arrow needs to ensure that its ability to deliver against a broadening global sustainability agenda keeps pace with stakeholder expectations and market standards as well as supporting the board in ensuring it has oversight for such matters and can measure how the Group performs against its purpose. To this end, a board sustainability committee, comprising all of Arrow's non-executive directors and the chair, has been established to oversee the delivery of the Group's sustainability agenda and to review, challenge and support the Group's approach and progress against agreed sustainability initiatives. The sustainability committee will focus on the key areas of strategy, governance, metrics and targets. The sustainability committee will report to the board on the Group's sustainability work and the progress being made against ESG targets on a quarterly basis. Maria Luís Albuquerque has been appointed to chair the sustainability committee and I thank her for overseeing the Group's initiatives in this highly important area.

The sustainability committee is supported in its role by the executive sustainability committee, which drives the delivery of Arrow's ESG initiatives, and the director of sustainability, who is responsible for managing the delivery of our ESG commitments.

More information on the Group's ESG initiatives and the sustainability committee can be found on pages 32 to 43.

Culture and values

The importance of a strong culture and values has become even more apparent during the current pandemic and together they guide the organisation towards achieving its purpose and serving its customers in the best way possible. Further information on our culture and our values can be found on page 15.

Workforce engagement

From the start of the pandemic the board focused on the impact of the crisis on Arrow's employees. For more detail on the board's activities, see pages 72 and 73.

Board changes, succession planning and diversity

Following an in-depth review of the board's composition, including its skills, experience, diversity and knowledge, the board decided to undertake a search process for a non-executive director with a strong grounding in financial services who would bring considerable risk experience to the board.

Following an extensive search process, Paola Bergamaschi Broyd joined the board as a non-executive director on 17 June 2020. After receiving FCA approval, Paola was appointed as chair of the risk committee, taking over from Andrew Fisher, who had held the role on an interim basis following the departure of Iain Cornish in 2019. Paola has become a great asset to the board, bringing broad experience of international financial services, including capital markets and asset management, which are invaluable to the Group as it continues its successful growth and development.

We also welcomed Martina Swart to the executive management team as Group chief legal and risk officer following the departure of Stewart Hamilton. Martina has over 20 years of international experience in financial services, including global leadership roles in asset and fund managers.

On behalf of my colleagues, I would like to take this opportunity to thank Andrew for his contribution as interim chair of the risk committee and to welcome Paola and Martina to Arrow. I would also like to thank Stewart for his dedication and service over his long tenure with the Group.

Biographical details of all of our directors, and of our executive management team, are set out on pages 54 to 57.

Succession planning and the development of our talent pipeline continues to be an area of focus for the board and the nomination committee, to ensure we maintain an appropriate combination of skills, experience and knowledge to deliver our strategy and to ensure that plans are in place for an orderly succession to the board and senior management positions.

Our diversity and inclusion agenda, which is underpinned by our diversity and inclusion policy, continues to progress. An inclusive and diverse culture across the business improves effectiveness, encourages constructive debate and supports good decision making. The board currently has three female non-executive directors, Maria Luís Albuquerque, Lan Tu and Paola Bergamaschi Broyd, who together represent 42.9% (2019: 33.0%) female board membership, which exceeds the recommended target set by the Hampton-Alexander Review for FTSE 350-listed companies and supports the approach set out above for the senior leadership team. The executive committee has three female members, Clare Dyer (Group chief people officer), Martina Swart (Group chief legal and risk officer) and Maria Pace (chief of staff), representing 37.5% (2019: 25.0%) of the committee's membership. You can read more on how we strive towards our diversity and inclusion objectives, and on our approach to talent management and succession planning, in our nomination committee report on pages 83 to 84.

Annual general meeting

Like many companies, Arrow's annual general meeting in 2020 was impacted by COVID-19 and the UK Government's Stay at Home measures. In order to ensure the safety of our board, staff, shareholders and attendees, a closed meeting was held. However, a facility was provided for shareholders to submit questions prior to the meeting via the internet and answers to these questions were provided on the website.

In 2021, in light of the evolving situation, in respect to the UK's governments strategy in relation to COVID-19 lockdown restrictions, shareholders will not be permitted to attend the annual general meeting in person but can attend in person by electronic means. The meeting will be held at Arrow Global, 2nd Floor, 6 Duke Street, St James's, London, SW1Y 6BN on Wednesday, 2 June 2021 at 10.00am.

Statement of compliance

This corporate governance report, together with the reports of the audit committee, risk committee, nomination committee and directors' remuneration report, explains how the main principles of the 2018 UK Corporate Governance Code (the Code), have been applied by the Group in 2020. The Code is available on the Financial Reporting Council's website at www.frc.org.uk.

We are pleased to confirm that we complied with all of the provisions set out in the Code in 2020. Our compliance with key principles of the Code are summarised below, together with cross references where applicable, to the relevant sections of this report where more information can be found.

Principles and Provisions	Compliance
Independence	Over half our board (excluding the Chair) comprises independent non-executive directors and the composition of all board committees complies with the Code. Jonathan Bloomer, the Chair, was also considered independent on appointment. More information on the board is set out on pages 54 to 55.
Senior independent director	Our senior independent director is Andrew Fisher. The non-executive directors meet without the chair present annually to appraise the Chair's performance.
Division of responsibilities	There is clear division of responsibilities between the Group chief executive officer and the Chair. More detail on the division of responsibilities can be found on the Group's website (www.arrowglobal.net).
Election	All directors are subject to annual re-election at the annual general meeting.
Evaluation	Annual board evaluations are taken, with an externally facilitated evaluation, every three years. More details of the board's evaluation process are set out on pages 64 to 65.
Attendance	Directors have attended all board and committee meetings throughout the year. Details of attendance can be found on page 63.
Committee chairs	The chair of the audit committee, Andrew Fisher, met the specific requirements with regard to recent and relevant financial experience throughout 2019/20. Lan Tu, was appointed as chair of the remuneration committee in October 2016. Prior to her appointment as chair, she had been a member of the remuneration committee since March 2015.
Auditor tenure	We appointed KPMG LLP as our auditor in July 2014 following a thorough tender process. Our lead audit partner, Simon Ryder, has been in place since August 2020.
Non-audit policy	The provision of non-audit services by the external auditor is monitored throughout the year; any such work must be authorised in accordance with the Group's non-audit services policy.
Internal audit	Details of our internal audit function are set out on page 76.
Culture	Details on how the board has assessed and monitored culture throughout the year are set out on page 15.
Performance-related pay	40% of performance-related pay for our executive directors is delivered by shares. More information on our reward framework and how this is designed to support and drive our strategy is set out in the directors' remuneration report on pages 86 to 105.
Workforce engagement	Maria Luís Albuquerque is the board's designated workforce engagement non-executive director. Reports are provided to the board on Maria Luís's work throughout the year.
Diversity	Information about the diversity of our board, including ensuring a diverse pipeline through succession planning and talent management, is set out on page 60.

Conclusion

We are committed to doing the right thing in line with our purpose, our culture, our values and our vision. The corporate governance report that follows details the Group's governance framework under the 2018 Code, the UK Listing Rules and the Disclosure Guidance and Transparency Rules. I hope that you will find the report informative and engaging.

Jonathan Bloomer
Non-executive Chair
23 March 2021

How we are governed

The board

The board is collectively responsible for the long-term success of the Group. With due regard to the views of shareholders and other stakeholders, it provides leadership and direction, including establishing the Group's culture, purpose, values and ethics, setting strategy and overseeing its implementation, ensuring only acceptable risks are taken and being responsible for corporate governance and the overall financial performance of the Group. The board's responsibilities include:

- approval of the Group's strategic aims and objectives;
- approval of the annual operating and capital expenditure budgets;
- reviewing and monitoring business performance;
- ensuring the Group maintains a sound system of internal control and risk management;
- reviewing the Group's overall corporate governance arrangements;
- ensuring adequate succession planning for the board and senior management;
- approval of the dividend policy;
- ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives;
- ensuring appropriate oversight of portfolio investments and disposals; and
- approval of external reporting.

Board composition and roles

Chair
Responsible for the leadership and management of the board. In doing so, the chair is responsible for promoting high ethical standards, ensuring the effective contribution of all directors and, with support from the company secretary, best practice in corporate governance.

The positions of the chair and Group chief executive officer are held by separate individuals.

Group chief executive officer
Responsible for the executive leadership and day-to-day management of the Group, to ensure delivery of the strategy agreed by the board.

Group chief financial officer
Responsible for providing strategic financial leadership of the Group and day-to-day management of the Group's finance function.

Independent non-executive directors
Responsible for contributing sound judgement and objectivity to the board's deliberations and overall decision-making process, providing constructive challenge, and monitoring the executive directors' delivery of the strategy within the board's risk and governance structure.

Non-executive directors are appointed for periods of three years, subject to annual re-election by shareholders at the Company's annual general meeting. Terms in excess of six years are subject to a more rigorous review. The non-executive directors meet periodically without the executive directors' present.

Senior independent director
Acts as a sounding board for the Chair and serves as a trusted intermediary for the other directors, as well as shareholders as required.

Group executive directors
Responsible for executive leadership and day-to-day management of relevant business units in support of the Group chief executive officer and delivery of the strategy agreed by the board.

Company secretary
Advisor to the Chair and the board on matters of corporate governance, induction, training and efficient management of the board and committee meetings. Responsible for ensuring the effectiveness of Arrow's governance framework.

Read more about our committees:

Audit committee
See page 74

Risk committee
See page 80

Nomination committee
See page 83

Remuneration committee
See page 86

Your board in 2020

Board activity

During the year, the board considered a comprehensive and structured programme of matters covering operational and financial performance reporting, strategic reviews and updates, and a number of governance reports and matters seeking board approval. Considerable time has also been spent responding to the COVID-19 crisis, including the consideration of the impact on customers, employees and clients.

In addition, the board and board committees undertook a programme of deep dives into specific operations and topics. These discussions included:

COVID-19

- Consideration of colleague impact, including the impact of working from home;
- Consideration of the customer, collections and operations impact, including consideration of forbearance processes;
- Consideration of the impact on clients and investors;
- Consideration of cash and financial management, including re-negotiation of the bank covenants;
- Consideration of cross-border risk;
- Monitoring operational performance against 2020 strategic goals;
- 3-5 year strategic review, including the establishment of the first closed fund, ACO 1, as part of the pivot to a capital-light fund management business;
- Consideration of the workplace transformation with specific focus on the ways of working during and after the pandemic; and
- Review of the IT and Digital Strategy.

Governance and risk framework

- Overview of Group compliance with new UK Corporate Governance Code;
- Review and approval of committee terms of reference and matters reserved for the board;
- Reviewing and approving the 2019 statement of compliance with the Modern Slavery Act; and
- Approval of notice for the 2019 annual general meeting and associated documentation.

Operational

- Consideration of the new investment underwriting process; and
- Consideration of the Group customer agenda.

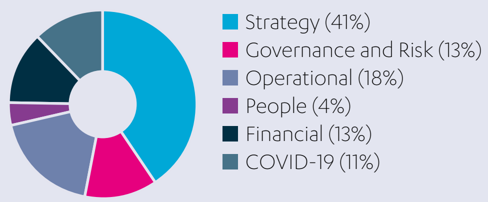
People

- Review of the Group's approach to diversity and inclusion;
- Talent and leadership reviews;
- Review of the Group's culture and introduction to the Group's new tool for assessing engagement and culture, Peakon; and
- Review of the Group's approach to engaging with the workforce.

Financial

- Approval of 2020 budget and consideration of 2021 budget;
- Consideration of the 2019 final dividend and 2020 interim dividend;
- Further arrangements in connection with the asset-backed borrowing facility.

How the board spent its time



Attendance by board members at scheduled board and committee meetings is detailed below:

	Board		Audit		Risk		Nomination		Remuneration	
Director	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Jonathan Bloomer	11	11	N/A	5[1]	N/A	6[1]	2	2	3	3
Lee Rochford	11	11	N/A	5[1]	N/A	6[1]	N/A	2[1]	N/A	3[1]
Paola Bergamaschi Broyd	6	6	3	3	3	3	1	1	1	1[1]
Lan Tu	11	11	5	5	6	6	2	2	3	3
Maria Luís Albuquerque	11	11	5	5	6	6	2	2	N/A	2[1]
Andrew Fisher	11	11	5	5	6	6	2	2	3	3
Matt Hotson	11	11	N/A	5[1]	N/A	6[1]	N/A	2[1]	N/A	2[1]

1. Attended by invitation of the committee chair.

Board evaluation 2020

Review of the effectiveness of the board and its committees

The board recognises the importance and benefits that continually monitoring its performance can bring to the board's overall effectiveness. The performance and effectiveness of the board and its committees is formally reviewed on an annual basis. The Corporate Governance Code provides that FTSE 350 companies undertake an externally facilitated board review at least once every three years. In 2018, the evaluation of the board's effectiveness was facilitated by an external provider and the output of this process was distilled into a number of actions, all of which were addressed in 2020. The next external evaluation will take place in 2021.

The 2020 board and committee effectiveness review was facilitated internally by way of a comprehensive questionnaire that was prepared by the Group secretariat function and then reviewed by the Chair and Group chief executive officer. The questionnaire considered both the current and future internal and external environment and consisted of two parts. The first section comprised 55 questions focussing on the role and composition of the board; strategy; performance

Process

Stage 1
Each director completed a detailed online questionnaire and answered a series of open questions prepared by the Group secretariat function.

Stage 2
Group secretariat collated and analysed the responses and a report was prepared and shared with the chair.

Stage 3
The results were presented and discussed with board members in January 2021.

Following this meeting, a further session was scheduled during which an action plan, detailing focus areas, was discussed and agreed.

Outcomes

The evaluation highlighted that the board works well together as a cohesive and dynamic team and has led the Group commendably during the pandemic. There is a constructive relationship between the executive and non-executive directors, with appropriate levels of challenge and support in evidence when issues are debated in the boardroom. The board transitioned swiftly, and effectively, to remote working, embracing a range of virtual technological solutions and demonstrating a pace of decision-making that it hopes to maintain once the pandemic is over.

Directors acknowledged that while there is a good mix of skills and experience on the board, the addition of further experience of the European markets would be beneficial. In addition, given Arrow's strategic direction, further expertise of fund and asset management would become increasingly important. In relation to diversity and inclusion, although there is good gender balance and geographic/cultural diversity, more thought could be given to ethnic and cognitive diversity.

On strategy, and specifically the planning and formulation of the pivot to a capital-light business, the responses were positive. The board focusses on the right strategic issues and is prepared for the post pandemic future and the strategy is right for Arrow to capitalise on strategic options that are expected to arise.

When discussing the findings of the review, the board considered its performance generally. In relation to risk, there was a recognition that, as Arrow grows in size and complexity, the risk management framework and oversight will need to evolve with it. To date, there were clear positive signs that this was happening.

It was acknowledged that, given the competition for talent in the market, the board's focus on succession planning, talent management and people development should continue.

The board was pleased with the levels of stakeholder engagement and took comfort from the fact that Arrow's culture remains strong, well defined and continues to improve, despite the challenges of COVID-19.

The board concluded that the board and its committees continued to discharge their duties and responsibilities effectively.

The board identified a number of opportunities to improve the way it operates, some of which are detailed in the action plan for 2021.

Chair's performance

The senior independent director, Andrew Fisher, led a meeting of non-executive directors (without the Chair being present) to appraise the Chair's performance. Andrew then discussed the feedback and any areas of development with the Chair.

management; managing the business of the board; the investment process; stakeholder engagement; the operation of the board committees; board behaviours; and culture. The second section contained the following open questions:

- How has the board operated and performed during the pandemic: what has worked and should be retained and where could improvements be made?;
- What are the top priorities for the board?;
- What are the key deep dive topics that should be included on the 2021 board and committee work planners?;
- What practices from other boards could be beneficial to the Arrow board?; and
- How might stakeholder engagement be improved?

The process that was followed for this review and the actions flowing from it, are set out below.

Action plan

1. Continuing the review and enhancement of board papers and presentations to enable effective and high-quality debate, input and challenge at board meetings.
2. Regular reviews of the composition of the board to ensure sufficient diversity of thinking and expertise on the board, particularly given the development of the Group's Fund and Investment Management business and the feedback on the need for further experience of European markets and additional digital and technology expertise. Consideration also to be given to enhancing the board's ethnic and cognitive diversity.
3. Continued focus on succession planning, talent management and people development.
4. Continue to build a trusting relationship with Arrow's regulators and consolidate the Group's reputation in this regard.
5. Continued focus on stakeholder engagement. Monitoring employee engagement, using the tools at the board's disposal to identify and address challenges, and considering how to improve employee communications and feedback particularly around the strategic priorities. Also enhancing the board's understanding of the views of investors and clients.
6. Maintain a focus on assessing and monitoring culture and measuring cultural strength across the organisation.
7. Ensure that deep-dive reviews remain a key element of the board and committee work programme so that the board is focused on issues that are material to the Group. Also use deep dives to reintroduce the board to the local businesses through virtual and in-person board visits.

Board contributions 2020

Directors delivering Arrow's success

Individual director contributions throughout the year are set out below. The Chair held performance meetings with each director to discuss their individual contribution and performance over the year and their training and development needs. Following these meetings, the Chair, on behalf of the board, has confirmed that the contribution of each of the executive and non-executive directors continues to be effective, that they continue to demonstrate commitment to their respective roles and that the board members' respective skills complement one another and enhance the overall operation of the board. The board, therefore, recommends that shareholders approve the resolutions to be proposed at the 2021 annual general meeting in relation to the election and re-election of the directors.

The Chair and the non-executive directors have provided extensive support to the executive directors during the challenges of COVID-19. The non-executive directors also provided challenge, support and oversight during the review of the Group's strategic plan.

Jonathan Bloomer MBE

Non-executive Chair

Jonathan has led the board through the challenges and turbulence of COVID-19 and has provided considerable support and counsel to the Group chief executive officer. His wealth of financial services and corporate experience has proven invaluable to Arrow during the review of the Group's five-year strategic plan. He has actively engaged with investors throughout the year, including in the lead-up to the annual general meeting and shareholder vote. As nomination committee chair, Jonathan has overseen the broadening of the Group's diversity and inclusion policy and the improved level of female representation at both board and executive management levels. He has also led a rigorous recruitment process leading to the appointment of Paola Bergamaschi Broyd as non-executive director and risk committee chair. Jonathan has also supported Maria Luís in her role as chair of the sustainability committee.

Andrew Fisher

Non-executive director

Andrew is the appointed senior independent director, providing a sounding board for the Chair and other directors. Andrew also took on the role of interim chair of the risk committee in April 2019, following the departure of Iain Cornish and has led the committee until Paola Bergamaschi Broyd assumed the role in September 2020. During his time chairing the risk committee, Andrew oversaw the embedding of new risk management systems across the Group that are providing a consistent approach to risk and control self-assessments and incident management, furthering the development of our risk culture across all three lines of defence. As chair of the audit committee, Andrew has led the committee in responding rapidly to the challenges posed by COVID-19. This has included refining the approach to ERC and overseeing a detailed review of going concern judgements during the peak of the pandemic.

Lan Tu

Non-executive director

Lan has shown strong leadership of the remuneration committee. Together with Jonathan Bloomer, she was actively involved in the investor engagement programme in the lead-up to the 2020 annual general meeting. In conjunction with senior management, Lan oversaw the compensation arrangements for the executive and senior management across the organisation to ensure that they are aligned to business performance and the wider shareholder experience, while incentivising, motivating, rewarding and retaining key talent within the Group. Under her leadership, the committee has continued to monitor the compensation arrangements in respect of the Fund and Investment Management business and has led the committee through its oversight of the wider workforce pay arrangements. In addition, Lan led the committee in its deliberations over the extension of the current remuneration policy for a further year rather than bringing forward a new policy for consideration at the 2021 annual general meeting.

Maria Luís Albuquerque

Non-executive director

Maria Luís was appointed as the board's employee engagement champion in 2019. Maria Luís represented the board at the Annual Gala Dinner in Porto in January 2020, recognising winners of the Employee Recognition Scheme throughout 2019. Despite the challenges of remote working during the year, Maria Luís has been active in ensuring that employees across the Group feel engaged with the Company and that their views are being listened to and understood by the board. This has included virtual sessions with employees across the Group's businesses and leading engagement sessions with the board. These contributions underpin the board's people agenda in fostering an environment of continuous employee engagement and supports the Group's initiatives to ensure that the best talent is attracted and retained. In addition, Maria Luís has been appointed the chair of the Group's sustainability committee and has been driving Arrow's ESG agenda.

Paola Bergamaschi Broyd

Non-executive director

Paola was appointed to the board as non-executive director in June 2020 and to the role of chair of the risk committee in September 2020. Paola has been active in reviewing the governance of the risk committee, and this has included overseeing and monitoring the actions emanating from the committee. Paola has also provided valuable support to management in its engagement with regulators.

Lee Rochford
Group chief executive officer
Lee has led the Group through a significant period of uncertainty due to COVID-19, as well as undertaking a substantial review of the strategy to ensure that the Group's strategic priorities are still appropriate in light of COVID-19 and the implementation of a new organisational structure. As well as navigating the pandemic and a strategic review, Lee has also continued to support the Fund and Investment Management business, including a successful second close of the Fund. Lee has continued to drive the cultural agenda throughout the Group, which has been particularly important during COVID-19 in allowing the Group to transition to new ways of working quickly. Lee has also supported the Group's new chief people officer and chief legal and risk officer in their integration into the organisation and the executive management team.

Matt Hotson
Group chief financial officer
Matt has introduced strict cash management initiatives to ensure that the Group has weathered the COVID-19 crisis effectively and has overseen the successful renegotiation of the Group's financing facilities. He has led the finance team throughout the year and has driven the Group's cost efficiency programme. In addition, Matt is leading a strategic finance and reporting transformation programme involving the implementation of a common Microsoft Enterprise Resource Planning platform to standardise finance processes and controls across the Group. This will provide greater levels of insight, increased control and reduced reporting timelines through increased efficiency and will support the delivery of the Group's strategy by strengthening the control environment and by producing higher quality information and analytics thereby enabling a better understanding of the commercial drivers of the business and enhanced strategic decision-making. In addition, Matt is the executive management team sponsor for diversity and inclusion and has been central to the design of Arrow's future D&I strategy. Following events such as the Black Lives Matter movement, Matt hosted discussion groups to better understand areas where improvements could be made within Arrow and he is active in promoting the Group's 100 Black Interns Programme.

The board – leadership

Board meetings

The board discharges its responsibilities through an annual programme of board and committee meetings and in 2020, the board held 11 scheduled meetings. A number of ad-hoc meetings were also scheduled throughout the year, particularly in relation to the Group's response to COVID-19. During the pandemic, in line with government stay at home measures, the majority of meetings were held virtually as the board swiftly transitioned to new ways of working.

Unfortunately, COVID-19 prevented the board from visiting the Group's operations in Milan, Lisbon, Amersfoort, Glasgow and Dublin during the year, however a range of digital tools were quickly adopted and embraced.

During the year, the non-executive directors, including the chair, met periodically without management present.

Effectiveness

Time commitment

The individual letters of appointment set out the expected time commitment for non-executive directors and are available for inspection at our registered office. Other significant commitments are disclosed to the board on each occasion that these commitments change.

Undertakings are given that non-executive directors will have sufficient time to meet the requirements of the role. Details of the chair's and other directors' commitments can be seen in the director biographies on page 54. The board is satisfied that each non-executive director is able to dedicate the necessary amount of time to the Group's affairs.

Disclosure committee

The disclosure committee is made up of the Group chief executive officer, the Group chief financial officer, the senior independent director and the company secretary. The committee is chaired by the Group chief executive officer; however the senior independent director chairs committee meetings that consider the disclosure of the Group's financial results. The disclosure committee meets at such times as may be necessary or appropriate.

The disclosure committee is responsible for monitoring, evaluating and enhancing disclosure controls and procedures of the Group. In particular, responsibilities set out in the terms of reference include identification of inside information and maintenance of insider lists, the design, implementation and evaluation of disclosure procedures and the resolution of any questions concerning the materiality of certain information. The disclosure committee is also required to assist the Company and the Group in ensuring timely and accurate disclosure of all information where disclosure is required to meet legal and regulatory obligations.

The terms of reference for the disclosure committee, audit committee, risk committee, nomination committee and remuneration committee can be found on the Group's website (www.arrowglobal.net).

Directors' independence and conflicts

All of our non-executive directors are considered to be independent against the criteria in the Code and free from any business interest which could materially interfere with the exercise of their judgement.

In accordance with the Companies Act 2006, the Company's Articles of Association and Group policy, directors are required to report actual or potential conflicts of interest to the board for consideration and, if appropriate, authorisation. If such conflicts exist, directors recuse themselves from consideration of the relevant subject matter. The board maintains a schedule of authorised conflicts of interest, which is reviewed and approved bi-annually by the board. See also related party transactions note 22.

Directors' induction

The chair, together with the Group chief executive officer and company secretary, ensures new directors receive a full, formal and tailored induction upon joining the board, including full briefing packs.

As part of a tailored induction programme, new directors receive a comprehensive induction pack which includes background information on the Group, material on matters relating to the board and its committees, and governance-related information (including the duties and responsibilities of directors). New directors meet with key advisors and members of the executive team. Visits to operational sites are arranged, as well as meetings with the external and internal auditors. Ongoing training was provided during the year for existing directors. Major shareholders are welcome to meet newly appointed non-executive directors should they express a desire to do so. On completion of the induction programme, all new directors should have sufficient knowledge and understanding of the business to effectively contribute to strategic discussions and the oversight of the Group.

Paola Bergamaschi Broyd undertook a thorough induction process leading up to her appointment to the board on 17 June 2020. The process included:

- one-to-one meetings with the members of the executive committee to discuss the Group's business, strategy and operations;
- meetings with the Group's key external advisors, including its external auditors, KPMG LLP, and brokers, J.P. Morgan and Numis; and
- meetings were held with various senior managers across the Group and Paola spent a significant amount of time with the Group Risk and Compliance function and local risk leaders.

Continued professional development undertaken during the year

Ongoing training is provided for all directors, as necessary. This includes formal and informal briefings, meetings with management and visits to the Group's operations.

Access to independent advice

An approved procedure for all directors to take independent professional advice, at the Group's expense, is in place. The committees are provided with sufficient resources, including the ability to appoint external advisors when they deem it appropriate to call upon a particular resource. All directors have access to the advice and services of the company secretary and are entitled to rely on the impartial and independent nature of such advice and services.

The company secretary is responsible to the board for both the proper administration of procedures and arrangements established by the board for the conduct of its own business, and the Group's compliance with internal and external rules and regulations. The board receives agendas and supporting papers in advance of board meetings with sufficient time given for consideration of the board papers.

Board diversity

Arrow recognises the benefits of diversity and inclusion in all its forms, at board level and throughout the Group.

As at 31 December 2020, 42.9% of the board were women, which exceeds the recommended target by the Hampton-Alexander Review for FTSE 350-listed companies and comprised directors with a wide range of backgrounds and experience. The Group supports the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity and is continuing to develop the skills, experience and knowledge of a diverse pipeline. Our nomination committee is committed to promoting a diverse blend of skills, backgrounds and perspectives on the board as well as ensuring that the best candidate for each position is appointed. Further details on the committee's activities in this regard are set out in the nomination committee report on pages 83 to 84.

Site visits

While the major part of the board's work is conducted around the boardroom table, directors recognise the importance and benefits to be gained by visiting the Group's operations. Under normal circumstances, the board were scheduled to visit our Italian, Irish, Dutch and Portuguese offices in 2020. Unfortunately, all site visits were cancelled due to COVID-19. Instead, a range of digital tools were quickly adopted and embraced. It is intended that board site visits will resume once it is safe to do so and in the meantime we plan to hold a series of virtual visits throughout 2021.

Accountability

Adequacy of risk management and internal control systems

The board has overall responsibility for monitoring risk management and internal controls, and for reviewing their effectiveness and delegates certain responsibilities to the audit and risk committees. The Code requires that the board should, at least annually, carry out a review of their effectiveness and report on that review in the annual report; the board complies with this Code provision in line with the guidance published by the FRC, 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014)'. In this context, the board is responsible for, and monitors, the Group's systems of internal controls (which include financial, operational and compliance controls) and risk management systems.

The Group's risk management framework is designed to identify and mitigate risks to an acceptable level based on the Group's appetite for risk, which takes into consideration the expectations of our shareholders. The board has approved an appropriate suite of policies on risk management and internal control, and seeks regular assurance that the systems of internal control are effective in managing risks in line with its articulated risk appetite. The Group has a formal three lines of defence model, with internal audit provided by the in-house internal audit function, and support provided by Deloitte LLP in specialist areas. During the year, the board, supported by the risk committee, carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These are documented on pages 31 to 38 of the strategic report, with an explanation of how these are being managed or mitigated.

The following activities are considered to cover the most critical business processes and associated risks:

- A disciplined and objective underwriting process through the Fund business overseen by Arrow Proprietary Investment committee, which evaluates investments whether such investments are appropriate for Arrow's own capital based on the Group's risk appetite and capital allocation methodology.
- An enterprise-wide risk management framework, supported by risk committees and oversight of the Group, country and departmental risk registers.
- Regular monitoring of portfolio performance, overseen by the monthly country-level portfolio performance committees (PPC's) and the bi-annual/quarterly Group-level portfolio review committees (PRC's). Whilst the PPC considers individual portfolio performance variances on a regular basis, the PRC generally focuses on asset type segments (unsecured consumer, secured residential etc) by country and individual portfolios that could

materially impact Group performance. The PRC signs off the latest ERC forecast and assesses the carrying value of the portfolio assets.
- Internal controls exist over all key processes of the Group that have an impact on business operations, the treatment of customers, regulatory compliance, the Group's reputation and its financial results.

Comprehensive reporting to the audit and risk committees and the board on the above activities took place throughout the year. The audit committee carried out a review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls, and received a report on the same from the head of internal audit. The assessment for 2020 involved oversight of the respective risk management and internal control systems from across the Group, including the Group's operating subsidiaries in the UK, Portugal, Italy, the Benelux countries and Ireland. There were no material failings or weaknesses identified following the committee's review. Based on the audit committee's recommendation, the board concluded that, overall, the Group's risk management and internal control systems were adequately effective.

The board is satisfied that the Group's risk management framework provides assurance and evidence that the Group's principal and emerging risks are understood and are being appropriately managed, whilst acknowledging that with continued growth in existing geographic territories and the creation of the new Fund and Investment Management business, together with exposure to increasing levels of client expectation and regulatory scrutiny, the expected standards of risk management continue to increase.

Non-audit services provided by the external auditor

The provision of non-audit services by the external auditor is monitored throughout the year; any such work must be authorised in accordance with the Group's non-audit services policy. Further detail of the non-audit services policy and the level of non-audit fees and audit-related assurance services provided by the external auditor for the year can be seen in the audit committee report on page 76.

Internal audit function

The audit committee was responsible for monitoring and reviewing the effectiveness of internal audit activities in 2020. Further detail on the internal audit function and its activities can be found in the audit committee report on page 76.

Approving significant transactions and investment decisions

The business primarily acquires non-performing and non-core loan portfolios as part of its ordinary course of business. The Group applies a multi-stage approach to its underwriting and pricing process, with the aim of achieving attractive risk-adjusted returns, based on the Group's underwriting models, analytical processes and servicing strategies.

The origination team reviewed approximately 330 portfolios in 2020, 52 completed transactions (on an aggregated basis). Transactions range from repeat transactions with creditors and asset classes, through to more complex consortium trades with bespoke holding structures and characteristics. New investments are primarily made through a separately managed account managed by AGG Capital Management Limited, the fund manager within the Group.

An authority matrix sets out the delegated authority to the investment committee and executive committee for investments which are committed to by the Group. The board retains authority for approval of any new asset classes or geography, complex deals involving a commitment of capital by the Group in excess of certain thresholds. Based upon recent performance, the board is expected to consider circa four to five transactions per annum.

Bribery Act compliance

The Group has anti-bribery and corruption policies and standards available to all its employees. There is a summary of the policy complying with the provisions of the UK Bribery Act available on the Group's website, which is in line with Ministry of Justice (MOJ) Guidance on the Bribery Act 2010 ('MOJ Guidance'). The policy contains a gifts and hospitality procedure and prohibits facilitation payments. Regular training on the policy and the principles outlined therein is provided to all staff.

The Group considers itself to have adequate procedures within the meaning of the MOJ Guidance. The Group chief legal and risk officer has primary and day-to-day responsibility for implementing this policy.

Remuneration

In line with the Code and the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, details on remuneration including the annual report on remuneration to be approved at the 2021 annual general meeting can be seen on pages 86 to 105.

Relations with shareholders

Management, together with members of the board, engaged with investors throughout the year in a number of ways as part of a comprehensive investor engagement programme. Key activity in the year included:

- results and marketing roadshows in the UK and internationally to meet current and prospective shareholders;
- an ongoing programme of one-to-one and Group investor and analyst meetings hosted by management and the head of investor relations;
- management and the head of investor relations attending industry conferences and presenting to investor audiences; and
- enhanced communications in the early stages of the COVID-19 pandemic.

The views of these investors are communicated to the board by the chair and executive directors on a regular basis. Copies of analysts' and brokers' briefings, together with reports on institutional feedback on the Group and its performance, are circulated to the board. The Chair is also available to discuss governance and strategy with key stakeholders. Non-executive directors and the senior independent director have the opportunity to attend meetings with key stakeholders and would attend if requested.

Annual general meeting

The annual general meeting is an opportunity for all shareholders to both vote on resolutions put forward and ask the board any questions they may have. See page 110 for information on the 2021 annual general meeting. The notice of meeting and annual report will be sent out at least 20 working days before the meeting. The chairs of the audit, risk, remuneration, nomination and sustainability committees attend and are available to answer questions.

This report was approved by the board and signed on its behalf by:

Adam Westley
Company secretary
23 March 2021

Wider stakeholder engagement statement

How the board discharges its duties under Section 172

The directors are fully aware of their responsibilities to promote the success of the Group in accordance with section 172 of the Companies Act 2006. This duty is more fully explained on page 9.

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.

Fundamental to the board discharging its responsibilities under section 172 are the governance processes, which support the board's decision-making. The chair, Group chief executive officer and the company secretary ensure that the board's decision-making is sufficiently informed by section 172 factors. All board and committee papers and proposals include comprehensive discussion regarding section 172 factors and the board's debate and decisions are documented in the minutes of the meetings. Wherever possible, the board is provided with external assurance on the integrity of the information it receives on stakeholder engagement.

However, the board recognises that there is no room for complacency in this area. With this in mind, a review was initiated during the year by the company secretary to ensure that the board's reserved matters, and the terms of reference of each committee, capture the requirements of section 172 and that policies and practices are in place to ensure that any decisions delegated by the board, via the delegated authority framework, give sufficient consideration to section 172 factors. Despite the pandemic, the board's focus on its stakeholders, and specifically its customers and employees, continued, as is demonstrated in the case studies detailed below. In addition, in December 2020, the board participated in a comprehensive briefing seminar on developments in corporate governance which focussed on directors' duties under section 172. This session was led by one of the leaders of the Deloitte UK Centre for Corporate Governance and it reaffirmed the board's view that section 172 is embedded in directors' strategic decision-making and supported by the Group's culture.

Read where we support our customers through increased forbearance on page 8.

Stakeholder interests are at the heart of every strategic and operational decision taken by the board. For example, the need to foster the Group's business relationships with its suppliers is evidenced by the board's detailed review and approval of the Company's 2019 Modern Slavery Act (MSA) Statement. The board reviewed the MSA Statement in May 2020 and considered that the actions being taken by the Group to identify and/or address any potential modern slavery or human trafficking within its supply chain to be appropriate in ensuring that any risks are highlighted and mitigated accordingly. This includes assessing the practices of the Group's existing supply chain and providing training to our employees to assist with the identification of slavery-related risk factors. The board 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.

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

As we set out in our ESG report on pages 32 to 43, 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.

Right from the beginning of the pandemic, the board has actively overseen management's efforts to protect and support its customers. At every scheduled meeting since March 2020, the board has received detailed updates on the impact of the pandemic on customers and it has challenged management on the actions being taken to mitigate this. The board has requested, and has received, full and transparent disclosure on how the business is treating its customers fairly, how it listens to them and how customers are put front and centre of everything Arrow does. This has been supported by a broad range of customer service metrics and key performance indicators, which the board has reviewed and scrutinised.

In light of the impact that the pandemic has had on individuals' finances, the focus of the board has inevitably been 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.

Right from the start of the pandemic, the board considered:

- The mobilisation of the Arrow customer experience forum to consider how customers impacted by COVID-19 would be managed;
- The reaffirmation of the principle that every Arrow customer receives consistent and fair treatment irrespective of their geographical location;
- The implementation of an action plan to support customers who had been impacted by the COVID-19 crisis;
- The differences in each Arrow credit management and servicing platform from a regulatory, systems and operational perspective and how these might lead to nuances in supporting customers and in the ability of Arrow to monitor the number of impacted customers;
- The adoption, wherever possible, of consistent customer principles across every platform to ensure good outcomes for customers;
- The implementation of a vulnerable customer policy and the development of consistent metrics and measurement tools to understand the impact of the virus;
- Arrow's approach to those customers who were also key workers, such as health professionals, to assess what additional support could be afforded to them during the crisis; and
- The data protection controls that were in place to ensure that Arrow employees who processed customer data and who had transitioned to home working continued to comply with the guidance issued by the Information Commissioner's Office.

As the crisis deepened the board considered:

- The forbearance processes adopted by the Group to ensure that these were in line with FCA guidelines;
- The impact of COVID-19 on Arrow's customers, the numbers of customers benefitting from forbearance in each of Arrow's geographies and the reasons behind any regional differences or trends; and
- Customer satisfaction scores which demonstrated that positive customer relations were being maintained during the pandemic and that the business was succeeding in 'doing the right thing' and 'treating customers fairly'.

"Coming together in the Group customer experience forum helps us to drive an improved experience for our customers across all our platforms, as well as value for clients and shareholders."
Colin Maher, managing director, Ireland

At its October meeting, the board undertook a deep-dive review of the progress that had been made during the pandemic in enhancing the customer experience and improving outcomes for customers. In particular, the board focussed on:

- The embedding of the customer experience forum and associated Customer Framework into the fabric of Arrow's operating rhythm in every Arrow jurisdiction together with the momentum being achieved towards meeting the Group's objectives for its customers;
- The implementation of best practice initiatives consistently across all of the Arrow Group geographies, for example in relation to vulnerable customer strategies and processes, forbearance measures and common key performance indicators and metrics for customers;
- The use of digital tools, such as live chat and chatbots, to improve the customer experience;
- The results of a vulnerable customer deep-dive review to better understand the level of customer satisfaction in relation to Arrow's businesses; and
- The initiatives and measures being developed across the Group to improve the outcomes for customers and the Company.

In concluding its review, the board reiterated its commitment to building better financial futures for its customers and in treating customers fairly since this would, at the same time, deliver the right commercial outcomes for Arrow. The board was very supportive of the initiatives being taken to protect and support customers during the COVID-19 crisis and to improve the Arrow customer experience and members of the board asked to attend and participate in future customer experience forums. However, the board also recognised that there are areas where Arrow could do more. The customer digital experience could be further enhanced through the use of online portals to capture customer data which could additionally lead to improved technical insights of customer vulnerability. Management was also encouraged to explore how further automation could be deployed to assist in collating and analysing customer data to develop an enhanced and more complete view of customers to enable bespoke and tailored solutions to be offered.

COVID-19: Employees

Considering stakeholders in decision-making

As with many other organisations across the world, 2020 has been a year of unprecedented change for Arrow's 2,500 employees. The crisis has 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 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 so, more than ever, it has focussed 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.

Read where we empower our people with 'Arrow Everywhere' workplace transformation on page 14.

From the start of the pandemic, the board focused on the impact of the crisis on Arrow's employees. The mobilisation of the Arrow business continuity plans across the Group were discussed at length and the board reviewed detailed presentations on:

- The launch of a coronavirus communications programme, using email and Arrow's internal social media platform, Workplace, explaining to employees the Group's response to the crisis as well as providing advice and guidance on travel and remote working. These helped to ensure that colleagues were kept informed, engaged and connected during the period of remote working;
- The steps being taken to safeguard employee wellbeing during the pandemic. A wellbeing group had been established on Workplace and the services provided by the Group's employee assistance providers, Lifeworks, were extended to ensure that every employee and their families had access to mental wellbeing support;
- The communications plan for those employees selected for furlough and, in particular, the establishment of a dedicated Workplace community and social media groups to encourage colleague cohesion and engagement for furloughed staff; and
- A proposal to top-up government funding for furloughed employees in Portugal and the UK to the level of their existing salaries to ensure that affected employees were not financially worse off as a consequence of being furloughed. The subsequent decision to repay all furlough claims in the UK following a better than anticipated financial performance, was also discussed and endorsed by the board.

The board recognised the importance of providing additional support to employees, particularly for their mental wellbeing. Management's proposed responses to the pandemic were scrutinised, challenged and supported by the board. Arrow's employees remained an area of focus for the board throughout the pandemic and updates on a range of employee issues, including absenteeism and attrition and the results of employee wellbeing surveys, were considered by the board at every scheduled meeting.

The board reviewed the findings of an employee wellbeing survey and considered the action plans that had been developed in response to the findings.

The board reviewed 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. This included reviewing the results of the Leesman Employee Experience survey, which had been undertaken to assess employees' opinions on work activity and which would be used support a longer-term workplace strategy and roadmap. In particular, the board considered the organisational design process, which would involve reimagining workplaces and working styles and challenged management over the number of offices that would be needed in future and the number and categories of employees that would be required at specific locations.

During the year, the board reviewed and approved terms of reference for the role of the designated non-executive director for workforce engagement, a position performed by Maria Luís Albuquerque. The board received updates from Ms Albuquerque on a series of video conference calls held with teams across the Group. Ms Albuquerque reported on the level of engagement and commented on the specific issues raised by employees and the degree of optimism exhibited in general. Employees appreciated the level of employment security being provided by the Group together with the financial support being given in topping up furlough payments to ensure a full salary was received. Management's ongoing focus on employee safety and wellbeing was also recognised. However, the process of selection for furlough was proving stressful for some and working from home was not without its challenges, particularly for those with children who were required to balance work with providing home schooling. The board reflected on the feedback received and compared it to the findings of the employee wellbeing surveys. Management were then requested to incorporate this feedback into the development of the workplace transformation programme.

The board received an update on the progress being achieved by Arrow's culture steering group in driving the culture agenda within Arrow and on the positive behaviours and traits that had emerged across the organisation in response to COVID-19. The board reviewed a new online engagement platform, Peakon, which would enable management to measure employee engagement, values and cultural attributes across the Group. Peakon would also form a key component of Arrow's leadership performance and development programme and would additionally facilitate the measurement of progress against Arrow's cultural ambition. The board were highly supportive of the introduction of Peakon and individual presentations were arranged for directors on the outputs from the platform and how this insight might be applied by management. The board also emphasised the importance of capturing and embedding across Arrow the positive learnings from the COVID-19 crisis and preventing any cultural challenges in existence prior to the pandemic re-emerging once the lock down restrictions were lifted.

As well as responding to the pandemic, the board challenged management over Arrow's approach to diversity and inclusion following external events such as the Black Lives Matter movement. Arrow's chief financial officer, Matt Hotson, hosted discussion groups to better understand areas where improvements could be made. Following this, a new diversity and inclusion strategy will be reviewed and evaluated by the board, which includes participation in the 100 Black Interns Programme, as well as a strong recognition that diversity extends beyond simply gender targets. The board also reviewed the Gender Pay report, recognising the initiatives the business was taking to address current pay gaps and challenging management to ensure that these remained as focus areas for Arrow.

Listening to our employees

It is now over 1 year since I was appointed the board's lead on employee engagement, a role that is essential in ensuring the board has an independent view on the key issues affecting employee engagement. During the past 12 months, I have continued to take an active role in understanding these issues and reporting them straight into the board.

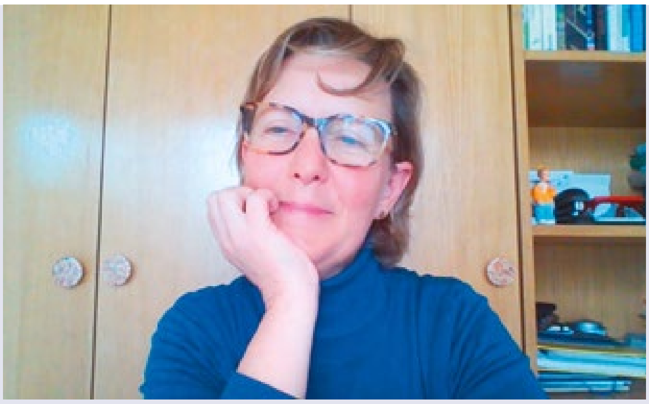
Whilst I was fortunate to attend the annual Values Gala in Porto in January, the continued prevalence of the virus across Europe meant that no further face-to-face meetings were permissible in 2020. Instead, utilising digital technology, I hosted several engagement sessions with various teams from across the Group.

These sessions were extremely insightful for the board, and it was clear there were common themes emerging. One of these was a view that communications had improved considerably with some employees even saying they felt more connected than prior to the pandemic. Fundamental to this has been the adoption of new tools to aid communication and collaboration with Workplace (by Facebook) and MS Teams, the two main platforms, which were widely praised.

In all my meetings there was also an appreciation of the efforts to which the Group has gone to keep everyone safe, including the launch of the Group-wide employee assistance programme, wellbeing and working from home guides, as well as support packages covering IT and home-office equipment. These were put in place to help make home working more comfortable and sustainable over the long term. Consistent with looking after our people there was also a strong view that the move to home working was not detrimental to the quality of work undertaken and this has been widely recognised by clients and central to securing new business opportunities.

As expected in a working environment that has seen such a rapid transformation, there are stresses that the board continues to be mindful of. Most noticeably, maintaining a healthy work-life balance continues to be a challenge especially for those employees with young children and elderly dependants. Likewise, the professional development of our more junior people who do not benefit from on-site instruction is an area we need to watch the longer we are absent from the office. Notwithstanding this, I have heard of many examples of colleagues supporting one another and going the extra mile beyond work-related activities.

Most recently, I participated in the 2020 Senior Leadership Conference, which was predictably held online and over three distinct sessions. Here, 50 of our most senior leaders were briefed on the new strategic priorities and notably challenged on 'how' they should best lead their teams in a hybrid home-office model. Despite the obvious limitations of being held online, I was pleased with the contribution shown by our senior leaders and their collective desire to embrace new ways of leadership to keep our people safe, engaged and productive.



"In these unprecedented times, giving our employees an independent voice on the board has never been more important. It is my privilege to have this responsibility and to see the board and senior management respond accordingly."

More broadly, I am reassured that Arrow's culture has withstood the challenges of the pandemic and this is shown by the record number of nominations for our valued-based employee STAR awards with 1,857 nominations, up 95% on the previous year – quite an achievement in a year when the Group worked remotely. I'm hoping that the Values Gala, postponed from January 2021, will take place in person later in the year, but contingency plans are already in place should COVID-19 make this impractical. To all the STAR award winners, their nominators and the values champions, I would like to thank you for promoting our values during a challenging year.

As we move into the next phase of the pandemic, one where increasing numbers of people are vaccinated, I do hope to recommence face-to-face engagement meetings, but as expected there is no set timetable. In the interim, I will continue to work remotely to ensure the board has an up-to-date and accurate picture of what our employees think and feel about working for Arrow, what they most cherish and what they would like to see changed.

Maria Luís Albuquerque,
Non-executive director

Audit committee report

"The committee responded rapidly to challenges facing the business posed by COVID-19 and refined the approach to the ERC."

Andrew Fisher
Chair of the audit committee

Members

- Andrew Fisher (chair)
- Lan Tu
- Maria Luís Albuquerque
- Paola Bergamaschi Broyd

Focus in 2020

- Responding rapidly to the challenges facing the business posed by COVID-19 and refining the approach to ERC
- Undertaking a detailed review and providing effective oversight of going concern judgements during the peak of the pandemic
- Additional focus on the impairment review over the Group's goodwill and intangible asset balances

Focus for 2021

Reflecting the Group's transition from a balance sheet investor to an alternative asset manager and the acceleration of its capital-light fund and investment management strategy, the committee will focus on:

- finalising the accounting judgements linked to the Fund and Investment Management business;
- reviewing new controls and processes relating to the Fund and Investment Management business to ensure that these remain appropriate as the business segment achieves greater scale; and
- ensuring that there is sufficient coverage of the Fund and Investment Management business by Group internal audit.

Dear Shareholder

I am pleased to provide a report of the audit committee's activities in 2020.

The principal issues on which the committee focused in 2020 are set out in this report. They include the estimation of future cash collections from portfolio investments, the value of portfolio investments and setting of the EIR and accounting for the Group's new Fund entities and Group co-investment.

The committee considered the results of the FRC Audit Quality Review in respect of the audit for the year ended 31 December 2018, which were discussed with KPMG, checking whether the findings were factored into the current year audit approach and taken into account when considering the financial statement disclosures.

In relation to the financial statements, the committee continues to focus on those matters it considers to be important by virtue of their size, complexity, subjectivity or impact, and these are set out in this report.

The committee's effectiveness was considered as part of the board evaluation process, further detail of which can be found on pages 64 to 65. I am pleased to report that the committee was viewed as operating effectively throughout the year and no significant areas of concern were identified.

Responsibilities of the audit committee

The committee's principal responsibility is to monitor the Group's financial reporting process and the integrity of the Group and Company financial statements and review any significant financial reporting judgements contained therein. In addition, the committee also reviews the effectiveness of the Group's internal controls and risk management systems, and the role and effectiveness of the Group internal audit function and the external auditor.

The committee's responsibilities also include:

- Oversight and approval of the scope and fee for the audit and monitoring the Group's compliance with the non-audit fees policy;
- Assisting the board in assessing the Group's ongoing viability, including the basis of the assessment and the period of time covered;
- Approving the Group internal audit plan on an annual basis; and
- Assessing the independence and objectivity of the external auditor.

The committee's duties and responsibilities are set out in its terms of reference. These terms of reference are reviewed annually to ensure that they are aligned with best market practice including the recommendations of the ICSA: The Chartered Governance Institute. A review of the committee's compliance with these terms of reference was undertaken during the year to identify areas where additional focus was required.

Composition of the audit committee

For meetings held in 2020, the committee comprised the following members: Andrew Fisher as chair, Lan Tu, Maria Luís Albuquerque and Paola Bergamaschi Broyd, who joined the board and the committee on 17 June 2020. The committee met six times in 2020 at the appropriate times in the financial reporting and audit cycle. The attendance of our members is shown in the table.

During 2020, the committee also met separately with representatives of the external auditor, KPMG LLP, and the head of the internal audit function without any management present.

Committee members	Eligible to attend	Attended
Andrew Fisher (chair)	6	6
Lan Tu	6	6
Maria Luís Albuquerque	6	6
Paola Bergamaschi Broyd	3	3

1. Paola Bergamaschi Broyd was appointed as a member of the committee on 17 June 2020.

The members of the committee are all independent non-executive directors and the board has determined that Andrew Fisher has recent and relevant financial experience, together with competence in both accounting and auditing. All committee members have extensive general business and management experience, which can be seen from their biographies set out on pages 54 to 55, and the board has determined that the committee, as a whole, has competence relevant to the sector in which the Group operates.

Internal control and risk management systems

The committee is responsible for monitoring and reviewing the effectiveness of the Group's internal control and risk management systems. Through monitoring the effectiveness of its internal controls and risk management, the committee is able to maintain a good understanding of business performance, key judgemental areas and management's decision-making processes. The committee considered the adequacy of management's response to matters raised and the implementation of recommendations made. The committee carried out the following in 2020:

- Reviewed the framework and effectiveness of the Group's system of internal control and risk management, including financial, operational and compliance controls;
- Received regular updates from management on internal control improvements and requested that KPMG report on progress as part of their year-end work;
- Reviewed comprehensive reports from the external auditor, KPMG, of the results of their controls testing as part of the external audit; and
- Reported to the board on its evaluation of the operation of the Group's internal control and risk management system, informed by reports from the Group internal audit function and KPMG as external auditor.

External auditor

Appointment and effectiveness of the external auditor

KPMG, the Group's external auditor, was appointed in July 2014 following a comprehensive and competitive tender; the lead audit partner is Simon Ryder who was appointed in August 2020. It is the Group's policy to ensure that at least once every ten years the external audit contract is put out to tender to enable the committee to compare the quality and effectiveness of the services provided by the incumbent external auditor with those of other external audit firms. The reappointment of the external auditor is considered by the committee annually, which includes an assessment of its performance in the previous year, together with the independence of the external auditor.

Independence and objectivity

Both the committee and the external auditor have in place safeguards to avoid any compromise of the independence and objectivity of the external auditor. The committee considers the independence of the external auditor annually, and the Group has a formal policy for the engagement of its external auditor to supply non-audit services.

Reappointment of auditors

The committee has assessed the performance and independence of the external auditor and recommended to the board the re-appointment of KPMG LLP.

Non-audit services

The provision of non-audit services by the external auditor is monitored throughout the year; any such work must be authorised in accordance with the Group's non-audit services policy. The policy is designed to ensure that neither the nature of the service to be provided nor the level of reliance placed on the services could impact the objectivity of the external auditor's opinion on the Group's financial statements.

The policy precludes the appointment of the external auditor to provide certain prohibited services as set out in the FRC Guidance on Audit Committees 2016 and the FRC's Revised Ethical Standard 2016, as well as setting out certain types of non-audit services for which the use of the external auditor are pre-approved. New EU legislation on permitted non-audit services came into effect from 17 June 2016, which introduced a permitted non-audit services fee cap of 70.0% of the average audit fee over a consecutive three-year period. This cap came into effect for the Group in the financial year ending 31 December 2020.

The policy was last reviewed and approved by the committee in November 2020.

The fees paid to KPMG LLP for non-audit work during the year were £597,000. The ratio of non-audit fees to the average of the last three years' audit fees during the year was 42%.

The audit committee has concluded that the provision of non-audit services to date has not compromised external auditor independence and objectivity.

Group internal audit

The Group has operated an in-house Group internal audit function since January 2019 that is managed by the Group head of internal audit, who was appointed in November 2018. The Group head of internal audit reports to the committee on the work of the Group internal audit function at each meeting of the committee, and reports directly to the chair of the committee whom he meets not less than six times per year. In 2020, the committee carried out the following:

- Reviewed and approved the internal audit plan which defines the scope of work that the internal audit function will carry out;
- Reviewed and approved a revised Group internal audit operating model;
- Reviewed and approved the Group internal audit charter;
- Reviewed results from audits performed, having scrutiny over unsatisfactory audit findings and related action plans;
- Reviewed open audit actions, together with monitoring progress against the actions;
- Reviewed Group internal audit's self-assessment of their performance during the year;
- Reviewed Group internal audit's opinion on risk management and internal control effectiveness;
- Reviewed the assurance map to ensure there is clear and comprehensive risk and assurance coverage; and
- The committee also maintained oversight of other important accounting matters and judgements, as well as oversight of the financial reporting process.

During the year, the committee monitored progress of the internal audit function against plan, ensuring that the internal audit function had sufficient resource to carry out its duties effectively. Reports on internal audit work have been received by the committee and, where necessary, appropriate actions have been recommended to the board. The results of this work, together with the committee's engagement with the management information of the Group and the executive directors, have enabled them to conclude that the statements given on pages 68 to 69 of the corporate governance report relating to the Group's systems of internal control and its management of risk are appropriate.

As part of the review of the effectiveness of the internal audit function, the committee reviewed the department's resources, work programme and management's implementation of required actions. Due to COVID-19, regarding the work programme, the committee agreed to flex and reshuffle the order of work to address COVID-19 specific risks, such as working from home. The head of internal audit provided an overview of the internal audit team's performance during the year to the committee, which detailed performance against key performance indicators and highlighted certain areas for improvement with actions to address these. The committee concluded that the internal audit function was effective.

Significant issues considered by the committee

The committee, in conjunction with management and the Group's external auditor, considered the following significant issues in relation to the financial statements and how these were addressed.

Estimation of future cash collections from portfolio investments	**Reporting matter** The estimation of remaining collections from portfolio investments is complex and requires management to make significant judgements in relation to expected life, probability and value of related cash flows for each loan. Due to the economic impact of COVID-19, the level of judgement over these matters has increased in the period. Management's approach to cash flow forecasting was refined in the period in light of COVID-19 to take account of multiple macroeconomic forecasts on a bottom-up basis. **Role of the committee** The committee considered the value of the loan portfolio by reference to cash flow models. Management's key assumptions were examined carefully by the committee, including the profile of expected future cash collection based on the Group's historical collection experience and forecast future macroeconomic conditions, especially in light of COVID-19. Management's refinement of cash flow forecasting approach, as well as the assumptions surrounding future changes in collection strategies, were also examined by the committee. In addition, the committee reviewed and discussed with the external auditors their report on these matters. **Conclusion/action taken** Having reviewed the key assumptions alongside historical collections data, and having considered the forecast impact of changes to the macroeconomic environment and collection strategies, the committee agreed that the overall forecast remaining collections from debt portfolios was an appropriate estimate.
Accounting for the Group's new Fund entities and Group co-investment	**Reporting matter** During the year, the Group expanded its Fund and Investment Management business, which involved the set-up of multiple new legal entities, the creation of new revenue streams, and a change in the way new purchases are transacted and held. Various accounting judgements were required as a result, including the consolidation status of the new entities per IFRS 10 guidance, the IFRS 15 accounting treatment of the new revenue streams and the IFRS 9 classification and measurement status of ongoing portfolio purchases. **Role of the committee** As a set of new judgements in the period, the committee carefully considered the detailed accounting positions, which were determined with reference to accounting standards and also with the help of external accounting experts, given the impact of the judgements on the Group's future business model. **Conclusion/action taken** Upon reviewing the accounting positions in detail, the committee concluded that it was appropriate for the ACO 1 fund to not be consolidated into the results of the Group, and that any co-investment alongside the fund should therefore be accounted for at FVTPL going forward. The committee also reviewed the new accounting policies in relation to fund and investment management revenue, and concluded that these were in line with the relevant IFRS 15 guidelines and industry norms.
Going concern and viability reporting	**Reporting matter** Each year, the board must make an assessment of whether or not the Group is expected to continue as a going concern for at least 12 months following the issuance of the annual report and accounts. In addition to the statement on going concern, the board is required to make an assessment on its longer-term viability which requires the application of a number of judgements and estimates. This year, given the COVID-19 impacted macroeconomic backdrop, there was an increased level of scrutiny over these matters by the board. **Role of the committee** The directors have made an assessment of the going concern position and longer-term viability of the Group and the committee has reviewed this assessment. The committee focused on the robustness of assumptions underlying the forecasts, particularly in light of the impact of COVID-19 on current and future periods. Specifically, the committee considered the impact of any severe but plausible stresses applied to the Group's forecasts of liquidity and compliance with its banking covenants - which were renegotiated in the period - alongside the reasonableness of any proposed management actions which would be taken in such a stress scenario. As part of this process, the committee has reviewed management's assessment of the prospects of the Group for the three years from 31 December 2020, which is considered a reasonable period for the assessment of key risks. **Conclusion/action taken** The committee agreed with the board's conclusion that the Group is expected to continue as a going concern for at least 12 months following the issuance of the annual report and accounts and that the Group is expected to be viable in the longer term, over a period of at least three years.

Other areas of consideration by the committee

The Group's external auditor considered the following significant issues in relation to the financial statements and how these were addressed.

Goodwill impairment review	The year-end balance sheet includes goodwill of £278.3 million. The committee reviewed the carrying value of goodwill with reference to the values attributable to each cash generating unit, the expected value-in-use based on projected cash flows and the key economic assumptions related to growth rates and discount values. The committee discussed and challenged the judgements applied by management, including the appropriateness of the cash generating unit allocations, the discount rates used and the factors used to consider whether a reasonable change in assumptions may indicate impairment. The committee also noted the work undertaken by the external auditor, which concluded that management's evaluation that no impairment was required relating to the Group's goodwill was reasonable. After discussion, the committee was satisfied that the assumptions and methodology used were reasonable, and that no impairment was required.
Accounting for material transactions	The Group is increasingly making equity investments in addition to purchasing portfolios in different asset classes and geographies, which can lead to new and sometimes complex transactions and accounting. The buying process is a multi-stage approach. The underwriting process includes a four-stage approval or gate process, before presentation of the credit memorandum to the credit committee. The investment committee then determines whether to recommend the purchase to the board of material or complex portfolios in advance of submission of a final bid. For material and complex transactions, the finance team are also involved throughout the process and, where appropriate, accounting papers are produced and disclosed for discussions with the external auditor and approval by the audit committee.
Other	The committee received reports on the Group's change in approach to its segmental reporting methodology, updates around the disclosure enhancements in the Group's annual reporting and how the Group has met the fair, balanced and understandable requirement within its annual report and accounts.

Other areas of consideration by the committee

Work of the committee

During the period under review, the following work was carried out:

Reporting	• Monitoring the integrity and effectiveness of the financial reporting process, including the half-year and annual results, related commentary and announcements and associated reports prepared by KPMG LLP and making appropriate recommendations to the board; • Reviewing the continuing appropriateness of and changes to accounting policies and the use of estimates and judgements as noted in the Group's report and accounts; • Reviewing key judgements and estimates included in the preparation of the financial statements assessment of going concern review and approval of longer-term viability statement for recommendation to the board;	• Assessment of fair, balanced and understandable concept in respect of the 2020 report and accounts; and • Reviewing the new accounting policies and judgements required in relation to the expansion of the Group's Fund and Investment Management business.
External audit	• Review and approval of KPMG's annual external audit plan review; • Review and respond to the overall report, as well as specific matters raised by the Audit Quality Review (AQR) of KPMG's 2018 audit; • Reviewing the effectiveness of the external audit process and reporting to the board on how the external auditor has discharged its responsibilities; • Regular meetings with the external auditor (at planning and reporting stages) with further private meetings held without executive directors and management present; • Recommending reappointment of the external auditor to the board;	• Consideration of management letters from external auditors and review of representation letters requested by the external auditor; • Assessing the impact of new accounting standards; • Reviewing the supply of non-audit services by the external auditor to avoid any threats to auditor objectivity and independence and ensuring compliance with the non-audit services policy; and • Approving the terms of engagement of the external auditor at the start of the audit and agreeing its remuneration for both audit and non-audit services.
Risk management and internal controls	• Monitoring and effectiveness review of risk management and internal control systems (including financial, operational and compliance) across the Group. Recommending the approval of statements regarding effectiveness to the board for inclusion in the annual report, and	• Reviewing and approving the statements to be included in the annual report concerning the principal risks facing the Group and how they are being managed along with the assessment of the Company's prospects.
Internal audit	• Review of the Group's internal audit charter which sets out the objectives, accountability and independence, authority, responsibilities, scope of work, and standards and performance for internal audit; • Assessing the adequacy of the internal audit programme over the Group's processes and controls, including coverage, prioritisation and allocation of resource;	• Reviewing updates on the activities of internal audit, including receipt of audit reports, to gain and provide assurance that the control environment continued to operate effectively; • Reviewing status reports on the implementation and follow-up of internal audit recommendations; and • Assessing the effectiveness of the internal audit function.
Other	• Considered the appointment and the procedures to be undertaken by advisors to provide relevant assurance to the satisfaction of the lenders regarding the entry into an asset- backed security facility; • Reviewing the effectiveness of the committee; • Reviewing the committee's terms of reference and work programme;	• Confirming that the committee discharges the responsibilities set out in its terms of reference; • Reviewing and recommending to the board the adoption of a new Group tax policy; and • Reviewing current and future funding structures.

This report was approved by the board and signed on its behalf by:

Andrew Fisher
Chair of the audit committee
23 March 2021

Risk committee report

"Risk measurement and management is a critical activity at Arrow to ensure the facilitation of successful business operations whilst considering the interest of all stakeholders with the aim of achieving our goal to build better financial futures. During 2020, the Group continued to focus on ensuring a strong and robust risk management culture and framework, with deeper understanding by all of their roles and responsibilities. The risk management process is continually reviewed to ensuring that it is commensurate with the size, scale and nature of the business."

Paola Bergamaschi Broyd
Chair of the risk committee

Members

- Paola Bergamaschi Broyd (chair)
- Andrew Fisher
- Lan Tu
- Maria Luís Albuquerque

Progress in 2020

- Management of financial, operational resilience and regulatory risks in relation to COVID-19 across the Group;
- Projects undertaken to remediate for legacy issues such as accounts requiring customer remediation; and
- Investment risk appetite and policy setting.

Focus for 2021

- Reaffirm the three lines of defence model with consideration of the changes in the business structure;
- Evaluate risk governance forums and align escalation protocols with updated business model; and
- Continued to develop the risk management framework across the Group.

Dear Shareholder

I am pleased to provide a report of the risk committee's activities in 2020. This is my first year as chair of the risk committee, having been appointed to the board in June 2020 and subsequently appointed as chair of the risk committee in September. I took over chairing the risk committee from Andrew Fisher who had assumed the role as interim chair following the departure of Iain Cornish. I would like to take this opportunity to thank Andrew for his wealth of knowledge and support during the handover process. During the year, we also welcomed Martina Swart as Group chief legal and risk officer, following the departure of Stewart Hamilton and I look forward to working with her in the coming years.

The committee is responsible for advising the board on the Group's overall risk appetite and strategy, and for overseeing and advising the board on the current risk exposures of the Group and the overall risk management approach. It operates independently from the audit committee in light of the Group's diversified geographic footprint and asset class mix, the increasing regulatory scrutiny and uncertain political environments in which the Group operates. However, there is a commonality of membership between the risk committee and the audit committee, which facilitates effective communication and information sharing between the two committees. The committee also works with the remuneration committee, to ensure that risk is appropriately considered when setting the Group's remuneration policy and more specifically individual compensation arrangements. Lan Tu, chair of the remuneration committee, is also a member of the risk committee.

This year has seen a number of heightened risks due to COVID-19 and in this regard, the committee has regularly monitored and reviewed financial, operational resilience and regulatory risks. Particular focus has been given by the committee to the impact that COVID-19 has had on customers and on ensuring that regulatory guidance in relation to payment breaks, forbearance and other related guidance during the pandemic has been implemented. Oversight was also given to the additional controls and compliance environments that were required in order to mitigate increased risks of working from home. In July 2020, the committee reviewed the Group's enterprise-wide top risks in light of COVID-19 to ensure that the appropriate mitigants were in place to reduce risk where possible. More information on the Group's principal risks can be found on pages 48 to 52.

During 2020, there has been significant engagement with regulators in all jurisdictions, with a particular focus on how the Company has reacted to COVID-19 and the committee has maintained oversight of Group-wide regulatory communications, including those related to the visits with the UK regulator, the Financial Conduct Authority (the FCA), and the Dutch data protection regulator, Autoriteit Persoonsgegevens (the AP). These engagements enable regulators to develop a deeper understanding of both Arrow and the credit management sector.

The committee's agenda for the year has once again been extensive. In addition to its primary role of reviewing the Group's risk management framework and assisting the board in its oversight of risk across the Group, the committee has overseen various projects undertaken by management to remediate legacy issues in relation to accounts with credit balances and statute barred accounts. As well as this, the committee has reviewed the progress of the Senior Managers and Certification Regime (SMCR) project in the UK and the work ongoing to prepare for the United Kingdom's exit from the European Union. The committee has also reviewed operational resilience and the development of the Company's new risk appetite statements.

There has been a renewed focus on enhancing the committee's governance to ensure a greater degree of effectiveness. This includes, for example, the review and development of the committee's action tracker in order to ensure a more timely delivery of actions.

The committee's responsibilities and authority to carry out its responsibilities are set out in its terms of reference, which are published on the Group's website at www.arrowglobal.net and are subject to annual review to ensure it meets best practice.

As part of this, the committee reviews the Group's risk assessment processes and methodology, and its capability for identifying and managing risk. In addition, it considers material proposed transactions and reviews reports on significant incidents and position against risk appetite.

Biographies of the members of the committee are set out on pages 54 to 55.

The committee met six times in 2020. Committee membership and attendance of our members is shown in the table below.

Committee members	Eligible to attend	Attended
Paola Bergamaschi Broyd (chair)[1]	3	3
Lan Tu	6	6
Maria Luís Albuquerque	6	6
Andrew Fisher[2]	6	6

1. Paola Bergamaschi Broyd joined the risk committee on 17 June 2020 and was appointed chair of the risk committee on 9 September 2020, following FCA approval.
2. Andrew Fisher stepped down as interim chair of the risk committee on 9 September 2020 but continues to be an active member of the committee.

Work of the committee

The committee has a schedule of standing items that it reviews at each meeting and a work programme including training and 'deep-dive' sessions and also considers any specific matters highlighted to the committee for consideration. The committee's schedule is continuing to evolve to reflect the Group's ongoing expansion and diversification. During the period under review, the following work was carried out:

Risk management	• Updates on corporate risk assessment management activities, including risk registers and the robustness of assessment and mitigation of principal risks facing the Group; • Advising the board on the current risk exposures of the Group and future risk strategy; • Approval of appropriate policies; • Consideration of specific risk exposures and associated mitigations, including acquisitions, legal claims and litigation, tax status and customer outcomes; • Review of half-yearly reports from the money laundering reporting officer, including reports on protecting against fraud and other forms of financial crime; • Systemised support for the Incident Management and Risk and Control Self-Assessment processes; • Emerging risks were considered throughout the year, with specific focus on COVID-19 and the impact this had on customers, controls and the compliance environment; • Review of the Company's operational resilience; • Review of the development of new risk appetite statements; • Review of portfolio risk, including ERC expectations, leverage and liquidity and revolving credit facility restrictions; and • Review of specific business line risks.
Review of regulatory risk	• Review of the regulatory landscape and oversight of the management of regulatory issues; • Review of reports from management on the treatment of customers, including complaints handling, vulnerable customers, litigation and oversight of third-party servicers; • Review of reports on compliance issues, including oversight of compliance monitoring activity and findings; • Training on specific regulatory topics to support committee effectiveness including forbearance, the General Data Protection Regulation and the Senior Managers and Certification Regime; • Regulatory engagement and visits with the FCA and the AP; • Regular horizon scanning, including consideration of the launch of the Debt Respite Scheme in 2021, which provides a moratorium from creditor action for up to 60 days; and • Review of the SMCR project.
COVID-19	• Review of enterprise-wide top risks in light of COVID-19; • Review of the potential humanitarian cost of COVID-19; • Review of the potential economic impact of COVID-19; • Review of the actions being taken Group-wide to mitigate the risks to the Group's balance sheet and portfolio performance; • Review of the impact that COVID-19 has had on customers; and • Review of controls and compliance environments to mitigate increased risks due to COVID-19.
Legacy issues	• Review of the Credit Balances and the Statute Barred projects, relating to accounts requiring customer remediation.
Political risks	• Consideration of Brexit and the possibility of leaving the European Union without an agreement, and/or any other changes to the European and global political landscape, which may provide opportunities or challenges for the business. We took all necessary steps to prepare ourselves for a no-deal Brexit scenario based on the work of internal subject matter experts supported by external advisors. With the Brexit deal now in effect as of 1 January 2021, we will continue to adjust our business operations if required as further details of the agreement are finalised in the coming months.

Governance

In addition to the risks and mitigants already noted, the committee also ensured governance protocols were followed during 2020. This included a review of committee effectiveness, which formed part of the broader board evaluation process as set on page 64 to 65, the annual review and reapproval of the committee's terms of reference, and work programme and ongoing oversight of the development of the Group-wide risk management framework.

Overview of committee's activities for 2021

In 2021, the committee will work on ensuring that the enterprise-wide risk management framework is fit for purpose to accommodate changes in our organisational structure as well as newly acquired or formed business functions. Including continued focus on proactively managing risks resulting from COVID-19 and resulting market and social impacts, further embedding risk management for cohesion with Group policies. The committee will continue to keep abreast of legal and regulatory developments, political and market activities to ensure that it is in a position to prepare for challenges and opportunities associated with these. Key to the success of risk management is transparency, reporting, escalation and the effectiveness of decision-making. Importantly, the committee will continue to focus on assessing the outcomes of firm actions on all stakeholders, including our customers, our environment and the increased regulatory scrutiny.

This report was approved by the board and signed on its behalf by:

Paola Bergamaschi Broyd
Chair of the risk committee
23 March 2021

Nomination committee report

"The committee plays an important role in ensuring the Group operates effectively in the context of its strategic objectives."

Jonathan Bloomer
Chair

Members

- Jonathan Bloomer (chair)
- Andrew Fisher
- Lan Tu
- Maria Luís Alberquerque
- Paola Bergamaschi Broyd

Progress in 2020

- Appointment of Paola Bergamaschi Broyd as independent non-executive director and chair of the risk committee; and
- Approving the design and implementation of a revised approach to talent management and succession planning.

Focus for 2021

- Review the composition and diversity of the board to identify if additional skills, expertise, perspective and experience are needed; and
- Oversee the implementation of a new, broader diversity and inclusion strategy in support of Arrow's cultural statement to promote an inclusive workplace.

Dear Shareholder

I am pleased to provide a report of the nomination committee's activities in 2020. In addition to the usual role of overseeing succession planning, talent management and diversity, the committee focused on the search for a new non-executive director to chair the risk committee to replace Andrew Fisher who was appointed as interim chair of the risk committee after Iain Cornish stepped down from the board in April 2019. The committee was closely involved in the process to recruit and appoint the new non-executive director, further detail of which is provided in the remainder of this report, and we were delighted to announce the appointment of Paola Bergamaschi Broyd in June 2020. Paola formally joined the board on 17 June 2020.

The committee has continued to work closely with the board and plays an important role in ensuring that the Group operates effectively in the context of its strategic objectives.

The board recognises the benefits and importance of succession planning, talent management and diversity, and the impact this can have on the long-term success of the business, which have continued to be key focus areas for the committee in 2020.

The committee was engaged in reviewing the Group's diversity and inclusion policy, and in monitoring the progress being made towards meeting the ambitious targets set on gender balance in the Group's senior leadership team by 2023.

Further information regarding the committee's activities during the year, and its roles and responsibilities, are set out in the remainder of this report.

Committee membership and meetings

I chair the nomination committee and I was regarded as independent on appointment. I will not chair the committee when it is dealing with the matter of succession to the chairmanship of the board. The committee also comprises four other independent non-executive directors, Andrew Fisher, Lan Tu, Maria Luís Albuquerque and Paola Bergamaschi Broyd. The committee recommended the appointment of Paola Bergamaschi Broyd as a member of the committee to the board in June 2020, which the board unanimously approved. The composition of the committee is compliant with the provisions of the Code as all the committee members are independent non-executive directors.

Biographies of the members of the committee are set out on pages 54 to 55.

The committee held two scheduled meetings during the year. Details of attendance by all members who held office during the year are set out below:

Committee members	Eligible to attend	Attended
Jonathan Bloomer (chair)	2	2
Paola Bergamaschi Broyd[1]	1	1
Andrew Fisher	2	2
Lan Tu	2	2
Maria Luís Albuquerque	2	2

1. Appointed to the board on 17 June 2020.

Role

The committee's responsibilities are set out in its terms of reference. They include responsibility for:

- regularly reviewing the structure, size and composition of the board compared with its current position and making recommendations to the board with regard to any changes;
- giving full consideration to a diverse pipeline for succession planning for directors and other senior executives; and
- overseeing the development of key talent in the business as a whole.

The work of the committee in 2020 has included:

- reviewing the terms of reference of the committee;
- continued monitoring of the structure, size, composition and diversity of both the board and its committees;
- overseeing the search and recruitment of the new non-executive director and recommending to the board the appointment of Paola Bergamaschi Broyd following the search and recruitment process;
- reviewing and approving the design and implementation of a revised approach to talent management and succession planning to support the delivery of Arrow's five-year strategic ambitions; and
- monitoring and overseeing the Group's commitment to diversity and reviewing the progress being made against the Group's diversity targets.

Future capabilities, talent management and succession planning

The board recognises the strategic importance of effective and pragmatic succession planning and talent development as an important contributory factor to the Group's long-term success. The committee, in conjunction with the board, continues to take an active interest in monitoring talent development and receives regular reports on talent progression opportunities and initiatives via the Group HR function.

During the year, the committee reviewed a revised approach to developing talent within the business aimed at supporting the delivery of Arrow's strategic ambitions over the next five years. This new approach is centred on building future capabilities and key role succession planning and consists of three pillars: identifying and investing in future capabilities; identifying and equipping successors for executive committee and business critical roles with the tools to meet their potential and succeed; and developing leaders through a leadership attributes model embedded in Arrow's talent acquisition and learning and development suite.

The committee has also undertaken a detailed review of the succession plans for the Group chief executive officer, the executive committee and roles that are critical to the current and future success of the business.

Recruitment of a non-executive director

The committee oversaw the search and appointment of Paola Bergamaschi Broyd as a non-executive director who joined the board on 17 June 2020. The appointment of Paola Bergamaschi Broyd followed an extensive search process undertaken by executive recruitment specialist Heidrick and Struggles, which does not have any other connection with the Company or the individual directors. Heidrick and Struggles had been engaged to identify candidates for the role of chair of the risk committee and a shortlist of three exceptional candidates was presented for consideration. Ms Bergamaschi Broyd was identified to be the preferred candidate by virtue of her experience and interest and enthusiasm for both the Company and the role. It was judged that Ms Bergamaschi Broyd's experience in the banking sector would be complementary to the role whilst her Italian background would also be beneficial.

The recruitment process involved all members of the committee, together with Arrow's Group chief executive officer, Group chief financial officer and Group chief people officer, interviewing Ms Bergamaschi Broyd either by video conference or by telephone, rather than in person, in light of the stay at home measures enacted by the UK Government. Each committee member provided feedback from their engagement with Ms Bergamaschi Broyd, noting her prior experience of acting as chair of a risk committee, her broad financial services knowledge and background and her comprehensive understanding of the asset management market.

The committee unanimously approved the recommendation of the appointment of Ms Bergamaschi Broyd as non-executive director and chair of the risk committee to the board.

Diversity and inclusion

The board and the business recognise the importance of diversity and the purpose of the Group's diversity and inclusion strategy, as reflected in the Group's culture statement, is to ensure the Group is 'a diverse community, enriched by our local identities, working collaboratively to build a powerful, unified and dynamic organisation'. To ensure this ethos is reflected in the Group's day-to-day activities, the business, in conjunction with the committee, had undertaken a review of its diversity and inclusion policy in 2019 and defined new gender diversity targets for 2023 for the senior leadership team, with 50.0% female representation being the aspirational goal and 40.0% being the minimum threshold.

During the year, the committee reviewed the diversity and inclusion policy and monitored the progress being made by the business toward its gender diversity targets. The committee is supportive of the initiatives being launched by the executive directors to broaden its focus on diversity and inclusion beyond just gender balance which will underpin Arrow's transition to a more diverse and inclusive organisation.

The board currently has three female non-executive directors, Paola Bergamaschi Broyd, Lan Tu and Maria Luís Albuquerque, who together represent 42.9% (2019: 33.0%) female board membership, which exceeds the recommended target set by the Hampton-Alexander Review for FTSE 350-listed companies. The executive committee has three female members, Clare Dyer (Group chief people officer), Martina Swart (Group chief legal and risk officer) and Maria Pace (chief of staff), representing 37.5% (2019: 25.0%) of the committee's membership. The direct reports to the executive committee comprise 33% female membership (2019: 33%).

Board evaluation and committee effectiveness

A detailed review of the board evaluation can be found on pages 64 to 65. The committee's effectiveness was reviewed as part of the wider board evaluation process and I am pleased to report that the committee was found to be operating effectively throughout the year.

Overview of committee's activities for 2021

In 2021, the committee's priorities will be to:

- Closely monitor the structure, size, composition and diversity of both the board and its committees to identify areas where additional skills, experience, perspective and expertise might be beneficial to Arrow;
- Review the Group's talent management programme and its succession planning to ensure that they continue to support the delivery of the Group's five-year strategic ambitions;
- Review and oversee the implementation of a new diversity and inclusion strategy that encompasses a broader range of diversity and inclusion criteria and metrics and is more aligned to Arrow's cultural statement to promote an inclusive workplace;
- Monitor and oversee the Group's commitment to diversity and inclusion and review the progress being made against the Group's D&I targets; and
- Oversee the delivery of the actions and priorities earmarked for the committee in the board and committee effectiveness review.

This report was approved by the board and signed on its behalf by:

Jonathan Bloomer
Chair of the nomination committee
23 March 2021

Directors' remuneration report

"The committee endeavoured to strike the correct balance in remuneration between reflecting the reality of a global economy dealing with the impact of a pandemic and recognising the significant contributions of the whole workforce at Arrow."

Lan Tu
Chair of the remuneration committee

Members

- Lan Tu
- Andrew Fisher
- Jonathan Bloomer

Progress in 2020

- The committee continued to evolve remuneration policy in line with the standards of the corporate governance code; and
- We have remained agile to strike the right balance between acting in the interest of our shareholders and working to engage our people in the context of 2020's challenges.

Focus for 2021

- As the organisation continues to grow, we will provide a clear and precise remuneration policy across the organisational structure; and
- We will engage with shareholders on a new creation of a new remuneration policy at the 2022 annual general meeting.

Dear Shareholder,

The report complies with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), the 2018 version of the UK Corporate Governance Code (the Code) and the Financial Conduct Authority's Listing Rules.

Annual statement

On behalf of the board, I am pleased to present our directors' remuneration report for the year ended 31 December 2020. This report is split into three sections: an at a glance summary of the remuneration arrangements for our executive directors; the annual report on remuneration which is subject to an advisory vote at the annual general meeting; and the directors' remuneration policy which is being presented for approval at the 2021 annual general meeting.

Like many other organisations, 2020 has been a challenging year for our business and the 2,500 people who work hard to make it a success by delivering the right outcomes for all our stakeholders. Against this very difficult landscape, the committee have endeavoured to strike the correct balance in remuneration between reflecting the reality of a global economy dealing with the impact of a pandemic and recognising the significant contributions of the whole workforce at Arrow. Our people have continued to provide the right solutions and excellent services to our clients and customers.

Role of the committee throughout the year and strategic alignment of pay

The role of the committee is to ensure that directors and executive committee members (including the Company secretary) are appropriately rewarded for their performance throughout the year, by setting and implementing the Company's remuneration policy, determining each individual's total remuneration package and setting the performance measures for performance-related pay.

These decisions are carefully considered in the context of the Group's strategic goals, culture, external impacts, market practice and wider workforce remuneration. The committee's aim is to ensure that remuneration and incentives adhere to the principles of good corporate governance, support good risk management practice and promote long-term sustainable Company performance.

The committee remains fully committed to ensuring that the Group's remuneration policy and out-turns are aligned to its culture and values. 'What' has been achieved is equally balanced with 'How' this has been executed in the committee's considerations of performance, remuneration out-turns and use of discretion in the committee's decision-making. The approach is holistic and extends from the Group's board right through the wider workforce.

Context of business performance and incentive out-turns

As set out in page 10 of the report, 2020 represented a particularly challenging year. Cash collections and returns in the Balance Sheet business remained strong and we maintained income and margins in the Asset Management and Servicing business.

Like many organisations, Arrow has been impacted by the COVID-19 pandemic, which has had a downward effect on the financial performance of the Group. However, the board is pleased with the leadership that has been demonstrated throughout 2020 to ensure that we were able to deliver a return to profitable performance for the second half of the year. The creation of a compelling plan for 2021 and beyond will continue to deliver strong results and ensure the business is well placed to maximise opportunities for growth and to generate value for all our stakeholders. Despite the obvious challenges during 2020, the business has continued to deliver the planned transformational change, with Arrow moving forward with its strategic shift towards a more capital-light model, culminating in a further successful fund raise of €1.7 billion in the final quarter of the year.

Although substantial progress has been made in delivering strategic transformation, and despite the truly exceptional efforts of our people and the leadership shown by our executive directors, members of the executive committee and their leadership teams, the profit after tax target for the bonus was not met and no bonuses were earned by executive directors in respect of this metric. Moreover, given the overall financial performance of the business, the committee and the executive directors believed that the right course of action was not to pay a bonus to executive directors or members of the executive committee relating to 2020 performance. We unanimously agreed that any bonus pool which could be generated should be directed to our people in more junior roles who, in often difficult circumstances, have kept the business moving during 2020.

Over the three-year performance period for the 2018 LTIP, the Group delivered below earnings per share of (533)%; an average return on equity of (1.6)% and total shareholder return below median. Based on performance against the targets attached to the award, the 2018 LTIP did not vest and all awards made will lapse.

Remuneration in 2020

The base salary for the Group chief executive officer and Group chief financial officer will not be increased in 2021, although increases have been applied to salaries for our wider workforce. Lee and Matt agreed with the committee to forego any salary increases which may have been applied in 2021 in consideration of the overall financial performance of the Group and in anticipation of the new remuneration policy which is being created for 2022. Similarly, no increase will be made to non-executive director fees for 2021.

In June, we granted awards under the 2020 cycle of the Long-Term Incentive Plan (LTIP) and determined that the LTIP grants would be maintained at the level of 200% for the Group chief executive officer and set at 175% for the Group chief financial officer, who was appointed in July 2019. The committee will exercise discretion to ensure we maintain control over any windfall gains; taking into account a number of factors including share price performance over the vesting period on an absolute and relative basis, financial performance of the business, and the impact of COVID-19 and any other significant events on the Company's share price or the market as a whole. The committee considered several factors when determining the quantum of LTIP awards, ranging from the share price performance of the Group over the past year and the longer-term, and the impact of COVID-19 on outstanding incentive awards, both short and long term. Consideration was given to whether it would be appropriate to reduce award levels, however on balance the committee felt that maintaining the grant levels was appropriate to ensure that executives were appropriately incentivised and motivated to manage the Group through the current situation and deliver superior levels of return. Furthermore, the threshold level of vesting was maintained at 37.5% of salary for both the Group chief executive officer and Group chief financial officer. This equates to a lower percentage of the maximum award than the threshold level of vesting permitted under our policy, which is 25% of the maximum award.

Due to the external environment at the time of the grant, setting the performance conditions and targets was deferred until the end of November 2020, after the half-year results. The committee elected to keep the same measures as in 2019, being return on equity, relative total shareholder return and free cash flow. We believed it was important to maintain all three measures in the plan and, taking into account feedback from shareholders last year, that they should be equally weighted with each accounting for one third of the grants made. Details of the 2020 LTIP targets are set out on page 171. In setting the targets, the remuneration committee took into account a number of factors, including the business plan at the start of the year (prior to the impact of COVID-19 being known), the revised business plan at the end of October 2020 and consensus forecasts. The committee believes that the proposed targets are both stretching, only rewarding out-performance, and motivating to the management team. In addition to these performance conditions, the awards will vest only to the extent that the committee considers the vesting in accordance with those performance conditions reflects the financial performance of the Group over the performance period.

We believe that the combined actions we have taken regarding the LTIP will serve to motivate and retain our key people at a time when their skills and talents are most required.

Remuneration policy approval

The current Arrow remuneration policy was approved at our annual general meeting in 2018 and covers the period from 2018 to 2020. As such, we would ordinarily be bringing forward a new policy for consideration at the 2021 annual general meeting covering the period from 2021 to 2023.

The committee have carefully considered whether this is an appropriate time to make substantive changes to our remuneration policy and elected to extend the current policy for one year (2021), subject to shareholder approval at the annual general meeting. In arriving at this decision, we have considered numerous internal and external factors such as the impact which COVID-19 may have on market practice, the uncertainty surrounding the Brexit process, the ongoing transformation of the organisation and our intention to conduct a full review of the remuneration proposition for the wider workforce to which executive compensation must be aligned.

In recent years, we have made a number of changes to reflect best practice and the Code requirements, and we will enshrine these previously agreed best practice provisions in the 2021 policy. These include:

- The commitment made in 2020 that pension (or cash in lieu of pension) for new executive directors will be in line with the rate available for the wider force; and
- The post-employment shareholding guidelines adopted in 2019, which provide for a shareholding equal to the in-employment requirement (200% of salary) to be held for 12 months after employment and for 50% of the in-employment requirement to be held for a further 12 months after employment.

In addition to the above, the 2021 policy confirms that dividend equivalents will normally be settled in shares and cash settlement will only be used where particular circumstances make it appropriate, for example, where there is a regulatory restriction on the delivery of shares or in respect of the tax arising on the vesting or release of the award.

While our approach to future executive director pension provision is aligned with the wider workforce (currently 5% of salary), we do have one remaining pension for Lee Rochford (who was appointed in 2016) which is higher at 15%. As part of the policy extension, this individual pension provision will be frozen at the current cash level and as such will no longer be linked to salary.

The malus and clawback triggers have been updated in line with the Code.

Other minor and consequential amendments have been made to the policy to aid its operation.

It is our intention to create a new remuneration policy for the period from 2022 to 2024 for shareholder approval at the annual general meeting in 2022. This new policy will deliver on previous commitments made regarding all executive director pension arrangements aligning with Investment Association guidance by the end of 2022.

The full policy for which approval will be sought at the 2021 annual general meeting is set out on pages 100 to 102.

Listening to our shareholders

At our 2020 annual general meeting, the directors' remuneration report received support from a majority of shareholders, with 83.28% (2019: 73.9%) of votes cast in favour of the resolution which we believe resulted from our increased interaction with shareholders and proxy advisory bodies during 2019. Jonathan Bloomer and I met many of our institutional shareholders to understand more fully their views; this engagement assured the committee that most shareholders support our remuneration approach, though we remain committed to seeking out and acting on the opinions of our shareholders, particularly as we begin to develop our proposals for the new policy for 2022.

Wider workforce pay arrangements

In addition to the focused review on executive director performance and remuneration, the committee has carefully reviewed the performance out-turn and pay arrangements for the following groups of colleagues:

- Group executive committee and senior managers on an individual basis; and
- Performance out-turns and pay arrangements for the wider workforce on an aggregate basis.

The committee is pleased that the Group executive committee is supportive of prioritising those in more junior roles for pay increases and bonus payments. In not taking a bonus themselves, the executive directors and executive committee members have allowed us to award an average bonus as a percentage of maximum for high performing colleagues in these populations of 53.2% (2019: 62.75%), with an appropriate range around this to reflect individual achievements in the year. This represents a decrease from the previous year which we feel is commensurate with overall business performance, but the payment recognises the significant contribution of our hard-working teams.

As a Group, we also strongly believe in promoting alignment between employees and shareholders through the operation of the Share Incentive Plan (SIP). The remuneration committee is pleased to note that 45% of eligible colleagues are currently participating in this great opportunity. In 2021, we intend to extend the equivalent "Global Employee Share Purchase Plan" to colleagues based outside the UK.

We have again disclosed the comparison of our Group chief executive officer's single figure with those of our 25th, 50th and 75th percentile employees. The median chief executive officer pay ratio is 21:1, and more information can be found on page 91.

In 2021, the Group will be undergoing a formal benchmarking review of the wider workforce pay arrangements.

Gender pay

The board are satisfied that Arrow is making progress in closing its gender pay gap, and we will remain vigilant to ensure the progress continues in future years. In the 2019 Gender Pay report, the committee was pleased to report on the progress that had been made in both median and mean reporting for pay and for bonus. The 2020 Gender Pay report, due online in April 2021, continues to demonstrate progress in the median and mean gender pay gap for bonus. The gender pay gap for pay has increased at the median point but decreased at the mean point. On balance, the committee is confident that the gender pay agenda for the Group continues to progress positively. Further detail on gender pay can be found in the remuneration report on page 91.

Summary

As we have previously stated, we remain committed to a responsible approach to executive pay. Overall, given the Group's performance over the one and three-year periods ended 31 December 2020, we believe that the remuneration of the executive directors and wider workforce in respect of 2020 continues to reflect our success in the delivery of our strategy and the drive for profitable and sustainable long-term growth for our shareholders. Moreover, we believe that extending the current policy for a further year to allow some of the uncertainty to be clarified is the correct approach and we trust you will also be supportive.

Lan Tu
Chair of the remuneration committee
23 March 2021

Our remuneration at a glance and how we propose to apply the remuneration policy in 2021

Our remuneration policy continues to be applied in a measured way to ensure that we reward the right behaviours and support the short-term and strategic goals of the Group.

We have set out below an overview of how our approach to remuneration supports the strategic objectives of the business and how we propose to apply the policy in 2021. The committee is not considering any material changes to our remuneration policy during 2021 other than to enshrine previous changes that were made to reflect best practice and UK Corporate Governance Code requirements.

A one-year extension of the existing policy will be put to shareholders for approval at the annual general meeting. During 2021, the committee will conduct a full review of the policy in advance of seeking approval from shareholders for a new policy at the 2022 annual general meeting.

Application of our remuneration policy

	Our approach to executive remuneration	Our approach in 2021
Salaries	Base salaries are positioned within a broad range around the mid-market opportunity for the role, to ensure that the majority of the overall remuneration package is performance related. Any increases take into account the individual's performance, the business performance and market conditions, and are normally aligned with the range of increases awarded to the wider workforce.	Despite strong individual performance, salaries for executive directors have not been increased in 2021, although the majority of employees have received a small increase. Accordingly, the executive directors' salaries for 2021 will remain at the following levels which applied in 2020: • Lee Rochford: £459,901 • Matt Hotson: £357,000
Pension and benefits	Executive directors receive a contribution to a defined contribution pension or a cash equivalent. Benefits are provided that are appropriate to the role and which take into account typical practice.	The policy for pension contributions for Matt Hotson and any new executive directors is in line with the provision for the wider workforce at 5.0%. The pension for Lee Rochford (who was appointed in 2016) will be frozen at the 2020 cash level and as such will no longer be linked to salary. The new policy for 2022 will deliver on previous commitments made regarding executive director pension arrangements aligning with Investment Association guidance by the end of 2022. No changes to the type or value of benefits provided is expected for 2021.
Annual bonus	Bonuses are only earned for the achievement of stretching performance measures. We balance profit growth with other key longer-term strategic financial and non-financial targets, and specific, personal objectives linked to our strategic goals of protecting and enhancing our market-leading position, transforming the business, delivering strong risk-adjusted investment returns and developing our customer proposition. We ensure that the personal objectives are specific, measurable and fairly assessed. For our executive directors, a proportion of any annual bonus is deferred into shares to ensure that executive directors consider the longer-term impact of decisions and the sustainability of the business.	Maximum bonus opportunity: Up to 140.0% of salary in line with the policy Performance measures will continue to be balanced between a profit measure and a balanced range of other long-term shareholder value measures and strategic objectives. The targets are commercially sensitive but will continue to be disclosed on a retrospective basis. Up to 40.0% of any bonus will be deferred into shares for three years.

	Our approach to executive remuneration	Our approach in 2021
LTIP	The LTIP is designed to encourage behaviours that facilitate delivery of the sustainable growth of the business, whilst delivering value to stakeholders and promoting the long-term success of the Group. In line with best practice, LTIP awards granted to our executive directors in 2021 were subject to a two-year holding period following the end of the performance period, further aligning the interests of the executive directors with those of shareholders.	Maximum LTIP opportunity: • Up to 200.0% of salary in line with the policy. The LTIP will continue to be based on three equally weighted measures over the three-year performance period of the plan: • Return on Equity (ROE); • Relative Total Shareholder Return (TSR), measured for a period of three years against the FTSE 350 benchmark group; and • Free Cash Flow (FCF), being cash from operations after interest and taxes.
Shareholding requirements	Shareholding guidelines apply to all executive directors to align their long-term interests with those of shareholders. These guidelines require each executive director to acquire shares with a value equal to 200.0% of salary. The executive has five years from appointment to build up a shareholding with a market value equivalent to 150.0% and must achieve 200.0% as soon as possible thereafter. The Group will retain 50.0% of all vested LTIP awards, on behalf of the executive, until the agreed threshold has been reached.	The post-employment shareholding requirement adopted in 2019 has been formally included in the new policy and requires shares up to the value of the in-employment shareholding requirement to be held for one-year post cessation of employment and 50.0% of the in-employment requirement to be held for a further year post cessation of employment.
Non-executive director fees	Fees are set at a level that enables the Group to attract high-calibre non-executive directors.	The fees for non-executive directors in 2021 have been reviewed and will be maintained at the same level as 2020. The base fee for non-executive directors is set at £55,000. An additional amount of £10,000 is due to those who chair a committee. An additional amount of £10,000 is also provided for the senior independent director.
Non-executive Chair	Fees are set at a level which enables the Group to attract a high calibre non-executive Chair.	The fee for the non-executive Chair in 2021 has been reviewed and will be maintained at the same level as 2020. The base fee for the non-executive Chair is £170,000.

Wider workforce remuneration

The structure of remuneration is consistently applied throughout the wider workforce, although alternative incentive arrangements may be offered to reflect market practice (e.g. within the Fund and Investment Management business or to comply with geographical market norms).

The approach to annual bonus performance outcomes is consistently applied across our executive directors and the wider workforce, with a balanced split to account for financial performance and individual performance against our strategic objectives.

Arrow's purpose is to build better financial futures for our stakeholders. We believe that to succeed as a business, our colleagues need to be from a diverse range of backgrounds and work as part of an inclusive culture. Our aim is to attract and retain the best talent. We want to offer all of our colleagues the opportunity to develop their careers with us, as well as the flexibility to achieve what's important to them, both in and outside of work. We have shared on the next page two core metrics which reflect the firm's position in regards to wider workforce remuneration: the 2020 chief executive officer to wider workforce pay ratio and a summary of our 2020 Gender Pay Gap report.

Group chief executive officer to wider workforce pay ratio

The table below compares the 2020 Single Figure Total of Remuneration for the Group chief executive officer with that of employees who are paid at the 25th percentile, 50th percentile and 75th percentile of the Group's employee population, and also shows the total pay and benefits at quartile points. The salary and benefits data is the median and percentiles of all of the Group's employees.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option A	26:1	21:1	12:1
2019	Option A	44:1	31:1	18:1

The following table shows the salary and total pay of the Group chief executive officer and employees at the 25th percentile, median and 75th percentile for 2020.

	Chief executive officer	25th percentile	Median	75th percentile
Salary	458,398	20,000	25,201	41,854
Total pay	529,437	20,000	25,484	42,483

To calculate the ratio in accordance with the regulations, we ranked all our UK employees by their annualised full-time equivalent Single Figure Total Remuneration (SFTR) as at 31 December 2020. From this, we identified the three individuals at the 25th, 50th and 75th percentiles (known as P25, P50 and P75, respectively). We elected to use Option A as it provides the most meaningful comparison. This methodology is supported by stakeholders and institutional investors and compares the single figure of remuneration for the chief executive officer with the full-time equivalent remuneration for all UK employees.

For the purpose of calculating the total pay figure for our UK employees we have excluded taxable benefits (other than the chief executive officer) as it would be too time-consuming to collate taxable benefits data and they are considered immaterial to the chief executive officer pay ratio calculation.

The committee considers that the median pay ratio is consistent with the relative roles and responsibilities of the chief executive officer and the identified employee and with the pay, reward and progression policies for the Group's UK employees taken as a whole. The Group chief executive officer's remuneration package is weighted towards variable pay (including the annual bonus and LTIP) due to the nature of the role, and this means the ratio is likely to fluctuate depending on the outcomes of incentive plans in each year.

2020 Gender Pay report

The table below compares the mean and median gender pay and bonus gaps including the movements from the publication in April 2019.

Measure	2018 report (tax year 2017/2018)	2019 report (tax year 2018/2019)	YoY change	2020 report (tax year 2019/2020)	YoY change
Mean gender pay gap	33.7%	32.8%	+0.9%	31.3%	+1.5%
Median gender pay gap	23.3%	28.2%	-4.9%	21.4%	+6.8%
Bonus mean gender pay gap	73.1%	68.6%	+4.5%	64.4%	+4.2%
Bonus median gender pay gap	60.2%	49.5%	+10.7%	48.5%	+1.0%

The 2020 Gender Pay report continues to show improving results. All gender gap pay measurements within the UK improved year on year. We are making progress with our commitment to lowering our gender pay gap. For more information, please reference the Gender Pay reports on our website at https://www.arrowglobal.net/en/investors/corporate-governance/gender-pay-report.hmtl. The full 2020 report will be online in April 2021.

Alignment with the key factors set out in the Corporate Governance Code 2018

Code provision	Approach at Arrow
Alignment to culture	The committee is focused on ensuring a healthy culture exists across the entire Group and believe that the executive directors and the whole of the leadership team set the standards for behaviour and conduct across the Group. Executive directors are rewarded on both what they deliver and how that is delivered. The launch of Arrow's culture statement in 2019 was pivotal to enhancing cultural alignment. The sustainability committee will act as the central governance forum for ensuring the Arrow culture provides a clear, supportive and productive environment for all stakeholders.
Simplicity and clarity	The remuneration framework at Arrow is made up of three key elements: fixed pay (including base salary, pension and benefits); annual bonus; and a separate long-term incentive. The structure is simple to understand for both participants and shareholders, and is aligned to the strategic priorities for the business.
Risk	Variable remuneration targets are set at levels that reward high performance and do not encourage inappropriate business risk. Annual bonus payments are determined by reference to the performance measures which are subject to a review of the executive's management of conduct and risk during the year. The vesting of LTIP awards is subject to a further underpin based on an assessment of risk management throughout the performance period. All executive director annual bonus and LTIP awards are subject to both malus and clawback provisions.
Predictability	The range of possible rewards for 2021 to individual executive directors are set out in the scenario charts on page 103.
Proportionality	A significant proportion of an executive's reward is linked to performance through the incentive framework, with a clear line of sight between performance and the delivery of long-term shareholder value. Performance measures and the targets are regularly reviewed by the committee to ensure that they are directly aligned to the Group's strategic priorities, and targets are calibrated to reward executives for strong performance over the course of the respective performance period. Executives are also required to build material shareholdings in the Group (200.0% of base salary) and subject to a post cessation shareholding requirement which will ensure that they are aligned to the Group's performance for two years post-cessation of employment.

Annual report on remuneration

Directors' remuneration (audited information)

Details of the executive directors' remuneration are as follows:

	Salary £000		Taxable benefits[1] £000		Performance-related bonus[2] £000		Long-term incentives[3] £000		Pension-related benefits[4] £000		Recovery £000[6]		Total compensation £000		Total fixed remuneration £000		Total variable remuneration £000	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Director																		
Lee Rochford	458	449	2	4	–	292	–	51	69	67	–	–	529	863	529	520	–	343
Matt Hotson[5]	356	164	1	–	–	102	–	–	18	9	–	–	375	275	375	173	–	102
Paul Cooper[7]	–	223	–	2	–	–	–	–	–	34	–	(426)	–	(167)	–	(167)	–	–
Total	**814**	**836**	**3**	**6**	**–**	**394**	**–**	**51**	**87**	**110**	**–**	**(426)**	**904**	**971**	**904**	**526**	**–**	**445**

1. Private medical and dental cover.
2. Performance-related bonus is the value of the bonus earned in respect of the year, including the value of the deferred shares. Further information in relation to the performance conditions applied for 2020 is provided on pages 93 to 95.
3. Long-term incentives reflect the value of the awards vesting by reference to performance where the performance period ended in the relevant year. The 2020 LTIP value is zero due to the 2018 LTIP not meeting the performance conditions and the award lapsing. In the 2019 directors' remuneration report the value for long-term incentives was determined by reference to a share price of £2.60, being the average share price over the three-month period ending 31 December 2019. In the table above this has been updated to reflect the share price on 30 March 2020, the last dealing day before the date of vesting on 31 March 2020 (£1.104).
4. Each executive received a monthly cash allowance in lieu of participation in a pension arrangement (15% in the case of Lee Rochford and 5% in the case of Matt Hotson). The cash allowance is not included in the annual bonus or LTIP allocation.
5. Matt Hotson was appointed as Group chief financial officer on 8 October 2019, but his remuneration in the table above is from the date on which he joined the business 15 July 2019).
6. In the 2018 directors' remuneration report, long-term incentives figures for Paul Cooper were included, these were the value of his buy-out awards, granted on 18 June 2018 (£426,000). In connection with Paul Cooper's resignation, the awards that vested in 2018 and 2019 were subject to clawback and the awards which were due to vest in 2020 and 2021 lapsed. The recovered value set out above is calculated as: in the case of the awards which had not been exercised (over 145,520 shares in aggregate): £375,493 (based on a share price of £2.58 on 8 August 2019, the day before Paul Cooper left the business resulting in the lapse of his awards); and in the case of the award which had been exercised (over 18,089 shares): £21,762 (being the value repaid by Paul Cooper of the after tax number of shares (9,587) multiplied by the share price of £2.27 on 28 June 2019).
7. Paul Cooper resigned as Group chief financial officer and left the business on 9 August 2019. The values in respect of 2019 in the table above reflect remuneration earned to date (and the value recovered from him in respect of his buy-out awards).

Additional information in respect of variable remuneration earned in 2020

2020 annual bonuses (audited information)

For 2020, Lee Rochford was eligible for an annual performance-related bonus of up to 140.0% of salary and Matt Hotson was eligible for a bonus of up to 125.0% of salary, subject to meeting stretching performance targets. To encourage behaviours that facilitate continued profitable growth and future development of the business, the 2020 annual bonus was based on the following:

- 50.0% of the bonus was based on Group profit after tax for the year;
- 25.0% of the bonus was based on performance against strategic objectives linked directly to long-term shareholder value creation; and
- 25.0% of the bonus was based on a balanced range of strategic objectives linked to customer; employee and community; and organisation.

As the threshold level of profit after tax was not achieved, the committee and the executive directors agreed that no bonus should be payable in respect of 2020 performance; for completeness the information relating to the profit condition out-turn is provided below.

Profit condition (50.0%) – out-turn

The financial element of the 2020 annual bonus was based on achieving profit after tax for the year, in accordance with the schedule below. The committee reviewed the vesting schedule for the financial element of the bonus for the executive directors and as the threshold target has not been achieved, the committee has not awarded any bonus attributable to this element of the bonus.

	Threshold[1]	Target[1]	Stretch target[1]	Maximum vesting target[1]	Actual[2]
Performance level	£58.3m	£60.6m	£63.0m	£66.0m	£(93.6)m
Vesting (% of financial element)	20.0%	50.0%	75.0%	100.0%	0.0%

1. Straight-line vesting between the points.
2. This is profit/(loss) after tax for the year.

Other long-term shareholder value measures (25.0%) – out-turn

This element of the bonus was measured on achievement of clear strategic objectives of the business linked to long-term shareholder value creation. The objectives and achievements are set out below.

Objective	Key achievements	Out-turn
Continue to raise investor money into our FIM business and start to deploy capital into attractive investment opportunities (full year).	Fund closed at €1.7 billion. Clear plan in place for fund management and fully embedded in our Group strategy, including accountabilities, measures and next steps. H2 2020 vintage volumes in line with plan and strong pipeline going into 2021.	0%
Develop commercial insights and strengthen control environment to ensure delivery of best value for shareholders (H1 2020).	Portfolio risk plan on track, and quality of management information and insight through segmental reporting to the board has improved significantly. However, delays to SMART finance as a result of COVID-19 put pressure on achieving objectives around improving timeliness of reporting.	0%
Increase our own investment activity, having purposefully held back in the first half of the year (H2 2020).	Arrow purchased £109.9 million portfolio investments in 2020, a pick-up in activity from a quiet H1 2020. Arrow participated in a lower percentage of fund investment in levered deals as the new capital allocation framework took effect.	0%
Secure new AMS contracts to take advantage of post-COVID-19 opportunities (H2 2020).	26 deals, a record number, won across the franchise. Secured ING contract for another 3 years and particularly strong new business wins in UK and Portugal. We continue the search to recruit a European head of AMS origination.	0%

Notwithstanding the achievements in the year, the committee and the executive directors agreed that no bonus would be payable in respect of these objectives.

Strategic objectives (25%) – out-turn

This element of the bonus was measured on achievement of clear strategic objectives that will evolve the strategy to position Arrow as a market leading alternative asset manager, including customer, employee, community and organisational objectives. The objectives and achievements are set out below.

Objective	Key achievements	Out-turn
Live and breathe our aspirational culture (full year).	Good engagement levels recorded in Peakon. New remote leadership working practices in place and proving effective. Set up of new sustainability committee effective from Q1 2021 and delegations framework live and subject to continual refinement. Diversity metrics to be improved.	0%
Demonstrate innovative and sector leading operating practices that create an environment that promotes both customer and colleague satisfaction (H1 2020).	Customer and employee engagement workstreams achieved objectives in Q1 2020, but further developments dependent on IT & Change projects which had been on hold as a result of cash preservation in response to COVID-19 crisis.	0%
Maximise collections performance, but at the same time support our customers with professionalism and empathy (H2 2020).	Customer metrics stable despite COVID-19 disruption. Greatly improved Arrow portfolio strategies and collections after overhaul of ERC process and ERC write down at H1 2020.	0%
Develop effective and efficient asset servicing capability and build on existing strong reputation for the fair treatment of customers as the long term sustainable owner and servicer of credit assets (H1 2020).	Good progress on embedding new organisational design and associated governance meetings and management information and board reporting. Further development of real estate strategy have been impacted by COVID-19.	0%

Notwithstanding the achievements in the year, the committee and the executive directors agreed that no bonus would be payable in respect of these objectives.

2018 LTIP (audited information)

LTIP awards were granted on 27 June 2018 with vesting subject to performance over the three years ending 31 December 2020. The threshold performance levels were not achieved and the awards will lapse. The performance conditions and performance achieved are summarised below.

Performance condition	Threshold target (25% of element vests)	Maximum target (100% of element vests)	Actual performance	Actual vesting
Growth in underlying basic EPS (50% of the award)	10.0% per annum	20.0% per annum	(533)%	0.0%
Underlying ROE (three-year average) (25% of the award)	20.0%	30.0%	(1.6)%	0.0%
TSR relative to the FTSE 350 (excluding investment trusts) (25% of the award)	Median	Upper quartile	Below median	0.0%

Non-executive directors' remuneration (audited information)

Details of the non-executive directors' remuneration are as set out below. Since the non-executive directors do not participate in any variable remuneration, separate totals for variable and fixed remuneration are not included.

	Fees £000		Taxable benefits £000		Performance-related bonus £000		Vesting remuneration £000		Pension-related benefits £000		Total compensation £000	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Director												
Jonathan Bloomer	**170**	170	**–**	–	**–**	–	**–**	–	**–**	–	**170**	170
Iain Cornish[1]	**–**	25[1]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	25
Lan Tu	**65**	65	**–**	–	**–**	–	**–**	–	**–**	–	**65**	65
Maria Luís Albuquerque	**55**	55	**–**	–	**–**	–	**–**	–	**–**	–	**55**	55
Andrew Fisher[2]	**83**	77	**–**	–	**–**	–	**–**	–	**–**	–	**83**	77
Paola Bergamaschi Broyd[3]	**32**	–	**–**	–	**–**	–	**–**	–	**–**	–	**32**	–
Total	**405**	392	**–**	–	**–**	–	**–**	–	**–**	–	**405**	392

1. Iain Cornish stepped down from the board on 30 April 2019.
2. Andrew Fisher's fees are pro-rated based on his appointment as interim chair of the risk committee and senior independent director on 28 May 2019.
3. Paola Bergamaschi Broyd was appointed to the board on 17 June 2020 and her fees are pro-rated.

In 2020, Andrew Fisher's non-executive director fees were reduced to reflect him stepping down from interim chair of the risk committee, following the appointment of Paola Bergamaschi Broyd.

2020 LTIP awards (audited information)

The table below outlines LTIP awards made to executive directors during 2020:

Date of grant	Participant	Basis of award	Number of shares	Face value of award £[1]	Performance period
25 June 2020	Lee Rochford	200.0% of salary	1,016,805	919,802	1 January 2020 to 31 December 2022 as regards the ROE and FCF measures
25 June 2020	Matt Hotson	175.0% of salary	690,636	624,749	25 June 2020 – 24 June 2023 as regards the TSR measure

1. Based on the average closing middle market quotation price during the five business days ending on the business day before the award date, being £0.9046.

As detailed in the letter from the chair of the remuneration committee on pages 87 to 89, the committee considered several factors when determining the quantum of LTIP awards, ranging from the share price performance of the Group over the past year and the longer term, and the impact COVID-19 is likely to have on outstanding incentive awards, both short and long-term. Consideration was given to whether it would be appropriate to reduce award levels. However, on balance the committee felt that maintaining the grant level for the Group chief executive officer and setting the grant level at 175% of salary for the Group chief financial officer who was appointed in October 2019 was appropriate to ensure that executives were appropriately incentivised and motivated to manage the Group through the current situation and deliver superior levels of return.

Measure	Weighting		Performance target	Vesting level (% of maximum)
ROE (in the final year of the plan, 2022)	33.33%	Threshold	20%	18.75%/21.4%[2]
		Maximum	30%	100%
FCF[1] (three-year cumulative)	33.33%	Threshold	£500m	18.75%/21.4%[2]
		Maximum	£600m	100%
TSR relative to FTSE 350 (excluding investment trusts, measured from 25 June 2020 to 24 June 2023)	33.33%	Threshold	Median	18.75%/21.4%[2]
		Maximum	Upper quartile	100%

1. Cash from operations after interest and taxes, but before exceptional business disposals and excluding adjusted items and subject to such other adjustments as the committee determines.
2. The threshold level of vesting is 37.5% of salary for both the Group chief executive officer and Group chief financial officer. This equates to 18.75% of the maximum award for Lee Rochford and 21.4% of the maximum award for Matthew Hotson. This is lower than the threshold level of vesting permitted under the policy which is 25% of the maximum award.

In each case, performance will be assessed with straight-line vesting between each point.

In setting the targets, the remuneration committee took into account a number of factors, including the business plan at the start of the year (prior to the impact of COVID-19 being known), the revised business plan at the end of October 2020 and consensus forecasts. The committee believes that the proposed targets are both stretching, only rewarding out-performance, and motivating to the management team. In addition to the performance conditions outlined above, awards will vest only to the extent that the committee considers the vesting in accordance with those performance conditions reflects the financial performance of the Group over the performance period. In making such an assessment the committee may consider factors which may include, but are not limited to, objective measurement of other financial metrics, customer satisfaction, assessment of regulatory compliance and assessment of risk management. The committee may also exercise discretion to ensure control is maintained over any windfall gains. In assessing whether there is any windfall gain, the committee will take into account a number of factors, including share price performance over the vesting period on an absolute and relative basis, financial performance of the business, and the impact of COVID-19 and any other significant events on the Company's share price or the market as a whole.

The committee believe it was important to maintain all the previous measures and, taking into account feedback from investors, that they be equally weighted with each accounting for one-third of the grants made.

Directors' shareholdings (audited information)

The committee encourages share ownership by the executive directors in order to align their interests with those of shareholders. It does this by ensuring that a significant proportion of the overall remuneration opportunity is share based (as well as being subject to performance conditions).

Each executive director is required to acquire and retain shares with a value equal to 200.0% of salary, and until such time as the required holding has been achieved, the executive director must retain 50.0% of all shares acquired under the LTIP or deferred bonus arrangements (in each case net of tax).

The actual shareholdings of our executive directors in office at the end of 2020 are: 240.2% of salary for Lee Rochford and 20.0% of salary for Matt Hotson (due to his relatively recent appointment to the board).

a. Executive directors – share ownership

Director	Shares owned	Shares owned – value £[1]	% of salary[2]
Lee Rochford	538,414	1,101,057	240.2
Matt Hotson	34,734	71,031	20.0

1. Based on the closing share price on 31 December 2020 of £2.045.
2. Based on the salary applying as at 31 December 2020.

Governance

b. Executive directors – share plan interests

Director	Plan	Award date	Number of shares at 1 January 2020	Granted during the year	Lapsed during the year	Exercised during the year	Number of shares at 31 December 2020	Status	Performance period
Lee Rochford	LTIP[1]	13 March 2017	184,248	–	(138,186)	–	46,062	Vested, not exercised	1 January 2017 – 31 December 2019
	LTIP[2]	27 June 2018	263,598	–	–	–	263,598	Unvested, subject to performance condition	1 January 2018 – 31 December 2020
	LTIP	20 June 2019	390,780	–	–	–	390,780	Unvested, subject to performance condition	1 January 2019 – 31 December 2021
	LTIP[3]	25 June 2020	–	1,016,805			1,016,805	Unvested, subject to performance condition	1 January 2020 – 24 June 2023
	DSBP	26 March 2018	43,205	–	–	–	43,205	Unvested	N/A
	DSBP	26 March 2019	93,198	–	–	–	93,198	Unvested	N/A
	DSBP	8 April 2020	–	115,211	–	–	115,211	Unvested	N/A
	SIP[4]	–	3,636	3,004	–	–	6,640	Unvested	N/A
Matt Hotson	LTIP[3]	25 June 2020	–	690,636	–	–	690,636	Unvested, subject to performance condition	1 January 2020 – 24 June 2023
	DSBP	8 April 2020	–	32,938	–	–	32,938	Unvested	N/A
	SIP[4]	–	–	1,796	–	–	1,796	Unvested	N/A

1. On the same day, Lee Rochford was granted a tax-advantaged option subject to the same performance conditions over 8,670 shares at an exercise price of £3.46 per share on the basis that if the tax-advantaged option is exercised at a gain, the number of shares that may be acquired under the LTIP is reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award is not increased by the grant of the tax-advantaged option.
2. These awards will lapse on 27 June 2021.
3. The performance period for the 2020 LTIP awards Is 1 January 2020 to 31 December 2022 as regards the FCF and ROE measures, and 25 June 2020 to 24 June 2023 as regards the TSR measure.
4. Pursuant to a regular monthly instruction, Equiniti Share Plans Trustees Limited acquires partnership shares using a fixed contribution from the executive directors’ gross salary. The Group awards one matching share for each partnership share bought on the executive director’s behalf. The matching shares are subject to a three-year forfeiture period. 256 shares have been allocated to Lee Rochford under the SIP and 256 shares to Matt Hotson, from 1 January 2021 to 23 March 2021.

c. Non-executive directors – share ownership

Non-executive directors	Shares owned
Jonathan Bloomer	50,896
Lan Tu	23,309
Maria Luís Albuquerque	–
Andrew Fisher	87,522
Paola Bergamaschi Broyd	–

There were no changes in the interests of executive or non-executive directors between 31 December 2020 and 23 March 2021, other than the SIP allocation to Lee Rochford and Matt Hotson under their monthly allocation for January and February 2021 as referred to above.

Payments to past directors and payments for loss of office (audited information)

There were no payments or payments made for loss of office to past directors during 2020.

TSR performance

The graph below shows TSR performance of the Company from IPO to 31 December 2020 compared with the FTSE SmallCap index. Throughout the year ended 31 December 2020, the Company has been a constituent member of the FTSE SmallCap index, and, therefore, the committee has selected this index for comparison purposes in this report.

Chief executive officer disclosure and other directors' disclosure

a. Chief executive officer remuneration for previous years

The table below sets out the total pay of the chief executive officer since the IPO on 11 October 2013. The Company was only established shortly before the IPO and, therefore, information prior to this does not exist.

	Chief executive officer single figure £000	Chief executive officer bonus (as a % of maximum) £000	Chief executive officer LTIP vesting (as a % of maximum)
2020 (Lee Rochford)	529	–	–
2019 (Lee Rochford)	863	46.25	25
2018 (Lee Rochford)	1,011	82.5	N/A[1]
2017 (Lee Rochford)	942	85.0	N/A[1]
2016 (Tom Drury)	1,421	80.0	86
2015 (Tom Drury)	722	70.3	–
2014 (Tom Drury)	631	62.5	–
2013 (Tom Drury)	154	80.0	–

1. Lee Rochford became Group chief executive officer in 2017 and did not hold an LTIP which was capable of vesting by reference to performance in 2017 or 2018.

b. Percentage change in directors’ remuneration

The table below shows how the percentage change in each director’s salary, taxable benefits and annual bonus pay-out between 2019 and 2020 compares with the percentage change in the average of each of those components for the workforce as a whole. Paola Bergamaschi Broyd was appointed to the board in the year and accordingly has been excluded from the table. Matt Hotson was appointed to the board in 2019 and to enable comparison his remuneration for 2019 has been annualised for the purposes of the table.

	% change in salary and fees	% change in taxable benefits	% change in performance-related bonus
Lee Rochford	2.2%	(37.2)%	(100.0)%
Matt Hotson	8.9%	100.0%	(100.0)%
Jonathan Bloomer	–%	N/A	N/A
Andrew Fisher	7.2%	N/A	N/A
Lan Tu	–%	N/A	N/A
Maria Luís Albuquerque	–%	N/A	N/A
Workforce	9.6%	–[1]	(17.1)%

1. As it would be too time-consuming to collate taxable benefit data for the work force and they are considered immaterial in relation to pay overall, therefore these have not been included above.

Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay compared with distributions to shareholders:

	Total employee remuneration[1] £000	Shareholder distributions £000
2020	102,532	–
2019	98,931	23,062
Difference	3,601	(23,062)

1. For total employee remuneration in the table above, please see note 10.b in the notes to the financial statements on page 141, which is entitled ‘staff costs’. The staff costs note is made up of wages, bonuses and salaries, pension costs, social security costs, share-based payments and staff restructuring.

Service agreements and letters of appointment

The service agreements of our executive directors and the letters of appointment of our non-executive directors are as summarised below:

Director	Date of service agreement/ letter of appointment	Expiry	Notice period
Lee Rochford	6 December 2016	N/A	12 months
Matt Hotson	15 July 2019	N/A	12 months
Jonathan Bloomer	7 October 2013[2]	5 October 2022[1]	1 month
Lan Tu	2 March 2015[4]	8 March 2021[1]	1 month
Maria Luís Albuquerque	7 March 2016[5]	7 March 2022[1]	1 month
Andrew Fisher	9 December 2016[3]	9 December 2022[1]	1 month
Paola Bergamaschi Broyd	17 June 2020	17 June 2023[1]	1 month

1. Subject to re-election at the 2021 annual general meeting.
2. As amended by extension letter dated 2 October 2019.
3. As amended by extension letter dated 28 January 2020, effective from 9 December 2019.
4. As amended by extension letter dated 23 February 2018.
5. As amended by extension letter dated 2 April 2019.

The remuneration committee

Throughout the year, the committee consisted of Lan Tu (as chair) and Andrew Fisher, each of whom is an independent non-executive director. The Group Chair, Jonathan Bloomer, who was considered independent on appointment, is a member of the committee.

The committee held three scheduled meetings during the year. Details of attendance by all members who held office during the year are set out below:

Committee members	Eligible to attend	Attended
Lan Tu	3	3
Jonathan Bloomer	3	3
Andrew Fisher	3	3

The terms of reference of the committee are published on the Group’s website at www.arrowglobal.net.

Advisor

During the year, the committee was assisted in its work by Deloitte LLP, which was appointed as advisor in July 2014, following a comprehensive competitive tender. Deloitte LLP is a member of the Remuneration Consultants Group and, as such, voluntarily operates under that group's Code of Conduct in relation to executive remuneration consulting in the UK. The total fees paid to Deloitte LLP for providing remuneration advice were £51,950 for the year ended 31 December 2020. Deloitte LLP also provided advice in relation to internal audit services, taxation and share plans during the year.

The committee will assess from time to time whether the appointment of Deloitte LLP remains appropriate or should be put out to tender.

The Group chief executive officer has also attended committee meetings to provide advice and respond to specific questions, but is not in attendance when his own remuneration is discussed. The company secretary acts as secretary to the committee and is similarly not in attendance when his own remuneration is discussed.

Statement of shareholder voting

At the 2020 annual general meeting, the annual report on remuneration (excluding the directors' remuneration policy) was approved by shareholders with the following votes:

% of votes for	% of votes against	Number of votes withheld
83.28%	16.72%	2,091

At the 2018 annual general meeting, the directors' remuneration policy was approved by shareholders with the following votes:

% of votes for	% of votes against	Number of votes withheld
94.54%	5.46%	3,841

Directors' remuneration policy introduction

The Company's directors' remuneration policy was last approved by shareholders at the annual general meeting on 22 May 2018 and took effect from the date of that meeting. At the 2021 annual general meeting, we would ordinarily be bringing forward a new policy for consideration. As stated in the chair's letter, the committee have carefully considered whether this is an appropriate time to make substantive changes to our remuneration policy and has elected to seek shareholder approval to extend the current policy for one year, subject to shareholder approval at the annual general meeting.

In arriving at this decision, we have considered numerous internal and external factors such as the impact which COVID-19 may have on market practice, the uncertainty surrounding the Brexit process, the ongoing transformation of the organisation and our intention to conduct a full review of the remuneration proposition for the wider workforce to which executive director compensation must be aligned.

It is our intention to create a new remuneration policy for approval at the annual general meeting in 2022. This new policy will deliver on previous commitments made regarding executive director pension arrangements aligned with Investment Association guidance by the end of 2022.

Directors' remuneration policy

We have set out below the directors' remuneration policy which, subject to shareholder approval at the 2021 annual general meeting, shall take binding effect from the close of that meeting. The differences between this policy and the policy approved at the Company's 2018 annual general meeting are summarised in the chair's letter on page 88.

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity

Salary
Provides core remuneration for the role at a level to recruit and retain executive directors with the required skills and experience.
	• Positioned within a broad range around the mid-market level for the role; and
	• Paid monthly and ordinarily reviewed annually.
		• Base salaries are ordinarily reviewed annually, though not necessarily increased, having regard to market conditions and other relevant factors such as pay increases for the Group's employees, internal relativities and individual performance;
		• The maximum annual salary increase will not normally exceed the average increase which applies across the wider workforce (in percentage of salary terms). Larger increases may be awarded in certain circumstances including, but not limited to:
		  • increase in scope or responsibilities of the role;
		  • to apply salary progression for a newly appointed director;
		  • significant market movement; and
		• Such increases may be implemented over such period as the committee deems appropriate.

Benefits Provide a competitive benefits package at a level to recruit and retain executive directors with the required skills and experience.	• Typically comprises private medical and dental cover, life insurance and permanent health insurance; • Reviewed from time to time to ensure they remain market competitive and meets the operational needs of the business; • Benefits may be extended in certain circumstances (such as relocation expenses); and • Access to flexible benefits on same basis as the wider workforce.	• None. The cost of providing benefits is borne by the Group and varies from time to time.
Pension Provides a competitive level of long-term retirement saving for executives.	• Contribution to a defined contribution pension arrangement or monthly cash allowance in lieu of pension (or a combination of contribution and cash allowance).	• For Matt Hotson and any new executive director, a contribution or cash allowance (or combination) not exceeding the rate available for the wider workforce (currently 5.0% of basic salary); and • A legacy benefit is maintained for Lee Rochford which is frozen at 15.0% of his salary at the end of 2020.
Annual bonus Rewards the achievement of annual objectives whilst encouraging a long-term focus through the use of deferred shares, awarded as nil-cost share options, conditional awards or restricted shares.	• Performance targets set annually; • Pay-outs determined by the committee following the end of the performance period; • Up to 50.0% of the bonus earned is deferred into shares for up to three years, subject, ordinarily, to continued employment during the vesting period; • The committee may award additional shares in respect of dividends that would have been paid over the period to vesting (and the number of shares may be calculated assuming the reinvestment of the dividend equivalents); • Malus and clawback provisions apply, as described below this table; and • The committee has discretion to amend any pay-out should any formulaic output not reflect the committee's assessment of overall business performance or if the committee considers the formulaic out-turn is not considered appropriate in the context of other factors considered by the committee to be relevant.	• Maximum bonus opportunity of 140.0% of annual base salary per year; • Split between financial and strategic/personal performance measures in support of business strategy; • Bonus for achieving threshold financial performance target is up to 20.0% of the maximum opportunity for that element; and • Vesting of the bonus in respect of strategic or personal measures will be between 0.0% and 100.0% based on the committee's assessment of the extent to which the measure has been achieved.

Element and link to business strategy	Operation	Applicable performance measures and maximum opportunity
LTIP Rewards the achievement of long-term objectives, promotes and aligns interests of executives with those of shareholders.	• Nil-cost share options, conditional awards or restricted shares can be awarded; • Three-year vesting period subject to performance conditions; • Awards are subject to an additional two-year holding period following the end of the performance period and will only be "released" to the participant following the end of that period. The holding period may be implemented so that the participant is not entitled to acquire shares until the end of it. Alternatively, it may be implemented on the basis that shares can be acquired following the vesting of the award but that, other than as regards sales to cover tax liabilities and any exercise price, the participant is not able to dispose of shares acquired until the end of the holding period; • The committee may, at its discretion, structure awards as qualifying LTIP awards consisting of both an HMRC tax-qualifying option and an LTIP award. Qualifying LTIP awards enable the participant and the Company to benefit from tax-advantaged treatment in respect of part of the award without increasing the pre-tax value delivered to participants. The qualifying LTIP awards will be structured as a tax-qualifying option and an LTIP award with the vesting of the LTIP award scaled back to take account of any gain made on the exercise of the tax-advantaged option; • The committee may award additional shares in respect of dividends that would have been paid over the period to vesting (or, if later, release) on vested awards shares (and the number of shares may be calculated assuming the reinvestment of the dividend equivalents); • Malus and clawback provisions apply, as described below this table; and • The committee has discretion to amend any pay-out should any formulaic output not reflect the committee's assessment of overall business performance or if the committee considers the formulaic out-turn is not considered appropriate in the context of other factors considered by the committee to be relevant.	• Maximum award of 200% of annual base salary per year; • Tax-qualifying options may be granted. Shares subject to a tax-qualifying option granted as part of a qualifying LTIP award are not taken into account for the purposes of the individual limits because, as referred to in the operation column, the LTIP award will be scaled back to reflect the gain made on the exercise of the tax advantaged option; • Performance targets based on financial measures such as FCF, ROE and TSR; and • 25% of award vests for threshold performance rising to 100% for maximum performance.
Share Incentive Plan (SIP) and Global Employee Share Purchase Plan (GESPP) Promotes alignment with shareholders across the Group's entire employee base.	• SIP: In the UK, a tax qualifying plan permitting the award of free, partnership or matching shares. Dividends paid on plan shares may be delivered in the form of additional dividend shares; • GESPP: Operated on a broadly equivalent basis for employees (including, if relevant, any executive directors) outside the UK; • Minimum three-year vesting period; and • Open to all employees generally.	• No performance targets; • SIP: Maximum awards and matching share ratio reflect the limits in the applicable tax legislation (as at the date of approval of this policy in any year up to £3,600 free share award; up to £1,800 partnership share acquisition; and a matching share ratio of up to 2:1 based on partnership shares acquired); and • GESPP: Broadly equivalent limits apply.
Save as you earn plan ('sharesave') Promotes further alignment with shareholders across the Group's entire employee base.	• The Group may consider the implementation up of a sharesave in the future to complement the SIP; and • In the event that a sharesave is introduced, the executive directors will be eligible to participate in the sharesave on the same terms as other eligible employees.	• There would be no performance targets under the sharesave; and • The limits will reflect those in the applicable tax legislation (as at the date of this policy a participant may save up to £500 per month over three or five years to exercise an option granted with an exercise price at a discount of up to 20.0% to the value of a share when invited to participate).

Notes to the policy table

Annual bonus – performance metrics

The annual bonus is assessed against both financial performance measures and a balanced range of specific strategic, personal and other key Group objectives determined by the committee. This incentivises executives to focus on delivering the key financial goals of the Company, as well as specific strategic objectives which are aligned to delivering the overall business strategy and to encourage behaviours which facilitate profitable growth and the future development of the business.

The precise choice of measures and the weightings between them will be reviewed by the committee year-on-year. Performance targets will be set at the beginning of each year, and bonus pay-outs are determined by the committee after the end of the performance period, based on performance against targets.

LTIP awards – performance metrics

Performance is based on financial performance targets, such as free cash flow, return on equity and total shareholder return measured over three years.

The committee will review these performance conditions when determining LTIP awards in each year, in order to reflect changes in the outlook of the sector and the Group, and to ensure that the measures remain appropriate and that the targets remain challenging.

Performance measures are set in line with the key drivers of sustainable performance. Targets are set by the committee at the start of the performance period, taking into account external advice on market and best practice. Performance is assessed at the end of the relevant period to determine the extent to which awards may vest. The committee also monitors progress against targets throughout the period.

Adjusting performance measures and operation of share plans

The committee retains the ability to adjust or set different performance measures if events occur (such as a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions), which cause the committee to determine that the measures are no longer appropriate and that amendment is required so that the original purpose of the performance measures is achieved.

Awards may be adjusted in the event of a variation of capital, demerger, special dividend or other transaction which will materially affect the value of shares.

The committee may exercise operational and administrative discretions under the relevant plan rules as set out in those rules. This includes the ability to settle awards, in whole or in part, in cash or to grant awards as cash awards over a notional number of shares. However, the committee would only settle or grant an executive director's award in cash where the particular circumstances made that appropriate – for example in the event of a regulatory restriction on the delivery of shares, or in respect of the tax arising on the vesting or release of the award.

Malus and clawback

All cash bonuses paid are subject to potential malus and clawback, at the committee's discretion, for a period of three years from the date of payment where there are exceptional circumstances, such as a material misstatement of the published results of the Group, any error in the assessment of any performance condition linked to the calculation of a bonus, material risk failure, gross misconduct, serious reputational damage or material corporate failure. The committee will also operate malus and clawback if there is a major regulatory issue, including significant regulatory risk failure. In any of the above clawback circumstances, the committee has discretion to operate malus provisions on share-based incentive plans (other than any HM Revenue and Customs qualifying plans) operated by the Group instead of pursuing clawback on the cash bonuses.

The LTIP and deferred bonus awards are subject to malus provisions such that, at the discretion of the committee, unvested awards may lapse. LTIP awards are subject to clawback provisions such that during a three-year period post vesting, shares acquired may be forfeited or unexercised awards may lapse. In place of pursuing clawback on the LTIP and deferred bonus, the committee has discretion to operate malus provisions on share-based incentive plans (other than any HM Revenue and Customs qualifying plans) operated by the Group. The malus and clawback provisions may be applied to the LTIP and deferred bonus awards in the event of:

- a material inaccuracy or misleading results;
- a loss to the Group's business which could have been reasonably risk managed by the participant;
- conduct, capability or performance of a participant which would make the operation of malus or clawback appropriate;
- other exceptional circumstances which appear relevant, which will include a major regulatory issue including significant regulatory risk failure;
- serious reputational damage; or
- material corporate failure.

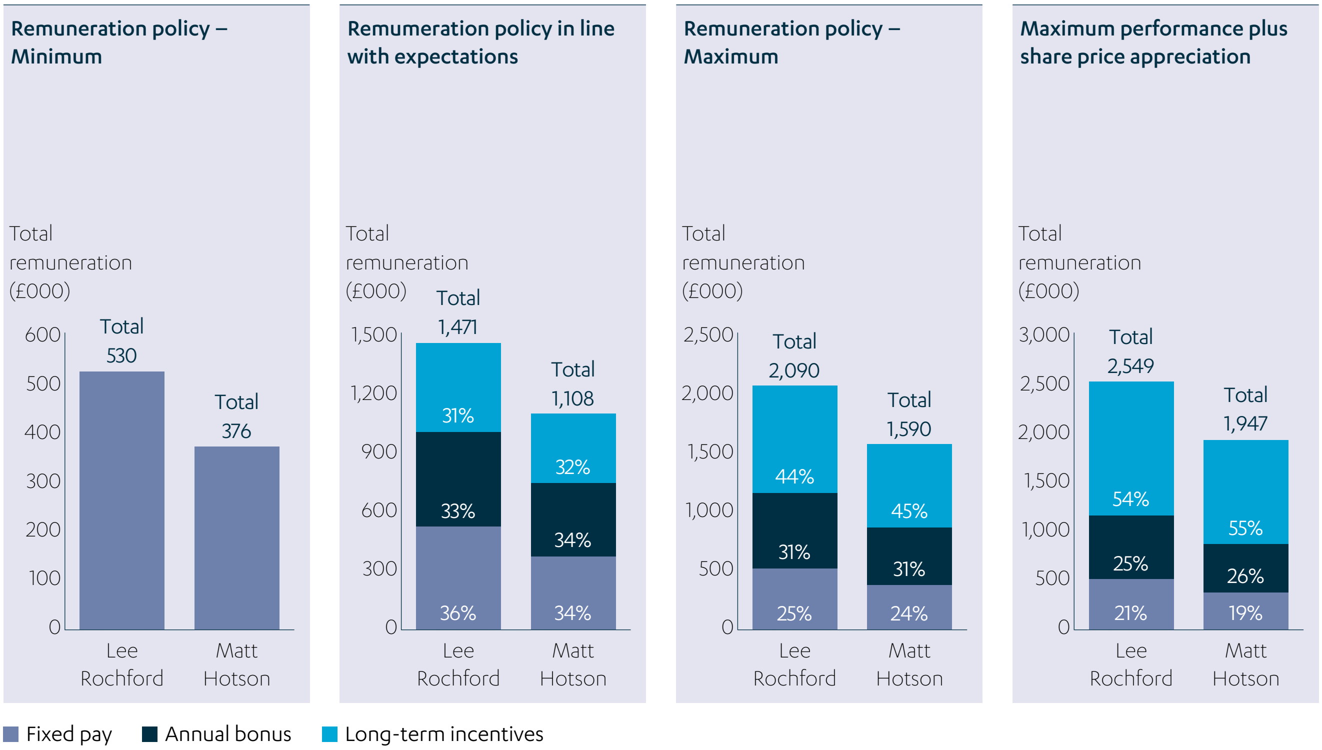
Clawback will apply to HM Revenue and Customs qualifying plans to the extent permitted by HM Revenue and Customs.

Shareholding guidelines

To align the interests of executive directors with those of shareholders, the committee has adopted formal shareholding guidelines which apply in employment and after cessation of employment.

In employment
Each executive director is required to acquire shares with a value equal to 200% of salary. Until such time as the required holding has been achieved, the director must retain 50% of all shares acquired under the LTIP or deferred bonus arrangements (in each case net of tax). Shares subject to awards which have vested but not been released (i.e. LTIP awards which are subject to a holding period) or which are exercisable but have not been exercised count towards the guidelines on a net of assumed tax basis.

After cessation of employment
Shares are subject to this requirement only if they are acquired from LTIP and deferred bonus awards granted after 1 January 2020. The executive director must retain: (a) for one year post cessation of employment, such of the shares as are subject to this requirement as have a value equal to the in-employment guideline; and (b) for a further year post cessation of employment, such of the shares as are subject to this requirement as have a value equal to 50% of the in-employment guideline, or in either case and if fewer, all of those shares.



The charts above illustrate the total remuneration, in line with the remuneration policy, that could arise for each director under four different scenarios.

The figures are calculated as follows:

- Fixed pay is basic salary and pension benefits as at 1 March 2021, plus the assumed value of benefits based on the 2020 benefits figure;
- Annual bonus includes any deferred bonus, based on the maximum potential award under the policy of 140% of salary;
- Long-term incentives represent the potential value of the LTIP, based on the maximum potential award under the policy of 200% of salary;
- In line with expectations is the level required to deliver a stretch bonus target which, for the purposes of the above illustrations, is 75% of the maximum annual bonus and 50% of the maximum LTIP;
- Maximum performance would result in the maximum annual bonus and full vesting of the LTIP; and
- Maximum performance plus share price appreciation is based on the same assumptions as for “maximum performance” plus an assumed 50% increase in the share price for the purposes of the LTIP element.

Discretion

The committee retains discretion to grant variable performance remuneration outside of the approved policy where this discretion is required to comply with applicable legislation or regulation. However, that discretion would not be exercised in a manner that would exceed the maximum opportunity noted in the policy table and the committee will endeavour to consult with shareholders ahead of such exercise as well as clearly disclosing and explaining the details in the annual report.

Executive director service contracts

Each executive director has been appointed under a service contract which is terminable on 12 months' notice by either the Company or the director. Contracts are available for inspection at the Company's registered office. Contracts may be terminated immediately with payments in lieu of notice being paid in phased instalments and reduced by amounts earned from alternative remunerative positions obtained during the notice period that would otherwise have applied.

Termination policy

Notice period/pay in lieu	• Rolling contracts with 12-month notice periods; and • Payment in lieu of notice at Group discretion – monthly instalments with appropriate reductions for mitigation. Payment calculated by reference to base salary and the cost to the Group of providing contractual benefits (including pension contributions/cash in lieu of pension contributions), but excludes bonus. As an alternative to making a payment in respect of the costs of providing benefits, the committee may continue to provide the benefits for the duration of the notice period that would otherwise have applied.
Long-term incentives	Unvested awards: • Lapse on cessation of employment, unless 'good leaver' circumstances (ill health, injury, disability, retirement, transfer of employing company or undertaking, redundancy or at the discretion of the committee); • If good leaver, generally award to vest on normal vesting date following application of performance targets and subject to a pro-rata reduction for proportion of vesting period elapsed. Where applicable, the award will generally remain subject to the originally anticipated holding period; and • The committee retains discretion, in appropriate circumstances, to vest awards sooner, to vary or disapply the pro-rata reduction and/or to vary or disapply the holding period. Unreleased awards (i.e. awards that have vested but which remain subject to a holding period): • Awards generally subsist, although will lapse/be forfeited in the event of cessation due to summary dismissal; and • Awards that subsist will generally remain subject to the originally anticipated holding period, although the committee retains discretion, in appropriate circumstances, to vary or disapply the holding period.
Annual bonus	• This will be reviewed on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors, including the circumstances of the executive director's departure and his or her contribution to the business during the bonus period in question. Any bonus payment would typically be pro-rated for time in service to termination and paid at the usual time (although the committee retains discretion to pay the bonus earlier in appropriate circumstances); and • Any bonus earned for the year of departure or preceding year may be paid wholly in cash, with no deferral into shares.
Deferred share bonus awards	• Lapse on cessation of employment, unless good leaver; and • If good leaver, generally vest on normal vesting date unless exceptional circumstances considered.

Where deemed suitable, the committee reserves the right to agree additional exit payments where they are in the best interests of the Group and shareholders and are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a director's office or employment. Any discretion exercised by the committee would be reported to shareholders in the subsequent annual report. The Group, in any settlement agreement recording the terms of the termination, may include provisions as to outplacement counselling, the payment of the director's reasonable legal costs up to an agreed amount and other reasonable payments of a similar nature.

If a 'buy-out' or other recruitment award is made, the 'leaver' provisions would be determined at or before the date of the award.

Non-executive directors receive no payments for loss of office.

Approach to recruitment remuneration

Where a new executive director is appointed, the principles outlined above in relation to the structure, components and maximum opportunities of the existing executive directors' remuneration package and service contract terms will also apply to the newly appointed director, although the committee retains discretion to vary the performance measures, performance period, vesting period, deferral period and holding period of the annual bonus and LTIP if the committee determines that the circumstances of the recruitment merit such an alteration. Salaries for new hires will reflect their skills and experience, the Group's intended pay positioning and the market rate for the role. Existing incentive arrangements will be used where possible and guaranteed bonuses will not be offered. The level of pay will be what is necessary to recruit the new executive director.

The committee will have the discretion to determine additional remuneration which constitutes compensation for the forfeiture of awards under remuneration arrangements with any previous employer. The committee will determine the terms of any such 'buy-out' award having regard to the terms of the forfeited award (e.g. any performance conditions to which that award was subject, its time horizon and expected value). The committee may also make payments in respect of relocation or similar expenses. Similarly, the committee will have discretion to retain existing contractual arrangements for employees who are internally promoted to board level. In addition, in exceptional circumstances, the committee reserves the right to grant additional remuneration which it feels is appropriate, taking into account the specific circumstances of the individual in order to facilitate such recruitment, provided that the total variable pay (excluding any buy-out awards) for the first year will not exceed 400% of salary (i.e. an additional 60% of salary above maximum in the policy table).

Fees for newly appointed non-executive directors will be determined in line with the policy set out on the next page.

Components and structure of remuneration – non-executive directors

The board reviews non-executive directors' fees periodically in light of fees payable in comparable companies and the importance attached to the retention and attraction of high-calibre individuals as non-executive directors. Fees for the Chair are determined by the committee, and fees for the other non-executive directors are determined by the board. This table sets out the elements that are included in the remuneration package for non-executive directors and explains how they operate.

Element and purpose	Operation and link to business strategy	Maximum opportunity
Fees To attract and retain high-calibre non-executive directors by offering competitive fees. **Benefits** Non-executive directors may be eligible for benefits such as the use of secretarial support, travel costs or other benefits.	• A base fee is paid for holding the office of non-executive director or chair; • Additional fees may be paid to reflect extra responsibilities such as committee chair or senior independent director; • With the agreement of the Chair of the Group, non-executive directors can carry out specific project work for the Group on fees to be agreed; and • Benefits are provided that are appropriate to the performance of the role.	• Fees are reviewed periodically to comparable companies' pay; and • If benefits are provided to non-executive directors, they are provided at an appropriate level taking into account the individual circumstances.

Non-executive directors' letters of appointment

The terms of appointment of independent non-executive directors (including the Chair) are contained in letters of appointment rather than under service contracts. The duration of the appointment is usually three years, and it is anticipated that the period will be extended for a second term of three years with the agreement of the board and the non-executive director, although a reappointment is not automatic. Information in relation to the current letters of appointment is set out on page 98.

Either party may terminate on one month's written notice. The reappointment of all non-executive directors is subject to election by the Group's shareholders at the first annual general meeting, and re-election at any subsequent annual general meeting where they are due for re-election.

Consideration of remuneration of employees generally

When determining the remuneration arrangements for executive directors, the committee takes into consideration, as a matter of course, the pay and conditions of employees throughout the Group. In particular, the committee is kept informed of salary increases for the general employee population, the overall spend on annual bonus and participation levels in the annual bonus and share plans. No consultation with employees takes place in relation to determining the directors' remuneration policy, although the Group has various ways of engaging with its employees collectively as teams and one to one, and the board receives updates and feedback on employee engagement.

Differences between remuneration policy for executive directors and employees generally

The remuneration policy applied to the most senior executives in the Group is similar to the policy for the executive directors in that a significant element of remuneration is dependent on Group and individual performance. The key principles for the remuneration policy are applied consistently across the Group below executive director level taking into account seniority and local market practice.

Consideration of shareholder views

The committee is committed to an open and transparent dialogue with shareholders on the issues of executive remuneration. Where appropriate, the committee will actively engage with shareholders and shareholder representative bodies, seeking views which may be taken into account when making any decisions about changes to directors' remuneration policy.

Legacy remuneration arrangements

The committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed:

- before the policy set out above came into effect, provided, if relevant, that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or
- at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the Company.

For these purposes, 'payments' includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

This report was approved by the board and signed on its behalf by:

Lan Tu
Chair of the remuneration committee
23 March 2021

Report of the directors

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2020. The corporate governance report set out on pages 58 to 69 forms part of this report. The risks to which the Group is subject, and the policies in respect of such risks, are set out on pages 48 to 52. The Company's principal subsidiaries are listed in note 23.

The following information is set out in the strategic report on pages 1 to 53:

- particulars of post balance sheet events of the Company and its subsidiaries; and
- indication of likely future developments in the business of the Company and its subsidiaries.

Results and going concern

The Group's results are discussed in the strategic report starting on page 1, including the Chair's statement, Group chief executive officer's review and Group chief financial officer's review on pages 6, 10 and 24 respectively, which are incorporated into this report by reference.

Consideration of the Company and the Group as a going concern can be seen on page 53. After making their assessment, the directors are satisfied that the Company and the Group have adequate and sufficient resources to continue to operate as a going concern for a period in excess of 12 months from the date of signing. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Fair, balanced and understandable

As required by the UK Corporate Governance Code 2018 Edition (the Code), the directors confirm that they consider that this annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The board came to this view following a rigorous review process throughout the production schedule. The annual report is drafted by appropriate members of the reporting and leadership teams and is managed by the finance team co-ordinator to ensure consistency. A series of planned reviews are undertaken by the reporting team, leadership team and directors in advance of final consideration by the board. The annual report is also reviewed by the audit committee.

So far as the board is aware, there is no relevant audit information of which the auditors are unaware, and the board has taken all reasonable steps to ascertain any relevant audit information and ensure the auditors are aware of such information.

Dividends

Consistent with the announcement for the interim dividend for 2020 and the focus on preserving cash and liquidity, the board will not be recommending a final dividend for 2020.

Share capital

As at 31 December 2020, the Company had 177,378,244 ordinary shares in issue, of one class, with a nominal value of 1p each. Full details of the share capital of the Company are set out in note 19 to the Group financial statements on page 148. The information in note 20 is incorporated by reference and forms part of this directors' report. On a show of hands at a general meeting of the Company, each member present in person or by proxy, and entitled to vote, shall have one vote and, on a poll, every member shall have one vote for every ordinary share held. There are no issued shares in the Company with special rights with regard to control of the Company.

Purchase of own shares

At the 2020 annual general meeting, shareholders authorised the Company to make market purchases of up to 17,626,334 ordinary shares representing 10.0% of the Company's issued share capital at that time, and to allot shares in the Company up to an aggregate nominal amount of £587,544.48. These authorities expire at the 2021 annual general meeting. During the year ended 31 December 2020, no shares were repurchased. Resolutions to renew these authorities will be proposed at the 2021 annual general meeting.

The Company operates an independent employee benefit trust for future benefit to employees of the Group. Estera Trust (Jersey) Limited is the trustee of the Arrow Group 2016 Employee Benefit Trust (the Estera Trust). On 26 October 2020, 100,000 shares were allotted by the Company to the Estera Trust to satisfy future share options granted to employees, which was announced by RNS announcement on 26 October 2020. RNS announcements will be made in accordance with the Disclosure, Guidance and Transparency Rules when future allotments occur.

During the financial year, the Estera Trust transferred shares to Equiniti, the Group's share plan administrator, to satisfy DSBP and LTIP awards and to the trustee of the Arrow Share Incentive Plan (SIP) to satisfy awards of shares to participating employees under the SIP.

As at 31 December 2020, the Estera Trust held 502,656 ordinary shares (2019: 628,874 shares), representing 0.28% (2020: 0.36%) of the Company's issued share capital. The Trust deed contains a dividend waiver provision in relation to these shares.

Transfer of securities

There are no restrictions on the transfer of shares, limitations on the holding of shares or requirements to obtain prior approval of the Company, or of other holders of securities in the Company, to make a transfer of shares.

The board may decline to register a transfer of any share which is not fully paid. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the articles of association) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The board may decline to register a transfer of a certificated share unless the instrument of transfer: (i) is duly stamped or certified or otherwise shown to the satisfaction of the board to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the board may reasonably require; (ii) is in respect of only one class of share; and (iii) if joint transferees, is in favour of not more than four such transferees.

Further, the board may decline to register a transfer of a certificated share where the transfer is requested by a person with more than a 0.25% interest in the issued share capital of the Company (excluding treasury shares) if such a person has been served with a restriction notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006, unless the transfer is shown to the board to be pursuant to an arm's length sale (as defined in the articles of association).

The articles of association also contain certain restrictions on transfer which are designed to ensure that the assets of the Company are not deemed to constitute 'plan assets' within the meaning of the Plan Asset Regulations (as defined in the articles of association) because the directors have been advised that this could result in the Company becoming subject to certain onerous obligations under US law. Accordingly, the articles of association provide that the board may refuse to register a transfer of shares, or compulsorily require the transfer of shares, where a transfer of shares, or continued holding of shares, would cause, or is likely to cause: (i) the assets of the Company to be considered 'plan assets' under the Plan Asset Regulations; or (ii) the Company to suffer any pecuniary disadvantage, including any excise tax, penalties or liabilities, under ERISA or the IR Code (each as defined in the articles of association).

No shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights except that a shareholder has no right to vote in respect of a share unless all sums due in respect of that share are fully paid. There are no known agreements between holders of securities that may result in restrictions on the transfer of securities or voting rights and no known arrangements under which financial rights are held by a person other than the holders of the shares.

Substantial shareholdings

As at 31 December 2020, the Company had been notified under Rule 5 of the Disclosure, Guidance and Transparency Rules of the Financial Conduct Authority, of the following holdings representing 3.0% or more of the voting rights in its shares:

Shareholder	No. of ordinary shares/ voting rights notified	% of ordinary share capital/ voting rights notified
Schroders Plc	17,477,696	10.0%
Fifth Street Station LLC	16,139,622	9.1%
Devon Equity Management Limited	N/A*	8.1%
Albacore Capital LLP	9,493,598	5.4%
Invesco Ltd.	8,860,038	5.0%
M&G Plc	8,064,850	4.6%
Blackrock, Inc.	N/A*	Below 5%
Jupiter Asset Management Limited	N/A*	Below 5%
Odin Fortvaltning AS	5,297,421	3.0%

* The number of ordinary shares and voting rights were not disclosed in the last TR-1 notification.

The following changes to the above voting rights have been notified to the Company under Rule 5 of the Disclosure, Guidance and Transparency Rules from 1 January 2021 up until 23 March 2021:

Shareholder	No. of ordinary shares/ voting rights notified	% of ordinary share capital/voting rights notified
Albacore Capital LLP	7,690,396	4.3%
Devon Equity Management Limited	16,150,531	9.1%
Schroders Plc	8,799,841	5.0%

Directors

The directors who served during the financial year were as follows:

Director	Position	Service in the year ended 31 December 2020
Jonathan Bloomer	Non-executive chair	Served throughout the year
Lee Rochford	Group chief executive officer	Served throughout the year
Lan Tu	Independent non-executive director	Served throughout the year
Maria Luís Albuquerque	Independent non-executive director	Served throughout the year
Andrew Fisher	Senior independent non-executive director	Served throughout the year
Matt Hotson	Group chief financial officer	Served throughout the year
Paola Bergamaschi Broyd	Independent non-executive director	Appointed 17 June 2020

Biographical details of the directors of the Company during the year and to the date of this report can be seen on pages 54 to 55.

Further details relating to board and committee composition are disclosed in the corporate governance report and committee reports on pages 58 to 105.

The directors are aware of the provisions in the Code that all directors should be subject to annual re-election and having adopted these provisions, all directors will offer themselves for election and re-election at the 2021 annual general meeting.

Directors' powers and responsibilities

Subject to the Company's Articles of Association, the Companies Act 2006 and any directions given by special resolution, the business of the Group will be managed by the board who may exercise all the powers of the Group, including (but not limited to) borrowing powers, and powers relating to the issue and/or buying back of shares by the Group (subject to any statutory restrictions or restrictions imposed by shareholders at the annual general meeting).

Appointment or removal of directors

With regard to the appointment, and resignation of directors, the Company follows the Code, and is governed by its Articles of Association, the Companies Act 2006 and related legislation. Directors may be appointed by a resolution of the board or an ordinary resolution of the Company. In addition to any power of removal conferred by the Companies Act, directors may be removed by a special resolution of the Company.

Directors' interests

The directors' interests in the share capital of the Company at 31 December 2020 are set out on pages 95 to 96.

Directors' indemnities

During the financial year ended 31 December 2020 and up to the date of this directors' report, the Company has maintained appropriate liability insurance for its directors and officers.

The Company has granted indemnities to each 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 and remain in force at the date of this report.

Amendment to Articles of Association

The Company's Articles of Association may be amended by special resolution of the Company. The Company's current Articles of Association were adopted on 25 September 2013. A special resolution will be proposed at the 2021 annual general meeting to adopt new Articles of Association. The proposed new Articles reflect developments in best practice and provide additional clarification and flexibility for the Company in particular as regards the holding of hybrid general meetings in future. The main changes in the new Articles are summarised in notice of annual general meeting, which is being distributed to the Company's shareholders with this annual report.

Interim report

Current regulations permit the Company not to send copies of its interim reports to shareholders. Furthermore, the 2021 interim results will not be sent to shareholders. Interim results and other information about the Company will be available on the Company's website at www.arrowglobal.net.

Electronic and website communication with shareholders

The Company's articles of association permit electronic communication with shareholders as provided in the Companies Act 2006. The Company obtained authority from its shareholders at the 2014 annual general meeting to implement electronic communication. It is intended that the 2020 annual report and notice of annual general meeting 2021 will be distributed electronically again and via the Company's website to shareholders who have consented or deemed to have consented to receive electronic communications. Shareholders who have requested shareholder information in hard copy form will continue to receive this.

Employee consultation

Further information concerning employees is given on page 31.

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, employee engagement sessions with the board, 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. This year, the Company introduced Peakon, a strategic tool 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. More information on workforce engagement by our non-executive director Maria Luís Albuquerque can be found on page 72.

Employees are encouraged to be involved in the Company's performance via the SIP, the detail of which is set out in note 28.

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.

Policies and practices on payments to creditors

We recognise the importance of good supplier relationships to the overall success of our business. We publish key statistics and other information on our payment practices in line with the Duty to Report on Payment Practices and Performance on the Department for Business, Energy and Industrial Strategy's website. Information is published on a six-monthly basis. For the six months to 31 December 2020, our average published time taken to pay invoices in the UK was 38.5 days; in the previous six months it was 39.5 days.

Environmental policy

Due to the nature of its business activities, the Group's environmental impact is considered minimal. An environmental policy, as part of the Group's Environmental, Social and Governance policy, is in place to increase employee awareness of environmental issues and complies with all relevant regulatory requirements. The Group's environmental impacts are through resource use and business travel. Key areas of the policy addressing the business' environmental impact are as follows:

- minimising paper usage by using electronic alternatives and the purchase of recycled paper and packaging where possible;
- energy-efficient office products;
- recycling office waste;
- increased use of video and conference calls for business facilities;
- supporting cycling to work through a cycle to work scheme; and
- travel should only be booked for essential business reasons.

Carbon reporting – methodology

The methodology used for carbon reporting is set out in the ESG report, on pages 34 to 35.

Branches outside of the UK

The Company has no overseas branches. The Company's subsidiaries are detailed in note 23 to the financial statements.

Risk management

Please refer to the strategic report, on pages 43 to 47.

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/she ought to have taken as a director to make himself/herself 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. Resolutions to reappoint KPMG LLP as independent auditor to the Company and to authorise the directors to determine its remuneration will be proposed at the forthcoming annual general meeting.

Board effectiveness

The process for evaluation of board effectiveness is detailed in the corporate governance report on pages 64 and 65.

Disclosures required under Listing Rule 9.8.4R

In accordance with Listing Rule 9.8.4R, the Company is required to disclose certain information within the report of the directors or advise where such relevant information is contained. The information required to be disclosed, where applicable to the Company, can be located in the Annual Report and Accounts at the references set out below:

Topic	Location in annual report	Page Numbers
Interest capitalised	Not applicable	–
Publication of unaudited financial information	Additional information (unaudited)	179
Details of long-term incentive schemes	Remuneration report	86
Waiver of emoluments by a director	Not applicable	–
Waiver of future emoluments by a director	Not applicable	–
Non pre-emptive issues of equity for cash	Not applicable	–
Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings	Not applicable	–
Parent participation in a placing by a listed subsidiary	Not applicable	–
Contracts of significance	Not applicable	–
Provision of services by a controlling shareholder	Not applicable	–
Shareholder waivers of dividends	Report of the directors	106
Shareholder waivers of future dividends	Report of the directors	106
Agreements with controlling shareholders	Not applicable	–

Annual general meeting

In light of the evolving situation, in respect to the UK’s governments strategy in relation to COVID-19 lockdown restrictions, shareholders will not be permitted to attend the annual general meeting in person but can attend in person by electronic means. The meeting will be held at Arrow Global, 2nd Floor, 6 Duke Street, St James’s, London, SW1Y 6BN on Wednesday, 2 June 2021 at 10.00am. Notice of the annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appears in the document accompanying this annual report and accounts and will be available on the Group website at www.arrowglobal.net.

This report was approved by the board and signed on its behalf by:

Adam Westley
Company secretary
23 March 2021

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRS') and applicable law and have elected to prepare the parent Company financial statements on the same basis. In addition, the Group financial statements are required under the UK Disclosure and Transparency Rules to be prepared in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under Company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent 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 international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRS') and, as regards the Group financial statements, in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- assess the Group and parent 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 its 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.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

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.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report and directors' report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Matt Hotson
Group chief financial officer
23 March 2021

Lee Rochford
Group chief executive officer
23 March 2021

KPMG

Independent auditor's report

to the members of Arrow Global Group plc

1. Our opinion is unmodified

We have audited the financial statements of Arrow Global Group plc ("the Group") for the year ended 31 December 2020 which comprise the consolidated statement of profit or loss and other comprehensive income, consolidated and Parent Company statement of financial position, consolidated and Parent Company statement of changes in equity, consolidated and Parent Company statement of cash flows, and the 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 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the Directors on 2 July 2014. The period of total uninterrupted engagement is for the seven financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£2.1m (2019: £3.0m) 0.75% of three-year average total revenues (2019: 5.0% of normalised profit before tax)	
Coverage	100% (2019:100%) of Group revenues and profit before tax	
Key audit matters vs 2019		
Recurring risks	Estimation of future cash collections from portfolio investments	▲
	Recoverability of Parent Company's investment in subsidiaries	◀▶
Event driven	**New:** Going concern including the impact of COVID-19	▲

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	The risk	Our response
Estimation of future cash collections from portfolio investments **(Group)** (£1,042.2 million; 2019: £1,163.6 million) Comprising: - Amortised cost (£793.6 million, 2019: £932.2 million) - Fair Value Through Profit and Loss (£187.4million, 2019: £169.8million) - Real Estate inventories (£61.2 million, 2019: £61.6million) *Refer to page 77 (Audit Committee Report), page 129 (accounting policy) and page 155 (financial disclosures).*	**Forecast based valuation:** The measurement of portfolio investments involves significant judgement and estimation of the remaining cash collections in each portfolio. The impact of COVID-19 related macroeconomic uncertainty has increased the level of judgement and estimation related to the measurement of portfolio investments. The areas where we identified heightened levels of judgement and estimation in the measurement of portfolio investments and therefore increased audit focus are: • **Model estimations** – inherently judgemental modelling is used to estimate future cash flows. The assumptions used in the models include the probability and timing of expected future cash flows for each type of asset class within a portfolio or at a portfolio level. The Group adapted its cash-flow modelling in the year to respond to COVID-19 related macroeconomic uncertainty. • **Economic scenarios –** significant judgement is applied to determine the economic scenarios used and the probability weighting assigned to each, particularly with COVID-19 related macroeconomic uncertainty. • **Collection strategy** – the estimate of remaining cash collections are sensitive to changes in management's strategy in managing the portfolios. • **Business plan assumptions** – the estimation of remaining cash collections for each portfolio investment is underpinned by a business plan. Significant judgement and estimation is applied in determining a portfolio investment business plan, particularly in light of COVID-19 related macroeconomic uncertainty. The effect of these matters is that, as part of our risk assessment, we determined that estimation of future cash collections from all portfolio investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (note 24) disclose the sensitivity estimated by the Group. **Disclosure quality** The disclosures regarding the Group's application of IFRS-9 are key to explaining the key judgements and estimation to the portfolio valuation.	Our procedures included: — **Controls design:** We assessed the design, implementation and operating effectiveness of controls over data used in the cash flow forecasting models including monitoring of debt servicer collections, reconciliations of system cash collected to actual receipts, general IT controls over the collection systems driving the estimated future cash flows and associated governance controls. — **Our financial risk modelling expertise:** We assessed the implementation and methodology of the most significant models used in valuing the portfolio investments using our own financial modelling and valuation specialists. We specifically assessed the appropriateness of changes to the Group's methodology to estimate future cash flows by consideration of recent cash flow collections in light of COVID-19 macroeconomic uncertainty. — **Our economic scenario expertise:** We involved our economic specialists to assist us through benchmarking to industry consensus and wider market to assess the appropriateness of the Group's judgement and methodology for determining the economic scenarios used and the probability weightings applied to them. — **Critical assessment of cash flows:** We undertook a risk based selection process to determine a sample to critically assess the cash flow forecasts and any manual adjustments made by the Group. The assessment of cash flows was made with reference to actual historic collections, underlying economic and operational conditions and our understanding of the Group. We also considered the methodology against our knowledge of our industry peers. — **Recalculations**: We recalculated the portfolio investment valuation for each of the Group's portfolios. We performed sample testing over key inputs, data and assumptions to assess the reasonableness of economic forecasts, weights, and model assumptions applied. — **Assessing transparency:** We critically assessed the adequacy of the disclosures regarding the degree of estimation uncertainty involved in arriving at the valuation and the accounting judgements made in determining the measurement basis and valuation. **Our results** — We found the estimation of future cash collections from portfolio investments to fall within an acceptable range and the related disclosures to be acceptable (2019 result: acceptable).

KPMG

2. Key audit matters: our assessment of risks of material misstatement (cont.)

Key audit matter	The risk	Our response
Going concern including the impact of COVID-19 **(Group and Parent Company)** *Refer to page 77 Audit Committee Report), page 125 (basis of preparation and going concern statement).*	**Disclosure quality:** The financial statements explain how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company, with no material uncertainty identified and disclosed. That judgement is based on an evaluation of the inherent risks to the Group's and Parent Company's business model and how those risks might affect the Group's and Parent Company's financial resources over a period of at least a year from the date of approval of the financial statements in a range of plausible stress scenarios. The risk most likely to affect the Group's and Parent Company's financial resources over the period was the heightened macroeconomic uncertainty, due to COVID-19 effects. This could result in reduced cash collections from the Group's portfolio investments. We considered whether these risks could plausibly affect covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. The risk for our audit is whether or not a material uncertainty exists that may cast significant doubt on the ability of the Group and Parent Company to continue as a going concern. Had there been such an uncertainty, then that fact would need to be disclosed.	Our procedures included: — **Our sector experience:** We considered the Directors' assessment of sources of risk for the Group's and Parent Company's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. — **Challenge of assumptions**: We inspected the Group's and Parent Company's forecasting and liquidity plans to identify the key assumptions within these. We challenged the reasonableness of assumptions underpinning the Group's and Parent Company's forecasts. We compared the accuracy of management prior projections versus actuals. — **Funding assessment:** We evaluated management's assessment of the entity's compliance with debt covenants and evaluated the feasibility of management actions to improve the position should a material risk arise. — **Sensitivity analysis:** We challenged management's sensitivities over the level of available financial resources indicated by the Group's and Parent Company's financial forecasts, taking account of reasonably possible, but not unrealistic, adverse effects that could arise from these risk individually and collectively. We critically assessed and challenged the stress testing performed by management. — **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure within the financial statements using our knowledge of the relevant facts and circumstances developed during our audit work whilst considering the economic outlook, key areas of estimation uncertainty and mitigating actions available to the Group and Parent Company to respond to these risks. **Our results** — We found the going concern disclosure without any material uncertainty to be acceptable (2019: acceptable).

2. Key audit matters: our assessment of risks of material misstatement (cont.)

Key audit matter	The risk	Our response
Impairment of Parent Company's investment in subsidiaries and recoverability of parent's debt due from Group entities (Investment in subsidiaries £308.2 million; 2019: £307.5 million) (Parent's debt due from Group entities £3.3 million; 2019: £1.5 million) **Parent only** *Refer to page 77 (Audit Committee Report), page 126 (accounting policy) and page 151 (financial disclosures)*	**Low risk, high value:** The carrying amount of the Parent Company's investments in subsidiaries and intra-Group debtor balance represents 100% (2019: 100%) of the Parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	We performed the tests below rather than seeking to rely on any of the Parent Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included : — **Tests of detail:** We compared the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. We assessed 100% of group debtors to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making. — **Assessing subsidiary audits:** We assessed the ability of the subsidiary to obtain liquid funds and therefore the ability of the subsidiary to fund the repayment of the receivable. — **Comparing valuations:** For the investments where the carrying amount exceeded the net asset value, we compared the carrying amount of the investment with the higher of the Group's fair value (using the market capitalisation as a suitable approximation) and the expected value of the underlying business based on discounted cash flows. **Our results** We found the Parent Company's conclusion that there is no impairment of its investments in subsidiaries and intra-group debtor balances to be acceptable (2019: acceptable).

Changes to our risks

We continue to perform procedures over fair value of intangible assets acquired as part of business combinations. However, with no new business combinations in the current financial period, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as estimation of portfolio investment future cash-flows and going concern, however, we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £2.1m, determined with reference to a benchmark of revenue, normalised by averaging over the last three years due to the impact of the COVID-19 pandemic on business operations, to £289.6m of which it represents 0.75%. In the prior year, materiality was set at £3.0m, determined with reference to group profit before tax, normalised to exclude £1.3m acquisition costs and £6.9m related to the expansion of the fund management business, of which it represented 5%. We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax, in addition, the loss before tax reported in the current year is such that group profit before tax no longer serves as a useful benchmark.

Materiality for the Parent Company financial statements as a whole was set at £1.6m (2019: £1.9m), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.3% (2019: 0.4%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £1.4m (2019: £1.9m) for the group and £1.0m (2019: £1.2m) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the audit committee any corrected or uncorrected identified misstatements for the Group financial statements exceeding £100,000 (2019: £150,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

How we scoped our audit

Of the Group's 8 (2019: 3) reporting components, we subjected 7 (2019: 3) to full scope audits for Group purposes and 1 to specified risk-focused audit procedures. For 2020, we changed the definition of components from geographical location (in 2019) to reporting component for consolidation purposes.

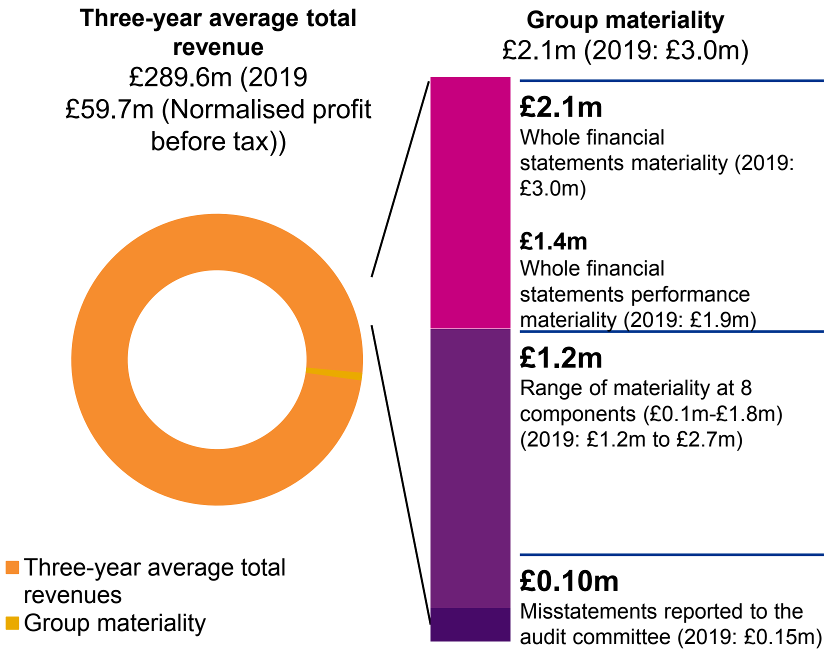
The components within the scope of our work accounted for the percentages illustrated opposite.

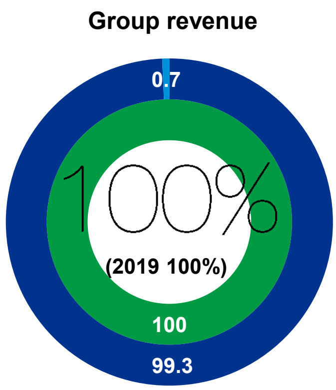
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

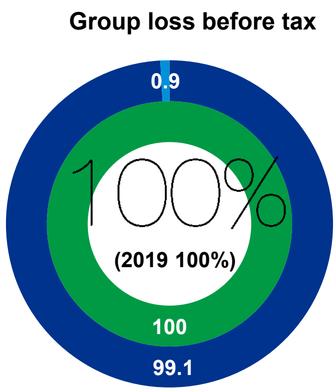
The Group team approved the component materialities, which ranged from £0.1m to £1.8m (2019: £1.2m to £2.7m), having regard to the mix of size and risk profile of the Group across the components.

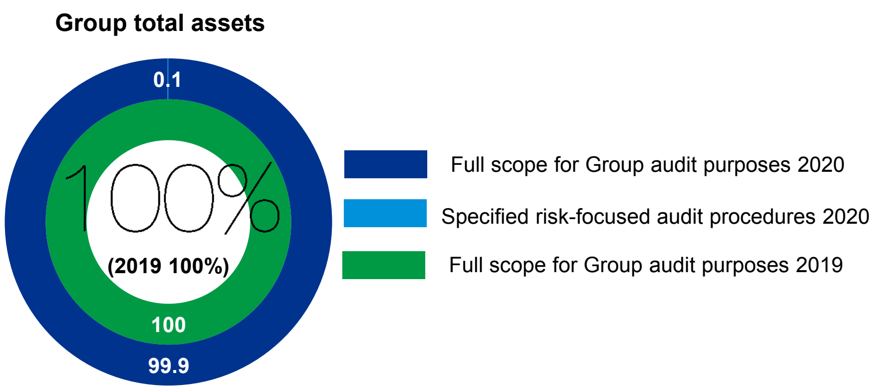
The work on the overseas components was performed by overseas component auditors. The audit of the UK component (including the audit of the Parent Company), was performed by the Group team.

The Group team held video conference meetings with the overseas component auditors throughout the audit. During these meetings, the findings reported to the Group team were discussed in more detail, key audit working papers were reviewed, and any further work required to be performed by the component auditor was instructed by the Group team.









4. 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 Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent 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").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

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's or Parent Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Parent Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 125 is materially consistent with the financial statements and our audit knowledge.

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 Parent Company will continue in operation.

5. 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 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;
- Considering remuneration incentive scheme 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 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 Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, 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. On this audit we do not believe there is a fraud risk related to revenue recognition, with the exception of revenue earnt from portfolio investments, because the calculation of revenue is based on contractual terms and requires no judgement.

We also identified a fraud risk in response to pressure to meet profit targets related to the measurement of expected cash collections for portfolio investments.

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 to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by members of the Executive Committee or Board, those posted by unauthorised individuals, those posted to unusual or seldom accounts, those containing key words, those entries which have a value of zero or are unbalanced and those posted by individuals who rarely do during ordinary course of business, and
- Assessing significant accounting estimates for bias.

5. Fraud and breaches of laws and regulations – ability to detect (cont.)

Identifying and responding to risks of material misstatement due to fraud (cont.)

We discussed with the audit committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-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, 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 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 team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

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.

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, 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.

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

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.

6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- 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.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the statement of viability on page 53 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal risks and uncertainties disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the statement of viability of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the statement of viability, set out on page 53 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. 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 absence of anything to report on these statements is not a guarantee as to the Group's and Parent Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the audit committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. We have nothing to report on the other 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 and the part of the Directors' Remuneration Report to be audited 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 111, the Directors are responsible for: the preparation of the financial statements including 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.

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

This report is made solely to the Group'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 Group'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 Group and the Group's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Ryder (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
23 March 2021

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2020

	Note	2020 £000	2019 £000
Income from portfolio investments at amortised cost	24	**164,597**	199,094
Fair value gains on portfolio investments at FVTPL	24	**4,976**	32,397
Impairment (losses)/gains on portfolio investments	24	**(100,436)**	12,714
Income from real estate inventories	24	**492**	561
Total income from portfolio investments		**69,629**	244,766
Income from asset management and servicing and fund and investment management	5	**97,026**	94,360
Gain on disposal of leases		**453**	–
Other income		**384**	392
Total income		**167,492**	339,518
Operating expenses:			
Collection activity and fund management costs	10	**(130,572)**	(131,527)
Other operating expenses	10	**(94,248)**	(102,173)
Total operating expenses		**(224,820)**	(233,700)
Operating (loss)/profit		**(57,328)**	105,818
Finance income	7	**61**	61
Finance costs	8	**(57,556)**	(54,559)
(Loss)/profit before tax		**(114,823)**	51,320
Taxation credit/(charge) on ordinary activities	11	**21,206**	(14,033)
(Loss)/profit after tax		**(93,617)**	37,287
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange translation difference arising on revaluation of foreign operations		**6,741**	(7,077)
Movement on hedging reserve		**356**	161
Total comprehensive (loss)/income		**(86,520)**	30,371
(Loss)/profit after tax attributable to:			
Owners of the Company		**(92,829)**	35,223
Non-controlling interest		**(788)**	2,064
		(93,617)	37,287
Comprehensive (loss)/income attributable to:			
Owners of the Company		**(85,732)**	28,307
Non-controlling interest		**(788)**	2,064
		(86,520)	30,371
Basic EPS (£)	12	**(0.52)**	0.20
Diluted EPS (£)	12	**(0.52)**	0.19

Note – There has been a reclassification between the two operating expenses rows 'collection activity and fund management costs' and 'other operating expenses' in the prior year. This change was made to better reflect the evolved nature of the Group's business model and presenting direct costs of the Group's business lines is deemed to provide more relevant information. As such, we have reclassified £21,729,000 from 'other operating expenses' to 'collection activity and fund management costs' in the prior period. The total operating expenses impact is £nil. Further information can be found in note 10.

The parent company's profit after tax for the year was £8,330,000 (2019: £11,897,000).

Consolidated and parent company statement of financial position

As at 31 December 2020

	Note	Group 2020 £000	As re-presented Group 2019 £000	Company 2020 £000	Company 2019 £000
Assets					
Cash and cash equivalents	31	**182,892**	115,376	**49**	18
Trade and other receivables	16	**71,372**	48,483	**224,924**	212,717
Portfolio investments – amortised cost	24	**793,554**	932,199	**–**	–
Portfolio investments – FVTPL	24	**187,421**	169,799	**–**	–
Portfolio investments – real estate inventories	24	**61,240**	61,626	**–**	–
Property, plant and equipment	15	**17,612**	24,521	**–**	–
Intangible assets	14	**38,709**	38,159	**–**	–
Deferred tax asset	11	**31,782**	10,759	**–**	–
Investment in subsidiary undertakings	23	**–**	–	**308,200**	307,500
Goodwill	13	**278,338**	267,700	**–**	–
Total assets		**1,662,920**	1,668,622	**533,173**	520,235
Liabilities					
Bank overdrafts	29	**3,648**	1,386	**–**	–
Revolving credit facility	29	**277,552**	230,963	**–**	–
Derivative liability	26	**83**	509	**–**	–
Trade and other payables	17	**166,965**	223,001	**4,057**	2,007
Current tax liability		**2,110**	7,645	**1,986**	697
Other borrowings	29	**3,247**	3,672	**–**	–
Asset-backed loans	29	**143,985**	84,077	**–**	–
Senior secured notes	29	**930,575**	897,875	**–**	–
Deferred tax liability	11	**18,056**	17,637	**–**	120
Total liabilities		**1,546,221**	1,466,765	**6,043**	2,824
Equity					
Share capital	19	**1,774**	1,769	**1,774**	1,769
Share premium	19	**347,436**	347,436	**347,436**	347,436
Retained earnings		**38,506**	129,240	**184,288**	174,012
Hedging reserve		**(67)**	(423)	**–**	–
Other reserves		**(274,451)**	(280,630)	**(6,368)**	(5,806)
Total equity attributable to shareholders		**113,198**	197,392	**527,130**	517,411
Non-controlling interest		**3,501**	4,465	**–**	–
Total equity		**116,699**	201,857	**527,130**	517,411
Total equity and liabilities		**1,662,920**	1,668,622	**533,173**	520,235

The 2019 balance sheet has been re-presented to show £26,611,000 of bank balances subject to certain restrictions within cash and cash equivalents in the year, that were previously shown within trade and other receivables. See note 16 on page 46 for more detail.

Approved by the board of directors on 23 March 2021, signed and authorised for issue on its behalf by:

Matt Hotson
Group chief financial officer

Lee Rochford
Group chief executive officer

Company number: 08649661

Consolidated and parent company statement of changes in equity

For the year ended 31 December 2020

Group	Ordinary shares £000	Share premium £000	Retained earnings £000	Hedging reserve £000	Own share reserve[1] £000	Translation reserve[1] £000	Merger reserve[1] £000	Total £000	Non-controlling interest £000	Total £000
Balance at 1 January 2019	1,763	347,436	115,642	(584)	(5,800)	9,214	(276,961)	190,710	601	191,311
Profit after tax	–	–	35,223	–	–	–	–	35,223	2,064	37,287
Exchange differences	–	–	–	–	–	(7,077)	–	(7,077)	–	(7,077)
Recycled to profit after tax	–	–	–	7	–	–	–	7	–	7
Net fair value gains – cash flow hedges	–	–	–	187	–	–	–	187	–	187
Tax on hedged items	–	–	–	(33)	–	–	–	(33)	–	(33)
Total comprehensive income for the year	–	–	35,223	161	–	(7,077)	–	28,307	2,064	30,371
Shares issued	6	–	–	–	–	–	–	6	–	6
Repurchase of own shares	–	–	–	–	(6)	–	–	(6)	–	(6)
Share-based payments net of tax	–	–	1,437	–	–	–	–	1,437	–	1,437
Dividend paid	–	–	(23,062)	–	–	–	–	(23,062)	–	(23,062)
Non-controlling interest on acquisition	–	–	–	–	–	–	–	–	1,800	1,800
Balance at 31 December 2019	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**

1. Other reserves total £274,451,000 deficit (2019: £280,630,000 deficit).

Company	Ordinary shares £000	Share premium £000	Retained earnings £000	Own share reserve £000	Total £000
Balance at 1 January 2019	1,763	347,436	183,740	(5,800)	527,139
Profit after tax	–	–	11,897	–	11,897
Total comprehensive income for the year	–	–	11,897	–	11,897
Shares issued	6	–	–	–	6
Repurchase of own shares	–	–	–	(6)	(6)
Share-based payments	–	–	1,437	–	1,437
Dividend paid	–	–	(23,062)	–	(23,062)
Balance at 31 December 2019	1,769	347,436	174,012	(5,806)	517,411
Profit after tax	**–**		**8,330**	**–**	**8,330**
Total comprehensive income 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**

Financial statements

Consolidated and parent company statement of cash flows

For the year ended 31 December 2020

	Note	Group 2020 £000	As re-presented Group 2019 £000	Company 2020 £000	Company 2019 £000
Net cash generated by operating activities	31	**41,510**	6,456	**1,288**	23,072
Investing activities					
Purchase of property, plant and equipment	15	**(2,449)**	(1,269)	**–**	–
Purchase of intangible assets	14	**(11,375)**	(11,830)	**–**	–
Proceeds from disposal of intangible assets and property, plant and equipment		**–**	18	**–**	–
Acquisition of subsidiaries, net of cash acquired	30	**(27)**	(2,850)	**(700)**	–
Deferred consideration paid in connection with subsidiary acquisitions		**(7,149)**	(12,004)	**–**	–
Net cash used in investing activities		**(21,000)**	(27,935)	**(700)**	–
Financing activities					
Movements in other banking facilities		**34,687**	(7,499)	**–**	–
Proceeds from ABS issuing		**62,440**	85,604	**–**	–
Increase in non-controlling interest on acquisition		**–**	1,800	**–**	–
Repayment of interest on senior notes		**(38,860)**	(33,726)	**–**	–
Repayment of interest on asset-backed loans		**(3,909)**	(2,144)	**–**	–
Repurchase of own shares		**(562)**	(6)	**(562)**	(6)
Issue of share capital		**5**	6	**5**	6
Bank interest received	7	**61**	61	**–**	–
Bank and other similar fees paid		**(7,622)**	(8,452)	**–**	–
Lease payments	21	**(5,636)**	(5,061)	**–**	–
Payment of dividends	20	**–**	(23,062)	**–**	(23,062)
Payment of deferred interest		**(328)**	–	**–**	–
Net cash flow generated by/(used in) financing activities		**40,276**	7,521	**(557)**	(23,062)
Net increase/(decrease) in cash and cash equivalents		**60,786**	(13,958)	**31**	10
Cash and cash equivalents at beginning of year		**115,376**	132,672	**18**	8
Effect of exchange rates on cash and cash equivalents		**6,730**	(3,338)	**–**	–
Cash and cash equivalents at end of year		**182,892**	115,376	**49**	18

Included within cash and cash equivalents is £12,902,000 (2019: £26,611,000) of cash which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated securitisation structure awaiting a payment date. The 2019 reconciliation above has been re-presented to remove these amounts from the net cash generated by operating activities, as in the prior year they were included within this line item, but are now included within cash and cash equivalents at the beginning and end of each year.

1.1 General information

Arrow Global Group plc ('the Company') is a company incorporated in England and Wales and is the ultimate parent company of the Group. The address of the registered office is presented on the inside back cover. 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 2020 are listed in note 23.

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, consolidation and going concern

The Group's and the Company's financial statements for the year ended 31 December 2020 have been prepared in accordance with the international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRS'). The accounting policies have been applied consistently in the current and prior periods, noting a refinement of approach to the valuation of the portfolio assets in response to the COVID-19 situation, which is set out in detail in note 4.

The Group financial statements have also been prepared in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU.

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. As permitted by section 479c of the Companies Act 2006, the Group has chosen to take the subsidiary companies audit exemption in the UK, with the parent Company providing a declaration of guarantee for the year ended 31 December 2020. A full listing of the subsidiaries availing of the guarantee and audit exemption is set out in note 23.

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 2020, 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.

Additionally, in response to the COVID-19 crisis and its anticipated impacts on Estimated Remaining Collections (ERC), the Group has protected its liquidity and covenant position by raising additional funding and has renegotiated its financial covenants with its revolving credit facility lenders, as set out further in note 29.

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 2024. Adherence to the Group's liquidity, leverage and ERC loan-to-value covenants was also considered in all scenarios.

The results of this scenario analysis show that even in a severe but plausible downside scenario, after taking reasonable management actions (such as cost reductions, slowing purchases and collection acceleration) as required, the Group is able to maintain sufficient liquidity and cash reserves to operate within banking covenants, and to continue as a going concern. This scenario was aligned to the severe downside forecasts outlined in note 24.

Finally, a reverse stress test has also been prepared, incorporating a plausible set of management actions, to identify the magnitude of a downside stress that needs to occur to cause the group to breach its financial covenants. 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.

2. Accounting standards

New standards

The following new standards and interpretations are mandatory for the year beginning 1 January 2020:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8);
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7); and
- Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4).

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

During 2020, these new standards and interpretations had an insignificant effect on the consolidated financial statements.

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 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements as they do not have a material effect on the Group's financial statements.

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

- COVID-19-Related Rent Concessions (Amendment to IFRS 16);
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- 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); and
- Amendments to IFRS 17.

3. Significant accounting policies

Business combinations

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

3. Significant accounting policies *continued*

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.

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 2020 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. Also, see the accounting policy 'shares held in an employee benefit trust' (EBT).

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 27).

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 27.

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.

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.

3. Significant accounting policies *continued*

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

ii. Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into sterling at the monthly average exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the foreign currency translation reserve (translation reserve).

When a foreign operation is disposed of in such a way that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation whilst still retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

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.

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.

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

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.

Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in fair value gains on portfolio investments at FVTPL or other income based on the underlying classification of the instrument.

Leases

i. Group acting as a lessee
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.

3. Significant accounting policies *continued*

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.

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

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

iii. Deferred tax asset

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.

3. Significant accounting policies *continued*

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).

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.

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).

3. Significant accounting policies *continued*

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.

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.

3. Significant accounting policies *continued*

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.

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.

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.

3. Significant accounting policies *continued*

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 held for risk management purposes and hedge accounting

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.

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.

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

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.

3. Significant accounting policies *continued*

Intangible assets and goodwill

i. Software licences and IT platforms

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

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

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.

3. Significant accounting policies *continued*

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.

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 19.

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.

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.

Earnings per share

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

3. Significant accounting policies *continued*

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.

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.

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. 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.

4. Critical accounting judgements and estimates *continued*

Assumptions and estimation uncertainties

i. Carrying value of portfolio investments

The carrying value of portfolio investments is £1,042,215,000 at 31 December 2020 (2019: £1,163,624,000). The majority of these portfolio investments are measured at amortised cost. Given the speed and severity of the economic changes that the COVID-19 pandemic has brought about, the Group has further refined the method by which ERCs and therefore portfolio valuations are calculated for the current accounting period.

As at 31 December 2019, 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.

These forecast balance sheet cash collections were then updated for balance sheet cash collections throughout 2020, before being used as the basis for the 31 December 2020 reforecast. Management believe the nature of the current crisis has caused a temporary dislocation in how future balance sheet cash collections will trend, based on balance sheet cash collections data to date. Accordingly, the Group has instead sought to determine how the anticipated more volatile macroeconomic environment will impact the bottom-up portfolio-level ERC forecasts, via a series of overlays, taking into account forecast future macroeconomic circumstances. To achieve this, each of the Group's portfolios were first divided into a specified number of risk segments, with each segment containing loans of a similar nature (for example, UK unsecured loans).

In addition, individually material and/or complex portfolios were also considered separately as their own 'segment'. For each segment, for the most relevant macroeconomic indicators, a range of possible future outcomes was forecast, each representing either an upside, downside or severe downside scenario. The impact of each scenario on the Group's future cash flows was determined in conjunction with the Group's internal experts in the relevant segment, considering both past experience and knowledge about the current condition of the local environment.

Using statistical methods, a probability was also assigned to each segment-level scenario, giving consideration to updated external macroeconomic forecasts, balance sheet cash collections performance throughout the year and local in-house knowledge. These probabilities assigned were then used to calculate a probability-weighted ERC change for each segment, save for a small number of individual portfolios in which management judgement was applied. The weighted segment-level adjustments were then applied to each portfolio within each respective segment to allow the production of portfolio-level ERC curves.

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.

Numerical disclosures and sensitivities have been set out in note 24, to assist the users of these statements in understanding the financial impact of the most recent reforecast.

In addition to the scenario modelling set out above, another key judgement that has been applied by management is the probability weighting of each of these scenarios. The precise weightings used have been set out in note 24 and were based on management's judgement on how each of its scenarios aligns to the macroeconomic forecasts provided by third party experts, as well as the view of local internal experts in the relevant geography and asset class. Such scenarios also take into account operational considerations that may impact balance sheet cash collections in each individual geography, such as the functioning of local court systems or property markets for example.

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 2020 by +/- £9,810,000 (2019: +/- £11,020,000). 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 2020 by £8,637,000/(£11,012,000) (2019: £12,453,000/(£17,326,000)). 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. Fair value of net assets acquired as part of business combinations

The Group capitalises goodwill on the acquisition of entities as discussed in the significant accounting policies. Goodwill is the excess of the consideration paid over the fair value of net assets acquired. Therefore the fair value of assets acquired directly impacts the amount of goodwill recognised on acquisition. The determination of the fair value of acquired net assets requires the exercise of management judgement, particularly for those financial assets or liabilities for which there are no quoted prices, or assets such as acquired portfolio investments and customer intangibles where valuations reflect estimates of amounts and timing of future cash flows. Different valuations would result in changes to the goodwill arising and to the post-acquisition performance of the acquired entities. Further detail on the valuation of acquired loan portfolios is given in section i. above. Note 30 provides further detail on acquisitions and the net assets acquired on each.

iii. Impairment assessment of goodwill balances

The carrying amount of goodwill is £278,338,000 at 31 December 2020. 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 2020. 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 13.

5. Segmental reporting

The Group launched its first fund in December 2019. As the Group moves increasingly to an integrated asset manager model, it has aligned its segmental methodology during the year to the new business model. 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. In the Annual Report and Accounts 2019, the Group reported under three separate reportable segments. Under the new segmental disclosure, the Group will now report under four separates reportable segments, with the Fund and Investment Management business separated out from the Asset Management and Servicing business segment. 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 managing debt portfolios on behalf of our fund clients and the Group's Balance Sheet business.
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, 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. Further granularity, such as type of AMS contract, or type of Balance Sheet business portfolio, is not how the business is managed or organised, and hence such further detail has not been presented to the CODM, or in the segmental disclosures.

As part of the move to understand and provide more details over the segments under the integrated asset manager model, further work has been completed to reallocate depreciation, amortisation and forex from the Group functions to the relevant segments.

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.

2020	Balance Sheet business £000	AMS business £000	FIM business £000	Group functions £000	Intra-segment elimination £000	Total 2020 £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)**

2019	Balance Sheet business £000	AMS business Restated[1] £000	FIM business Restated[1] £000	Group functions Restated[1] £000	Intra-segment elimination Restated[1] £000	As re-presented Total 2019 £000
Total income	226,475	128,785	48,329	392	(64,463)	339,518
Collection activity and fund management costs[2]	(110,936)	(68,071)	(16,983)	–	64,463	(131,527)
Gross margin	115,539	60,714	31,346	392	–	207,991
Gross margin %	51.0%	47.1%	64.9%			
Other operating expenses excluding depreciation, amortisation and forex[2]	(10,654)	(37,638)	(12,711)	(21,717)	–	(82,720)
EBITDA	104,885	23,076	18,635	(21,325)	–	125,271
EBITDA margin %	46.3%	17.9%	38.6%			
Depreciation, amortisation and forex	(5,845)	(6,921)	(365)	(6,322)	–	(19,453)
Operating profit/(loss)	99,040	16,155	18,270	(27,647)	–	105,818
Net finance costs	–	–	–	(54,498)	–	(54,498)
Profit/(loss) before tax	99,040	16,155	18,270	(82,145)	–	51,320

1. In line with the requirements of IFRS 8:29, due to the change of the segmental reporting structure aligned to the Group now being managed through an integrated asset manager model, the corresponding information for 2019 has also been restated. The adjusting items for 2019 have been absorbed within the segments as part of the restatement.
2. The split of total operating expenses has changed from the Annual Report and Accounts 2019, with a reclass between 'collection activity and fund management costs' and 'other operating expenses', as part of the change in the segmental reporting structure aligned to the Group now being managed through an integrated asset management model. The total operating expenses impact is £nil. The main movements between the categorisation relate to allocation of internal staff costs and professional fees. The prior year has been re-presented accordingly on this basis.

5. Segmental reporting *continued*

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

2020 Geographical information	UK and Ireland £000	Portugal £000	Italy £000	Netherlands £000	Intra-Group trading £000	Total £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**

2019 Geographical information	UK and Ireland £000	Portugal £000	Italy £000	Netherlands £000	Intra-Group trading £000	Total £000
Total income – as re-presented[1]	141,184	104,999	88,244	69,554	(64,463)	339,518
Third-party AMS and FIM income – as re-presented[1]	42,428	38,365	38,864	39,166	(64,463)	94,360
Non-current assets	114,110	74,535	82,226	59,509	–	330,380

1. See page 137 for more detail.

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.

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

	2020 £000	2019 £000
Third-party AMS and FIM income	**97,026**	94,360
Intra-Group AMS and FIM income	**60,362**	64,463
Income reallocation from Balance Sheet business	**4,747**	18,291
Gross AMS and FIM income	**162,135**	177,114
Balance sheet business income	**69,629**	244,766
Income reallocation to FIM business	**(4,747)**	(18,291)
Gross Balance Sheet income	**64,882**	226,475
Other income	**837**	392
Gross income	**227,854**	403,981

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 2020, the Group had assets relating to contracts with customers in the amount of £8,765,000 (31 December 2019: £3,100,000). 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 7 years and 9 months (31 December 2019: 8 years). The contract balances have amortised in the period, resulting in a £655,000 of amortisation expensed to the comprehensive statement of profit and loss during the year (2019: no impact).

7. Finance income

	2020 £000	2019 £000
Bank interest	**61**	61
Total finance income	**61**	61

8. Finance costs

	2020 £000	2019 £000
Interest and similar charges on bank loans	**8,324**	8,028
Interest and similar charges on senior secured notes	**38,648**	38,232
Interest and similar charges on asset-backed securitisation	**6,205**	2,509
Interest rate swap and forward exchange contract hedge costs	**370**	515
Lease liability interest	**1,107**	1,395
Other interest	**2,902**	3,880
Total finance costs	**57,556**	54,559

9. Auditor's remuneration

The analysis of auditor remuneration is as follows:	2020 £000	2019 £000
Fees payable for audit services – Company	**60**	55
Fees payable for audit services – Group	**1,451**	1,420
Fees payable in respect of prior periods for audit services – Group	**167**	–
Total fees payable for audit services	**1,678**	1,475
Fees payable for audit-related assurance services	**304**	100
Fees payable for regulatory assurance services	**69**	107
Total fees payable for audit-related and regulatory assurance services	**373**	207
Fees payable for other assurance services	**247**	20
Total fees payable for non-audit services	**620**	227
Total fees payable	**2,298**	1,702

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	Note	2020 £000	As re-presented 2019 £000
External collection costs		**28,345**	31,499[1]
Staff costs	10.b	**62,458**	62,761[1]
Direct temp labour		**4,981**	5,476[1]
Direct operating costs		**22,828**	15,057
Legal disbursements		**8,944**	14,416
Other collection activity costs		**3,016**	2,318[1]
Total collection activity and fund management costs		**130,572**	131,527

1. The split of total operating expenses has changed from in the Annual Report and Accounts 2019, with a reclass between the 'collection activity and fund management costs' and 'other operating expenses', as part of the change in the segmental reporting structure aligned to the Group now being managed through an integrated asset management model. The total operating expenses impact is £nil. The main movements between the categorisation relate to allocation of internal staff costs and professional fees. The prior year has been re-presented accordingly on this basis.

Other operating expenses	Note	2020 £000	As re-presented 2019 £000
Staff costs	10.b	**40,074**	36,170[1]
Other staff related costs		**6,389**	11,591[1]
Premises		**4,485**	5,401[1]
IT		**14,459**	13,830[1]
Depreciation and amortisation		**18,910**	18,435
Write off of PPE and intangible assets		**249**	6,377
Net foreign exchange losses/(gains)		**743**	1,018
Acquisition related expenses		**–**	1,457
Contingent consideration remeasurement		**(5,755)**	–
Deferred consideration renegotiations		**–**	(21,119)
Other operating expenses		**14,694**	29,013[1]
Total other operating expenses		**94,248**	102,173

1. The split of total operating expenses has changed from in the Annual Report and Accounts 2019, with a reclass between the 'collection activity and fund management costs' and 'other operating expenses', as part of the change in the segmental reporting structure aligned to the Group now being managed through an integrated asset management model. The total operating expenses impact is £nil. The main movements between the categorisation relate to allocation of internal staff costs and professional fees. The prior year has been re-presented accordingly on this basis.

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

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

10.b Staff costs

	2020 £000	2019 £000
Wages, bonuses and salaries	**82,889**	77,698
Pension costs	**4,415**	2,833
Social security costs	**13,037**	12,576
Share-based payments	**1,753**	1,437
Staff restructuring	**438**	4,387
	102,532	98,931

The total executive and non-executive directors' remuneration during the year was £1,309,000 (2019: £1,432,000), including £87,000 in relation to pension costs (2019: £110,000). See the remuneration report for further disclosures relating to directors' remuneration.

The average monthly number of employees (including executive directors) are analysed below:

	2020	2019
Operations and asset servicing	**1,834**	1,707
Commercial asset management	**221**	217
Finance	**160**	197
Fund and investment management and origination	**132**	142
Legal and risk	**101**	105
HR and communications	**60**	58
Management and support	**14**	15
	2,522	2,441

11. Taxation

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	2020 £000	2019 £000
Current tax (credit)/expense		
Tax charge at standard UK corporation tax rate	**6,241**	14,152
Changes in estimate related to prior years	**(5,374)**	1
Total current tax expense	**867**	14,153
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	**(23,212)**	(1,332)
Adjustment in relation to prior years	**297**	2,421
Recognition of previously unrecognised tax losses	**842**	(1,209)
Total deferred tax credit	**(22,073)**	(120)
Total income tax (credit)/expense	**(21,206)**	14,033

The differences in the effective tax rate for the period and the standard rate of corporation tax in the UK at 19% (2019: 19%) are as follows:

b. Reconciliation of effective tax rate	2020 £000	2019 £000
(Loss)/profit before tax	**(114,823)**	51,320
Tax (credit)/charge at standard UK corporation tax rate	**(21,816)**	9,751
Effect of tax rates in foreign jurisdictions	**1,950**	2,052
Expenses not deductible for tax purposes	**2,293**	(358)
Changes in corporate tax rates in the year	**842**	(1,209)
Movements in unrecognised deferred tax	**602**	1,376
Changes in estimate relating to prior years	**(5,077)**	2,421
Total income tax (credit)/expense	**(21,206)**	14,033

11. Taxation *continued*

c. Amounts recognised in OCI	2020 Before tax £000	2020 Tax (expense)/ benefit £000	2020 Net of tax £000	2019 Before tax £000	2019 Tax (expense)/ benefit £000	2019 Net of tax £000
Items that are/may be reclassified to profit or loss						
Movement in hedging reserve:						
Effective portion of changes in fair value	**427**	**(71)**	**356**	187	(33)	154
Net amount reclassified to profit or loss	**–**	**–**	**–**	7	–	7
Total movement in hedging reserve	**427**	**(71)**	**356**	194	(33)	161

The rate of UK corporation tax, as enacted under previous Finance Acts, was expected to reduce to 17% from 1 April 2020. The UK Government enacted legislation for the rate to remain at 19% and deferred tax recognised in the UK has been restated accordingly, with a credit of £305,000 reflected during the year ended 31 December 2020.

In December 2019, a new corporate tax law was enacted in the Netherlands. Consequently, as of 1 January 2020, the corporate tax rate in the Netherlands will be reduced from 25% to 21.7%. This change resulted in a gain of €1,147,000 related to the remeasurement of deferred tax assets and liabilities of the Group's Dutch subsidiaries being recognised during the year ended 31 December 2019. In September 2020, the Dutch Government announced the reversal of this planned decrease, maintaining the rate at 25%. A credit of £1,147,000 has been reflected in the year ended 31 December 2020, which reverses the prior year restatement.

Deferred tax

The Group has recognised a deferred tax asset in relation to losses of £27,683,000 (2019: £6,353,000), of which £18,669,000 (2019: £nil) relate to the UK. The UK losses arose in the current period as a result of an impairment of portfolio balances due to COVID-19. The underlying profitability of the Group has remained, and such losses are expected to be utilised against future taxable profits.

The Group has not recognised a deferred tax asset in respect of £2,864,000 (2019: £2,634,000) of tax losses carried forward, due to uncertainties over the future utilisation of the losses, including the future profitability of the relevant subsidiaries. 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 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. As noted above, there is a significant UK deferred tax asset in relation to losses carried forward, the restatement of which is expected to generate a statement of profit and loss tax credit once the applicable legislation has been substantially enacted.

Movement in deferred tax balances

2020	Net balance 1 January £000	Recognised in profit or loss £000	Recognised in OCI/equity £000	Opening reserves £000	Transferred in on acquisition £000	Foreign exchange £000	Net balance 31 December £000	Deferred tax assets £000	Deferred tax liabilities £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)**

2019	Net balance 1 January £000	Recognised in profit or loss £000	Recognised in OCI/equity £000	Opening reserves £000	Transferred in on acquisition £000	Foreign exchange £000	Net balance 31 December £000	Deferred tax assets £000	Deferred tax liabilities £000
Fixed assets	463	(9)	–	–	273	–	727	727	–
IFRS transitional adjustments	(1,416)	252	–	–	–	8	(1,156)	–	(1,156)
Share schemes	704	285	(121)	–	–	–	868	868	–
Hedging reserve	120	–	(33)	–	–	–	87	87	–
Other temporary differences	828	329	–	–	–	(436)	721	721	–
Losses	5,682	486	–	–	–	185	6,353	6,353	–
Fair value and IFRS 9 adjustments	(13,198)	(1,383)	–	–	(693)	636	(14,638)	1,843	(16,481)
IFRS 16 transitional adjustments	–	160	–	–	–	–	160	160	–
	(6,817)	120	(154)	–	(420)	393	(6,878)	10,759	(17,637)

11. Taxation *continued*

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 has 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. Any WHT suffered is expected to be fully creditable in the UK, with no cash tax impact from an overall group perspective (other than for timing purposes).

Uncertainty over income tax treatments

The current tax liability of £2,110,000 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. Earnings per share (EPS)

	2020 £000	2019 £000
Profit after tax attributable to shareholders	**(92,829)**	35,223
Weighted average ordinary shares	**177,150**	175,859
Potential exercise of share options	**7,698**	4,942
Weighted average ordinary shares (diluted)	**184,848**	180,801
Basic earnings per share (£)	**(0.52)**	0.20
Diluted earnings per share (£)	**(0.52)**	0.19

13. Goodwill

	£000
Cost	
At 1 January 2019	264,988
Additions[1]	14,519
Adjustment of the discounted value of deferred consideration paid for EI	462
Modification to Drydens' opening balance sheet fair value post-acquisition	693
Exchange rate differences	(10,653)
At 31 December 2019	270,009
Exchange rate differences	10,638
At 31 December 2020	**280,647**
Amortisation and impairment	
At 31 December 2019 and 31 December 2020	2,309
Net book value	
At 31 December 2020	**278,338**
At 31 December 2019	267,700

The following table provides a breakdown of goodwill acquired during the current and prior year:

	£000
Goodwill on acquisition	
At 1 January 2019	264,988
Drydens Limited (Drydens)[1]	14,519
Exchange rate differences	(9,498)
At 31 December 2019	270,009
Exchange rate differences and	10,638
Impairment	(2,309)
At 31 December 2020	**278,338**

1. See note 30 for a detailed analysis of additions to goodwill during 2019.

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13. Goodwill *continued*

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 and Ireland, comprising all Group companies acquired in the Capquest acquisition, Arrow Global Receivables Management Limited, Mars Capital, Bergen and Drydens; Portugal, comprising all of the Group companies acquired in the Whitestar, Gesphone, Redrock and Norfin acquisitions; Benelux, comprising all the Group companies acquired in the Vesting acquisition; and Italy, comprising Zenith, Parr Credit and Europa Investimenti S.p.A. The UK and Ireland, Portugal, Benelux, and Italy CGUs, represent the cash flows generated principally from collections on acquired portfolio investments and management and servicing of third-party debt.

Given the structure and operating model of the Group, it has been deemed appropriate to combine a number of CGUs for impairment testing purposes. This is in line with the Group's stated strategy of providing a range of services in each geographic region in which the Group operates and represents the lowest level at which the Group's resources and assets are allocated internally.

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 and the systemic risk of the specific CGU.

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.

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:

	2020 £000	2019 £000
UK and Ireland	**78,900**	79,476
Portugal	**73,662**	69,156
Benelux	**43,124**	40,824
Italy	**82,652**	78,244
	278,338	267,700

An impairment review was carried out at 31 December 2020 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:

	2020				2019			
	UK and Ireland	Portugal	Benelux	Italy	UK and Ireland	Portugal	Benelux	Italy
Discount rate %	**8.9%**	**9.3%**	**8.4%**	**9.4%**	8.6%	9.0%	8.2%	9.0%
Growth rate used to extrapolate forecasts	**2.0%**	**2.2%**	**2.0%**	**1.7%**	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.

13. 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 2020. 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 of	A discount rate increase of
UK and Ireland	**39%**	**4%**
Portugal	**23%**	**3%**
Benelux	**21%**	**2%**
Italy	**48%**	**7%**

14. Intangible assets

	Customer intangibles £000	Contractual rights £000	IT platform[1] £000	Software licences £000	Total £000
Cost					
At 1 January 2019	27,686	1,485	38,226	11,205	78,602
Assets acquired on acquisition of a subsidiary	688	–	–	–	688
Exchange differences	(1,372)	(79)	(705)	(269)	(2,425)
Additions	117	6	8,706	3,001	11,830
Disposals	–	–	–	(273)	(273)
At 31 December 2019	27,119	1,412	46,227	13,664	88,422
Exchange 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**
Accumulated amortisation					
At 1 January 2019	13,269	698	11,619	8,752	34,338
Exchange differences	(768)	(47)	(153)	(239)	(1,207)
Amortisation charge for the year[2]	4,694	244	4,879	1,821	11,638
Reclassifications	–	–	–	–	–
Write-off	–	–	5,769	(6)	5,763
Disposals	–	–	–	(269)	(269)
At 31 December 2019	17,195	895	22,114	10,059	50,263
Exchange differences	903	54	709	262	1,928
Amortisation charge 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**
Carrying amount					
At 31 December 2020	**6,331**	**336**	**23,275**	**8,767**	**38,709**
At 31 December 2019	9,924	517	24,113	3,605	38,159

1. An intangible asset relating to a software upgrade is included within IT platform. The asset has a carrying value of €5,550,000 (31 December 2019: €6,000,000) and a remaining amortisation period of 9 years and 3 months.
2. Amortisation is shown within the other operating costs line of the consolidated statement of profit or loss.

15. Property, plant and equipment

	Leasehold improvements £000	Computer equipment £000	Furniture £000	Vehicles £000	Right-of-use asset[1] £000	Total property, plant and equipment £000
Cost						
At 1 January 2019	7,249	5,107	1,940	204	–	14,500
Assets acquired on acquisition of a subsidiary	118	244	14	–	578	954
Adoption of IFRS 16 as at 1 January 2019	–	–	–	–	26,386	26,386
Exchange differences	(227)	2	12	17	–	(196)
Additions	385	338	42	120	384	1,269
Disposals	–	(292)	(9)	(42)	(674)	(1,017)
At 31 December 2019	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**
Accumulated depreciation						
At 1 January 2019	2,978	2,836	917	8	–	6,739
Adoption of IFRS 16 as at 1 January 2019	–	–	–	–	3,199	3,199
Exchange differences	(79)	210	28	78	(15)	222
Charge for the year	920	811	290	66	4,710	6,797
Write-off leasehold improvements	509	–	104	–	–	613
Disposals	–	(168)	(6)	(21)	–	(195)
At 31 December 2019	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**
Carrying amount						
At 31 December 2020	**1,495**	**1,385**	**447**	**88**	**14,197**	**17,612**
At 31 December 2019	3,197	1,710	666	168	18,780	24,521

1. See note 21 for a detailed analysis of right-of-use assets.

16. Trade and other receivables

	Group		Company	
Current	2020 £000	As re-presented 2019 £000	2020 £000	2019 £000
Trade receivables	**39,899**	31,748	**–**	–
Contract balances	**8,765**	3,100	**–**	–
Other receivables	**17,687**	7,739	**277**	182
Due from subsidiary undertakings	**–**	–	**224,647**	212,535
Prepayments	**5,021**	5,896	**–**	–
	71,372	48,483	**224,924**	212,717

In 2019, other receivables included £3.4 million of receivables related to contracts with customers. No receivables related to contracts with customers are receivable as at 31 December 2020.

Bank balances subject to certain restrictions have been reclassified as cash and cash equivalents in the year, leading to a re-presentation of the 2019 reconciliation.

17. Trade and other payables

Current	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Trade payables	**9,889**	15,635	**777**	489
Deferred consideration on acquisition of subsidiaries	**18,497**	11,332	**–**	–
Deferred consideration on portfolio investments	**10,538**	62,944	**–**	–
Taxation and social security	**2,001**	356	**–**	–
Due to subsidiary undertaking	**–**	–	**3,280**	1,518
Accruals	**33,300**	35,006	**–**	–
Liabilities arising on acquisition of bankruptcy portfolios	**12,959**	–	**–**	–
Other liabilities	**5,123**	19,495	**–**	–
Lease liability	**3,560**	5,312	**–**	–
	95,867	150,080	**4,057**	2,007

Non-current	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Trade payables	**8,137**	15,278	**–**	–
Deferred consideration on acquisition of subsidiaries	**1,633**	19,040	**–**	–
Deferred consideration on portfolio investments	**1,500**	–	**–**	–
Taxation and social security	**(124)**	–	**–**	–
Accruals	**887**	–	**–**	–
Liabilities arising on acquisition of bankruptcy portfolios	**23,367**	16,629	**–**	–
Other liabilities	**21,057**	3,782	**–**	–
Lease liability	**14,641**	18,192	**–**	–
	71,098	72,921	**–**	–
Total trade and other payables	**166,965**	223,001	**4,057**	2,007

Deferred consideration on acquisition of subsidiaries has reduced as amounts were repaid in the period, alongside remeasurements of deferred contingent consideration liabilities in the period which reduced their value. Deferred consideration on portfolio investments have decreased in the period as significantly less portfolio acquisitions had an element of deferred consideration outstanding at 31 December 2020 than 31 December 2019.

Included within other liabilities is €3,361,000 (£3,043,000) (2019: €2,463,000 (£2,095,000)) 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:

	2020	2019
Discount rate	**0% to 0.4%**	0.67% to 1.5%
Annual inflation rate	**1.0%**	1.0% to 1.5%
Wage inflation	**2.0% to 3.0%**	2.0% to 3.0%
Probability of leaving employment for reasons other than retirement (employees aged 18-60)	**0% to 12.0% per annum**	2.3% to 10.0% per annum

18. 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.

19. Share capital and reserves

Share capital and share premium

Issued, fully paid and authorised	2020 £000	2019 £000
177,378,244 (2019: 176,858,244) ordinary shares of 1p each	**1,774**	1,769
Offset by own shares	**(5)**	(6)
	1,769	1,763

Total consideration for the shares was £349,180,000 (2019: £349,180,000), giving rise to a share premium of £347,436,000 (2019: £347,436,000). £41,680,000 was raised as part of the IPO, net of £8,420,000 of IPO costs, which were netted against the share premium account in accordance with the Companies Act 2006, section 610. The Company's ordinary shares carry an equal right to receive dividends and repayments of capital paid by the Company. There are no restrictions on the repayment of capital.

The shareholders have the right to receive notice of, and to attend and vote at all general meetings of the Company.

Own shares

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.

Own shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to retained earnings. No gain or loss is recognised in the financial statements on transactions in treasury shares.

Issued, fully paid and authorised	2020 £000	2019 £000
628,874 (2019: 1,030,766) opening own shares of 1p each	**6**	10
Changes in the period	**(1)**	(4)
502,656 (2019: 628,874) closing shares of 1p each	**5**	6

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 2020, the Company held 502,656 ordinary shares of 1p each (2019: 628,874 ordinary shares of 1p each) held in an employee benefit trust. This represents 0.3% of the Company's share capital as at 31 December 2020.

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 became the parent company.

20. Dividends

The following dividends were recognised as distributions to owners during the year ended 31 December 2020:

	2020 £000	2019 £000
Interim dividend 2020: nil (2019: 4.4p per ordinary share)	**–**	7,751
Final dividend 2019: nil (2018: 8.7p per ordinary share)	**–**	15,311
	–	23,062

In line with the Group's near-term focus in Q1 2020, being the preservation of cash and liquidity, on the 6 April 2020, the Group announced its intention to withdraw its recommended final dividend for 2019, preserving approximately £15.0 million of cash within the business.

The board has also not paid an interim dividend for H1 2020, however it expects to resume dividend payments at year-end 2021.

21. Leases

The Group has leases for offices and production vehicles. 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 15).

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.

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 15).

	Office premises £000	Vehicles £000	Computer equipment
Adoption of IFRS 16 as at 1 January 2019	23,401	2,985	–
Adoption of IFRS 16 as at 1 January 2019 depreciation	(1,409)	(1,790)	–
Depreciation charge for the year	(4,060)	(650)	–
Additions	962	–	–
Disposals	(674)	–	–
Exchange differences	13	2	–
Balance at 31 December 2019	18,233	547	–
Depreciation charge for the year	**(4,236)**	**(481)**	**(31)**
Additions	**371**	**1,275**	**253**
Disposals	**(2,131)**	**(31)**	**–**
Reclassifications	**(10)**	**2**	**–**
Exchange differences	**420**	**14**	**2**
Balance at 31 December 2020	**12,647**	**1,326**	**224**

Maturity analysis – contractual undiscounted cash flows

See note 25 for maturity analysis of lease liabilities as at 31 December 2020 and 31 December 2019.

Amounts recognised in profit or loss

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

	2020 £000	2019 £000
Interest on lease liabilities	**1,107**	1,395
Depreciation charge for the year on right-of-use assets	**4,748**	4,710
Expenses relating to short-term leases	**560**	76

Amounts recognised in statement of cash flows

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

	2020 £000	2019 £000
Total cash outflow for leases	**5,636**	5,061

22. Related party transactions

Group

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

	Key management personnel £000	Total £000
As at 31 December 2020 and 2019:		
Trade	–	–
	–	–

Remuneration for directors has been disclosed in note 10 along with the statement of profit or loss and other comprehensive income charges in the year and in the remuneration report.

Summary of transactions

Key management, defined as permanent members of the board plus all non-executive directors, were awarded the following compensation for the financial year:

Remuneration	2020 £000	2019 £000
Salaries and performance-related bonus	**1,222**	1,628
Pension-related benefits	**87**	110
Share-based payments	**–**	(306)
	1,309	1,432

The number of key management during the year was 7 (2019: 6).

Company

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

	Arrow Global Group Holdings Limited £000	Arrow Global Limited £000	Arrow Global One Limited £000	Vesting Finance Detachering B.V. £000	Total £000
As at 31 December 2020					
Due from subsidiary undertakings	**–**	**–**	**224,607**	**40**	**224,647**
Due to subsidiary undertakings	**(1,367)**	**(1,913)**	**–**	**–**	**(3,280)**
	(1,367)	**(1,913)**	**224,607**	**40**	**221,367**

	Arrow Global Group Holdings Limited £000	Arrow Global Limited £000	Arrow Global One Limited £000	Vesting Finance Detachering B.V. £000	Total £000
As at 31 December 2019					
Due from subsidiary undertakings	–	–	212,495	40	212,535
Due to subsidiary undertakings	(1,367)	(151)	–	–	(1,518)
	(1,367)	(151)	212,495	40	211,017

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 2020, Arrow Global One Limited could repay the outstanding balance of the receivable in full within three months, with the majority of the payment being received immediately. Accordingly there is no material expected credit loss.

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

23. Investments in subsidiaries and associate

Details of the Company's subsidiaries at 31 December 2020 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 and Wales	Note 1	100	Trading	DFS
AGG Capital Management (Holdco) Limited (ACM(H)L)* Company no. 12272877	UK – England and Wales	Note 2	100	Trading	AGGP
AGL Fleetwood Limited* Company no. 11889566	UK – England and Wales	Note 2	100	Trading	AFTL
AGL Fleetwood 2 Limited* Company no. 12660006	UK – England and Wales	Note 2	100	Trading	AF2TL
AGL Fleetwood 2 Topco Limited (AF2TL)* Company no. 12655329	UK – England and Wales	Note 2	100	Trading	AGIHL
AGL Fleetwood 3 Limited (AF3L)* Company no. 12660015	UK – England and Wales	Note 2	100	Trading	AF2TL
AGL Fleetwood Topco Limited (AFTL)* Company no. 11886176	UK – England and Wales	Note 2	100	Trading	AGIHL
Arrow Global (Holdings) Limited (AG(H)L)* Company no. 05606576	UK – England and Wales	Note 2	100	Trading	AGIHL
Arrow Global Accounts Management Limited* Company no. 05478076	UK – England and Wales	Note 2	100	Trading	AGL
Arrow Global Adviser Limited	UK – England and Wales	Note 2	100	Trading	AGIHL
Arrow Global Europe Limited* Company no. 09296946	UK – England and Wales	Note 2	100	Trading	AGIHL
Arrow Global Finance Plc* Company no. 08361735	UK – England and Wales	Note 2	100	Trading	AGIHL
Arrow Global Guernsey Limited* Company no. 08768171	UK – England and Wales	Note 2	100	Dormant	AG(H)L
Arrow Global Investments Holdings Limited (AGIHL)* Company no. 06568603	UK – England and Wales	Note 2	100	Trading	AGGHL
Arrow Global Legh Limited* Company no. 08612068	UK – England and Wales	Note 2	100	Dormant	AG(H)L
Arrow Global Limited (AGL)* Company no. 05606545	UK – England and Wales	Note 2	100	Trading	AG(H)L
Arrow Global Luna Limited* Company no. 08898157	UK – England and Wales	Note 2	100	Trading	AG(H)L
Arrow Global Management Limited* Company no. 07373491	UK – England and Wales	Note 2	100	Dormant	AG(H)L
Arrow Global Massey Limited* Company no. 08612076	UK – England and Wales	Note 2	100	Dormant	AG(H)L
Arrow Global One Limited (AGOL)* Company no. 08649653	UK – England and Wales	Note 2	100	Trading	AGGP
Arrow Global Portugal Investments Limited* Company no. 09312429	UK – England and Wales	Note 2	100	Trading	AF3L
Arrow Global Portugal Limited* Company no. 07243769	UK – England and Wales	Note 2	100	Trading	AF3L
Arrow Global Receivables Management Limited* Company no. 05875306	UK – England and Wales	Note 2	100	Trading	AG(H)L
Arrow SMA LP Limited (ASLL)	UK – England and Wales	Note 2	100	Trading	AGIHL
Bergen Capital Management Limited* Company no. 07553297	UK – England and Wales	Note 2	100	Trading	MAL
Capquest Asset Management Limited* Company no. 05245829	UK – England and Wales	Note 2	100	Dormant	AGOL
Capquest Debt Recovery Limited (CDRL)* Company no. 03772278	UK – England and Wales	Note 2	100	Trading	CGL
Capquest Debt Recovery Services Limited* Company no. 05297863	UK – England and Wales	Note 2	100	Dormant	AGOL
Capquest Group Limited (CGL)* Company no. 04936030	UK – England and Wales	Note 2	100	Trading	QNL
Capquest Investments 2 Limited* Company no. 05968063	UK – England and Wales	Note 2	100	Dormant	AGOL
Capquest Investments Limited* Company no. 05245825	UK – England and Wales	Note 2	100	Trading	CGL
Capquest Limited* Company no. 05296562	UK – England and Wales	Note 2	100	Dormant	AGOL
Capquest Mortgage Servicing Limited* Company no. 05821008	UK – England and Wales	Note 2	100	Trading	AGOL
Capquest UK Limited* Company no. 05297876	UK – England and Wales	Note 2	100	Dormant	AGOL
Care Debt Management Limited* Company no. 05855800	UK – England and Wales	Note 2	100	Dormant	AGOL
Data Verification Services Limited* Company no. 05484229	UK – England and Wales	Note 2	100	Dormant	AGOL
Drydens Limited (DFS)*	UK – England and Wales	Note 1	100	Trading	AGL
Erudio Customer Management Limited*	UK – England and Wales	Note 2	100	Dormant	AG(H)L
Mars Acquisition Limited (MAL)*	UK – England and Wales	Note 2	100	Trading	AGIHL
Mars Capital Finance Limited*	UK – England and Wales	Note 2	100	Trading	MAL
Mars Capital Management Limited*	UK – England and Wales	Note 2	100	Trading	MAL
Quest Bidco Limited (QBL)*	UK – England and Wales	Note 2	100	Trading	QTL
Quest Newco Limited (QNL)*	UK – England and Wales	Note 2	100	Trading	QBL
Quest Topco Limited (QTL)*	UK – England and Wales	Note 2	100	Trading	AGIHL
Western Acquisition Holdings Limited	UK – England and 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 (ACML)	Jersey	Note 5	100	Trading	ACM(H)L

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23. 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 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	71.80	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
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	0	Trading	N/A
Leonardo Investment Opportunities	Italy	Note 11	0	Trading	N/A
SPV Project 156 S.R.L	Italy	Note 12	100	Trading	AGIS
SPV Project 158 S.R.L	Italy	Note 11	0	Trading	N/A
SPV Project 1608	Italy	Note 11	0	Trading	N/A
SPV Project 1713 S.R.L	Italy	Note 11	100	Trading	AGIS
Vulcan SPV S.R.L	Italy	Note 11	100	Trading	AGIS
Zeus Finance S.R.L	Italy	Note 10	0	Trading	N/A
PARR SH. P.K.	Albania	Note 13	20	Trading	WS
Strzala Sp. z o.o.	Poland	Note 14	100	Dormant	AG(H)L/AGL
Capquest Debt Recovery S.A (pty) Limited	South Africa	Note 15	100	Dormant	CDRL
AGHL Portugal Investments Holdings, S.A. (AGHLPIH)	Portugal	Note 16	100	Trading	AGIHL
Benefitpossibility – Unipessoal LDA	Portugal	Note 16	100	Trading	AGHLPIH
Every Possibilities – Unipessoal LDA (EPUL)	Portugal	Note 16	100	Trading	AGHLPIH
Esfera Civilizada SA	Portugal	Note 16	100	Trading	EPUL
Little Turbilhão SA	Portugal	Note 16	100	Trading	AF3L
Hefesto STC, S.A.	Portugal	Note 16	100	Trading	AGHLPIH
Norfin Investimentos, S.A.(NISA)	Portugal	Note 18	100	Trading	AGHLPIH
Norfin – Sociedade Gestora de Organismos de Investimento Coletivo, S.A	Portugal	Note 18	100	Trading	NISA
Norfin – Serviços, S.A	Portugal	Note 18	100	Trading	NISA
Redrock Capital Partners, S.A.	Portugal	Note 16	100	Trading	AGHLPIH
Sandalgreen, Assets, S.A.	Portugal	Note 16	100	Trading	AF3L

23. 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
Sucesso Delicado, S.A.	Portugal	Note 16	100	Trading	AGHLPIH
Transitorysphere – Unipessoal LDA	Portugal	Note 16	100	Trading	AGHLPIH
Whitestar Asset Solutions, S.A.	Portugal	Note 16	100	Trading	AGHLPIH
Amstelveste Vastgoed B.V.	the Netherlands	Note 19	100	Trading	AGIHB/VFS
Arrow Global Investments Holdings Benelux B.V. (AGIHB)	the Netherlands	Note 19	100	Trading	AGIHL
Focum Groep B.V. (FG)	the Netherlands	Note 19	100	Trading	AGIHB
Focum Solutions B.V.	the Netherlands	Note 19	100	Trading	FG
Fiditon Holding B.V. (FH)	the Netherlands	Note 19	100	Trading	AGIHB
Focum Commerce B.V.	the Netherlands	Note 19	100	Trading	FG
Focum Finance B.V.	the Netherlands	Note 19	100	Trading	FG
Incassobureau Fiditon B.V.	the Netherlands	Note 19	100	Trading	FH
KU88 B.V.	the Netherlands	Note 19	100	Trading	AGLH
Universum Inkasso B.V. (UI)	the Netherlands	Note 19	100	Non-Trading	AGIHB
Vesting Finance Detachering B.V.	the Netherlands	Note 19	100	Trading	VFH
Vesting Finance Holding B.V. (VFH)	the Netherlands	Note 19	100	Trading	AGIHB
Vesting Finance Incasso B.V.	the Netherlands	Note 19	100	Trading	VFH
Vesting Finance Servicing B.V. (VFS)	the Netherlands	Note 19	100	Trading	AGIHB
Arrow Global Benelux (Holdings) B.V. (AGBH)	the Netherlands	Note 19	100	Trading	AGIHB
Spark Hypotheken B.V.	the Netherlands	Note 19	100	Trading	AGLH
Bow Advisers S.á r.l	Luxembourg	Note 20	100	Trading	ACML
Bow (Co-invest) Advisers S.á r.l	Luxembourg	Note 20	100	Trading	ACML
Bow (SMA)Advisers S.á r.l	Luxembourg	Note 20	100	Trading	ACML
Focum Belgium (BVBA)	Belgium	Note 21	100	Trading	AGIHB/FG

* Subsidiaries which have chosen to take the subsidiary companies audit exemption permitted by section 479c of the Companies Act 2006, with Arrow Global Group plc providing a declaration of guarantee.

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. There have been no instances in the period where significant judgement was applied to reach a conclusion over whether or not an entity should be consolidated or not. 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.

23. Investments in subsidiaries and associate *continued*

Financial support given to structured entities

During the year, the Group issued no guarantees (2019: nil) to holders of notes issued by structured entities that the Group consolidates.

Notes	Registered addresses
Note 1	4th Floor, Fairfax House, Merrion Street, Leeds, LS2 8BX
Note 2	Belvedere, 12 Booth Street, Manchester, M2 4AW
Note 3	Grand Canal House, 1 Grand Canal Street Upper, Dublin 4, D04 Y7R5
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	Foro Bonaparte 70, 20121 Milan
Note 11	Via A.Pestalozza 12/14, 20131 Milan
Note 12	Via G.Fara 26, 20124 Milan
Note 13	Kryqezimi i Rruges Irfan, Tomini me Bulevardin, Gjergj Fishta – Tirana
Note 14	Al. Jerozolimskie nr 148, 02–326, Warszawa
Note 15	Office Suite 15, Canal Edge 1, Tyger Waterfront, Carl Cronje Drive, Bellville, Western Cape, 7530, South Africa
Note 16	Edifício D. Sebastião, Rua Quinta do Quintã, nº 6, Quinta da Fonte, 2770 203 Paço de Arcos, Portugal
Note 17	Edifício Q54 D. José, Rua Quinta do Quintã, nº1,Piso 0, Fracção B, Quinta da Fonte, Oeiras, Portugal
Note 18	Avenida da República, nº 35, 4º, 1050–186, Lisboa–Portugal
Note 19	Asch van Wijckstraat 55F, 3811 LP Amersfoort, the Netherlands
Note 20	6D, route de Treves, L-2633 Senningerberg, Grand Duchy of Luxembourg
Note 21	Nijverheidsstraat 70, 2160 Wommelgem

Company: investment in subsidiaries	AGG Capital Management (Holdco) Limited £000	Arrow Global One Limited £000	Total £000
At 31 December 2020	**700**	**307,500**	**308,200**
At 31 December 2019	–	307,500	307,500

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

24. Portfolio investments

Split of portfolio investments by period:

	2020 £000	2019 £000
Expected falling due after one year	**742,153**	916,123
Expected falling due within one year	**300,062**	247,501
Total	**1,042,215**	1,163,624

Purchased portfolio investments

The movements in portfolio investments were as follows:

As at 31 December 2020

	Financial instruments			
	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**

As at 31 December 2019

	Financial instruments			
	Amortised cost £000	FVTPL £000	Real estate inventories £000	Total £000
As at the beginning of the year	869,056	217,974	–	1,087,030
Portfolios purchased during the year	248,470	30,052	25,165	303,687
Transfer between categories	11,483	(55,262)	43,779	–
Balance sheet cash collections in the year	(390,734)	(48,034)	(3,543)	(442,311)
Income from portfolio investments at amortised cost	199,094	–	–	199,094
Fair value gain on portfolio investments at FVTPL	–	32,397	–	32,397
Income from portfolio investments – real estate inventories	–	–	561	561
Net impairment gains/(losses)	12,720	–	(6)	12,714
Exchange and other movements	(4,729)	(7,328)	(4,330)	(16,387)
Portfolio restructure	(13,161)	–	–	(13,161)
As at the year end	932,199	169,799	61,626	1,163,624

Transfer between categories represents positions where the Group has originally held one type of instrument relating to a portfolio, and subsequently increased or changed its interest in the portfolio, leading to the requirement to consolidate the underlying structure onto the Group's balance sheet. This leads to a change in the classification of the portfolio investment held. The 'portfolio restructure' represents the restructure of a leveraged structured deal to move to a de-levered position, and hence change the nature of the holding whilst extinguishing related liabilities. 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.

24. 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. Note that the comparatives for 2019 have not been presented alongside the 2020 scenario modelling information, as the approach to incorporating forward looking macroeconomic forecasts has been refined in the current year.

			Scenario	
Country	Segment	Downside	Base	Mild upside
Ireland	Secured	30%	40%	30%
UK	Secured	30%	40%	30%
UK	Unsecured	30%	40%	30%
Portugal	Secured	30%	40%	30%
Portugal	Unsecured	30%	40%	30%
Italy	Secured	30%	40%	30%
Italy	Unsecured	30%	40%	30%
The Netherlands	Secured	30%	40%	30%
The Netherlands	Unsecured	30%	40%	30%

24. Portfolio investments *continued*

In conjunction with the scenario probability, the information set out below can be used to determine the Group's expected range of macroeconomic environments, along with the probability-weighted average environment for each key segment and indicator. Note that where a HPI forecast is shown, these are calculated relative to the relevant pre-COVID 31 December 2019 position in the index (where pre-COVID is equal to 100%), therefore the trough in the table below might be before or after the 30 December 2020. Unemployment forecasts represent absolute levels of unemployment as a percentage of population.

Country	Segment	Scenario	Weighting	Key factor	Peak/ trough	Date	2020	2021	2022	2023
Ireland	*Secured*	*Pre-COVID*	–	*HPI*	*n/a*	–	*104.9%*	*111.9%*	*118.7%*	*124.3%*
Ireland	Secured	Mild upside	30%	HPI	n/a	–	104.8%	117.3%	130.4%	139.7%
Ireland	Secured	Base	40%	HPI	n/a	–	101.7%	105.3%	111.3%	117.9%
Ireland	Secured	Downside	30%	HPI	91.2%	Sep 2022	98.0%	92.6%	91.5%	95.4%
Ireland	Unsecured	Mild upside	30%	Unemployment	4.5%	Jun 2022	4.8%	5.3%	4.6%	4.7%
Ireland	Unsecured	Base	40%	Unemployment	6.0%	Jun 2021	5.2%	5.7%	4.9%	4.9%
Ireland	Unsecured	Downside	30%	Unemployment	12.5%	Sep 2023	9.8%	12.3%	12.2%	12.4%
UK	*Secured*	*Pre-COVID*	–	*HPI*	*n/a*	–	*102.0%*	*104.6%*	*107.7%*	*111.4%*
UK	Secured	Mild upside	30%	HPI	99.1%	Dec 2021	102.5%	99.1%	104.7%	114.0%
UK	Secured	Base	40%	HPI	94.6%	Mar 2022	100.1%	94.7%	96.1%	110.8%
UK	Secured	Downside	30%	HPI	76.5%	Sep 2023	96.7%	83.5%	78.0%	77.6%
UK	Unsecured	Mild upside	30%	Unemployment	4.9%	Dec 2020	4.9%	4.0%	3.8%	3.5%
UK	Unsecured	Base	40%	Unemployment	6.5%	Dec 2020	6.5%	5.2%	4.2%	3.7%
UK	Unsecured	Downside	30%	Unemployment	8.4%	Mar 2021	8.3%	7.6%	7.0%	6.4%
Portugal	*Secured*	*Pre-COVID*	–	*HPI*	*n/a*	–	*102.8%*	*105.1%*	*107.5%*	*110.0%*
Portugal	Secured	Mild upside	30%	HPI	98.3%	Sep 2020	99.4%	111.6%	120.3%	125.4%
Portugal	Secured	Base	40%	HPI	97.6%	Dec 2020	97.6%	103.8%	108.2%	110.7%
Portugal	Secured	Downside	30%	HPI	94.6%	Mar 2021	95.1%	95.4%	95.4%	95.3%
Portugal	Unsecured	Mild upside	30%	Unemployment	7.5%	Sep 2020	6.5%	5.0%	4.5%	5.4%
Portugal	Unsecured	Base	40%	Unemployment	8.3%	Mar 2021	7.1%	7.9%	6.6%	6.2%
Portugal	Unsecured	Downside	30%	Unemployment	12.2%	Sep 2023	7.9%	11.8%	11.1%	11.9%
Italy	*Secured*	*Pre-COVID*	–	*HPI*	*n/a*	–	*100.4%*	*101.3%*	*103.2%*	*105.2%*
Italy	Secured	Mild upside	30%	HPI	97.3%	Mar 2021	97.7%	99.8%	103.4%	107.4%
Italy	Secured	Base	40%	HPI	96.2%	Mar 2021	97.0%	97.2%	98.6%	100.5%
Italy	Secured	Downside	30%	HPI	92.5%	Sep 2023	95.7%	93.9%	93.1%	93.0%
Italy	Unsecured	Mild upside	30%	Unemployment	10.1%	Sep 2020	10.0%	9.4%	8.2%	7.7%
Italy	Unsecured	Base	40%	Unemployment	11.7%	Mar 2021	11.6%	11.1%	9.8%	9.2%
Italy	Unsecured	Downside	30%	Unemployment	13.9%	Jun 2021	13.3%	13.4%	12.0%	11.4%
Netherlands	*Secured*	*Pre-COVID*	–	*HPI*	*n/a*	–	*103.2%*	*106.2%*	*109.2%*	*112.3%*
Netherlands	Secured	Mild upside	30%	HPI	n/a	–	107.7%	121.8%	130.0%	135.0%
Netherlands	Secured	Base	40%	HPI	n/a	–	107.1%	109.5%	111.8%	114.9%
Netherlands	Secured	Downside	30%	HPI	93.2%	Mar 2022	106.2%	97.0%	93.5%	94.9%
Netherlands	Unsecured	Mild upside	30%	Unemployment	4.6%	Sep 2020	3.0%	3.4%	2.9%	3.0%
Netherlands	Unsecured	Base	40%	Unemployment	5.4%	Jun 2021	4.9%	5.4%	4.9%	4.9%
Netherlands	Unsecured	Downside	30%	Unemployment	8.0%	Jun 2021	7.0%	7.6%	7.0%	6.9%

24. Portfolio investments *continued*

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 2020 by £9,700,000 (31 December 2019: £11,020,000). 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.

Geography	Carrying balance 31 December 2020 £000	Upside variance 2020 £000	Downside variance 2020 £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)
Total	**1,042,215**	21,682	(41,229)

Asset Class	Carrying balance 31 December 2020 £000	Upside variance 2020 £000	Downside variance 2020 £000
Secured	**330,128**	6,297	(17,889)
Unsecured	**650,847**	15,385	(23,340)
Real estate inventories	**61,240**	N/A	N/A
Total	**1,042,215**	21,682	(41,229)

25. Risks arising from financial instruments

Risk management

Credit risk

The Group's principal activity 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.ii.

An investment credit committee 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, which includes at least two members of the executive committee as well as other key members from relevant areas of the business, including oversight by the risk management function. 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.

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.

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

25. Risks arising from financial instruments *continued*

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, interest rates and CPI, and where appropriate, HPI. These scenarios are probability weighted according to their likely occurrence. The scenarios include a central scenario, based on the current economic environment, as well as upside and downside scenarios. The estimation and application of this forward-looking information requires significant judgement and is subject to appropriate internal governance.

Impairment gains/losses are changes to carrying values, discounted at the EIR rate, of the acquired debt portfolios as a result of reassessments of their estimated future cash flows and are recognised in the line item 'impairment gains on portfolio investments at amortised cost'. There are generally no credit risk mitigants relating to the 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 2020

	Stage 1- 3 £000	POCI £000	Total £000
Portfolio investments – amortised cost	**–**	**793,554**	**793,554**
Loss allowance	**–**	**N/A**	**N/A**
Carrying amount	**–**	**793,554**	**793,554**

As at 31 December 2019

	Stage 1- 3 £000	POCI £000	Total £000
Portfolio investments – amortised cost	–	932,199	932,199
Loss allowance	–	N/A	N/A
Carrying amount	–	932,199	932,199

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

All portfolio balances	2020 £000	2019 £000
UK and Ireland	**382,889**	452,584
Netherlands	**140,175**	157,350
Portugal	**255,255**	295,695
Italy	**263,896**	257,995
Total	**1,042,215**	1,163,624

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

As at 31 December 2020

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

25. Risks arising from financial instruments *continued*

As at 31 December 2019

Amortised cost portfolio balances	Secured £000	Unsecured £000	Total £000
UK and Ireland	55,348	352,028	407,376
Netherlands	1,989	64,820	66,809
Portugal	87,506	162,388	249,894
Italy	95,244	112,876	208,120
Total	240,087	692,112	932,199

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.

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	2020 £000	2019 £000
Less than 50%	**56,070**	89,119
51-70%	**13,315**	21,796
71-90%	**16,250**	16,986
91-100%	**4,749**	12,263
More than 100%	**96,269**	99,923
Total	**186,653**	240,087

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:

	2020 £000	As re-presented 2019 £000
Cash and cash equivalents	**182,892**	115,376

The table represents a worst-case scenario of the counterparty risk that the Group is exposed to. The 31 December 2020 balance is spread across a number of counterparties with the top five accounting for 65% of the total (2019: 44%). The maximum exposure to one counterparty is £75 million (2019: £16 million). The 2019 balance has been re-presented to include £26,611,000 of cash which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated securitisation structure awaiting a payment date. See note 16 on page 146 for more detail.

25. 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:

	2020 %	2019 %
AA	**3**	23
A	**72**	34
Below A	**25**	43
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. The board delegates certain responsibilities to the asset and liability committee, which is chaired by the Group chief financial officer, and is empowered to take decisions within that delegated authority. 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 written options were entered into during 2020 (2019: £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 aims to ensure that leverage is within the target range of 3.0 to 3.5 times, there is an appropriate refinancing profile with phased maturity dates 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 2020, the Group's senior secured notes, revolving credit facility and asset-backed security transaction had an average period to maturity of 3.7 years (2019: 4.8 years). Total cash and undrawn facilities, which excludes cash that may be subject to constraints regarding when the balance can be remitted, were £174.6 million at 31 December 2020 (2019: £152.9 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.

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:

	2020 £000	2019 £000
At 31 December	**174,648**	152,874
Average for the period	**174,738**	138,061
Maximum for the period	**225,463**	198,888
Minimum for the period	**129,020**	109,257

25. Risks arising from financial instruments *continued*

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 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	**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 (excluding REOs)	**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.

Group As at 31 December 2019	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	21,037	123,922	31,206	23,413	1,018	200,596
Lease liabilities	23	5,194	4,347	9,267	5,029	23,860
€400 million secured senior note (2.875% plus 3-month Euribor)	842	9,103	9,918	29,780	341,840	391,483
€285 million secured senior note (3.75% plus 3-month Euribor)	–	9,242	9,217	27,676	253,126	299,261
£320 million secured senior note (5.125%)	–	16,445	16,400	363,763	–	396,608
Revolving credit facility[1]	498	5,385	5,867	246,409	–	258,159
Asset-backed securitisation	276	2,979	15,071	78,393	–	96,719
Other borrowings	–	2,695	41	936	–	3,672
Bank overdrafts	1,386	–	–	–	–	1,386
Total financial liabilities	24,062	174,965	92,067	779,637	601,013	1,671,744
Financial asset by type:						
Cash and cash equivalents – as re-presented	115,376	–	–	–	–	115,376
Portfolio investments (excluding REOs)	31,420	339,856	324,294	691,327	324,406	1,711,303
Total financial assets	146,796	339,856	324,294	691,327	324,406	1,826,679

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

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 agreed lines of credit with other banks.

For more detail on the cash and cash equivalents re-presentation, see note 31 on page 178.

25. Risks arising from financial instruments *continued*

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 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**

Company As at 31 December 2019	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	489	1,518	–	–	–	2,007
Total financial liabilities	489	1,518	–	–	–	2,007
Financial asset by type:						
Cash and cash equivalents	18	–	–	–	–	18
Total financial assets	18	–	–	–	–	18

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.

In addition to the above, the Group has entered into certain forward flow agreements to which it has committed to pay an estimated £48,000,000 (2019: £24,600,000) over the next five years.

The following analysis shows the gross non-discounted contractual cash flows in respect of foreign currency contract derivative assets and liabilities, and interest rate swap derivative liabilities, which are all designated as cash flow hedges:

	2020		2019	
	Outflow £000	Inflow £000	Outflow £000	Inflow £000
Not later than one month	**21**	**–**	84	–
Later than one month and not later than six months	**21**	**–**	135	–
Later than six months and not later than one year	**42**	**–**	217	–
Later than one year and not later than two years	**–**	**–**	79	–
Later than two years and not later than five years	**–**	**–**	–	–
	84	**–**	515	–

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

When the amount payable or receivable is not fixed, the amount disclosed has been determined with reference to the projected interest rates as illustrated by the interest rate yield curves existing at the statement of financial position date.

The derivative financial instruments are held across a number of counterparties; the largest net cash flow exposure to a single counterparty at 31 December 2020 is £0.03 million (2019: £0.2 million).

Financial assets pledged as collateral

See note 29 on page 175 for more information.

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25. Risks arising from financial instruments *continued*

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.

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:

	2020 £000	As re-presented 2019 £000
Fixed-rate instruments		
Financial liabilities	**320,000**	320,000
	320,000	320,000
Variable-rate instruments		
Financial assets	**(182,892)**	(115,376)
Financial liabilities	**1,047,521**	912,855
Effect of interest rate swaps	**(161,734)**	(340,237)
Net variable rate	**702,895**	457,242

For more detail on the cash and cash equivalents re-presentation, see note 31 on page 178.

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

	2020 £000	2019 £000
Increase in fair value of derivatives	**–**	470
Reduction in profit before taxation	**(671)**	(1,369)

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 the value of net assets denominated in Euro by funding portfolio assets with Euro denominated borrowings where possible.

25. Risks arising from financial instruments *continued*

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.

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:

Equity and net assets	2020 £000	2019 £000
Currency		
Euro (EUR)	**21,456**	21,380
	21,456	21,380

Net profit	2020 £000	2019 £000
Currency		
Euro (EUR)	**298**	9,800
	298	9,800

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:

Equity and net assets	2020 £000	2019 £000
Currency		
Euro (EUR)	**(17,555)**	(17,493)
	(17,555)	(17,493)

Net profit	2020 £000	2019 £000
Currency		
Euro (EUR)	**(244)**	(8,018)
	(244)	(8,018)

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 seeks to maintain leverage (calculated as secured net debt over Adjusted EBITDA) of between 3.0 and 3.5 times. 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.

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 2020 was:

	2020 £000	2019 £000
Ordinary share capital and premium	**349,210**	349,205
Other reserves excluding opening IFRS 16 adjustments	**(236,012)**	(150,866)
Impact of adopting IFRS 16	**–**	(947)
Total equity and reserves	**113,198**	197,392

26. 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.

2020	Mandatorily at FVTPL £000	FVOCI £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**

2020	Mandatorily at FVTPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Total fair value £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**

2019	Mandatorily at FVTPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Total fair value £000
Portfolio investments	169,799	–	932,199	1,101,998	1,101,275
Cash and cash equivalents – as re-presented	–	–	115,376	115,376	115,376
Trade and other receivables classified as financial assets – as re-presented	–	–	39,487	39,487	39,487
Total financial assets	169,799	–	1,087,062	1,256,861	1,256,138

For more detail on the re-presentations, see note 16 on page 146.

2019	Mandatorily at FVTPL £000	FVOCI £000	Amortised cost £000	Total carrying amount £000	Total fair value £000
Senior secured notes	–	–	897,875	897,875	904,853
Revolving credit facility	–	–	230,963	230,963	230,963
Asset-backed loans	–	–	84,077	84,077	84,077
Bank overdrafts	–	–	1,386	1,386	1,386
Other borrowings	–	–	3,672	3,672	3,672
Derivative liability	509	–	–	509	509
Trade and other payables classified as financial liabilities	12,549	–	151,586	164,135	164,135
Financial liabilities	13,058	–	1,369,559	1,382,617	1,389,595

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.

26. Financial assets and liabilities *continued*

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 £(12,192,000)/£12,636,000.

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.

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 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.

Level 2	2020 £000	2019 £000
Liabilities:		
Interest rate swaps	**(83)**	(509)
	(83)	(509)

Level 3	2020 £000	2019 £000
Assets:		
Portfolio investments	**187,421**	169,799
Liabilities:		
Contingent consideration	**(475)**	(12,549)
	186,946	157,250

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 has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at 31 December 2020.

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.

26. Financial assets and liabilities *continued*

The total 84-month ERC value for the Group's portfolio investments held at FVTPL is £249,551,000, with an average discount rate of 13.1%. An increase/decrease in ERC of 1% would lead to an increase/decrease in the carrying value of portfolio investments held at FVTPL of £1,874,000/(£1,874,000). 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 (£3,543,000)/£3,664,000.

The total ERC value for the Group's portfolio investments held at amortised cost is £1,169,286,000, with an average discount rate of 21.5%. 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 £7,936,000/(£7,936,000). 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 (£12,192,000)/£12,636,000. A full reconciliation between the opening and closing portfolio investments held at FVTPL has been provided in note 24. For a fuller description of how the future cash flows are estimated, please refer to note 4.

The reconciliation of portfolio investments held at FVTPL can be seen as part of the total portfolio investments reconciliation table in note 24 on page 155.

Reconciliation of level 3 fair values – contingent consideration

Contingent consideration – level 3	2020 £000	2019 £000
As at the beginning of the year	**12,549**	38,455
Additional liabilities entered into in the period	**–**	4,300
Contingent consideration remeasurement to deferred consideration	**(5,755)**	–
Deferred consideration renegotiations	**–**	(21,119)
Transfer to trade and other payables	**(6,774)**	–
Consideration repaid in the year	**–**	(8,678)
Foreign exchange gain	**455**	(409)
As at the year end	**475**	12,549

Contingent consideration has arisen as a result of business combinations in the prior periods. Of the remaining 2020 balance, £475,000 relates to the acquisition of Drydens and has a minimum/maximum pay-out of £nil/£500,000. In 2019, the contingent consideration was remeasured, partly due to the renegotiation of the terms of the deferred consideration in the period. Of the closing balance in 2019, €10 million relates to the acquisition of Norfin and has a minimum/maximum pay-out of €5 million/€10 million (subject to the performance of the business). The remainder relates to the acquisition of Drydens, with a minimum/maximum pay-out of £nil/£5 million (subject to the performance of the business).

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.

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 2020 is £nil (2019: nil). During the year, £nil (2019: £8,000) was recycled from equity to the statement of profit or loss and other comprehensive income, within finance costs, as a result of maturity of the short dated foreign exchange swaps during the year and an amount of £nil has been charged to equity for the Group in the period in respect of cash flow hedges (2019: £100,000).

Level 3	2020 £000	2019 £000
Assets:		
Portfolio investments – amortised cost	**793,554**	932,199
Total assets	**793,554**	932,199

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 24.

The Company did not hold any other financial instruments not measured at fair value for which a fair value needs to be calculated (2019: none).

26. Financial assets and liabilities *continued*

Derivatives designated as cash flow hedges

	2020		2019	
Instrument type	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate swaps	–	**83**	–	509
Total derivatives designated as cashflow hedges	–	**83**	–	509

Interest rate hedging

The Group has Euro interest rate swaps, which hedge 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 (2019: £340,237,000). In 2019 and 2020, these interest rate swaps covered current borrowings, being the floating rate senior secured Euro notes. An amount of £427,000 has been credited to equity for the Group in the period in respect of cash flow hedges (2019: £286,000 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 are 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 (2019: 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 2020 (31 December 2019: £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.

The calculation methodology of Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority granted authorisation with respect to Euribor under the European Union Benchmarks Regulation. This allows market participants to continue to use Euribor after 1 January 2020 for both existing and new contracts. The Group expects that Euribor will continue to exist as a benchmark rate for the foreseeable future. The Group does not anticipate changing the hedged risk to a different benchmark. For these reasons, the Group does not consider its cash flow hedges of the Euribor benchmark interest rate to be directly affected by the interest rate benchmark reform at 31 December 2020. No hedge relationships have any exposure to LIBOR.

At 31 December 2020, the Group held the following instruments to hedge exposures to changes in interest rates.

	2020		2019	
Interest rate risk	Less than 1 year	1-5 years	Less than 1 year	1-5 years
Interest rate swaps				
Nominal amount (£000)	**180,000**	–	187,130	153,107
Average fixed interest rate	**0.05%**	–	0.19%	0.05%

Reconciliation of components of equity

Reconciliation of components of equity	Hedging reserve £000
Balance at 1 January 2020	**(423)**
Cash flow hedges	
Effective portion of changes in fair value:	
Interest rate risk	**427**
Related tax	**(71)**
Balance at 31 December 2020	**(67)**

27. 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

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

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

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.

2019 comparative:
Geography of operations

Underlying asset type	UK and Ireland	Portugal	Italy	Netherlands
Loan receivables	1	6	5	4
Real estate	–	1	–	2
Number of entities as at 31 December 2019	**1**	**7**	**5**	**6**

Portfolio investments	UK and Ireland £000	Portugal £000	Italy £000	Netherlands £000
FVTPL	4,203	18,864	12,070	89,451
Amortised cost	–	2,976	6,080	2,008
Total assets as at 31 December 2019	**4,203**	**21,840**	**18,150**	**91,459**
Total liabilities as at 31 December 2019	**–**	**–**	**–**	**–**

28. Share-based payments – Group and Company

Share incentive plan (SIP)

In 2020 (and previously April 2019, 2018, 2017, 2016, 2015 and 2014), 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.

28. Share-based payments – Group and Company *continued*

Long-term incentive plan (LTIP)

On 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.

2020 LTIP award criteria

For each eligible employee, 33.3% of the LTIP awards are 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 are 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

For each eligible employee, 33.3% of the LTIP awards are 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 are 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

28. Share-based payments – Group and Company *continued*

For each eligible employee, 25% of the LTIP awards are 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 are 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 are 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

For each eligible employee, 25% of the LTIP awards are 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 are 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 are 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

28. Share-based payments – Group and Company *continued*

Restricted share awards

Restricted share awards were made on 25 June 2020 and 10 May 2019. These awards vest on 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.

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. See page 93 for details of the bonus delivered in the form of deferred shares for the financial year 2020.

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.

Grant information

The terms and conditions of the grant are as follows:

Name	Method of settlement accounting	Number of instruments	Vesting period	Contractual life of options
Grant date/employees entitled				
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 – LTIP	Equity	176,053	2.9 years	8 April 2019
Equity settled award – SIP	Equity	73,261	3 years (rolling)	April 2019
Equity settled award – DSBP	Equity	44,183	3 years	9 April 2018
Equity settled award – DSBP	Equity	77,739	3 years	8 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

28. 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.

	2020		2019	
	WAEP/FV	Number of options	WAEP/FV	Number of options
Outstanding at the beginning of the year	**2.63**	**5,433,806**	2.88	5,177,072
Granted during the year	**0.90**	**6,875,607**	2.24	2,704,265
Forfeited during the year	**1.67**	**(247,733)**	2.68	(1,265,351)
Exercised during the year	**3.27**	**(467,946)**	2.86	(975,199)
Expired during the year	**3.51**	**(651,398)**	2.66	(206,981)
Outstanding at 31 December	**1.47**	**10,942,336**	2.63	5,433,806
Exercisable at 31 December	**2.83**	**2.62**	2.62	677,859

The weighted average price of shares exercised in the year was £0.91 (2019: £2.12). The share options outstanding at 31 December 2020 have a weighted average contractual life of 1.7 years (2019: 1.4 years) and an exercise price in the range of £0.69 to £1.67. The weighted average fair value of options granted during the year was £0.85 (2019: £2.15). The majority of options granted to date are nil-cost options (2019: 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:

Grant date	25 June 2020	25 June 2020	May 2020	8 April 2020
Expected life of options (years)	**3**	**2**	**3**	**3**
Share prices at date of grant	**£0.90**	**£0.90**	**£0.82**	**£1.01**
Expected share price volatility (%)	**65.6%**	**N/A**	**N/A**	**N/A**
Risk free interest rate (%)	**(0.1)%**	**N/A**	**N/A**	**N/A**

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

	2020 £000	2019 £000
Equity settled share-based payment expense spread across vesting period	**1,753**	1,558
Total equity settled share-based payment expense recognised in the statement of comprehensive income	**1,946**	1,437

Please see page 96 of the director's remuneration report for further information about directors' share options.

29. Borrowings and facilities

	2020 £000	2019 £000
Senior secured notes net of transaction fees of £10,480,000 (2019: £12,780,000)	**930,575**	897,875
Revolving credit facility net of transaction fees of £2,790,000 (2019: £3,720,000)	**277,552**	230,963
Asset-backed loans net of transaction fees of £4,708,000 (2019: £1,658,000)	**143,985**	84,077
Bank overdrafts	**3,648**	1,386
Other borrowings	**3,247**	3,672
	1,359,007	1,217,973
Total borrowings:		
Amount due for settlement within 12 months	**362,427**	257,500
Amount due for settlement after 12 months	**996,580**	960,473

Senior secured notes

The senior secured notes comprise three publicly issued Euro and Sterling senior notes secured by substantially all of the assets of the Group; £320 million 5.125% fixed-rate notes due September 2024, €400 million floating rate senior secured notes due April 2025 at a coupon of 3.75% over three-month Euribor and €285 million floating rate senior secured notes due March 2026 at a coupon of 3.75% over three-month Euribor. The Euro notes are subject to a zero percent floor on Euribor.

Revolving credit facility

On 26 February 2019, the £285 million revolving credit facility was extended to 2024, with no change to the 2.5% margin.

On 12 August 2020, the Group executed an amendment agreement with its lenders under the revolving credit facility to amend the financial covenants under the facility to reflect the potential impact on the business of COVID-19. The amendments to the financial covenants are for the period from September 2020 up to and including June 2022 and provide suitable headroom based upon the Group's downside projections, including an amendment to the maximum permitted leverage and minimum liquidity, and a move to a more dynamic margin calculation.

Asset-backed securitisation

On 30 April 2019, the Group entered into a £100 million non-recourse committed asset-backed securitisation facility with an advance rate of 55% of 84-month ERC. On the same date, the Group sold £137 million of ERC into AGL Fleetwood Limited, a wholly owned Arrow Global Group subsidiary, and borrowed an initial amount of £75 million non-recourse funding at LIBOR plus 3.1%, under the facility.

On 31 July 2019, the Group sold a further £44 million of ERC into AGL Fleetwood Limited and subsequently borrowed an additional £25 million non-recourse funding on the same terms under the facility.

On 31 March 2020, the Group sold a further £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. As at 2 April 2020, the amount drawn under the facility was £100 million. The facility had a five-year term comprising an initial two-year revolving period followed by a three-year amortising period with an option to extend the revolving period by one-year subject to lender consent.

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.

During July 2020, a second non-recourse amortising loan of €104,700,000 was fully drawn during the month. The second loan was secured against €356 million of Portuguese 84-month ERC at a margin of 4.25%.

As at 31 December 2020, £299,117,000 of the portfolio investments, set out in note 24, are pledged as collateral for the asset-backed securitisations.

29. Borrowings and facilities *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 liabilities relating to cash flow from financing activity £000
Balance at 31 December 2019	897,875	84,077	230,963	23,504	93,316	5,567	1,335,302
Changes from financing cash flows							
Net proceeds from additional loans	–	–	33,048	–	–	1,639	34,687
Proceeds from issued notes (net of fees)	–	115,135	–	–	–	–	115,135
Redemption of issued notes	–	(52,695)	–	–	–	–	(52,695)
Repayment of interest on issued notes	(38,860)	–	–	–	–	–	(38,860)
Repayment of interest on asset-backed loans	–	(3,909)	–	–	–	–	(3,909)
Payments on finance leases	–	–	–	(5,636)	–	–	(5,636)
Banking facility interest and other fees paid	–	–	(6,439)	–	–	(1,183)	(7,622)
Total changes from financing cash flows	**(38,860)**	**58,531**	**26,609**	**(5,636)**	**–**	**456**	**41,100**
Liability-related							
Interest expense on issued notes	36,448	4,572	–	–	–	–	41,020
Amortisation of capitalised transaction fees	2,200	1,633	930	–	–	239	5,002
Banking facility interest and other fees	–	–	7,155	–	–	(61)	7,094
Interest rate swap and hedge costs	–	–	–	–	–	370	370
Other interest including on finance leases	–	–	–	1,107	2,128	774	4,009
Total interest and similar charges	**38,648**	**6,205**	**8,085**	**1,107**	**2,128**	**1,322**	**57,495**
The effect of changes in foreign exchange rates	32,912	(61)	11,895	(774)	2,495	260	46,727
Capitalised transaction fees	–	(4,767)	–	–	–	–	(4,767)
Remeasurement of contingent consideration	–	–	–	–	(5,759)	–	(5,759)
Changes in fair value	–	–	–	–	–	(426)	(426)
Net deferred consideration commitments	–	–	–	–	(60,012)	–	(60,012)
Other changes	–	–	–	–	–	(201)	(201)
Total liability-related changes	**32,912**	**(4,828)**	**11,895**	**(774)**	**(63,276)**	**(367)**	**(24,438)**
Balance at 31 December 2020	**930,575**	**143,985**	**277,552**	**18,201**	**32,168**	**6,978**	**1,409,459**

The tables above and below have been re-presented to show additional detail, and to more easily allow reconciliation of the information to the cash flow statement, income statement and the opening and closing balance sheet.

Other borrowings

	2020 £000	2019 £000
Other borrowings	**3,247**	3,672
Bank overdrafts	**3,648**	1,386
Derivative liability	**83**	509
	6,978	5,567

30. Acquisition of subsidiary undertaking

Current year acquisitions

There were no acquisitions during the year to 31 December 2020.

Prior year acquisition

Drydens Limited (Drydens)

On 8 April 2019, the Group acquired 100% of the share capital of Drydens. Drydens is a provider of legal services, the acquisition of which will broaden the Group's UK range of servicing capabilities and skills across consumer and commercial litigation, probate and insolvency. The total undiscounted consideration for the acquisition is £11,115,000 including deferred and contingent consideration.

Contingent consideration is payable at various times within two years from completion of the transaction upon the satisfaction of three mutually exclusive conditions which are based upon the business achieving certain targets around future volumes and the successful migration of Group accounts. The targets for contingent consideration are not linked to the post-acquisition employment status of the sellers, and is not considered to be a post-employment benefit arrangement with the former owners.

Of the £4,262,000 contingent consideration, the gross undiscounted amounts are made up as follows:

- Up to £2,000,000 is contingent upon the successful migration of Arrow accounts. The payment range could be anywhere between £nil and £2,000,000 with the final amount to be agreed upon in April 2020;
- Up to £2,000,000 is contingent upon the performance of Arrow placed accounts against the jointly agreed business plan. The payment range could be anywhere between £nil and £2,000,000 with the final amount to be agreed upon in April 2021; and
- £1,000,000 is contingent upon winning Proceeds of Crime Act servicing deal from the UK Government before 8 April 2020. If the deal is not won the payment is forfeited.

Effect of the acquisition

The fair values of the identifiable assets acquired and liabilities assumed are as set out in the table below. Acquisition related costs are expensed in the profit or loss in the reporting period:

	Total £000
Property, plant and equipment	954
Intangible assets	688
Deferred tax asset	146
Cash and cash equivalents	15
Trade and other receivables	1,983
Trade and other payables	(723)
Deferred tax liability	(131)
Current tax liability	(277)
Provisions	(59)
Lease liability	(760)
Loan liability	(6,122)
Total identifiable net liabilities	(4,286)
Goodwill on acquisition	14,519
	10,233
Consideration:	
Cash	2,865
Deferred consideration	3,106
Contingent consideration	4,262
	10,233
Cash impact of acquisition in the period:	
Cash consideration	2,865
Cash and cash equivalents acquired	(15)
	2,850

An intangible asset of £688,000 has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from existing customer relationships. The gross contractual outstanding amounts of 'trade and other receivables' were materially equal to their carrying amount, with no material balances not expected to be collected upon.

Goodwill of £14,519,000 was created as a result of this acquisition. The primary reason for the acquisition was to broaden the Group's range of servicing capabilities in the UK.

In the period from acquisition to 31 December 2019, Drydens contributed income of £3,650,000 and profit after tax contribution of £1,165,000 to the consolidated results for the period. If the acquisition had occurred on 1 January 2019, Group total income would have been higher by an estimated £1,167,000 and profit after tax would have been lower by an estimated £24,000.

31. Notes to the statement of cash flows

	Group		Company	
	2020 £000	As re-presented 2019 £000	2020 £000	2019 £000
(Loss)/profit after tax	**(93,617)**	37,287	**8,330**	11,897
Adjusted for:				
Balance sheet cash collections in the year	**338,872**	442,311	**–**	–
Income from portfolio investments	**(165,089)**	(199,655)	**–**	–
Fair value gains on portfolios	**(4,976)**	(32,397)	**–**	–
Net impairment losses/(gains)	**100,436**	(12,714)	**–**	–
Deferred consideration renegotiations	**–**	(21,119)	**–**	–
Depreciation and amortisation	**18,910**	18,435	**–**	–
(Profit)/loss on write-off and disposal of property, plant and equipment	**(453)**	1,419	**–**	–
Loss on write-off and disposal of intangible assets	**249**	5,766	**–**	–
Net interest payable	**56,388**	53,103	**–**	–
Lease liability interest	**1,107**	1,395	**–**	–
Foreign exchange losses	**743**	1,018	**–**	–
Equity settled share-based payment expenses	**1,753**	1,437	**–**	–
Tax (credit)/charge	**(21,206)**	14,033	**2,746**	–
Operating cash flows before movement in working capital	**233,117**	310,319	**11,076**	11,897
(Increase)/decrease in other receivables	**(30,551)**	1,740	**(95)**	26
(Increase)/decrease in amounts due to/from subsidiary undertakings	**–**	–	**(9,980)**	10,858
(Decrease)/increase in trade and other payables	**(44,715)**	12,120	**287**	291
Cash generated by operations	**157,851**	324,179	**1,288**	23,072
Income taxes and overseas taxation paid	**(6,491)**	(14,036)	**–**	–
Net cash flow from operating activities before purchases of portfolio investments	**151,360**	310,143	**1,288**	23,072
Purchase of portfolio investments	**(109,850)**	(303,687)	**–**	–
Net cash generated by operating activities	**41,510**	6,456	**1,288**	23,072

Included within cash and cash equivalents is £12,902,000 (2019: £26,611,000) of cash which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated securitisation structure awaiting a payment date. The 2019 reconciliation above, has been re-presented to remove these amounts from the movement in other receivables, as in the prior year they were included within this line item, but are now included within cash and cash equivalents.

32. Post balance sheet events

On 12 February 2021, Arrow Global Finance plc issued €75,000,000 senior secured notes maturing 2026 at an issue price of 99%. This tap issue of the existing €285,000,000 senior secured floating rate bonds due 2026 means that all terms and conditions of the new bonds are identical to those of the existing 2026 bonds, except for the issue price. The proceeds from the transaction of €74,250,000 less transaction fees and expenses will be used to partially repay drawings under the Group's revolving credit facility.

Additional information (unaudited)

IFRS to cash measure reconciliations

We provide two reconciliations between reported IFRS profit and cash measures. The first looks at the movement in our portfolio investments compared to the movements in the ERC – the gross cash value of the portfolio before it is discounted to present value for inclusion in the reported results. The second reconciles the reported profit for the year to free cash flow. A number of the terms referred to in this section are defined in the glossary.

As part of the Group's Balance Sheet business, we acquire portfolios and turn these into regular, predictable and long-term cash flows. This predominantly involves high volumes of low-value balance sheet cash collections from customers, and therefore we use analytical models to estimate cash flows we expect at an individual account level. The output of these account level forecasts is aggregated to a portfolio and then into the Group's total ERC.

When we purchase portfolio investments, we recognise them in the statement of financial position at the purchase price in accordance with IFRS. In terms of the equivalent cash measure, we add the portfolio ERC to the Group ERC at the point of purchase. We quote both 84-month and 120-month ERC forecasts as key performance measures for the business.

Balance sheet cash collections from portfolios can extend beyond 15 years; however, we only include 84-months of cash flow in assessing the majority of our portfolio investments. As we progress through the months of each year, we roll forward the ERC forecast, meaning we always have 84-months of expected cash flow from our portfolios recognised on the statement of financial position.

Due to the nature of our business, actual balance sheet cash collections on portfolio investments will not perform exactly as initially forecast and, each half year, we review performance against balance sheet cash collections experience and update the ERC forecast where appropriate. This updated cash flow forecast, discounted at the applicable rate is the year-end carrying value of the portfolio investments. This movement of the portfolio investments is reflected as income in the statement of profit or loss. The size of the portfolio asset, associated ERC and cash balance sheet cash collections in the year are therefore all key drivers to the result we report.

Movement in portfolio investments under IFRS reconciled to cash ERC – total portfolios

Total portfolio investments	IFRS £000	ERC 84-month £000	ERC 120-month £000	
Brought forward	1,163,624	1,817,940	2,035,421	ERC brought forward
Portfolios acquired during the year[1]	109,850	158,607	172,072	ERC acquired during the year
Balance sheet cash collections in the year[2]	(338,872)	(338,872)	(338,872)	Balance sheet cash collections in the year
Income from portfolio investments at amortised cost[3]	164,597	–	–	
Fair value gains on portfolio investments at FVTPL[4]	4,976	–	–	
Net impairment losses[5]	(100,436)	–	–	
Net income from real estate inventories	492	–	–	
Exchange and other movements	37,984	–	–	
		(81,924)	(146,266)	ERC roll forward and reforecast[6]
		1,555,751	**1,722,355**	ERC carried forward
Effect of discounting[7]		(513,536)		
Carried forward 31 December 2020	**1,042,215**	**1,042,215**		

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IFRS to cash measure reconciliations *continued*

Movement in portfolio investments under IFRS reconciled to cash ERC – amortised cost

Portfolio investments – amortised cost	IFRS £000	ERC 84-month £000	ERC 120-month £000	
Brought forward	932,199	1,426,516	1,608,448	ERC brought forward
Portfolios acquired during the year[1]	47,169	57,191	68,665	ERC acquired during the year
Balance sheet cash collections in the year[2]	(287,662)	(287,662)	(287,662)	Balance sheet cash collections in the year
Income from portfolio investments at amortised cost[3]	164,597	–	–	
Net impairment losses[5]	(100,022)	–	–	
Exchange and other movements	37,273	–	–	
		(26,759)	(56,545)	ERC roll forward and reforecast[6]
		1,169,286	**1,332,906**	ERC carried forward
Effect of discounting[7]		(375,732)		
Carried forward 31 December 2020	**793,554**	**793,554**		

1. Portfolios acquired in the year are added to the statement of financial position carrying value of portfolio investments at their initial purchase price. The undiscounted forecast of estimated remaining balance sheet cash collections is included in the ERC.
2. Balance sheet cash collections made in the period are deducted from both the IFRS carrying value of portfolio investments and ERC.
3. Income on portfolio investments at amortised cost is calculated with reference to the effective interest rate (EIR) of the portfolio. This income is recognised after taking account of new portfolios, balance sheet cash collections, updated ERC forecast, disposals and any foreign exchange impacts. See footnote 1. in the reconciliation of profit after tax to free cash flow below for more detail on total income.
4. Fair value gain on portfolio investments at FVTPL re-presents net increases to carrying values, discounted to calculate the market interest rate of portfolio investments held at FVTPL as a result of reassessments to their estimated future cash flows.
5. Net impairment losses represents net increases to carrying values, discounted at the credit-adjusted EIR rate, of portfolio investments held at amortised cost as a result of reassessments to their estimated future cash flows.
6. The ERC roll forward and reforecast reflects management's updated estimation of future balance sheet cash collections. It takes account of updated information on specific portfolios, the latest exchange rate and rolls forward the 84-month and 120-month forecast collection period.
7. Under IFRS, the carrying value of portfolio investments primarily includes 84-months of discounted cash flows, however we expect to see cash flows beyond this period and report a 120-month ERC also, as is customary for the industry.

Reconciliation of profit after tax to free cash flow

	Reported profit £000	Other items £000	Cash result £000	
Income from portfolio investments	165,089	173,783	338,872	Balance sheet cash collections in the period
Fair value gains on portfolio investments at FVTPL	4,976	(4,976)	–	
Net impairment losses	(100,436)	100,436	–	
Income from AMS and FIM	97,026	–	97,026	Income from AMS and FIM
Gain on disposal of leases	453	(453)	–	
Other income	384	–	384	
Total income[1]	**167,492**	**268,790**	**436,282**	
Total operating expenses	(224,820)	21,701[2]	(203,119)	Cash operating expenses
Operating (loss)/profit	**(57,328)**	**290,491**	**233,163**	Adjusted EBITDA[4]
Net finance costs	(57,495)	1,200[3]	(56,295)	
(Loss)/profit before tax	**(114,823)**	**291,691**	**176,868**	
Taxation credit/(charge) on ordinary activities	21,206	(27,697)	(6,491)	
(Loss)/profit after tax	**(93,617)**	**263,994**	**170,377**	
			(13,824)	Capital expenditure
			156,553	Free cash flow[5]

1. Total income is largely derived from income from portfolio investments as explained in footnote 3. above, plus income from asset management and servicing, being commission on balance sheet cash collections for third parties and fee income received. The non-cash items add back loan portfolio amortisation to get to balance sheet cash collections. Amortisation reflects a reduction in the statement of financial position carrying value of the portfolio investments arising from balance sheet cash collections, which are not allocated to income. Amortisation plus income from portfolio investments equates to balance sheet cash collections.
2. Includes non-cash items including depreciation and amortisation, share-based payment charges and foreign exchange.
3. Non-cash amortisation of fees and interest.
4. Adjusted EBITDA is a key driver to free cash flow. This measure allows us to monitor the operating performance of the Group. See additional information provided on page 181 for detailed reconciliations of Adjusted EBITDA.
5. Free cash flow is the Adjusted EBITDA after the effect of capital expenditure and working capital movements.

Adjusted EBITDA reconciliations

Reconciliation of net cash flow to Adjusted EBITDA	31 December 2020 £000	As re-presented 31 December 2019 £000
Net cash flow used in operating activities	**41,510**	6,456
Purchases of portfolio investments	**109,850**	303,687
Income taxes paid	**6,491**	14,036
Working capital adjustments	**75,266**	(13,860)
Amortisation of acquisition and bank facility fee	**46**	127
Write off and disposal of intangible asset and property plant and equipment	**–**	(7,185)
Adjusting items	**–**	26,789
Adjusted EBITDA	**233,163**	330,050
Reconciliation of balance sheet cash collections to Adjusted EBITDA		
Income from portfolio investments including fair value and impairment losses and gains	**69,629**	244,766
Portfolio amortisation	**269,243**	197,545
Balance sheet cash collections (includes proceeds from disposal of portfolio investments)	**338,872**	442,311
Income from asset management and servicing, fund and investment management and other income	**97,410**	94,752
Operating expenses	**(224,820)**	(233,700)
Depreciation and amortisation	**18,910**	18,435
Foreign exchange losses	**743**	1,018
Amortisation of acquisition and bank facility fees	**46**	127
Deferred consideration renegotiations	**–**	(21,119)
Loss on disposal of intangible assets	**249**	–
Share-based payments	**1,753**	1,437
Adjusting items	**–**	26,789
Adjusted EBITDA	**233,163**	330,050
Reconciliation of operating (loss)/profit to Adjusted EBITDA		
(Loss)/profit after tax for the year	**(93,617)**	37,287
Net finance costs	**57,495**	54,498
Taxation (credit)/charge on ordinary activities	**(21,206)**	14,033
Operating (loss)/profit	**(57,328)**	105,818
Portfolio amortisation	**269,243**	197,545
Depreciation and amortisation	**18,910**	18,435
Foreign exchange losses	**743**	1,018
Amortisation of acquisition and bank facility fees	**46**	127
Gain on disposal of leases	**(453)**	–
Loss on disposal of intangible assets	**249**	–
Share-based payments	**1,753**	1,437
Deferred consideration renegotiations	**–**	(21,119)
Adjusting items	**–**	26,789
Adjusted EBITDA	**233,163**	330,050

For more detail on the re-presentations, see note 16 on page 146.

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Glossary of alternative performance measures

APM	Definition	Why is the measure used?	Reconciliation to the financial statements
Adjusted EBITDA	The Adjusted EBITDA figure represents the Group's earnings before interest, tax, depreciation and amortisation, adjusted for any non-cash income or expense items.	Adjusted EBITDA is an approximate measure of the underlying cash EBITDA of the Group. In addition, the leverage ratio of the Group is calculated as the ratio of secured net debt to Adjusted EBITDA. This makes the Adjusted EBITDA figure a key component of this metric, which also features in the Group's banking covenant measures.	Page 181
Free cash flow	The free cash flow represents current cash generation on a sustainable basis and is calculated as Adjusted EBITDA less cash interest, income taxes and overseas taxation paid, purchase of property, plant and equipment and purchase of intangible assets.	Free cash flow provides a measure of how much cash the Group generates across the reporting period which it can utilise on a discretionary basis.	Page 180
Balance sheet cash collections	Balance sheet cash collections represent cash collections on the Group's existing portfolio investments including ordinary course portfolio sales and put-backs.	Balance sheet cash collections is a key metric as it represents the Group's most significant cash inflow. It is also a key component of Adjusted EBITDA which is used to calculate the Group's leverage position.	Page 180
84-month ERC	The 84-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 84-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time.	The 84-month ERC is particularly important for the Group as it shows the forecast cash inflows over the same period that is used to calculate the future cash flows of the Group's portfolio investments.	Page 180
120-month ERC	The 120-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 120-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time.	The 120-month ERC is an important metric for the Group as in some cases the collection profile of a particular portfolio can extend beyond 84-months, and as such, the 120-month ERC gives a more holistic view of potential remaining balance sheet cash collections from the Group's portfolio investments.	Page 180
Leverage	Leverage is calculated as secured net debt over Adjusted EBITDA.	The leverage metric provides an indication of the level of indebtedness of the Group, relative to its underlying cash earnings.	Pages 181 and 185

Glossary of terms

‘ABS’ means asset-backed security.

‘ACO 1’ is Arrow Credit Opportunities Scsp, our first closed fund encompassing all fund vehicles.

‘AMS’ Income from Asset Management and Servicing (AMS) contracts. The Group recognises revenue when it satisfies a performance obligation related to a service it has undertaken to provide to a customer.

’AMS EBITDA margin’ is the EBITDA margin for the AMS segment and can be seen in note 5.

‘APM’ means alternative performance measure.

‘Average net assets’ is calculated as the average quarterly net assets from 2019 to 2020 as shown in the quarterly and half yearly statements.

‘Balance Sheet business’ was previously referred to as Investment Business (IB).

’Capital-light % of Group EBITDA’ is the Asset Management Servicing and Fund and Investment Management segment EBITDAs as a percentage of total EBITDA.

	2020 £000	2019 £000
AMS EBITDA	**15,598**	23,076
FIM EBITDA	**2,650**	18,635
Total capital-light	**18,248**	41,711
Group EBITDA	**(37,675)**	125,271
Capital light % of Group EBITDA	**(48.4)%**	33.3%

‘CGU’ means cash generating unit.

‘CODM’ means chief operating decision maker.

‘Creditors’ means financial institutions or other initial credit providers to consumers, certain of which entities choose to sell paying accounts or non-paying accounts receivables related to debt purchasers (such as the Group).

‘CSA’ means Credit Services Association.

‘CSOP’ means a company share option plan, and is a tax-advantaged share plan that enables Arrow to grant market value share options to selected employees over shares with a maximum value per individual of £30,000 as at the date of the grant.

‘Customers’ means consumers whose secured and unsecured loan obligation is owed to the Group as a result of a portfolio purchase made by the Group.

‘Defaulted debt’ means a debt where a customer has breached the repayment terms governing that debt such that it is unlikely to be paid. Under the Consumer Credit Act 1974, there are specific legal obligations which require a customer to be sent the relevant statutory default notice(s) after which the customer’s agreement may ultimately be terminated. Other types of debts may also be defined as defaulted in the event that they remain unpaid for a period of 90 days or more, if there is not an acceptable arrangement in place to bring the account back up to date, in which case the creditor or lender may reasonably believe that the relationship has broken down. Under the Data Protection Act 1990, it is a requirement that any organisation seeking to register a default with a credit reference agency must also send a notice of intention to file a default, this notice is very similar in nature to that required under the Consumer Credit Act both of which give the debtor 28 days to bring the account back up to date before action is taken.

‘Diluted EPS’ means the earnings per share whereby the number of shares is adjusted for the effects of potential dilutive ordinary shares, options and LTIPs.

‘DSBP’ means the Arrow deferred share bonus plan.

‘EBITDA’ means earnings before interest, taxation, depreciation and amortisation.

‘EBT’ means employee benefit trust.

‘ECL’ means expected credit losses.

‘EIR’ means effective interest rate (which is based on the loan portfolio’s gross internal rate of return) calculated using the loan portfolio purchase price and forecast gross ERC at the date of purchase. On acquisition, there is a short period that is required to determine the EIR, due to the complexity of the portfolios acquired.

‘EPS’ means earnings per share.

’ERC’ means Estimated Remaining Collections. More information on the 84-month and 120-month ERCs can be seen on page 182.

‘ERC roll forward’ relates to additional cash flows from rolling the asset life on all portfolios to seven years from the date of ERC, including the impact of any foreign exchange movement and the impact of reforecast in the period.

FCA’ means the Financial Conduct Authority.

‘FIM’ means the Fund and Investment Management.

’FIM EBITDA margin’ is the EBITDA margin for the FIM segment and can be seen in note 5.

’Forward flow agreement’ is a commitment to acquire further portfolio investments of a similar nature from the same counterparty in the future.

‘Free cash flow’ or ‘FCF’ means Adjusted EBITDA after the effect of capital expenditure and working capital movements.

‘FTSE’ means the financial times stock exchange, a British financial organisation specialising in providing index offerings for the global financial markets.

‘FVOCI’ means fair value through other comprehensive income.

‘FVTPL’ means Financial instruments designated at fair value with all gains or losses being recognised in the profit or loss.

‘FUM’ means the value of all fund management assets managed by Arrow Global plc, including Arrow Credit Opportunities, Norfin Investimentos, Europa Investimenti, Sagitta, any of Arrow’s own capital which it has committed to invest alongside third parties committed capital and Arrow’s back book. FUM is an important metric used to understand the scale of the Group’s Fund and Investment Management business and how this compares with others in the market.

‘GFC’ means global financial crisis.

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

	2020 £000	2019 £000
Third-party AMS and FIM income	**97,026**	94,360
Intra-Group AMS and FIM income	**60,362**	64,463
Income reallocation from Balance Sheet business	**4,747**	18,291
Gross AMS and FIM income	**162,135**	177,114

‘Gross income’ includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-group income for Asset Management and Servicing, total income for the Balance Sheet business and other income.

	2020 £000	2019 £000
Third-party AMS and FIM income	**97,026**	94,360
Intra-Group AMS and FIM income	**60,362**	64,463
Income reallocation from Balance Sheet business	**4,747**	18,291
Gross AMS and FIM income	**162,135**	177,114
Balance Sheet business income	**69,629**	244,766
Income reallocation from FIM business	**(4,747)**	(18,291)
Gross Balance Sheet income	**64,882**	226,475
Other income	**837**	392
Gross income	**227,854**	403,981

‘Gross money multiple’ means balance sheet cash collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, all divided by the purchase price for each portfolio, excluding REO purchases and purchase price adjustments relating to asset management fees.

‘HPI’ means house price index.

‘IAS’ means International accounting standards.

‘Income from AMS’ includes commission income, debt collection, due diligence, real estate management and advisory fees.

‘IPO’ means initial public offering.

‘Loan to value’ or ‘LTV ratio’ represents the ratio of 84-month ERC to net debt.

‘LTIP’ means the Arrow long-term incentive plan.

‘NAV’ means net asset value.

‘NCI’ means non-controlling interest.

'Net debt' means the sum of the outstanding principal amount of the senior secured notes, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of portfolio investments, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after taking out of the Group's assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt for the year ended 31 December 2020 (with 2019 re-presented, as set out in note 31) is as follows:

	2020 £000	As re-presented 2019 £000
Cash and cash equivalents	**(182,892)**	(115,376)
Senior secured notes (pre-transaction fees net off)	**935,487**	902,656
Revolving credit facility (pre-transaction fees net off)	**280,342**	234,683
Asset-backed loans (pre-transaction fees net off)	**148,044**	85,604
Secured net debt	**1,180,981**	1,107,567
Deferred consideration – portfolio investments	**12,038**	62,944
Deferred consideration – business acquisitions	**20,130**	30,372
Senior secured loan notes interest	**5,568**	7,999
Asset-backed loan interest	**649**	–
Bank overdrafts	**3,648**	1,386
Other borrowings	**3,247**	3,672
Net debt	**1,226,261**	1,213,940

'Net IRR' means the internal rate of return net of cost to collect.

'NPL' means non-performing loan.

'NPV' means net present value.

'OCI' means other comprehensive income.

'Off market' means those loan portfolios that were not acquired through a process involving a competitive bid or an auction like process.

'Paying account' means an account that has shown at least one payment over the last three months or at least two payments over the last six months.

'Pay-out ratio' represents the total amount of dividends paid out divided by the underlying profit after tax.

'Portfolio amortisation' represents total balance sheet cash collections plus income from portfolio investments.

'POCI' means purchased or originated credit impaired.

'Portfolio investments' are on the Group's statement of financial position and represent all debt portfolios that the Group owns at the relevant point in time. A portfolio comprises a group of customer accounts purchased in a single transaction.

'REO portfolio' means a portfolio investment which is related to real estate owned assets.

'ROE' means the return on equity as calculated by taking profit after tax divided by the average equity attributable to shareholders. Average equity attributable is calculated as the average quarterly equity from 2019 to 2020 as shown in the quarterly and half-yearly statements. The quarterly and half-yearly statements can be found here https://www.arrowglobal.net/en/investors/results-reports-presentations.html.

'Secured net debt' see table in 'net debt' definition.

'SIP' means the Arrow all-employee share incentive plan.

'SMART' means aligning the leadership teams across the Group around our Mission, Vision and Strategy.

'SME' means small and medium-sized enterprises.

'SPPI' means solely payments of principal and interest.

'TCF' means the treating customers fairly FCA initiative.

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

'TSR' means total shareholder return.

'WAEP' means weighted average exercise price.

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Financial calendar for 2021
- Announcement of 2020 full-year results 23 March 2021
- Announcement of the 3 months to 31 March 2021 results 11 May 2021
- Annual general meeting 2 June 2021
- Announcement of 2021 half-yearly results 24 August 2021
- Announcement of the 9 months to 30 September 2021 results 9 November 2021
- Full year 31 December 2021

Annual general meeting
In light of the evolving situation, in respect to the UK's governments strategy in relation to COVID-19 lockdown restrictions, shareholders will not be permitted to attend the annual general meeting in person but can attend in person by electronic means. The meeting will be held at Arrow Global, 2nd Floor, 6 Duke Street, St James's, London, SW1Y 6BN on Wednesday, 2 June 2021 at 10.00am. Notice of the annual general meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appear in the document accompanying this annual report and accounts.

Shareholder information and website
Equiniti Limited is our registrar, and they offer many services to make managing your shareholding easier and more efficient. You can find out further information about the Group and view this annual report and accounts, results, other announcements and presentations, together with the latest share price information, on the Company's investor relations website (www.arrowglobal.net).

Shareview
If you wish to receive electronic communications and manage your shareholding online please visit the website of our registrar, Equiniti Limited, at www.shareview.co.uk and click to register at the top of the page.

Customer support centre
You can contact Equiniti's customer support centre, which is available to answer any queries you have in relation to your shareholding:

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