Capquest Debt Recovery Limited

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

UK Registered No. 03772278

Table of contents

Company information

Registered in England and Wales No: 03772278

Directors

Lee Rochford (resigned 12 October 2021)
Matthew Hotson (resigned 30 October 2021)
Philip Shepherd (appointed 12 October 2021)
Jim Appleby (appointed 12 October 2021)
Oliver Stratton (appointed 26 November 2021) (resigned 4 April 2022)

Registered Office

Belvedere
12 Booth Street
Manchester
United Kingdom
M2 4AW

Strategic report

The directors present their strategic report of Capquest Debt Recovery Limited ('the Company') for the year ended 31 December 2021.

Principal activity

The Company's principal activity is that of the provision of credit management services which include debt collection and tracing. There have not been any significant changes in the Company's principal activity in the year under review. The directors are not aware, at the date of this report, of any likely changes in the Company's activities in the forthcoming year.

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

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

Strategic review

As shown in the Company's statement of profit or loss and other comprehensive income on page 8, the Company's revenue has increased by 24% to £17,822,000 from the prior year (2020: £14,394,000). The revenue relates largely to the commission received on the recovery of monies owing on non-performing consumer loans owned by third party clients and other subsidiary companies of Arrow Global Limited Group.

The statement of financial position on page 9 shows that the Company's net liabilities have increased to £17,589,000 compared with £15,406,000 at 31 December 2020.

Risks and uncertainties

The Company faces largely those risks and uncertainties faced by the Group. The Group operates an Enterprise-Wide Risk Management Framework, which is underpinned by risk appetite statements and a suite of policies. Risk is governed by the Group board, executive management and the Group risk committee. Full details of the risks and uncertainties and mitigating actions are included in the Group's financial statements.

The significant risks and uncertainties faced by the Company are managed through the Group's risk management framework, these risks and uncertainties are summarised below:

Operational risk

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

The Company relies on Group core systems for customer and data management, including data analytics. Should these systems experience performance issues or outage through, for example, cyber-attack, customers would be impacted, and we could experience financial loss and/or reputational damage. Business and wider economic disruption from external events such as COVID-19 places a sharp focus on the Company's ability to provide the necessary resilience for the wellbeing of all stakeholders.

Key mitigating actions

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

Strategic report *(continued)*

Conduct risk

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

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

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

Key mitigating actions

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

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

Financial risk

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

Note 21 of these financial statements describes the Company's financial risk exposures.

Key mitigating actions

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

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

Outlook

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

Strategic report *(continued)*

Section 172 statement

From the perspective of the board, as a result of the Group governance structure, the matters that it is responsible for considering under Section 172 (1) of the Companies Act 2006 ('s172') have been considered to an appropriate extent by the board of Arrow Global Group Limited ("AGGL"), in relation both to the wider Arrow Global group and to this entity. The board has also considered relevant matters where appropriate. To the extent necessary for an understanding of the development, performance and position of the entity, an explanation of how AGGL has considered the matters set out in s172 (for the wider Arrow Global group and for the entity) is set out on page 11 of AGGL's 2021 annual report and accounts, which does not form part of this report.

Approved by the board of directors on 11 August 2022 and signed and authorised for issue on its behalf by:

Philip Shepherd
Director

Directors' report

The directors present their annual report on the affairs of Capquest Debt Recovery Limited ("the Company"), together with the financial statements, for the year ended 31 December 2021.

Going concern and outlook

The Company made a loss after tax of £2,188,000 (2020: £732,000) and had a net cash outflow of £200,000 (2020: inflow of £167,000). At 31 December 2021, the Company had positive cash balances of £108,000 (2020: £308,000) and net liabilities of £17,589,000 (2020: £15,406,000). The Company's business activities are set out in the principal activities section and the Company is part of the Arrow Global Group Limited group of companies.

A letter of support has been received from Arrow Global Group Limited stating it will continue to finance the Company. The assessment of the going concern basis of preparation for the Company has considered both the position at 31 December 2021 and the outlook for the Company, as well as the going concern position of the Group as a whole. This is due to the integrated nature of the companies across the Group, and therefore the reliance of the Company on the Group's going concern position.

In assessing whether the going concern basis is appropriate to adopt for the Group as at 31 December 2021, the directors have undertaken a thorough analysis of forecast cash flow models and scenarios for a period of at least 12 months from the date of approval of these accounts, with the primary focus of detailed forecasting running to the end of 2022.

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

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

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

Dividends

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

Directors

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

Lee Rochford (resigned 12 October 2021)
Matthew Hotson (resigned 30 October 2021)
Philip Shepherd (appointed 12 October 2021)
Jim Appleby (appointed 12 October 2021)
Oliver Stratton (appointed 26 November 2021) (resigned 4 April 2022)

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

Political contributions

During the year the Company did not make any political contributions (2020: £nil).

Directors' indemnities

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

Directors' report *(continued)*

Audit

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

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

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

By order of the board

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Philip Shepherd

Director

11 August 2022

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards and applicable law.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the board

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Philip Shepherd

Director

11 August 2022

Statement of profit or loss and other comprehensive income for the year to 31 December 2021

	Notes	2021 £000	2020 £000
Revenue			
Income from servicing portfolios	5	644	1,055
Income from intergroup trading	5	17,178	13,339
Total revenue		**17,822**	**14,394**
Operating expenses			
Collection activity costs	9	(11,682)	(7,914)
Professional fees and services		(38)	(2)
Administrative expenses	9	(5,354)	(5,865)
Total operating expenses		**(17,074)**	**(13,781)**
Operating profit	6	**748**	**613**
Finance income	7	1,949	3,741
Finance costs	8	(3,811)	(5,330)
Loss on ordinary activities before taxation		**(1,114)**	**(976)**
Taxation (charge) / credit on ordinary activities	11	(1,074)	244
Loss for the year		**(2,188)**	**(732)**

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

The notes on pages 12 to 27 form part of these financial statements.

Statement of financial position as at 31 December 2021

	Notes	2021 £000	2020 £000
Assets			
Cash and cash equivalents		108	308
Trade and other receivables	16	509	1,288
Amounts due from Group undertakings	19	40,436	36,329
Property, plant and equipment	12	3,292	3,902
Intangible assets	13	6,075	8,138
Deferred tax asset	15	3	1,072
Investment in subsidiary	14	-	-
Total assets		**50,423**	**51,037**
Liabilities			
Trade and other payables	17	4,143	5,117
Amounts due to Group undertakings	19	63,869	61,326
Total liabilities		**68,012**	**66,443**
Equity			
Share capital	18	2,550	2,550
Retained deficit		(20,139)	(17,956)
Total equity attributable to shareholder		**(17,589)**	**(15,406)**
Total equity and liabilities		**50,423**	**51,037**

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

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

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

The notes on pages 12 to 27 form part of these financial statements.

Approved by the board of directors on 11 August 2022, signed and authorised for issue on its behalf by

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Philip Shepherd

Director

Registered in England and Wales No: 03772278

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

	Ordinary shares £000	Retained deficit £000	Total £000
Balance at 1 January 2020	**2,550**	**(17,225)**	**(14,675)**
Loss for the year	-	(732)	(732)
Deferred tax on share options	-	(1)	(1)
Balance at 31 December 2020	**2,550**	**(17,956)**	**(15,406)**
Loss for the year	-	(2,188)	(2,188)
Deferred tax on share options	-	5	5
Balance at 31 December 2021	**2,550**	**(20,139)**	**(17,589)**

The notes on pages 12 to 27 form part of these financial statements.

Statement of cash flows for the year ended 31 December 2021

	2021 £000	2020 £000
Cash flows from operating activities		
Loss before taxation	(1,114)	(976)
Adjusted for:		
Depreciation charge for the year	610	649
Amortisation charge for the year	2,081	2,075
Loss on disposal of fixed assets	23	814
Gain on lease termination	-	(1,420)
Finance income	(1,949)	(3,741)
Finance costs	3,575	5,058
Lease liability interest	236	272
Operating cash flows before movement in working capital	**3,462**	**2,731**
Decrease in amounts due to subsidiary undertakings	(1,031)	(35,685)
(Increase) / decrease in amounts due from subsidiary undertakings	(2,158)	34,067
Decrease / (increase) in trade and other receivables	779	(477)
(Decrease) / increase in trade and other payables	(442)	352
Net cash generated by operating activities	**610**	**988**
Investing activities		
Purchase of intangible assets	(41)	(79)
Net cash used in investing activities	**(41)**	**(79)**
Financing activities		
Interest paid	(1)	-
Finance lease payments	(768)	(742)
Net cash used in financing activities	**(769)**	**(742)**
Net (decrease) / increase in cash and cash equivalents	(200)	167
Cash and cash equivalents at beginning of year	308	141
Cash and cash equivalents at end of year	**108**	**308**

The notes on pages 12 to 27 form part of these financial statements.

Notes to the Financial Statements

1.1 General information

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

1.2. Basis of preparation and going concern

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

The Company has taken advantage of the exemption under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated accounts as it is a wholly-owned subsidiary of Sherwood Topco Limited (see note 22), which prepares group accounts.

The financial statements of the Company have been prepared under the historical cost convention.

Going concern statement
A letter of support has been received from Arrow Global Group Limited stating it will continue to finance the Company. The assessment of the going concern basis of preparation for the Company has considered both the position at 31 December 2021 and the outlook for the Company, as well as the going concern position of the Group as a whole. This is due to the integrated nature of the companies across the Group, and therefore the reliance of the Company on the Group's going concern position.

In assessing whether the going concern basis is appropriate to adopt for the Group as at 31 December 2021, the directors have undertaken thorough analysis of forecast cash flow models and scenarios for a period of at least 12 months from the date of approval of these accounts, with the primary focus of detailed forecasting running to the end of 2022.

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

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

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

Notes to the Financial Statements *(continued)*

2. Accounting standards

New standards

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

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

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

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

Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

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

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

3. Significant accounting policies

Foreign currency

i. Foreign currency transactions

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

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

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

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

Notes to the financial statements *(continued)*

3. Significant accounting policies *(continued)*

Income from asset management and servicing

i. Servicing fees

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

Leases

i. Company acting as a leasee

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

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

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

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

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

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

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

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

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

Notes to the financial statements *(continued)*

3. Significant accounting policies *(continued)*

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

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

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

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

iii. Company acting as a lessor

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

Taxation
i. Income tax

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

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

ii. Current tax

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

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

iii. Deferred tax

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

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

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

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

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

Notes to the financial statements *(continued)*

3. Significant accounting policies *(continued)*

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

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

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

Financial assets and financial liabilities

i. Recognition and initial measurement

The Company initially recognises financial assets and liabilities on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

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

ii. Classification

Financial assets

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

All of the Company's financial assets, including amounts due from group undertakings, cash and cash equivalents and trade and other receivables have been assessed as being in a 'hold to collect' business model. Therefore, the only reason why a financial asset would be classified as FVTPL would be due to the failure of the SPPI test.

iii. Impairment

The Company holds material amounts due from group undertakings within its statement of financial position. These have been assessed under IFRS 9 expected credit loss (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.

The Company has applied the low credit risk exemption to cash and cash equivalents and the simplified approach to trade and other receivables.

Notes to the financial statements *(continued)*

3. Significant accounting policies *(continued)*

iv. Derecognition of financial assets and liabilities

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

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

Intercompany receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Investments in subsidiaries

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

Property, plant and equipment

i. Recognition and measurement

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

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

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

ii. Subsequent expenditure

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

iii. Depreciation

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

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

Furniture	five years
Computer equipment	three years
Leasehold improvements	five years
Right-of-use assets	based on contractual terms

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

Notes to the financial statements *(continued)*

3. Significant accounting policies *(continued)*

Intangible assets

i. Software licenses and IT platforms

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

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

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

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

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

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

Employee benefits

i. Retirement benefit costs

Payments to defined contribution retirement schemes are charged as the employees provide services to the Company. The Company has, for the year covered by these financial statements, made contributions to defined contribution plans to provide pension benefits for employees upon retirement and, otherwise, has no residual obligation or commitments in respect of any defined benefit scheme.

Collection activity costs

Collection activity costs mainly consists of collections, trace and litigation costs which are directly attributable to the provision of credit management services which include debt collection and tracing.

Interest payable and receivable

Interest is charged on intercompany transactions using an interest rate determined by the Group.

4. Critical accounting judgements and key sources of estimation uncertainty

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

Assumptions and estimation uncertainties

i. Carrying value of amounts due from group undertakings

These amounts relate to intercompany loans and trading balance that are repayable on demand and are therefore held as current assets or liabilities. 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 group counterparty was considered to be performing.

The maximum period over which expected impairment losses were measured was the period needed to transfer the cash once demanded. As at 31 December 2021, the outstanding balance of the receivable could be repaid within a short number of months, with the majority of the payment being received immediately. Therefore, the expected credit loss was limited to the effect of discounting the amount due on the balance over this period. As the expected repayment schedule is short, discounting at the receivable's effective interest rate did not result in a material expected credit loss.

Notes to the financial statements *(continued)*

5. Revenue

	2021	2020
	£000	£000
Income from servicing portfolios	644	1,055
Income from inter group trading	17,178	13,339
	17,822	**14,394**

6. Operating profit

Operating profit for the year has been arrived after charging:

	2021	2020
	£000	£000
Depreciation of property, plant and equipment	610	649
Amortisation of intangible assets	2,081	2,075

7. Finance income

	2021	2020
	£000	£000
Interest on intercompany balances	1,949	3,741

8. Finance cost

	2021	2020
	£000	£000
Interest on intercompany balances	3,574	5,058
Lease liability interest	236	272
Other finance costs	1	-
	3,811	**5,330**

Notes to the financial statements *(continued)*

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

	2021	2020
	£000	*£000*
External collection costs	76	70
Staff costs (see note 9b)	10,460	7,011
Direct operating costs	1,141	829
Legal disbursements	-	2
Other collection activity costs	5	2
Total collection activity costs	**11,682**	**7,914**

	2021	2020
	£000	*£000*
Staff costs (see note 9b)	677	2,023
Other related staff costs	44	44
Premises	689	660
IT	871	778
Depreciation and amortisation	2,691	2,193
Net foreign exchange losses / (gains)	4	(5)
Other operating expenses	378	172
Total other operating expenses	**5,354**	**5,865**

b. Staff costs	2021	2020
	£000	£000
Wages and salaries	9,832	8,066
Social security costs	875	646
Other pension costs	430	323
	11,137	**9,034**

The average monthly number of employees during the year was made up as follows:

	2021	2020
Operations and asset servicing	413	308
Commercial asset management	3	3
Legal and risk	2	2
HR and communications	4	3
	422	**316**

Directors' remuneration is borne by another Group company, Arrow Global Limited. It is not formally recharged as it is not practicable to allocate directors' remuneration between Group companies.

Notes to the financial statements (continued)

10. Auditor remuneration

The analysis of auditor remuneration is as follows:

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

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

11. Tax

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

	2021	2020
	£000	£000
Loss before tax	(1,114)	(976)
Tax credit at standard UK corporation tax rate of 19% (2020: 19%)	(211)	(185)
Adjustment in respect of prior years	-	16
Expenses not deductible for tax purposes	-	22
Group relief	76	-
Effects of other tax rates	-	(97)
Deferred tax charged directly to equity	(5)	-
Movement in deferred tax not recognised	1,209	-
Tax charge / (credit) on the profit for the year	**1,069**	**(244)**
Effective tax rate	**96.0%**	**25.0%**

	2021	2020
	£000	£000
Current tax charge:		
Current tax based on profit for the year	-	-
Total current tax charge	-	-
Deferred tax charge:		
Current year	1,069	(163)
Adjustment in respect of previous periods	-	16
Effect of changes in tax rates	-	(97)
Total deferred tax charge / (credit)	**1,069**	**(244)**
Total tax charge / (credit)	**1,069**	**(244)**

The rate of UK corporation tax, as enacted under Finance Act 2021, is expected to increase to 25% from 1 April 2023. Deferred taxation is measured at the tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the statement of financial position date.

Notes to the Financial Statements *(continued)*

12. Property, plant and equipment

	Leasehold improvements £000	Furniture £000	Computer equipment £000	Right-of-use asset £000	Total £000
Cost					
At 31 December 2019	**1,936**	**600**	**1,537**	**7,302**	**11,375**
Additions	-	-	-	-	-
Disposals	-	-	-	(2,385)	(2,385)
At 31 December 2020	**1,936**	**600**	**1,537**	**4,917**	**8,990**
Additions	-	-	-	-	-
Disposals	-	-	(1,521)	-	(1,521)
At 31 December 2021	**1,936**	**600**	**16**	**4,917**	**7,469**
Accumulated depreciation					
At 31 December 2019	**1,689**	**460**	**1,531**	**2,330**	**6,010**
Depreciation charge for the year	73	40	4	532	649
Accumulated depreciation on disposals	-	-	-	(1,571)	(1,571)
At 31 December 2020	**1,762**	**500**	**1,535**	**1,291**	**5,088**
Depreciation charge for the year	61	34	2	513	610
Accumulated depreciation on disposals	-	-	(1,521)	-	(1,521)
At 31 December 2021	**1,823**	**534**	**16**	**1,804**	**4,177**
Net book value					
At 31 December 2020	**174**	**100**	**2**	**3,626**	**3,902**
At 31 December 2021	**113**	**66**	**-**	**3,113**	**3,292**

Notes to the Financial Statements *(continued)*

13. Intangible assets

	IT Platform £000	Software licences £000	Total £000
Cost			
At 1 January 2020	**19,213**	**1,810**	**21,023**
Additions	-	79	79
At 31 December 2020	**19,213**	**1,889**	**21,102**
Additions	-	41	41
Disposals	-	(1,806)	(1,806)
At 31 December 2021	**19,213**	**124**	**19,337**
Amortisation			
At 1 January 2020	**9,142**	**1,747**	**10,889**
Amortisation charge for the year	2,032	43	2,075
At 31 December 2020	**11,174**	**1,790**	**12,964**
Amortisation charge for the year	2,032	49	2,081
Accumulated depreciation on disposals	-	(1,783)	(1,783)
At 31 December 2021	**13,206**	**56**	**13,262**
Net book value			
At 31 December 2020	**8,039**	**99**	**8,138**
At 31 December 2021	**6,007**	**68**	**6,075**

Notes to the Financial Statements *(continued)*

14. Investments

	Company undertakings
	£
Carrying value at 31 December 2021 and 31 December 2020	**7**

Subsidiary undertakings

The principal undertakings in which the Company's interest at the year-end is 20% or more are as follows:

Subsidiary undertaking	*Proportion of voting rights and Ordinary share capital held*	*Registered address*	*Nature of business*
Capquest Debt Recovery S.A (pty) Ltd	100%	Office Suite 15, Canal Edge 1, Tyger Waterfront, Carl Cronje Drive, Bellville, Western Cape, 7530, South Africa	Dormant

15. Deferred tax asset

	2021	**2020**
	£000	**£000**
Property, plant and equipment	-	524
Share options	-	7
Other temporary differences (IFRS 16)	3	13
Losses	-	528
	3	**1,072**

16. Trade and other receivables

	2021	**2020**
	£000	**£000**
Trade receivables	1	29
Accrued income	60	1,121
Other receivables	108	-
Prepayments	340	138
	509	**1,288**

17. Trade and other payables

	2021	**2020**
	£000	**£000**
Trade creditors	191	160
Accruals	106	329
Lease liability	3,797	4,329
VAT liability	7	8
Other liabilities	42	291
	4,143	**5,117**

Notes to the Financial Statements *(continued)*

18. Share capital

	2021	2020
	£	£
Allotted, called up and fully paid		
2,550,000 Ordinary shares of £1 each	2,550,000	2,550,000
300 Ordinary A shares of £1 each	300	300
	2,550,300	**2,550,300**

19. Related party transactions

	2021	2020
Amounts due to/(from) related parties:	**£000**	**£000**
Capquest Group Limited	26,774	25,258
Capquest Investments Limited	36,779	35,669
Capquest Mortgage Servicing Limited	304	304
Capquest Debt Recovery (SA) PTY	11	11
Arrow Global Limited	(39,790)	(35,766)
Mars Capital Management Limited	(646)	(563)
Drydens Limited	1	84
	23,433	**24,997**

All related party transactions relate to amounts owed to Group companies and to trading balances and are repayable on demand. The balances with Capquest Group Limited, Capquest Investments Limited and Arrow Global Limited are interest bearing.

The Company had the following reportable transactions with related parties:

	Interest receivable / (payable)	
	2021	**2020**
	£000	**£000**
Capquest Group Limited	(1,516)	(1,427)
Capquest Investments Limited	(2,058)	(3,631)
Arrow Global Limited	1,949	3,741
	(1,625)	**(1,317)**

20. Leases

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

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

Notes to the Financial Statements *(continued)*

20. Leases *(continued)*

Right-of-use assets

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

	2021	2020
	£000	£000
As at the year brought forward	3,626	4,972
Depreciation charge for the year	(513)	(532)
Disposals	-	(814)
Balance at 31 December	**3,113**	**3,626**

Maturity analysis – contractual undiscounted cash flows

See note 21 for maturity analysis of lease liabilities as at 31 December 2021 and 31 December 2020.

Amounts recognised in profit or loss

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

	2021	2020
	£000	£000
Interest on lease liabilities	236	272
Depreciation charge for the year on right of use assets	513	532

Amounts recognised in statement of cash flows

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

	2021	2020
	£000	£000
Total cash outflow for leases	768	742

21. Financial instruments

The key risks and uncertainties faced by the Company are credit risk and liquidity risk, that arise through the Company's normal course of business. These risks are managed within the Group's established risk management framework, as described in the Group's financial statements.

Credit risk

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

	2021	2020
Statement of financial position	£000	£000
Cash and cash equivalents	108	308
Trade and other receivables	509	1,288
Amounts due from Group undertakings	40,436	36,329
	41,053	**37,925**

Notes to the Financial Statements *(continued)*

21. Financial instruments *(continued)*

Liquidity risk

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

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

As at 31 December 2021	Less than 1 month £000	Within 1 year £000	1-2 years £000	3-5 years £000	More than 5 years £000	Total £000
Financial liability by type:						
Trade and other payables	240	106	-	-	-	346
Lease liabilities	-	768	768	2,304	644	4,484
Amounts due to group undertakings	63,869	-	-	-	-	63,869
Total financial liabilities	**64,109**	**874**	**768**	**2,304**	**644**	**68,699**
Financial asset by type:						
Cash and cash equivalents	108	-	-	-	-	108
Trade and other receivables	1	508	-	-	-	509
Amounts due from group undertakings	40,436	-	-	-	-	40,436
Total financial assets	**40,545**	**508**	**-**	**-**	**-**	**41,053**

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	459	329	-	-	-	788
Lease liabilities	-	768	768	2,304	1,412	5,252
Amounts due to group undertakings	61,326	-	-	-	-	61,326
Total financial liabilities	**61,785**	**1,097**	**768**	**2,304**	**1,412**	**67,366**
Financial asset by type:						
Cash and cash equivalents	308	-	-	-	-	308
Trade and other receivables	29	1,259	-	-	-	1,288
Amounts due from group undertakings	36,329	-	-	-	-	36,329
Total financial assets	**36,666**	**1,259**	**-**	**-**	**-**	**37,925**

Fair Values

The directors consider that there are no material differences between the asset values in the statement of financial position and their fair value.

22. Parent undertaking

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

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