

PRA GROUP INC  
Form 10-Q  
May 10, 2016  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q  
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2016  
¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 000-50058

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PRA Group, Inc.  
(Exact name of registrant as specified in its charter)  
Delaware 75-3078675  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)  
organization)  
120 Corporate Boulevard, Norfolk, Virginia 23502 (888) 772-7326  
(Address of principal executive offices) (Zip Code) (Registrant's Telephone No., including area  
code)  
Not  
Applicable  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO   
The number of shares of the registrant's common stock outstanding as of May 6, 2016 was 46,328,722.

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Part I. Financial Information  
Item 1. Financial Statements

PRA Group, Inc.

Consolidated Balance Sheets

March 31, 2016 and December 31, 2015

(unaudited)

(Amounts in thousands)

|   | March 31,<br>2016 | December 31,<br>2015 |
|---|-------------------|----------------------|
| Assets  |                   |                      |
| Cash and cash equivalents   | \$79,442          | \$71,372             |
| Investments   | 71,413            | 73,799               |
| Finance receivables, net  | 2,377,077         | 2,202,113            |
| Other receivables, net  | 33,555            | 30,771               |
| Income taxes receivable   | —                 | 1,717                |
| Net deferred tax asset  | 15,571            | 13,068               |
| Property and equipment, net   | 47,785            | 45,394               |
| Goodwill  | 524,870           | 495,156              |
| Intangible assets, net  | 32,154            | 23,788               |
| Other assets  | 86,966            | 33,389               |
| Total assets  | \$3,268,833       | \$2,990,567          |
| Liabilities and Equity  |                   |                      |
| Liabilities:  |                   |                      |
| Accounts payable  | \$2,377           | \$4,190              |
| Accrued expenses  | 95,049            | 95,380               |
| Income taxes payable  | 28,114            | 21,236               |
| Net deferred tax liability  | 269,201           | 261,498              |
| Interest-bearing deposits   | 55,349            | 46,991               |
| Borrowings  | 1,896,424         | 1,717,129            |
| Other liabilities   | 13,577            | 4,396                |
| Total liabilities   | 2,360,091         | 2,150,820            |
| Equity:   |                   |                      |
| Preferred stock, par value \$0.01, authorized shares, 2,000, issued and outstanding shares, 0—  | —                 | —                    |
| Common stock, par value \$0.01, authorized shares, 100,000, issued and outstanding shares, 46,328 at March 31, 2016; 100,000 authorized shares, 46,173 issued and outstanding shares at December 31, 2015 | 463               | 462                  |
| Additional paid-in capital  | 64,287            | 64,622               |
| Retained earnings   | 996,253           | 964,270              |
| Accumulated other comprehensive loss  | (196,135 )        | (228,861 )           |
| Total stockholders' equity - PRA Group, Inc.  | 864,868           | 800,493              |
| Noncontrolling interest   | 43,874            | 39,254               |
| Total equity  | 908,742           | 839,747              |
| Total liabilities and equity  | \$3,268,833       | \$2,990,567          |

The accompanying notes are an integral part of these consolidated financial statements.

PRA Group, Inc.  
 Consolidated Income Statements  
 For the three months ended March 31, 2016 and 2015  
 (unaudited)  
 (Amounts in thousands, except per share amounts)

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2016                            | 2015      |
| Revenues:   |                                 |           |
| Income recognized on finance receivables, net                     | \$206,507                       | \$228,403 |
| Fee income  | 16,266                          | 13,053    |
| Other revenue   | 2,109                           | 3,750     |
| Total revenues  | 224,882                         | 245,206   |
| Operating expenses:   |                                 |           |
| Compensation and employee services                                | 66,765                          | 65,271    |
| Legal collection fees   | 12,950                          | 13,691    |
| Legal collection costs  | 17,182                          | 20,854    |
| Agency fees   | 10,884                          | 8,261     |
| Outside fees and services   | 15,808                          | 12,797    |
| Communication   | 9,882                           | 10,418    |
| Rent and occupancy  | 3,796                           | 3,560     |
| Depreciation and amortization                                     | 6,070                           | 4,610     |
| Other operating expenses  | 10,651                          | 9,578     |
| Total operating expenses  | 153,988                         | 149,040   |
| Income from operations  | 70,894                          | 96,166    |
| Other income and (expense):                                       |                                 |           |
| Interest expense  | (19,959 )                       | (14,776 ) |
| Foreign exchange gain/(loss)                                      | (1,850 )                        | 6,789     |
| Income before income taxes  | 49,085                          | 88,179    |
| Provision for income taxes  | 16,232                          | 30,044    |
| Net income  | 32,853                          | 58,135    |
| Adjustment for net income attributable to noncontrolling interest | 870                             | —         |
| Net income attributable to PRA Group, Inc.                        | \$31,983                        | \$58,135  |
| Net income per common share attributable to PRA Group, Inc.:      |                                 |           |
| Basic   | \$0.69                          | \$1.19    |
| Diluted   | \$0.69                          | \$1.19    |
| Weighted average number of shares outstanding:                    |                                 |           |
| Basic   | 46,243                          | 48,724    |
| Diluted   | 46,372                          | 49,052    |

The accompanying notes are an integral part of these consolidated financial statements.

PRA Group, Inc.  
 Consolidated Statements of Comprehensive Income/(Loss)  
 For the three months ended March 31, 2016 and 2015  
 (unaudited)  
 (Amounts in thousands)

|   | Three Months<br>Ended March 31, |            |
|---|---------------------------------|------------|
|   | 2016                            | 2015       |
| Net income  | \$32,853                        | \$58,135   |
| Other comprehensive (loss)/income:                            |                                 |            |
| Change in foreign currency translation                        | 36,694                          | (62,699 )  |
| Total other comprehensive income/(loss)                       | 69,547                          | (4,564 )   |
| Comprehensive income attributable to noncontrolling interest: |                                 |            |
| Net income attributable to noncontrolling interest            | 870                             | —          |
| Change in foreign currency translation                        | 3,968                           | —          |
| Comprehensive income attributable to noncontrolling interest  | 4,838                           | —          |
| Comprehensive income/(loss) attributable to PRA Group, Inc.   | \$64,709                        | \$(4,564 ) |

The accompanying notes are an integral part of these consolidated financial statements.

PRA Group, Inc.

Consolidated Statement of Changes in Equity

For the three months ended March 31, 2016

(unaudited)

(Amounts in thousands)

|   | Common<br>Stock<br>Shares | Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interest | Total<br>Equity |
|---|---------------------------|--------|----------------------------------|----------------------|---|----------------------------|-----------------|
| Balance at December 31, 2015                        | 46,173                    | \$ 462 | \$ 64,622                        | \$ 964,270           | \$ (228,861 )                                 | \$ 39,254                  | \$ 839,747      |
| Components of comprehensive<br>income:              |                           |        |                                  |                      |   |                            |                 |
| Net income  | —                         | —      | —                                | 31,983               | —   | 870                        | 32,853          |
| Foreign currency translation<br>adjustment          | —                         | —      | —                                | —                    | 32,726  | 3,968                      | 36,694          |
| Distributions paid to noncontrolling<br>interest    | —                         | —      | —                                | —                    | —   | (218 )                     | (218 )          |
| Vesting of nonvested shares                         | 155                       | 1      | (1 )                             | —                    | —   | —                          | —               |
| Amortization of share-based<br>compensation         | —                         | —      | 3,437                            | —                    | —   | —                          | 3,437           |
| Tax deficiency from share-based<br>compensation     | —                         | —      | (1,339 )                         | —                    | —   | —                          | (1,339 )        |
| Employee stock relinquished for<br>payment of taxes | —                         | —      | (2,432 )                         | —                    | —   | —                          | (2,432 )        |
| Balance at March 31, 2016                           | 46,328                    | \$ 463 | \$ 64,287                        | \$ 996,253           | \$ (196,135 )                                 | \$ 43,874                  | \$ 908,742      |

The accompanying notes are an integral part of these consolidated financial statements.

PRA Group, Inc.  
Consolidated Statements of Cash Flows  
For the three months ended March 31, 2016 and 2015  
(unaudited)  
(Amounts in thousands)

|   | Three Months Ended March 31,<br>2016 |   | 2015      |
|---|--------------------------------------|---|-----------|
| Cash flows from operating activities:   |                                      |   |           |
| Net income  | \$ 32,853                            |   | \$ 58,135 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                      |   |           |
| Amortization of share-based compensation  | 3,437                                |   | 3,636     |
| Depreciation and amortization   | 6,070                                |   | 4,610     |
| Amortization of debt discount and issuance costs                                  | 2,746                                |   | 1,048     |
| Deferred tax expense  | 4,815                                |   | 7,617     |
| Net foreign currency transaction loss/(gain)                                      | 305                                  |   | (6,789)   |
| Changes in operating assets and liabilities:                                      |                                      |   |           |
| Other assets  | (42,818)                             | ) | 4,201     |
| Other receivables, net  | (2,304)                              | ) | (3,876)   |
| Accounts payable  | (1,773)                              | ) | 5,290     |
| Income taxes payable, net   | 6,412                                |   | 11,100    |
| Accrued expenses  | (6,806)                              | ) | (21,752)  |
| Other liabilities   | 9,161                                |   | 763       |
| Net cash provided by operating activities   | 12,098                               |   | 63,983    |
| Cash flows from investing activities:   |                                      |   |           |
| Purchases of property and equipment   | (6,383)                              | ) | (3,212)   |
| Acquisition of finance receivables, net of buybacks                               | (321,594)                            | ) | (183,828) |
| Collections applied to principal on finance receivables                           | 177,826                              |   | 171,344   |
| Business acquisitions, net of cash acquired                                       | (25,018)                             | ) | —         |
| Purchase of investments   | —                                    |   | (42,705)  |
| Proceeds from sales and maturities of investments                                 | 5,568                                |   | 41,189    |
| Net cash used in investing activities   | (169,601)                            | ) | (17,212)  |

## Cash flows from financing activities:

|  |           |   |           |   |
|--|-----------|---|-----------|---|
| Tax (deficiency)/benefit from share-based compensation | (1,339)   | ) | 4,127     |   |
| Proceeds from lines of credit                          | 378,706   |   | 140,976   |   |
| Principal payments on lines of credit                  | (223,117) | ) | (94,044)  | ) |
| Repurchases of common stock                            | —         |   | (77,802)  | ) |
| Distributions paid to noncontrolling interest          | (218)     | ) | —         |   |
| Principal payments on long-term debt                   | (5,000)   | ) | (33,750)  | ) |
| Payments of debt issuance costs                        | (8,477)   | ) | —         |   |
| Net increase in interest-bearing deposits              | 6,238     |   | 7,539     |   |
| Net cash provided by/(used in) financing activities    | 146,793   |   | (52,954)  | ) |
| Effect of exchange rate on cash                        | 18,780    |   | 7,064     |   |
| Net increase in cash and cash equivalents              | 8,070     |   | 881       |   |
| Cash and cash equivalents, beginning of period         | 71,372    |   | 39,661    |   |
| Cash and cash equivalents, end of period               | \$ 79,442 |   | \$ 40,542 |   |
| Supplemental disclosure of cash flow information:      |           |   |           |   |
| Cash paid for interest                                 | \$ 16,873 |   | \$ 14,376 |   |
| Cash paid for income taxes                             | 6,196     |   | 7,082     |   |

The accompanying notes are an integral part of these consolidated financial statements.



PRA Group, Inc.  
Notes to Consolidated Financial Statements

1. Organization and Business:

Throughout this report, the terms "PRA Group," "our," "we," "us," the "Company," or similar terms refer to PRA Group, Inc. and its subsidiaries.

PRA Group, Inc., a Delaware corporation, along with its subsidiaries, is a financial and business service company operating in the Americas and Europe. The Company's primary business is the purchase, collection and management of portfolios of nonperforming loans. The Company also services receivables on behalf of clients, provides business tax revenue administration, audit, discovery and recovery services for state and local governments in the United States, and provides class action claims settlement recovery services and related payment processing to corporate clients.

The consolidated financial statements of the Company are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and include the accounts of all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Under the guidance of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280 "Segment Reporting" ("ASC 280"), the Company has determined that it has several operating segments that meet the aggregation criteria of ASC 280, and, therefore, it has one reportable segment, accounts receivable management, based on similarities among the operating units including the nature of the products and services, the nature of the production processes, the types or class of customer for their products and services, the methods used to distribute their products and services and the nature of the regulatory environment.

The following table shows the amount of revenue generated for the three months ended March 31, 2016 and 2015 and long-lived assets held at March 31, 2016 and 2015 for the United States, the Company's country of domicile, and outside of the United States (amounts in thousands):

|                           | As Of And For The<br>Three Months Ended<br>March 31, 2016 |                      | As Of And For The<br>Three Months Ended<br>March 31, 2015 |                      |
|---------------------------|---|----------------------|---|----------------------|
|                           | Revenues  | Long-Lived<br>Assets | Revenues  | Long-Lived<br>Assets |
| United States             | \$ 170,507  | \$ 37,316            | \$ 184,671  | \$ 37,141            |
| Outside the United States | 54,375  | 10,469               | 60,535  | 9,714                |
| Total                     | \$ 224,882  | \$ 47,785            | \$ 245,206  | \$ 46,855            |

Revenues are attributed to countries based on the location of the related operations. Long-lived assets consist of net property and equipment. The Company reports revenues earned from its debt purchasing and collection activities and its fee-based services. It is impracticable for the Company to report further breakdowns of revenues from external customers by product or service.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC") and, therefore, do not include all information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of the Company, however, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's consolidated balance sheet as of March 31, 2016, its consolidated income statements and statements of comprehensive income for the three months ended March 31, 2016 and 2015, its consolidated statement of changes in stockholders' equity for the three months ended March 31, 2016, and its consolidated statements of cash flows for the three months ended March 31, 2016 and 2015. The consolidated income statements of the Company for the three months ended March 31, 2016 may not be indicative of future results. Certain prior period amounts have been reclassified for consistency with the current period presentation. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2015

Annual Report on Form 10-K, filed on February 26, 2016.

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PRA Group, Inc.  
Notes to Consolidated Financial Statements

2. Finance Receivables, net:

Changes in finance receivables, net for the three months ended March 31, 2016 and 2015 were as follows (amounts in thousands):

|   | Three Months Ended |             |
|---|--------------------|-------------|
|   | March 31,          |             |
|   | 2016               | 2015        |
| Balance at beginning of year  | \$2,202,113        | \$2,001,790 |
| Acquisitions of finance receivables <sup>(1)</sup>                          | 336,379            | 183,828     |
| Foreign currency translation adjustment                                     | 16,411             | (59,502 )   |
| Cash collections  | (384,333 )         | (399,747 )  |
| Income recognized on finance receivables, net                               | 206,507            | 228,403     |
| Cash collections applied to principal and net allowance charges/(reversals) | (177,826 )         | (171,344 )  |
| Balance at end of year  | \$2,377,077        | \$1,954,772 |

(1) Acquisitions of finance receivables are net of buybacks and include certain capitalized acquisition related costs. At the time of acquisition, each pool is estimated based on projected amounts and timing of future cash collections using the proprietary models of the Company.

Based upon current projections, cash collections applied to principal on finance receivables as of March 31, 2016 are estimated to be as follows for the twelve months in the periods ending March 31, (amounts in thousands):

|            |             |
|------------|-------------|
| 2017       | \$626,013   |
| 2018       | 524,122     |
| 2019       | 416,351     |
| 2020       | 320,164     |
| 2021       | 196,566     |
| 2022       | 131,793     |
| 2023       | 72,504      |
| 2024       | 41,693      |
| 2025       | 18,992      |
| 2026       | 14,221      |
| Thereafter | 14,658      |
| Total      | \$2,377,077 |

At March 31, 2016, the Company had aggregate net finance receivables balances in pools accounted for under the cost recovery method of \$122.7 million; at December 31, 2015, the amount was \$21.0 million.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield, on portfolios purchased during the period, to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccretable difference to accretable yield primarily result from the Company's increase in its estimate of future cash flows. When applicable, net reclassifications to nonaccretable difference from accretable yield result from the Company's decrease in its estimates of future cash flows and allowance charges that exceed the Company's increase in its estimate of future cash flows.

PRA Group, Inc.  
Notes to Consolidated Financial Statements

Changes in accretable yield for the three months ended March 31, 2016 and 2015 were as follows (amounts in thousands):

|  | Three Months Ended |             |
|--|--------------------|-------------|
|  | March 31,          |             |
|  | 2016               | 2015        |
| Balance at beginning of year                         | \$2,727,204        | \$2,513,185 |
| Income recognized on finance receivables, net        | (206,507 )         | (228,403 )  |
| Additions  | 260,249            | 172,382     |
| Reclassifications (to)/from nonaccretable difference | (1,035 )           | 119,252     |
| Foreign currency translation adjustment              | 99,839             | (72,260 )   |
| Balance at end of year                               | \$2,879,750        | \$2,504,156 |

The following is a summary of activity within the Company's valuation allowance account, all of which relates to loans acquired with deteriorated credit quality, for the three months ended March 31, 2016 and 2015 (amounts in thousands):

|   | Three Months Ended |          |
|---|--------------------|----------|
|   | March 31,          |          |
|   | 2016               | 2015     |
| Beginning balance                               | \$114,861          | \$86,166 |
| Allowance charges                               | 10,018             | 2,685    |
| Reversal of previous recorded allowance charges | (120 )             | (1,055 ) |
| Net allowance charges                           | 9,898              | 1,630    |
| Foreign currency translation adjustment         | (171 )             | —        |
| Ending balance                                  | \$124,588          | \$87,796 |

### 3. Investments:

Investments consist of the following at March 31, 2016 and December 31, 2015 (amounts in thousands):

|   | March 31, December 31, |           |
|---|------------------------|-----------|
|   | 2016                   | 2015      |
| Available-for-sale                      |                        |           |
| Securitized assets                      | \$ 4,686               | \$ 4,649  |
| Government bonds and fixed income funds | 637                    | 3,405     |
| Held-to-maturity                        |                        |           |
| Securitized assets                      | 50,566                 | 50,247    |
| Other investments                       |                        |           |
| Private equity funds                    | 15,524                 | 15,498    |
| Total investments                       | \$ 71,413              | \$ 73,799 |
| Available-for-Sale                      |                        |           |

Investments in securitized assets: The Company holds a majority interest in a closed-end Polish investment fund. The fund was formed in December 2014 to acquire portfolios of nonperforming consumer loans in Poland. The Company's investment consists of a 100% interest in the Series B certificates and a 20% interest in the Series C certificates. Each certificate comes with one vote and is governed by a co-investment agreement. Series C certificates, which share equally in the residual profit of the fund, are accounted for as debt securities classified as available-for-sale and are stated at fair value. Income is recognized using the effective yield method. There was no revenue recorded during the three months ended March 31, 2016 and 2015 from this investment.

#### Held-to-Maturity

Investments in securitized assets: The Company holds a majority interest in a closed-end Polish investment fund. The certificates, which provide a preferred return based on the expected net income of the portfolios, are accounted for as a

beneficial interest in securitized financial assets and stated at amortized cost. The Company has determined it has the ability and intent to hold these certificates until maturity, which occurs when the fund terminates or liquidates its assets. The preferred return is not a guaranteed return. Income is recognized under FASB ASC Topic 325-40, "Beneficial Interest in Securitized Financial Assets" ("ASC 325-40"). Income is recognized using the effective yield method. The Company adjusts the yield for changes in

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PRA Group, Inc.  
Notes to Consolidated Financial Statements

estimated cash flows prospectively through earnings. If the fair value of the investment falls below its carrying amount and the decline is deemed to be other than temporary, the investment is written down, with a corresponding charge to earnings. The underlying securities have both known principal repayment terms as well as unknown principal repayments due to potential borrower pre-payments. Accordingly, it is difficult to accurately predict the final maturity date of these investments. Revenues recognized on these investments were \$1.6 million and \$1.2 million during the three months ended March 31, 2016 and 2015, respectively, and are recorded in the Other Revenue line item in the income statement.

#### Other Investments

Investments in private equity funds: Investments in private equity funds represent limited partnerships in which the Company has less than a 3% interest and are carried at cost. Distributions received from the partnerships are included in other revenue. Distributions received in excess of the Company's proportionate share of accumulated earnings are applied as a reduction of the cost of the investment. Distributions received from investments carried at cost were \$0.2 million and \$2.1 million during the three months ended March 31, 2016 and 2015, respectively.

The amortized cost and estimated fair value of available-for sale and held-to-maturity investments at March 31, 2016 and December 31, 2015 were as follows (amounts in thousands):

|   | March 31, 2016    |                        |                         |                      |
|---|-------------------|------------------------|-------------------------|----------------------|
|   | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Aggregate Fair Value |
| Available-for-sale                      |                   |                        |                         |                      |
| Securitized assets                      | \$5,823           | \$ —                   | —\$ 1,137               | \$ 4,686             |
| Government bonds and fixed income funds | 637               | —                      | —                       | 637                  |
| Held-to-maturity                        |                   |                        |                         |                      |
| Securitized assets                      | 50,566            | 5,343                  | —                       | 55,909               |
|   |                   |                        |                         |                      |
|   | December 31, 2015 |                        |                         |                      |
|   | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Aggregate Fair Value |
| Available-for-sale                      |                   |                        |                         |                      |
| Securitized assets                      | \$5,855           | \$ —                   | —\$ 1,206               | \$ 4,649             |
| Government bonds and fixed income funds | 3,405             | —                      | —                       | 3,405                |
| Held-to-maturity                        |                   |                        |                         |                      |
| Securitized assets                      | 50,247            | 5,366                  | —                       | 55,613               |

#### 4. Borrowings:

The Company's borrowings consisted of the following as of the dates indicated (amounts in thousands):

|  | March 31,<br>2016 | December 31,<br>2015 |
|--|-------------------|----------------------|
| Domestic and Canadian revolving credit | \$543,998         | \$541,799            |
| Term loan                              | 165,000           | 170,000              |
| Note payable                           | 169,938           | 169,938              |
| Multicurrency revolving credit         | 758,293           | 576,433              |
| Convertible senior notes               | 287,500           | 287,500              |
| Less: Debt discount and issuance costs | (28,305 )         | (28,541 )            |
| Total                                  | \$1,896,424       | \$1,717,129          |

Domestic and Canadian Revolving Credit and Term Loan

On December 19, 2012, the Company entered into a credit facility with Bank of America, N.A., as administrative agent, and a syndicate of lenders named therein (such agreement as later amended or modified, the "Credit Agreement"). On March 24, 2016, the Company entered into a Loan Modification Agreement and Seventh Amendment (the "Seventh Amendment") to the Credit Agreement which (a) extended the maturity date of loans and commitments under the Credit Agreement in an aggregate principal

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amount of approximately \$745.9 million, including a \$23.0 million net increase in the commitments of the extending lenders, to the earlier of December 21, 2020 (the "Notes") or 91 days prior to the maturity of the Company's 3.00% Convertible Senior Notes due August 1, 2020, (b) modified the accordion feature under the Credit Agreement to allow the Company to request from new and existing lenders up to an additional \$125.0 million in loans and commitments under the Credit Agreement, (c) increased the credit given in the domestic borrowing base for estimated remaining collections of eligible asset pools, (d) increased the baskets available for permitted investments, equity repurchases and redemptions of the Company's convertible notes, and (e) increased the maximum total leverage ratio of the Company and its subsidiaries to 2.25 to 1.0.

The total credit facility under the Credit Agreement includes an aggregate principal amount of \$963.0 million (subject to compliance with a borrowing base and applicable debt covenants), which consists of (i) a fully-funded \$165.0 million term loan, (ii) a \$748.0 million domestic revolving credit facility, and (iii) a \$50 million Canadian revolving credit facility. The Company's domestic revolving credit facility includes an optional increase in commitments for a \$20 million swingline loan sublimit and a \$125.0 million accordion feature, and also provides for up to \$20 million of letters of credit that would reduce amounts available for borrowing. The facility matures on the earlier of December 21, 2020 or 91 days prior to the maturity of the Notes. The term and revolving loans accrue interest, at the option of the Company, at either the base rate or the Eurodollar rate (as defined in the Credit Agreement) for the applicable term plus 2.50% per annum in the case of the Eurodollar rate loans and 1.50% in the case of the base rate loans. The base rate is the highest of (a) the Federal Funds Rate (as defined in the Credit Agreement) plus 0.50%, (b) Bank of America's prime rate, and (c) the Eurodollar rate plus 1.00%. As of March 31, 2016, after taking into account borrowing base restrictions, the Company could have borrowed up to \$219.0 million on the domestic revolving credit facility and up to \$1.9 million on the Canadian revolving credit facility.

The Credit Agreement is secured by a first priority lien on substantially all of the Company's assets. The Credit Agreement, as amended and modified, contains restrictive covenants and events of default including the following:

- borrowings may not exceed 35% of the ERC of all eligible asset pools plus 75% of eligible accounts receivable;
- the consolidated leverage ratio (as defined in the Credit Agreement) cannot exceed 2.25 to 1.0 as of the end of any fiscal quarter;
- consolidated capital expenditures during any fiscal year cannot exceed \$40 million;
- cash dividends and distributions during any fiscal year cannot exceed \$20 million;
- stock repurchases during any fiscal year cannot exceed \$100 million plus 50% of the prior year's net income;
- permitted acquisitions (as defined in the Credit Agreement) during any fiscal year cannot exceed \$250 million;
- indebtedness in the form of senior, unsecured convertible notes or other unsecured financings cannot exceed \$500 million in the aggregate (without respect to the Company's 3.00% Convertible Senior Notes due 2020);
- the Company must maintain positive consolidated income from operations (as defined in the Credit Agreement) during any fiscal quarter; and
- restrictions on changes in control.

The revolving credit facility also bears an unused line fee of 0.375% per annum, payable quarterly in arrears.

The Company's borrowings on this credit facility at March 31, 2016 consisted of \$165.0 million outstanding on the term loan with an annual interest rate as of March 31, 2016 of 2.93% and \$544.0 million outstanding on the revolving facilities with a weighted average interest rate of 2.98%. At December 31, 2015, the Company's borrowings on this credit facility consisted of \$170.0 million outstanding on the term loan with an annual interest rate as of December 31, 2015 of 2.92% and \$541.8 million outstanding on the revolving facility with a weighted average interest rate of 2.89%.

#### Note Payable

In conjunction with the closing of the Aktiv Kapital AS ("Aktiv") business acquisition on July 16, 2014, the Company entered into a \$169.9 million promissory note with an affiliate of the seller. On December 30, 2015, the Company exercised its option to extend the maturity date of the promissory note to July 19, 2016. The promissory note bears



interest at the three-month London Interbank Offered Rate ("LIBOR") plus 3.75%. The quarterly interest due can be paid or added into the promissory note balance at the Company's option. At March 31, 2016, the balance due on the note was \$169.9 million with an annual interest rate of 4.38%.

**Multicurrency Revolving Credit Facility**

On October 23, 2014, the Company entered into a credit agreement with DNB Bank ASA for a Multicurrency Revolving Credit Facility (such agreement as later amended or modified, "the Multicurrency Revolving Credit Agreement"). On February 19, 2016, the Company entered into a Second Amendment to the Multicurrency Revolving Credit Agreement which provided for, (i) the extension of the final repayment date to February 19, 2021, (ii) an increase to the total commitments from \$750 million to

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\$900 million, subject to certain requirements, and (iii) an ERC ratio (as defined in Multicurrency Revolving Credit Agreement) ranging from 32.2% to 38.7% depending on the mix of portfolios owned, subject to the payment of additional associated fees.

Under the terms of the Multicurrency Revolving Credit Agreement, the credit facility includes an aggregate amount of \$900 million, of which \$168.8 million is available to be drawn (subject to the borrowing base), accrues interest at the Interbank Offered Rate ("IBOR") plus 2.50-3.30% (as determined by the ERC Ratio as defined in the Multicurrency Revolving Credit Agreement), bears an unused line fee of 35% of the margin, currently 1.05% per annum, payable monthly in arrears, and matures on February 19, 2021. The Multicurrency Revolving Credit Agreement also includes an Overdraft Facility aggregate amount of \$40 million, of which \$12.9 million is available to be drawn (subject to the borrowing base), accrues interest (per currency) at the daily rates as published by the facility agent, bears a facility line fee of 0.125% per annum, payable quarterly in arrears, and also matures February 19, 2021.

The Multicurrency Revolving Credit Agreement is secured by i) the shares of most of the Company's European subsidiaries and ii) all intercompany loan receivables in Europe. The Multicurrency Revolving Credit Agreement also contains restrictive covenants and events of default including the following:

- the ERC Ratio (as defined in the Multicurrency Revolving Credit Agreement) in Europe can range from 32.2% to 38.7% depending on the mix of portfolios owned, subject to the payment of additional associated fees;
- the GIBD Ratio (as defined in the Multicurrency Revolving Credit Agreement) in Europe cannot exceed 3.0 to 1.0 as of the end of any fiscal quarter;
- interest bearing deposits in AK Nordic AB cannot exceed SEK 500,000,000;
- cash collections must exceed 95% of Europe's ERC for the same set of portfolios, measured monthly on a quarterly basis.

At March 31, 2016, the balance on the Multicurrency Revolving Credit Agreement was \$758.3 million, with a weighted average annual interest rate of 3.86%. At December 31, 2015, the balance on the Multicurrency Revolving Credit Agreement was \$576.4 million, with a weighted average annual interest rate of 3.64%.

#### Convertible Senior Notes

On August 13, 2013, the Company completed the private offering of \$287.5 million in aggregate principal amount of the Notes. The Notes were issued pursuant to an Indenture, dated August 13, 2013 (the "Indenture") between the Company and Wells Fargo Bank, National Association, as trustee. The Indenture contains customary terms and covenants, including certain events of default after which the Notes may be due and payable immediately. The Notes are senior unsecured obligations of the Company and mature on August 1, 2020. Interest on the Notes is payable semi-annually, in arrears, on February 1 and August 1 of each year. Prior to February 1, 2020, the Notes will be convertible only upon the occurrence of specified events. On or after February 1, 2020, the Notes will be convertible at any time. Upon conversion, the Notes may be settled, at the Company's option, in cash, shares of the Company's common stock, or any combination thereof. Holders of the Notes have the right to require the Company to repurchase all or some of their Notes at 100% of their principal amount, plus any accrued and unpaid interest, upon the occurrence of a fundamental change (as defined in the Indenture). In addition, upon the occurrence of a make-whole fundamental change (as defined in the Indenture), the Company may, under certain circumstances, be required to increase the conversion rate for the Notes converted in connection with such a make-whole fundamental change. The conversion rate for the Notes is initially 15.2172 shares per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$65.72 per share of the Company's common stock, and is subject to adjustment in certain circumstances pursuant to the Indenture. The Company does not have the right to redeem the Notes prior to maturity. As of March 31, 2016, none of the conditions allowing holders of the Notes to convert their Notes had occurred.

As noted above, upon conversion, holders of the Notes will receive cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. However, the Company's current intent is to settle conversions through combination settlement (i.e., the Notes would be converted into cash up

to the aggregate principal amount, and shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, would be used to settle the remainder). As a result, and in accordance with authoritative guidance related to derivatives and hedging and earnings per share, only the conversion spread is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company's common stock during any quarter exceeds \$65.72.

The Company determined that the fair value of the Notes at the date of issuance was approximately \$255.3 million, and designated the residual value of approximately \$32.2 million as the equity component. Additionally, the Company allocated approximately \$7.3 million of the \$8.2 million original Notes issuance cost as debt issuance cost and the remaining \$0.9 million as equity issuance cost.

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FASB ASC 470-20, "Debt with Conversion and Other Options" ("ASC 470-20"), requires that, for convertible debt instruments that may be settled fully or partially in cash upon conversion, issuers must separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Additionally, debt issuance costs are required to be allocated in proportion to the allocation of the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively.

The balances of the liability and equity components of the Notes outstanding were as follows as of the dates indicated (amounts in thousands):

|   | March 31,<br>2016 | December<br>31, 2015 |
|---|-------------------|----------------------|
| Liability component - principal amount    | \$287,500         | \$287,500            |
| Unamortized debt discount                 | (21,302 )         | (22,402 )            |
| Liability component - net carrying amount | \$266,198         | \$265,098            |
| Equity component                          | \$31,306          | \$31,306             |

The debt discount is being amortized into interest expense over the remaining life of the Notes using the effective interest rate, which is 4.92%.

Interest expense related to the Notes was as follows for the periods indicated (amounts in thousands):

|   | Three Months<br>Ended March<br>31, |         |
|---|------------------------------------|---------|
|   | 2016                               | 2015    |
| Interest expense - stated coupon rate             | \$2,156                            | \$2,156 |
| Interest expense - amortization of debt discount  | 1,100                              | 1,048   |
| Total interest expense - convertible senior notes | \$3,256                            | \$3,204 |

The Company believes it was in compliance with all covenants under its financing arrangements as of March 31, 2016 and December 31, 2015.

The following principal payments are due on the Company's borrowings as of March 31, 2016 for the twelve month periods ending March 31, (amounts in thousands):

|       |             |
|-------|-------------|
| 2017  | \$194,938   |
| 2018  | 176,901     |
| 2019  | 10,000      |
| 2020  | 10,000      |
| 2021  | 1,532,890   |
| Total | \$1,924,729 |

#### 5. Property and Equipment, net:

Property and equipment, at cost, consisted of the following as of the dates indicated (amounts in thousands):

|   | March<br>31, 2016 | December<br>31, 2015 |
|---|-------------------|----------------------|
| Software                                  | \$65,211          | \$62,198             |
| Computer equipment                        | 21,994            | 21,109               |
| Furniture and fixtures                    | 14,896            | 11,888               |
| Equipment                                 | 13,242            | 12,874               |
| Leasehold improvements                    | 14,884            | 15,112               |
| Building and improvements                 | 7,251             | 7,235                |
| Land                                      | 1,296             | 1,296                |
| Accumulated depreciation and amortization | (90,989 )         | (86,318 )            |

|                             |          |          |
|-----------------------------|----------|----------|
| Property and equipment, net | \$47,785 | \$45,394 |
|-----------------------------|----------|----------|

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Depreciation and amortization expense relating to property and equipment for the three months ended March 31, 2016 and 2015, was \$4.3 million and \$3.8 million, respectively.

6. Goodwill and Intangible Assets, net:

In connection with the Company's business acquisitions, the Company acquired certain tangible and intangible assets. Intangible assets resulting from these acquisitions include client and customer relationships, non-compete agreements, trademarks and technology. Pursuant to ASC 350, the Company performs an annual review of goodwill on October 1 or more frequently if indicators of impairment exist. The Company performed an annual review of goodwill as of October 1, 2015, and concluded that no goodwill impairment was necessary.

At March 31, 2016 and 2015, the carrying value of goodwill was \$524.9 million and \$496.7 million, respectively. The goodwill acquired during the three months ended March 31, 2016 is deductible for U.S. income tax purposes. The following table represents the changes in goodwill for the three months ended March 31, 2016 and 2015 (amounts in thousands):

|   | Three Months Ended |            |
|---|--------------------|------------|
|   | March 31,          |            |
|   | 2016               | 2015       |
| Balance at beginning of period:         |                    |            |
| Goodwill                                | \$ 501,553         | \$ 533,842 |
| Accumulated impairment loss             | (6,397 )           | (6,397 )   |
|   | 495,156            | 527,445    |
| Changes:                                |                    |            |
| Acquisitions <sup>(1)</sup>             | 4,742              | —          |
| Foreign currency translation adjustment | 24,972             | (30,792 )  |
| Net change in goodwill                  | 29,714             | (30,792 )  |
| Goodwill                                | 531,267            | 503,050    |
| Accumulated impairment loss             | (6,397 )           | (6,397 )   |
| Balance at end of period:               | \$ 524,870         | \$ 496,653 |

(1) The \$4.7 million addition to goodwill during the three months ended March 31, 2016, is mainly attributable to the acquisition of Recovery Management Systems Corporation ("RMSC") in addition to a purchase price adjustment from a previous acquisition.

7. Share-Based Compensation:

The Company has an Omnibus Incentive Plan (the "Plan") to assist the Company in attracting and retaining selected individuals to serve as employees and directors, who are expected to contribute to the Company's success and to achieve long-term objectives that will benefit stockholders of the Company. The Plan enables the Company to award shares of the Company's common stock to select employees and directors, as described in the Plan, not to exceed 5.4 million shares, as authorized by the Plan.

Total share-based compensation expense was \$3.4 million and \$3.6 million for the three months ended March 31, 2016 and 2015, respectively. Tax benefits resulting from tax deductions in excess of share-based compensation expense (windfall tax benefits) recognized under the provisions of FASB ASC Topic 718 "Compensation-Stock Compensation" ("ASC 718") are credited to additional paid-in capital in the Company's Consolidated Balance Sheets. Realized tax shortfalls, if any, are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. The total tax benefit realized from share-based compensation was approximately \$2.4 million and \$7.5 million for the three months ended March 31, 2016 and 2015, respectively.

Nonvested Shares

As of March 31, 2016, total future compensation costs related to nonvested share awards (not including nonvested shares granted under the Long-Term Incentive ("LTI") Program) is estimated to be \$11.2 million with a weighted

average remaining life for all nonvested shares of 2.0 years (not including nonvested shares granted under the LTI program). With the exception of the awards made pursuant to the LTI program and a few employee and director grants, the nonvested shares vest ratably over three to five years and are expensed over their vesting period.

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The following summarizes all nonvested share transactions, excluding those related to the LTI program, from December 31, 2014 through March 31, 2016 (share amounts in thousands):

|                   | Nonvested Shares Outstanding | Weighted-Average Price at Grant Date |
|-------------------|------------------------------|--------------------------------------|
| December 31, 2014 | 339                          | \$ 47.34                             |
| Granted           | 100                          | 53.29                                |
| Vested            | (151 )                       | 42.15                                |
| Canceled          | (4 )                         | 47.49                                |
| December 31, 2015 | 284                          | 52.20                                |
| Granted           | 148                          | 29.01                                |
| Vested            | (78 )                        | 44.31                                |
| Canceled          | (27 )                        | 57.96                                |
| March 31, 2016    | 327                          | \$ 43.08                             |

The total grant date fair value of shares vested during the three months ended March 31, 2016 and 2015 was \$3.4 million and \$2.8 million, respectively.

#### Long-Term Incentive Program

Pursuant to the Plan, the Compensation Committee may grant time-vested and performance based nonvested shares. All shares granted under the LTI program were granted to key employees of the Company.

The following summarizes all LTI program share transactions from December 31, 2014 through March 31, 2016 (share amounts in thousands):

|                                    | Nonvested LTI Shares Outstanding | Weighted-Average Price at Grant Date |
|------------------------------------|----------------------------------|--------------------------------------|
| December 31, 2014                  | 488                              | \$ 30.52                             |
| Granted at target level            | 132                              | 52.47                                |
| Adjustments for actual performance | 122                              | 34.59                                |
| Vested                             | (252 )                           | 20.21                                |
| Canceled                           | (7 )                             | 40.05                                |
| December 31, 2015                  | 483                              | 42.80                                |
| Granted at target level            | 240                              | 28.98                                |
| Adjustments for actual performance | (67 )                            | 34.59                                |
| Vested                             | (177 )                           | 34.59                                |
| Canceled                           | (14 )                            | 55.07                                |
| March 31, 2016                     | 465                              | \$ 39.59                             |

The total grant date fair value of shares vested during the three months ended March 31, 2016 and 2015 was \$6.1 million and \$5.1 million, respectively.

At March 31, 2016, total future compensation expenses, assuming the current estimated performance levels are achieved, related to nonvested share awards granted under the LTI program are estimated to be approximately \$13.3 million. The Company assumed a 7.5% forfeiture rate for these grants and the remaining shares have a weighted average life of 1.8 years at March 31, 2016.

#### 8. Income Taxes:

The Company follows the guidance of FASB ASC Topic 740 "Income Taxes" ("ASC 740") as it relates to the provision for income taxes and uncertainty in income taxes. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.



For tax purposes, the Company utilizes the cost recovery method of accounting. Under the cost recovery method, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before taxable income is recognized.

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The Internal Revenue Service ("IRS") examined the Company's 2005 through 2012 tax returns and has asserted that tax revenue recognition using the cost recovery method does not clearly reflect taxable income. The Company believes it has sufficient support for the technical merits of its position, and believes cost recovery to be an acceptable tax revenue recognition method for the Company's industry. The Company has received Notices of Deficiency for tax years ended December 31, 2005 through 2012. The proposed deficiencies relate to the cost recovery method of tax accounting. In response to the notices, the Company filed petitions in the U.S. Tax Court (the "Tax Court") challenging the deficiencies. On July 10, 2015 and July 21, 2015, the IRS filed Motions for Summary Judgment for tax years 2008 through 2012 and 2005 through 2007, respectively. On November 12, 2015 the Tax Court denied the IRS's Motions for Summary Judgment and set this matter for trial to begin on September 19, 2016.

If the Company is unsuccessful in the Tax Court and any potential appeals, it may be required to pay the related deferred taxes, and possibly interest and penalties. At March 31, 2016 and December 31, 2015, deferred tax liabilities related to this matter were \$252.3 million and \$251.7 million, respectively. Any adverse determination on this matter could result in the Company amending state tax returns for prior years, increasing its taxable income in those states. The Company files tax returns in multiple state jurisdictions; therefore, any underpayment of state tax will accrue interest in accordance with the respective state statute. At March 31, 2016 and December 31, 2015, the Company's estimate of the potential federal and state interest was \$95.2 million and \$91.0 million, respectively.

ASC 740 requires the recognition of interest if the tax law would require interest to be paid on the underpayment of taxes, and recognition of penalties if a tax position does not meet the minimum statutory threshold to avoid payment of penalties. The Company believes it has sufficient support for the technical merits of its position and that it is more likely than not this position will be sustained. Accordingly, the Company has not accrued for interest or penalties.

At March 31, 2016, the tax years subject to examination by the major federal, state and international taxing jurisdictions are 2003, 2005 and subsequent years. The 2003 tax year remains open to examination because of a net operating loss that originated in that year but was not fully utilized until the 2005 tax year. The examination periods for the 2005 through 2012 tax years are suspended until a decision of the Tax Court becomes final.

The Company intends for predominantly all foreign earnings to be permanently reinvested in its foreign operations. If foreign earnings were repatriated, the Company would need to accrue and pay taxes, although foreign tax credits may be available to partially reduce U.S. income taxes. The amount of cash on hand related to foreign operations with permanently reinvested earnings was \$56.9 million and \$51.5 million as of March 31, 2016 and December 31, 2015, respectively.

#### 9. Earnings per Share:

Basic earnings per share ("EPS") are computed by dividing net income available to common stockholders of PRA Group, Inc. by weighted average common shares outstanding. Diluted EPS are computed using the same components as basic EPS with the denominator adjusted for the dilutive effect of the Notes and nonvested share awards, if dilutive. For the Notes, only the conversion spread is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company's common stock during any quarter exceeds \$65.72, which did not occur during the period from which the Notes were issued on August 13, 2013 through March 31, 2016. Share-based awards that are contingent upon the attainment of performance goals are not included in the computation of diluted EPS until the performance goals have been attained. The dilutive effect of nonvested shares is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the vesting of nonvested shares would be used to purchase common shares at the average market price for the period. The assumed proceeds include the windfall tax benefit that would be realized upon assumed exercise.

The following table provides a reconciliation between the computation of basic EPS and diluted EPS for the three months ended March 31, 2016 and 2015 (amounts in thousands, except per share amounts):

| For the Three Months Ended March 31, |      |
|--------------------------------------|------|
| 2016                                 | 2015 |

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|   | Net<br>income<br>attributable<br>to PRA<br>Group,<br>Inc. | Weighted<br>Average<br>Common<br>Shares | EPS    | Net<br>income<br>attributable<br>to PRA<br>Group,<br>Inc. | Weighted<br>Average<br>Common<br>Shares | EPS    |
|---|---|---|--------|---|---|--------|
| Basic EPS                                 | \$31,983  | 46,243                                  | \$0.69 | \$58,135  | 48,724                                  | \$1.19 |
| Dilutive effect of nonvested share awards |   | 129                                     | —      |   | 328                                     | —      |
| Diluted EPS                               | \$31,983  | 46,372                                  | \$0.69 | \$58,135  | 49,052                                  | \$1.19 |

There were no antidilutive options outstanding for the three months ended March 31, 2016 and 2015.

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#### 10. Commitments and Contingencies:

##### Employment Agreements:

The Company has entered into employment agreements, most of which expire on December 31, 2017, with all of its U.S. executive officers and with several members of its U.S. senior management group. Such agreements provide for base salary payments as well as bonuses that are based on the attainment of specific management goals. At March 31, 2016, estimated future compensation under these agreements is approximately \$16.5 million. The agreements also contain confidentiality and non-compete provisions. Outside the United States, employment agreements are in place with employees pursuant to local country regulations. Generally, these agreements do not have expiration dates and therefore it is impractical to estimate the amount of future compensation under these agreements. Accordingly, the future compensation under these agreements is not included in the \$16.5 million total above.

##### Leases:

The Company is party to various operating leases with respect to its facilities and equipment. The future minimum lease payments at March 31, 2016 total approximately \$59.2 million.

##### Forward Flow Agreements:

The Company is party to several forward flow agreements that allow for the purchase of nonperforming loans at pre-established prices. The maximum remaining amount to be purchased under forward flow agreements at March 31, 2016 is approximately \$477.3 million.

##### Finance Receivables:

Certain agreements for the purchase of finance receivables portfolios contain provisions that may, in limited circumstances, require the Company to refund a portion or all of the collections subsequently received by the Company on particular accounts. The potential refunds as of the balance sheet date are not considered to be significant.

##### Litigation and Regulatory Matters:

The Company is from time to time subject to routine legal claims, proceedings and regulatory matters, most of which are incidental to the ordinary course of its business. The Company initiates lawsuits against customers and is occasionally countersued by them in such actions. Also, customers, either individually, as members of a class action, or through a governmental entity on behalf of customers, may initiate litigation against the Company in which they allege that the Company has violated a state or federal law in the process of collecting on an account. From time to time, other types of lawsuits are brought against the Company. Additionally, the Company receives subpoenas and other requests or demands for information from regulators or governmental authorities who are investigating the Company's debt collection activities. The Company evaluates and responds appropriately to such requests.

The Company accrues for potential liability arising from legal proceedings and regulatory matters when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. This determination is based upon currently available information for those proceedings in which the Company is involved, taking into account the Company's best estimate of such losses for those cases for which such estimates can be made. The Company's estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the number of unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims), and the related uncertainty of the potential outcomes of these proceedings. In making determinations of the likely outcome of pending litigation, the Company considers many factors, including, but not limited to, the nature of the claims, the Company's experience with similar types of claims, the jurisdiction in which the matter is filed, input from outside legal counsel, the likelihood of resolving the matter through alternative mechanisms, the matter's current status and the damages sought or demands made. Accordingly, the Company's estimate will change from time to time, and actual losses could be more than the current estimate.

The Company believes that the estimate of the aggregate range of reasonably possible losses in excess of the amount accrued for its legal proceedings outstanding at March 31, 2016, excluding the potential interest associated with the

IRS matter described below, is from \$0 to \$82 million.

In certain legal proceedings, the Company may have recourse to insurance or third-party contractual indemnities to cover all or portions of its litigation expenses, judgments, or settlements. Loss estimates and accruals for potential liability related to legal proceedings are typically exclusive of potential recoveries, if any, under the Company's insurance policies or third-party

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indemnities. The Company has not recorded any potential recoveries under the Company's insurance policies or third-party indemnities, with the exception of the Telephone Consumer Protection Act Litigation matter.

The matters described below fall outside of the normal parameters of the Company's routine legal proceedings.

Telephone Consumer Protection Act Litigation

The Company has been named as defendant in a number of putative class action cases, each alleging that the Company violated the Telephone Consumer Protection Act ("TCPA") by calling consumers' cellular telephones without their prior express consent. On December 21, 2011, the U.S. Judicial Panel on Multi-District Litigation entered an order transferring these matters into one consolidated proceeding in the U.S. District Court for the Southern District of California (the "Court"). On November 14, 2012, the putative class plaintiffs filed their amended consolidated complaint in the matter, now styled as In re Portfolio Recovery Associates, LLC Telephone Consumer Protection Act Litigation, case No. 11-md-02295 (the "MDL action"). Following the ruling of the U.S. Federal Communications Commission on June 10, 2015 on various petitions concerning the TCPA, the Court lifted the stay of these matters that had been in place since May 20, 2014. In January 2016, the parties reached a settlement agreement in principle under which the parties have agreed to seek court approval of class certification and the proposed settlement. In April 2016, the parties sought preliminary Court approval of a settlement agreement, whereby the Company would pay \$18 million to resolve the MDL action. The Company had fully accrued for the settlement amount as of December 31, 2015.

Internal Revenue Service Audit

The IRS examined the Company's 2005 through 2012 tax returns and has asserted that tax revenue recognition using the cost recovery method does not clearly reflect taxable income. The Company believes it has sufficient support for the technical merits of its position, and believes cost recovery to be an acceptable tax revenue recognition method for the Company's industry. The Company has received Notices of Deficiency for tax years ended December 31, 2005 through 2012. The proposed deficiencies relate to the cost recovery method of tax accounting for finance receivables. In response to the notices, the Company filed petitions in the Tax Court challenging the deficiencies. On July 10, 2015 and July 21, 2015, the IRS filed Motions for Summary Judgment for tax years 2008 through 2012 and 2005 through 2007, respectively. On November 12, 2015, the Tax Court denied the IRS's Motions for Summary Judgment and set this matter for trial to begin on September 19, 2016. If the Company is unsuccessful in the Tax Court and any potential appeals, it may ultimately be required to pay the related deferred taxes, and possibly interest and penalties. Deferred tax liabilities related to this matter were \$252.3 million at March 31, 2016. Any adverse determination on this matter could result in the Company amending state tax returns for prior years, increasing its taxable income in those states. The Company files tax returns in multiple state jurisdictions; therefore, any underpayment of state tax will accrue interest in accordance with the respective state statute. The Company's estimate of the potential federal and state interest is \$95.2 million as of March 31, 2016, which has not been accrued.

Portfolio Recovery Associates, LLC v. Guadalupe Mejia

On May 11, 2015, an unfavorable jury verdict was delivered against the Company in a matter pending in Jackson County, Missouri. The jury awarded Guadalupe Mejia \$251,000 in compensatory damages and \$82,009,549 in punitive damages for her counter-claim against the Company, alleging malicious prosecution and impermissible collection practices. The Company believes the verdict and magnitude of the Award to be erroneous and appealed the award. Unless overturned or significantly reduced, the award could result in a loss of up to the amount of the jury award.

11. Fair Value:

As defined by FASB ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820"), 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. ASC 820 also requires the consideration of differing levels of inputs in the determination of fair values.

Those levels of input are summarized as follows:

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Unobservable inputs that are supported by little or no market activity. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar

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techniques as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Financial Instruments Not Required To Be Carried at Fair Value

In accordance with the disclosure requirements of FASB ASC Topic 825, "Financial Instruments" ("ASC 825"), the table below summarizes fair value estimates for the Company's financial instruments not required to be carried at fair value. The total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company.

The carrying amounts of the financial instruments in the following table are recorded in the consolidated balance sheets at March 31, 2016 and December 31, 2015 (amounts in thousands):

|                              | March 31, 2016  |                      | December 31, 2015 |                      |
|------------------------------|-----------------|----------------------|-------------------|----------------------|
|                              | Carrying Amount | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| Financial assets:            |                 |                      |                   |                      |
| Cash and cash equivalents    | \$79,442        | \$79,442             | \$71,372          | \$71,372             |
| Held-to-maturity investments | 50,566          | 55,909               | 50,247            | 55,613               |
| Other investments            | 15,524          | 16,420               | 15,498            | 16,803               |
| Finance receivables, net     | 2,377,072       | 2,807,600            | 2,202,113         | 2,704,432            |
| Financial liabilities:       |                 |                      |                   |                      |
| Interest-bearing deposits    | 55,349          | 55,349               | 46,991            | 46,991               |
| Revolving lines of credit    | 1,302,291       | 1,302,291            | 1,118,232         | 1,118,232            |
| Term loans                   | 165,000         | 165,000              | 170,000           | 170,000              |
| Notes and loans payable      | 169,938         | 169,938              | 169,938           | 169,938              |
| Convertible senior notes     | 266,198         | 228,701              | 265,098           | 241,126              |

Disclosure of the estimated fair values of financial instruments often requires the use of estimates. The carrying amount and estimates of the fair value of the Company's debt obligations outlined above do not include any related debt issuance costs associated with the debt obligations. The Company uses the following methods and assumptions to estimate the fair value of the financial instruments in the above table:

**Cash and cash equivalents:** The carrying amount approximates fair value and quoted prices for identical assets can be found in active markets. Accordingly, the Company estimates the fair value of cash and cash equivalents using Level 1 inputs.

**Held-to-maturity investments:** Fair value of the Company's investment in Series B certificates of a closed-end Polish investment fund is estimated using proprietary pricing models that the Company utilizes to make portfolio purchase decisions. Accordingly, the Company estimates the fair value of its held-to-maturity investments using Level 3 inputs as there is little observable market data available and management is required to use significant judgment in its estimates.

**Other investments:** This class of investments consists of private equity funds that invest primarily in loans and securities including single-family residential debt; corporate debt products; and financially-oriented, real-estate-rich and other operating companies in the Americas, Western Europe, and Japan. These investments are subject to certain restrictions regarding transfers and withdrawals. The investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. The fair value of the Company's interest is valued by the fund managers; accordingly, the Company estimates the fair value of these investments using Level 3 inputs. The investments are expected to be returned through distributions as a result of liquidations of the funds' underlying assets over 1 to 4 years.



Finance receivables, net: The Company records purchased receivables at cost, which represents a significant discount from the contractual receivable balances due. The Company computed the estimated fair value of these receivables using proprietary pricing models that the Company utilizes to make portfolio purchase decisions. Accordingly, the Company's fair value estimates use Level 3 inputs as there is little observable market data available and management is required to use significant judgment in its estimates.

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Interest-bearing deposits: The carrying amount approximates fair value due to the short-term nature of the deposits and the observable quoted prices for similar instruments in active markets. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

Revolving lines of credit: The carrying amount approximates fair value due to the short-term nature of the interest rate periods and the observable quoted prices for similar instruments in active markets. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

Term loans: The carrying amount approximates fair value due to the short-term nature of the interest rate periods and the observable quoted prices for similar instruments in active markets. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

Notes and loans payable: The carrying amount approximates fair value due to the short-term nature of the loan terms and the observable quoted prices for similar instruments in active markets. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

Convertible notes: The Notes are carried at historical cost, adjusted for the debt discount. The fair value estimates for these Notes incorporates quoted market prices which were obtained from secondary market broker quotes which were derived from a variety of inputs including client orders, information from their pricing vendors, modeling software, and actual trading prices when they occur. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

Financial Instruments Required To Be Carried At Fair Value

The carrying amounts in the following table are measured at fair value on a recurring basis in the accompanying consolidated balance sheets at March 31, 2016 and December 31, 2015 (amounts in thousands):

|   | Fair Value Measurements as<br>of March 31, 2016 |       |          |         |
|---|---|-------|----------|---------|
|   | Level   | Level | Level    | Total   |
|   | 1   | 2     | 3        |         |
| Assets:   |   |       |          |         |
| Available-for-sale investments                              | \$637   | \$    | —\$4,686 | \$5,323 |
| Liabilities:  |   |       |          |         |
| Interest rate swap contracts (recorded in accrued expenses) | —   | 3,309 | —        | 3,309   |

|   | Fair Value Measurements as<br>of December 31, 2015 |       |          |         |
|---|--|-------|----------|---------|
|   | Level  | Level | Level    | Total   |
|   | 1  | 2     | 3        |         |
| Assets:   |  |       |          |         |
| Available-for-sale investments                              | \$3,405  | \$    | —\$4,649 | \$8,054 |
| Liabilities:  |  |       |          |         |
| Interest rate swap contracts (recorded in accrued expenses) | —  | 1,601 | —        | 1,601   |

Available-for-sale investments: Fair value of the Company's investment in Series C certificates of a closed-end Polish investment fund is estimated using proprietary pricing models that the Company utilizes to make portfolio purchase decisions. Accordingly, the Company estimates the fair value of its available-for-sale investments using Level 3 inputs as there is little observable market data available and management is required to use significant judgment in its estimates.

Interest rate swap contracts: The interest rate swap contracts are carried at fair value which is determined by using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves and other factors. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

12. Recent Accounting Pronouncements:

In May 2014, FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09") that updates the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also amends the required disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and can be

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adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. The Company is evaluating its implementation approach and the potential impacts of the new standard on its existing revenue recognition policies and procedures.

In June 2014, FASB issued ASU 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company adopted ASU 2014-12 in the first quarter of 2016 which had no material impact on the Company's Consolidated Financial Statements.

In February 2015, FASB issued ASU 2015-02, "Consolidation (Topic 810), Amendments to the Consolidation Analysis" ("ASU 2015-02"). The amendments under the new guidance modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities and eliminate the presumption that a general partner should consolidate a limited partnership. ASU 2015-02 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. A reporting entity also may apply the amendments retrospectively. The Company adopted ASU 2015-02 in the first quarter of 2016 which had no material impact on the Company's Consolidated Financial Statements.

In April 2015, FASB issued ASU 2015-03, "Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public business entities, this update is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. An entity should apply the new guidance on a retrospective basis. The Company retrospectively adopted ASU 2015-03 in the first quarter of 2016. Upon adoption, the Company reclassified its debt issuance costs from "Other assets" to "Borrowings" in its Consolidated Balance Sheets which did not have a material impact on the Company's Consolidated Financial Statements.

In April 2015, FASB issued ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" ("ASU 2015-05"). ASU 2015-05 provides explicit guidance to help companies evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, this update is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. An entity can elect to adopt the new guidance either prospectively for all arrangements entered into or materially modified after the effective date, or on a retrospective basis. The Company prospectively adopted ASU 2015-05 in the first quarter of 2016 which had no material impact on the Company's Consolidated Financial Statements.

In February 2016, FASB issued ASU 2016-02, "Leases (Topic 842) Section A-Leases: Amendments to the FASB Account Standards Codification" ("ASU 2016-02"). The amendments under the new guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous generally accepted accounting principles. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. It is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, using a modified retrospective

approach and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements.

In March 2016, FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). The amendments under the new guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements.

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13. Subsequent Event:

On April 26, 2016, the Company successfully completed its public tender offer to purchase shares of DTP S.A., a Poland-based debt collection company (“DTP”). As of April 26, 2016, 99.73% of the outstanding shares in DTP had been tendered at PLN 4.90 per share (approximately US \$1.26 per share), for an aggregate purchase price of PLN 174.5 million (approximately US \$45.0 million). The Company has received all approvals and has filed all notices required for the completion of the tender offer. The Company intends to purchase all the remaining shares of DTP through Polish regulatory procedures and will then initiate the process to withdraw DTP's shares from public trading and delist the company from the Warsaw Stock Exchange.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements:

This report contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements, other than statements of historical fact, are forward-looking statements, including statements regarding overall cash collection trends, gross margin trends, operating cost trends, liquidity and capital needs and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The risks, uncertainties and assumptions referred to above may include the following:

- changes in the credit or capital markets, which affect our ability to borrow money or raise capital;
- a prolonged economic recovery or a deterioration in the economic or inflationary environment in North America or Europe, including the interest rate environment;
- our ability to replace our nonperforming loans with additional receivables portfolios;
- our ability to purchase nonperforming loans at appropriate prices;
- our reliance on third-party vendors having procedures and controls which are compliant or error free;
- our ability to obtain accurate and authentic account documents relating to accounts that we acquire and the possibility that documents that we provide could contain errors;
- our ability to collect sufficient amounts on our nonperforming loans;
- our ability to successfully acquire receivables of new asset types;
- changes in, or interpretations of, bankruptcy or collection laws that could negatively affect our business, including by causing an increase in certain types of bankruptcy filings involving liquidations, which may cause our collections to decrease;
- changes in, or interpretations of, federal, state, local, or foreign laws or the administrative practices of various bankruptcy courts, which may impact our ability to collect on our nonperforming loans;
- our ability to obtain adequate insurance coverage at reasonable prices;
- our ability to manage risks associated with our international operations;
- changes in tax laws regarding earnings of our subsidiaries located outside of the United States ("U.S.");
- the possibility that we could incur goodwill or other intangible asset impairment charges;
- our ability to retain members of our senior management team;
- the possibility that our U.S. work force could become unionized in the future, which could adversely affect the stability of our production and increase our costs;
- the imposition of additional taxes on us;
- the possibility that we could incur significant allowance charges on our finance receivables;
- our loss contingency accruals may not be adequate to cover actual losses;
- the possibility that class action suits and other litigation could divert our management's attention and increase our expenses;
- adverse outcomes in pending litigation;
- the possibility that we could incur business to technology disruptions or cyber incidents;
- the degree, nature, and resources of our competition;
- the possibility that new business acquisitions prove unsuccessful or strain or divert our resources;
- the potential effects of threatened or actual terrorism and war;
- our ability to compete in markets where we do business;
- our ability to manage growth successfully or to successfully integrate our growth strategy;
- the possibility that we or our industry could experience negative publicity or reputational attacks;
- the possibility that a sudden collapse of one of the financial institutions in which we are depositors could negatively affect our financial results;
- our ability to collect and enforce our finance receivables may be limited under federal, state, and foreign laws;

our ability to adjust to debt collection and debt-buying regulations that may be promulgated by the Consumer Financial Protection Bureau ("CFPB") and the regulatory and enforcement activities of the CFPB;

our ability to comply with existing and new regulations of the collection industry, the failure of which could result in penalties, fines, litigation, damage to our reputation, or the suspension or termination of or required modification to our ability to conduct our business;

changes in accounting standards, governmental laws and regulations or the manner in which they are interpreted or applied which could increase our costs and liabilities or impact our operations;

investigations or enforcement actions by governmental authorities, which could result in changes to our business practices; negatively impact our portfolio purchasing volume; make collection of account balances more difficult or expose us to the risk of fines, penalties, restitution payments, and litigation;



the possibility that compliance with foreign and U.S. laws and regulations that apply to our international operations could increase our cost of doing business in international jurisdictions;

net capital requirements pursuant to the European Union Capital Requirements Directive ("CRD IV"), which could impede the business operations of our subsidiaries;

our ability to maintain, renegotiate or replace our credit facility;

our ability to satisfy the restrictive covenants in our debt agreements;

the possibility that the accounting for convertible debt securities could have an adverse effect on our financial results;

our ability to raise the funds necessary to repurchase the convertible senior notes or to settle conversions in cash;

the possibility that conversion of the convertible senior notes could affect the price of our common stock;

changes in interest or exchange rates, which could reduce our net income, and the possibility that future hedging strategies may not be successful, which could adversely affect our results of operations and financial condition, as could our failure to comply with hedge accounting principles and interpretations; and

the risk factors listed from time to time in our filings with the Securities and Exchange Commission (the "SEC").

You should assume that the information appearing in this Quarterly Report on Form 10-Q (this "Quarterly Report") is accurate only as of the date it was issued. Our business, financial condition, results of operations and prospects may have changed since that date.

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the following "Management's Discussion and Analysis of Financial Condition and Results of Operations," the "Risk Factors" contained in Part II, Item 1A of this Quarterly Report, as well as the discussion of "Business" and "Risk Factors" described in Part I, Item I and Item 1A of our 2015 Annual Report on Form 10-K, filed on February 26, 2016.

Our forward-looking statements could be wrong in light of these and other risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. Except as required by law, we assume no obligation to publicly update or revise our forward-looking statements after the date of this report and you should not expect us to do so.

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst regardless of the content of the statement or report. We do not, by policy, confirm forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

#### Frequently Used Terms

We use the following terminology throughout this document:

"Allowance charges" refers to a reduction in income recognized on finance receivables on pools of finance receivables whose cash collection estimates were below expectations or are projected to be below expectations.

"Amortization rate" refers to cash collections applied to principal on finance receivables as a percentage of total cash collections.

"Buybacks" refers to purchase price refunded by the seller due to the return of ineligible accounts.

"Cash collections" refers to collections on our owned finance receivables portfolios.

"Cash receipts" refers to collections on our owned finance receivables portfolios plus fee income.

"Core" accounts or portfolios refer to accounts or portfolios that are nonperforming loans and are not in an insolvent status upon purchase. These accounts are aggregated separately from insolvency accounts.

"Estimated remaining collections" or "ERC" refers to the sum of all future projected cash collections on our owned finance receivables portfolios.

"Fee income" refers to revenues generated from our fee-for-service businesses.

"Income recognized on finance receivables" refers to income derived from our owned finance receivables portfolios.

"Income recognized on finance receivables, net" refers to income derived from our owned finance receivables portfolios and is shown net of allowance charges/reversals.

"Insolvency" accounts or portfolios refer to accounts or portfolios of receivables that are in an insolvent status when we purchase them and as such are purchased as a pool of insolvent accounts. These include Individual Voluntary Arrangements ("IVAs"), Trust Deeds in the United Kingdom, Consumer Proposals in Canada and bankruptcy accounts in the United States, Canada and the United Kingdom.

"Net finance receivable balance" is recorded on our balance sheet and refers to the purchase price less principal amortization and net allowance charges/reversals.

- "Principal amortization" refers to cash collections applied to principal on finance receivables.

"Purchase price" refers to the cash paid to a seller to acquire nonperforming loans, plus certain capitalized costs, less buybacks.

- "Purchase price multiple" refers to the total estimated collections (as defined below) on owned finance receivables portfolios divided by purchase price.

- "Total estimated collections" refers to actual cash collections, including cash sales, plus estimated remaining collections on our finance receivables portfolios.

All references in this Quarterly Report to the "PRA Group," "our," "we," "us," the "Company" or similar terms are to PRA Group, Inc. and its subsidiaries.

#### Overview

We are a global financial and business services company with operations in the Americas and Europe. Our primary business is the purchase, collection and management of portfolios of nonperforming loans. We also service receivables on behalf of clients on either a commission or transaction-fee basis, provide class action claims settlement recovery services and related payment processing to corporate clients, and provide vehicle location, skip tracing and collateral recovery services for auto lenders, governments and law enforcement.

We are headquartered in Norfolk, Virginia, and as of March 31, 2016 employ 3,748 full time equivalents. Our shares of common stock are traded on the NASDAQ Global Select Market under the symbol "PRAA."

Our industry is highly regulated under various laws. In the United States they include the Fair Debt Collection Practices Act, Fair Credit Reporting Act, Dodd-Frank Act, Telephone Consumer Protection Act and its prohibition against unfair, deceptive and abusive acts and practices and other federal and state laws. Likewise, our business is regulated by various laws in the European countries and Canadian territories in which we operate. Any finding or adjudication that we have failed to comply with applicable laws or regulations could subject the Company to penalties, litigation losses and expenses, damage to our reputation, or the suspension or termination of or required modification to our ability to conduct collections, which would adversely affect our financial results and condition. Specifically in the U.S., the CFPB continues to look into practices regarding the collection of consumer debt and is expected to adopt additional rules that will affect our industry.

#### Earnings Summary

During the three months ended March 31, 2016, net income attributable to PRA Group, Inc. was \$32.0 million, or \$0.69 per diluted share, compared with \$58.1 million, or \$1.19 per diluted share, in the three months ended March 31, 2015. Total revenues decreased 8.3% to \$224.9 million in the three months ended March 31, 2016, compared to the three months ended March 31, 2015. Revenues in the three months ended March 31, 2016 consisted of \$206.5 million in income recognized on finance receivables, net, \$16.3 million in fee income and \$2.1 million in other revenue.

Income recognized on finance receivables, net, in the three months ended March 31, 2016 decreased \$21.9 million, or 9.6%, over the three months ended March 31, 2015, primarily as a result of an \$8.3 million increase in net allowance charges and a \$15.4 million decrease in cash collections. During the three months ended March 31, 2016, we incurred \$9.9 million in net allowance charges, compared with \$1.6 million in the three months ended March 31, 2015. Our finance receivables amortization rate, including net allowance charges/reversals, was 46.3% for the three months ended March 31, 2016 compared to 42.9% for the three months ended March 31, 2015. Our finance receivables amortization rate, excluding net allowance charges/reversals, was 43.7% for the three months ended March 31, 2016 compared to 42.5% for the three months ended March 31, 2015. Cash collections, which drive our finance receivable income, were \$384.3 million in the three months ended March 31, 2016, down 3.9%, or \$15.4 million, as compared to the three months ended March 31, 2015.

Fee income increased to \$16.3 million during the three months ended March 31, 2016 from \$13.1 million in the three months ended March 31, 2015, primarily due to an increase in fee income by PRA Location Services, LLC ("PLS") and the fee income generated by our newly acquired Insolvency business, RMSC, which we acquired in the first quarter of 2016. This was offset by a decrease in fee income from PRA Europe which is due primarily to a decline in the amount of contingent fee work provided to us by debt owners.

A summary of the sources of our revenue during the three months ended March 31, 2016 and 2015 is presented below (amounts in thousands):

|   | For the Three Months |            |
|---|----------------------|------------|
|   | Ended March 31,      |            |
|   | 2016                 | 2015       |
| Cash collections                              | \$384,333            | \$399,747  |
| Amortization of investment                    | (167,928 )           | (169,714 ) |
| Net allowance charges                         | (9,898 )             | (1,630 )   |
| Income recognized on finance receivables, net | 206,507              | 228,403    |
| Fee income                                    | 16,266               | 13,053     |
| Other revenue                                 | 2,109                | 3,750      |
| Total revenues                                | \$224,882            | \$245,206  |

Operating expenses were \$154.0 million for the three months ended March 31, 2016, an increase of \$5.0 million or 3.4%, as compared to the three months ended March 31, 2015.

During the three months ended March 31, 2016 and 2015, we acquired finance receivables portfolios at an approximate cost of \$336.8 million and \$185.0 million, respectively. In any period, we acquire nonperforming loans that can vary dramatically in their age, type and ultimate collectability. We may pay significantly different purchase rates for purchased receivables within any period as a result of this quality fluctuation. In addition, market forces can drive pricing rates up or down in any period, irrespective of other quality fluctuations. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on our particular buying activity in that period. However, regardless of the average purchase price and for similar time frames, we intend to target a similar internal rate of return, after direct expenses, in pricing our portfolio acquisitions during any quarter; therefore, the absolute rate paid is not necessarily relevant to the estimated profitability of a period's buying.

## Results of Operations

The results of operations include the financial results of the Company and all of our subsidiaries. The following table sets forth certain operating data as a percentage of total revenues for the periods indicated:

For the Three  
Months Ended  
March 31,  
2016 2015

|   |       |    |       |    |
|---|-------|----|-------|----|
| Revenues:   |       |    |       |    |
| Income recognized on finance receivables, net                     | 91.8  | %  | 93.2  | %  |
| Fee income  | 7.2   | %  | 5.3   | %  |
| Other revenue   | 1.0   | %  | 1.5   | %  |
| Total revenues  | 100.0 | %  | 100.0 | %  |
| Operating expenses:   |       |    |       |    |
| Compensation and employee services                                | 29.7  | %  | 26.6  | %  |
| Legal collection fees   | 5.8   | %  | 5.6   | %  |
| Legal collection costs  | 7.6   | %  | 8.5   | %  |
| Agency fees   | 4.8   | %  | 3.4   | %  |
| Outside fees and services   | 7.0   | %  | 5.2   | %  |
| Communication   | 4.4   | %  | 4.2   | %  |
| Rent and occupancy  | 1.7   | %  | 1.5   | %  |
| Depreciation and amortization                                     | 2.7   | %  | 1.9   | %  |
| Other operating expenses  | 4.7   | %  | 3.9   | %  |
| Total operating expenses  | 68.5  | %  | 60.8  | %  |
| Income from operations  | 31.5  | %  | 39.2  | %  |
| Other income and (expense):                                       |       |    |       |    |
| Interest expense  | (8.9) | )% | (6.0) | )% |
| Foreign exchange gain/(loss)                                      | (0.8) | )% | 2.8   | %  |
| Income before income taxes  | 21.8  | %  | 36.0  | %  |
| Provision for income taxes  | 7.2   | %  | 12.3  | %  |
| Net income  | 14.6  | %  | 23.7  | %  |
| Adjustment for net income attributable to noncontrolling interest | 0.4   | %  | —     | %  |
| Net income attributable to PRA Group, Inc.                        | 14.2  | %  | 23.7  | %  |

Three Months Ended March 31, 2016 Compared To Three Months Ended March 31, 2015

## Revenues

Total revenues were \$224.9 million for the three months ended March 31, 2016, a decrease of \$20.3 million, or 8.3%, compared to total revenues of \$245.2 million for the three months ended March 31, 2015.

## Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net was \$206.5 million for the three months ended March 31, 2016, a decrease of \$21.9 million, or 9.6%, compared to income recognized on finance receivables, net, of \$228.4 million for the three months ended March 31, 2015. The decrease was primarily the result of an \$8.3 million increase in net allowance charges and a \$15.4 million decrease in cash collections. During the three months ended March 31, 2016, we incurred \$9.9 million in net allowance charges, compared with \$1.6 million in the three months ended March 31, 2015. Our finance receivables amortization rate, including net allowance charges/reversals, was 46.3% for the three months ended March 31, 2016 compared to 42.9% for the three months ended March 31, 2015. Our finance receivables amortization rate, excluding net allowance charges/reversals, was 43.7% for the three months ended March 31, 2016 compared to 42.5% for the three months ended March 31, 2015. Cash collections, which drive our finance receivable income, were \$384.3 million in the three months ended March 31, 2016, down \$15.4 million, or 3.9%, as compared to the three months ended March 31, 2015.



Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield on portfolios purchased during the period to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccretable difference to accretable yield primarily result from the Company's increase in its estimate of future cash flows. Increases in future cash flows may occur as portfolios age and actual cash collections exceed those originally expected. If those cash flows are determined to be incremental to the portfolio's original forecast, future projections of cash flows are generally increased resulting in higher expected revenue and hence increases in accretable yield. During the three months ended March 31, 2016, the Company reclassified \$1.0 million to nonaccretable difference from accretable yield primarily due to a decrease in cash collection forecasts. When applicable, net reclassifications to nonaccretable difference from accretable yield result from the Company's decrease in its estimates of future cash flows and allowance charges that exceed the Company's increase in its estimate of future cash flows. During the three months ended March 31, 2015, the Company reclassified \$119.3 million from nonaccretable difference to accretable yield primarily due to increased cash collection forecasts relating to pools acquired from 2007-2013.

Income recognized on finance receivables, net, is shown net of changes in valuation allowances which are recorded for significant decreases in expected cash flows or a change in timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. For the three months ended March 31, 2016, we recorded net allowance charges of \$9.9 million. On our domestic Core portfolios, we recorded net allowance charges of \$7.1 million on portfolios purchased mainly in 2012 and 2013. On our Insolvency portfolios, we recorded allowance charges of \$0.3 million on our domestic portfolios. We also recorded allowance charges of \$2.2 million on our European portfolios, and \$0.3 million on our Canadian portfolios.

For the three months ended March 31, 2015, we recorded net allowance charges of \$1.6 million. On our domestic Core portfolios, we recorded allowance reversals of \$0.8 million on portfolios purchased between 2006 and 2008, offset by allowance charges of \$2.7 million on portfolios purchased between 2010 and 2012. On our Insolvency portfolios, we recorded allowance reversals of \$0.3 million on our domestic portfolios. No allowance charges or reversals were recorded during the period on the portfolios purchased in Europe.

In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our previous expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability, of purchased pools of nonperforming loans include new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability, of purchased pools of nonperforming loans would include necessary revisions to initial and post-acquisition scoring and modeling estimates, operational activities (relating to the collection and movement of accounts on both our collection floor and external channels), and changes in productivity related to turnover and retention of our collection staff.

#### Fee Income

Fee income increased to \$16.3 million in the three months ended March 31, 2016 from \$13.1 million in the three months ended March 31, 2015, primarily due to an increase in fee income by PLS, the fee income generated by our newly acquired Insolvency business, RMSC, which we acquired in the first quarter of 2016, and the fee income generated by RCB Investimentos S.A. ("RCB"), which we acquired in the third quarter of 2015. This was partially offset by a decrease in fee income generated by our foreign operations.

#### Other Revenue

Other revenue decreased to \$2.1 million in the three months ended March 31, 2016 from \$3.8 million in the three months ended March 31, 2015, primarily due to a decrease in revenue generated by our investments.

#### Operating Expenses

Operating expenses were \$154.0 million for the three months ended March 31, 2016, an increase of \$5.0 million or 3.4% compared to operating expenses of \$149.0 million for the three months ended March 31, 2015. This increase was primarily due to an increase in corporate legal expenses, which are included in "Outside fees and services" in our consolidated income statements, and an increase in agency fees. Operating expenses were 38.4% of cash receipts for

the three months ended March 31, 2016 compared to 36.1% for the three months ended March 31, 2015.



#### Compensation and Employee Services

Compensation and employee services expenses were \$66.8 million for the three months ended March 31, 2016, an increase of \$1.5 million, or 2.3%, compared to compensation and employee services expenses of \$65.3 million for the three months ended March 31, 2015. The increase in compensation and employee services expenses was mainly due to the expansion of our professional staff in our information technology, finance and compliance departments. Total full-time equivalents decreased 2.6% to 3,748 as of March 31, 2016, down from 3,847 as of March 31, 2015.

Compensation and employee services expenses as a percentage of cash receipts increased to 16.7% for the three months ended March 31, 2016, from 15.8% of cash receipts for the three months ended March 31, 2015.

#### Legal Collection Fees

Legal collection fees represent contingent fees incurred for the cash collections generated by our independent third party collection attorneys. Legal collection fees were \$13.0 million for the three months ended March 31, 2016, compared to legal collection fees of \$13.7 million for the three months ended March 31, 2015. The decrease is attributable to a decrease in external legal cash collections. Legal collection fees were 3.2% of cash receipts for the three months ended March 31, 2016 compared to 3.3% of cash receipts for the three months ended March 31, 2015.

#### Legal Collection Costs

Legal collection costs consist of costs paid to courts where a lawsuit is filed and the cost of documents received from sellers of nonperforming loans. Legal collection costs were \$17.2 million for the three months ended March 31, 2016, a decrease of \$3.7 million, or 17.7%, compared to legal collection costs of \$20.9 million for the three months ended March 31, 2015. Between 2012 and 2015, we expanded the number of accounts brought into the legal collection process resulting in increased legal collections costs. This expansion has subsided over the last several quarters which led to the decrease in the current period. Legal collection costs for the three months ended March 31, 2016 were 4.3% of cash receipts, compared to 5.1% for the three months ended March 31, 2015.

#### Agency Fees

Agency fees primarily represent third party collection fees and costs paid to repossession agents to repossess vehicles. Agency fees were \$10.9 million for the three months ended March 31, 2016, compared to \$8.3 million for the three months ended March 31, 2015. This increase was mainly attributable to third-party collection fees incurred by our international operations where we may utilize third party agencies.

#### Outside Fees and Services

Outside fees and services expenses were \$15.8 million for the three months ended March 31, 2016, an increase of \$3.0 million, or 23.4%, compared to outside fees and services expenses of \$12.8 million for the three months ended March 31, 2015. This increase was primarily due to a \$1.8 million increase in corporate legal expenses.

#### Communication

Communication expenses were \$9.9 million for the three months ended March 31, 2016, compared to communication expenses of \$10.4 million for the three months ended March 31, 2015. None of the decrease was attributable to any significant identifiable items.

#### Rent and Occupancy

Rent and occupancy expenses were \$3.8 million for the three months ended March 31, 2016, an increase of \$0.2 million, or 5.6%, compared to rent and occupancy expenses of \$3.6 million for the three months ended March 31, 2015. The increase was primarily due to additional rental expenses incurred as a result of the expansion of our headquarters in Norfolk, Virginia.

#### Depreciation and Amortization

Depreciation and amortization expenses were \$6.1 million for the three months ended March 31, 2016, an increase of \$1.5 million, or 32.6%, compared to depreciation and amortization expenses of \$4.6 million for the three months ended March 31, 2015. The increase was primarily due to the amortization expense incurred on intangible assets acquired in connection with the acquisition of RCB.

#### Other Operating Expenses

Other operating expenses were \$10.7 million for the three months ended March 31, 2016, an increase of \$1.1 million, or 11.5%, compared to other operating expenses of \$9.6 million for the three months ended March 31, 2015. None of the increase was attributable to any significant identifiable items.

#### Interest Expense

Interest expense was \$20.0 million during the three months ended March 31, 2016, an increase of \$5.2 million or 35.1%, compared to \$14.8 million for the three months ended March 31, 2015. The increase was primarily due to an increase in average borrowing during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

#### Net Foreign Currency Transaction Gain/(Loss)

Net foreign currency transaction losses were \$1.9 million for the three months ended March 31, 2016 compared to a net foreign currency transaction gain of \$6.8 million for the three months ended March 31, 2015. In any given period, our foreign entities conduct operations in currencies different from their functional currency which generate foreign currency transaction gains and losses.

#### Provision for Income Taxes

Provision for income taxes was \$16.2 million for the three months ended March 31, 2016, a decrease of \$13.8 million, or 46.0%, compared to provision for income taxes of \$30.0 million for the three months ended March 31, 2015. The decrease is primarily due to a 44.3% decrease in income before taxes for the three months ended March 31, 2016, compared to the three months ended March 31, 2015. During the three months ended March 31, 2016, our effective tax rate was 33.1%, compared to 34.1% for the three months ended March 31, 2015. The decrease in the effective tax rate was due primarily to the combination of projected taxable income between various tax jurisdictions and tax differences driven by foreign exchange.

We intend for predominantly all foreign earnings to be permanently reinvested in our foreign operations. If foreign earnings were repatriated, we would need to accrue and pay taxes, although foreign tax credits may be available to partially reduce U.S. income taxes. The amount of cash on hand related to foreign operations with permanently reinvested earnings was \$56.9 million and \$15.8 million as of March 31, 2016 and 2015, respectively.

#### Supplemental Performance Data

##### Finance Receivables Portfolio Performance

The following tables show certain data related to our finance receivables portfolio. These tables describe the purchase price, actual cash collections and future estimates of cash collections, income recognized on finance receivables (gross and net of allowance charges/(reversals)), principal amortization, allowance charges/(reversals), net finance receivable balances, and the ratio of total estimated collections to purchase price (which we refer to as purchase price multiple) as well as the original purchase price multiple. Certain adjustments, as noted in the footnotes to these tables, have been made to reduce the impact of foreign currency fluctuations on purchase price multiples.

Further, these tables disclose our Americas and European Core and Insolvency portfolios. The accounts represented in the Insolvency tables are those portfolios of accounts that were in an insolvency status at the time of purchase. This contrasts with accounts in our Core portfolios that file for bankruptcy/insolvency protection after we purchase them, which continue to be tracked in their corresponding Core portfolio. Core customers sometimes file for bankruptcy/insolvency protection subsequent to our purchase of the related Core portfolio. When this occurs, we adjust our collection practices accordingly to comply with bankruptcy/insolvency rules and procedures; however, for accounting purposes, these accounts remain in the related Core portfolio. Conversely, Insolvency accounts may be dismissed voluntarily or involuntarily subsequent to our purchase of the related Insolvency portfolio. Dismissal occurs when the terms of the bankruptcy are not met by the petitioner. When this occurs, we are typically free to pursue collection outside of bankruptcy procedures; however, for accounting purposes, these accounts remain in the related Insolvency pool.

Purchase price multiples can vary over time due to a variety of factors including pricing competition, supply levels, age of the receivables purchased, and changes in our operational efficiency. For example, increased pricing competition during the 2005 to 2008 period negatively impacted purchase price multiples of our Core portfolio compared to prior years. Conversely, during the 2009 to 2011 period, pricing disruptions occurred as a result of the

economic downturn. This created unique and advantageous purchasing opportunities, particularly within the Insolvency market, relative to the prior four years.

Purchase price multiples can also vary among types of finance receivables. For example, we incur lower collection costs on our Insolvency portfolio compared with our Core portfolio. This allows us, in general, to pay more for an Insolvency portfolio and experience lower purchase price multiples, while generating similar internal rates of return, net of expenses, when compared with a Core portfolio.

When competition increases and/or supply decreases, pricing often becomes negatively impacted relative to expected collections, and yields tend to trend lower. The opposite tends to occur when competition decreases and/or supply increases.

Within a given portfolio type, to the extent that lower purchase price multiples are the result of more competitive pricing and lower yields, this will generally lead to higher amortization rates and lower profitability. As portfolio pricing becomes more favorable on a relative basis, our profitability will tend to increase. Profitability within given Core portfolio types may also be impacted by the age and quality of the receivables, which impact the cost to collect those accounts.

The numbers presented in the following tables represent gross cash collections and do not reflect any costs to collect; therefore, they may not represent relative profitability. We continue to make enhancements to our analytical abilities, with the intent to collect more cash at a lower cost. To the extent we can improve our collection operations by collecting additional cash from a discrete quantity and quality of accounts, and/or by collecting cash at a lower cost structure, we can positively impact profitability.

Revenue recognition under FASB ASC Topic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30") is driven by estimates of total collections as well as the timing of those collections. We record new portfolio purchases based on our best estimate of the cash flows expected at acquisition, which reflects the uncertainties inherent in the purchase of past due loans and the results of our underwriting process. Subsequent to the initial booking, as we gain collection experience and confidence with a pool of accounts, we continuously update ERC. These processes, along with the aforementioned operational enhancements, have tended to cause the ratio of ERC to purchase price for any given year of buying to gradually increase over time. As a result, our estimate of total collections has often increased as pools have aged. Thus, all factors being equal in terms of pricing, one would typically tend to see a higher collection to purchase price ratio from a pool of accounts that was six years from purchase than say a pool that was just two years from purchase.

Due to all the factors described above, readers should be cautious when making comparisons of purchase price multiples among periods and between types of receivables.

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Multiples Tables

Amounts in thousands

| Purchase Period            | Purchase Price <sup>(3)</sup> | Net Finance Receivables <sup>(4)</sup> | ERC-Historical Total Period Exchange Rates <sup>(5)</sup> | Estimated Collections <sup>(6)</sup> | ERC-Current Period Exchange Rates <sup>(7)</sup> | Current Purchase Price Multiple | Original Purchase Price Multiple <sup>(2)</sup> |
|----------------------------|-------------------------------|--|---|--------------------------------------|--|---------------------------------|---|
| <b>Americas-Core</b>       |                               |  |   |                                      |  |                                 |   |
| 1996 - 2005                | \$368,600                     | \$3,514                                | \$20,648  | \$1,407,506                          | \$20,648   | 382 %                           | 250 %   |
| 2006                       | 90,038                        | 4,229                                  | 10,856  | 198,310                              | 10,856   | 220 %                           | 225 %   |
| 2007                       | 179,835                       | 11,315                                 | 38,486  | 449,949                              | 38,486   | 250 %                           | 227 %   |
| 2008                       | 166,506                       | 12,301                                 | 32,961  | 380,049                              | 32,961   | 228 %                           | 220 %   |
| 2009                       | 125,175                       | 4,436                                  | 51,659  | 458,205                              | 51,659   | 366 %                           | 252 %   |
| 2010                       | 148,265                       | 12,172                                 | 81,944  | 536,167                              | 81,944   | 362 %                           | 247 %   |
| 2011                       | 209,815                       | 27,378                                 | 130,665   | 717,248                              | 130,665  | 342 %                           | 245 %   |
| 2012                       | 254,750                       | 65,907                                 | 211,192   | 703,907                              | 211,192  | 276 %                           | 226 %   |
| 2013                       | 391,734                       | 159,717                                | 459,598   | 1,041,168                            | 459,598  | 266 %                           | 211 %   |
| 2014 <sup>(1)</sup>        | 406,542                       | 219,935                                | 601,140   | 1,004,928                            | 594,785  | 247 %                           | 204 %   |
| 2015                       | 448,100                       | 364,544                                | 752,867   | 933,419                              | 754,232  | 208 %                           | 205 %   |
| 2016 YTD                   | 139,312                       | 135,961                                | 256,384   | 265,039                              | 256,384  | 190 %                           | 190 %   |
| Subtotal                   | 2,928,672                     | 1,021,409                              | 2,648,400   | 8,095,895                            | 2,643,410  |                                 |   |
| <b>Americas-Insolvency</b> |                               |  |   |                                      |  |                                 |   |
| 2004 - 2005                | 36,770                        | 4                                      | 202   | 58,626                               | 202  | 159 %                           | 148 %   |
| 2006                       | 17,627                        | 38                                     | 389   | 32,458                               | 389  | 184 %                           | 139 %   |
| 2007                       | 78,524                        | 248                                    | 1,064   | 106,493                              | 1,064  | 136 %                           | 150 %   |
| 2008                       | 108,579                       | 1,016                                  | 2,190   | 169,509                              | 2,190  | 156 %                           | 163 %   |
| 2009                       | 156,001                       | —                                      | 8,964   | 474,280                              | 8,964  | 304 %                           | 214 %   |
| 2010                       | 209,107                       | 243                                    | 13,324  | 551,490                              | 13,324   | 264 %                           | 184 %   |
| 2011                       | 181,275                       | 8,865                                  | 23,650  | 365,181                              | 23,650   | 201 %                           | 155 %   |
| 2012                       | 251,975                       | 37,166                                 | 63,567  | 375,690                              | 63,567   | 149 %                           | 136 %   |
| 2013                       | 228,158                       | 71,083                                 | 104,160   | 338,278                              | 104,160  | 148 %                           | 133 %   |
| 2014                       | 149,153                       | 75,570                                 | 103,325   | 203,132                              | 103,175  | 136 %                           | 124 %   |
| 2015                       | 65,074                        | 60,821                                 | 73,149  | 80,534                               | 73,149   | 124 %                           | 125 %   |
| 2016 YTD                   | 24,194                        | 23,208                                 | 28,032  | 29,201                               | 28,032   | 121 %                           | 121 %   |
| Subtotal                   | 1,506,437                     | 278,262                                | 422,016   | 2,784,872                            | 421,866  |                                 |   |
| Total Americas             | 4,435,109                     | 1,299,671                              | 3,070,416   | 10,880,767                           | 3,065,276  |                                 |   |
| <b>Europe-Core</b>         |                               |  |   |                                      |  |                                 |   |
| 2012                       | 20,459                        | 115                                    | 659   | 31,537                               | 582  | 154 %                           | 187 %   |
| 2013                       | 20,371                        | 1,749                                  | 3,236   | 22,248                               | 2,805  | 109 %                           | 119 %   |
| 2014 <sup>(1)</sup>        | 798,397                       | 508,614                                | 1,417,932   | 1,976,007                            | 1,276,871  | 247 %                           | 208 %   |
| 2015                       | 424,056                       | 364,378                                | 590,674   | 663,675                              | 580,461  | 157 %                           | 160 %   |
| 2016 YTD                   | 176,053                       | 175,599                                | 291,684   | 292,499                              | 291,684  | 166 %                           | 166 %   |
| Subtotal                   | 1,439,336                     | 1,050,455                              | 2,304,185   | 2,985,966                            | 2,152,403  |                                 |   |
| <b>Europe-Insolvency</b>   |                               |  |   |                                      |  |                                 |   |
| 2014                       | 10,880                        | 5,900                                  | 11,335  | 17,047                               | 10,564   | 157 %                           | 129 %   |
| 2015                       | 19,594                        | 15,826                                 | 23,592  | 27,534                               | 22,635   | 141 %                           | 139 %   |
| 2016 YTD                   | 5,233                         | 5,225                                  | 7,739   | 7,800                                | 7,739  | 149 %                           | 149 %   |
| Subtotal                   | 35,707                        | 26,951                                 | 42,666  | 52,381                               | 40,938   |                                 |   |
| Total Europe               | 1,475,043                     | 1,077,406                              | 2,346,851   | 3,038,347                            | 2,193,341  |                                 |   |

Total PRA Group \$5,910,152 \$2,377,077 \$ 5,417,267 \$13,919,114 \$ 5,258,617

- (1) The amount reflected in the Purchase Price column includes the acquisition date finance receivable portfolios in Canada and Europe that were acquired in connection with the Aktiv acquisition.
- (2) The Original Purchase Price multiple represents the initial full year purchase price multiple in the year of acquisition.  
For our international amounts, purchase price is presented at the exchange rate at the end of the quarter in which the portfolio was purchased. In addition, any purchase price adjustments that occur throughout the life of the pool are presented at the period end exchange rate for the respective quarter of purchase.
- (3) For our international amounts, Net Finance Receivables are presented at the March 31, 2016 exchange rate.
- (4) For our international amounts, ERC-Historical Period Exchange Rates is presented at the period end exchange rate for the respective quarter of purchase.
- (5) For our international amounts, Total Estimated Collections is presented at the period end exchange rate for the respective quarter of purchase.
- (6) For our international amounts, ERC-Current Period Exchange Rates is presented at the March 31, 2016 exchange rate.
- (7)

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Portfolio Financial Information

Amounts in thousands

| Purchase Period            | Purchase Price <sup>(3)</sup> | Cash Collections <sup>(2)</sup> | Gross Revenue <sup>(2)</sup> | Amortization <sup>(2)</sup> | Allowance <sup>(2)</sup> | Net Revenue <sup>(2)</sup> | Net Finance Receivables <sup>(4)</sup> |
|----------------------------|-------------------------------|---------------------------------|------------------------------|-----------------------------|--------------------------|----------------------------|--|
| <b>Americas-Core</b>       |                               |                                 |                              |                             |                          |                            |  |
| 1996 - 2005                | \$368,600                     | \$2,914                         | \$2,547                      | \$367                       | \$125                    | \$2,422                    | \$3,514                                |
| 2006                       | 90,038                        | 811                             | 487                          | 324                         | —                        | 487                        | 4,229                                  |
| 2007                       | 179,835                       | 2,824                           | 1,991                        | 833                         | 125                      | 1,866                      | 11,315                                 |
| 2008                       | 166,506                       | 2,767                           | 1,692                        | 1,075                       | —                        | 1,692                      | 12,301                                 |
| 2009                       | 125,175                       | 4,920                           | 3,818                        | 1,102                       | —                        | 3,818                      | 4,436                                  |
| 2010                       | 148,265                       | 7,652                           | 5,817                        | 1,835                       | —                        | 5,817                      | 12,172                                 |
| 2011                       | 209,815                       | 14,937                          | 11,713                       | 3,224                       | 400                      | 11,313                     | 27,378                                 |
| 2012                       | 254,750                       | 18,760                          | 13,629                       | 5,131                       | 600                      | 13,029                     | 65,907                                 |
| 2013                       | 391,734                       | 38,082                          | 26,903                       | 11,179                      | 5,850                    | 21,053                     | 159,717                                |
| 2014 <sup>(1)</sup>        | 406,542                       | 53,834                          | 32,499                       | 21,335                      | 188                      | 32,311                     | 219,935                                |
| 2015                       | 448,100                       | 63,520                          | 31,001                       | 32,519                      | 98                       | 30,903                     | 364,544                                |
| 2016 YTD                   | 139,312                       | 8,550                           | 5,242                        | 3,308                       | —                        | 5,242                      | 135,961                                |
| Subtotal                   | 2,928,672                     | 219,571                         | 137,339                      | 82,232                      | 7,386                    | 129,953                    | 1,021,409                              |
| <b>Americas-Insolvency</b> |                               |                                 |                              |                             |                          |                            |  |
| 2004 - 2005                | 36,770                        | 19                              | 9                            | 10                          | —                        | 9                          | 4                                      |
| 2006                       | 17,627                        | 37                              | 20                           | 17                          | (20)                     | 40                         | 38                                     |
| 2007                       | 78,524                        | 84                              | 37                           | 47                          | (100)                    | 137                        | 248                                    |
| 2008                       | 108,579                       | 213                             | 70                           | 143                         | —                        | 70                         | 1,016                                  |
| 2009                       | 156,001                       | 782                             | 782                          | —                           | —                        | 782                        | —                                      |
| 2010                       | 209,107                       | 1,923                           | 1,774                        | 149                         | 450                      | 1,324                      | 243                                    |
| 2011                       | 181,275                       | 14,450                          | 8,949                        | 5,501                       | —                        | 8,949                      | 8,865                                  |
| 2012                       | 251,975                       | 16,905                          | 7,367                        | 9,538                       | —                        | 7,367                      | 37,166                                 |
| 2013                       | 228,158                       | 17,315                          | 7,136                        | 10,179                      | —                        | 7,136                      | 71,083                                 |
| 2014                       | 149,153                       | 11,758                          | 4,355                        | 7,403                       | —                        | 4,355                      | 75,570                                 |
| 2015                       | 65,074                        | 3,990                           | 1,233                        | 2,757                       | —                        | 1,233                      | 60,821                                 |
| 2016 YTD                   | 24,194                        | 1,170                           | 175                          | 995                         | —                        | 175                        | 23,208                                 |
| Subtotal                   | 1,506,437                     | 68,646                          | 31,907                       | 36,739                      | 330                      | 31,577                     | 278,262                                |
| Total Americas             | 4,435,109                     | 288,217                         | 169,246                      | 118,971                     | 7,716                    | 161,530                    | 1,299,671                              |
| <b>Europe-Core</b>         |                               |                                 |                              |                             |                          |                            |  |
| 2012                       | 20,459                        | 604                             | 551                          | 53                          | —                        | 551                        | 115                                    |
| 2013                       | 20,371                        | 406                             | 208                          | 198                         | 122                      | 86                         | 1,749                                  |
| 2014 <sup>(1)</sup>        | 798,397                       | 65,676                          | 37,792                       | 27,884                      | 1,701                    | 36,091                     | 508,614                                |
| 2015                       | 424,056                       | 26,598                          | 7,723                        | 18,875                      | 359                      | 7,364                      | 364,378                                |
| 2016 YTD                   | 176,053                       | 807                             | 357                          | 450                         | —                        | 357                        | 175,599                                |
| Subtotal                   | 1,439,336                     | 94,091                          | 46,631                       | 47,460                      | 2,182                    | 44,449                     | 1,050,455                              |
| <b>Europe-Insolvency</b>   |                               |                                 |                              |                             |                          |                            |  |
| 2014                       | 10,880                        | 939                             | 214                          | 725                         | —                        | 214                        | 5,900                                  |
| 2015                       | 19,594                        | 1,025                           | 261                          | 764                         | —                        | 261                        | 15,826                                 |
| 2016 YTD                   | 5,233                         | 61                              | 53                           | 8                           | —                        | 53                         | 5,225                                  |
| Subtotal                   | 35,707                        | 2,025                           | 528                          | 1,497                       | —                        | 528                        | 26,951                                 |
| Total Europe               | 1,475,043                     | 96,116                          | 47,159                       | 48,957                      | 2,182                    | 44,977                     | 1,077,406                              |
| Total PRA Group            | \$5,910,152                   | \$384,333                       | \$216,405                    | \$167,928                   | \$9,898                  | \$206,507                  | \$2,377,077                            |

(1)

The amount reflected in the Purchase Price column includes the acquisition date finance receivable portfolios in Canada and Europe that were acquired in connection with the Aktiv acquisition.

(2) For our international amounts, amounts are presented using the average exchange rates during the current reporting period.

For our international amounts, purchase price is presented at the exchange rate at the end of the quarter in which (3) the portfolio was purchased. In addition, any purchase price adjustments that occur throughout the life of the pool are presented at the period end exchange rate for the respective quarter of purchase.

(4) For our international amounts, net finance receivables are presented at the March 31, 2016 exchange rate.



The following graph shows the purchase price of our portfolios by year since 2006.

\* Excludes the \$27.9 million and \$34.7 million investment in a securitized fund in Poland during the years ended December 31, 2015 and December 31, 2014, respectively.

As shown in the above chart, the composition of our purchased portfolios shifted in favor of Insolvency accounts in 2009 and 2010, then returning to equilibrium with Core in 2011 and 2012. Beginning in 2013, Core purchases exceeded those of Insolvency accounts.

Our ability to profitably purchase and liquidate pools of Insolvency accounts provides diversity to our distressed asset acquisition business. Although we generally buy Insolvency portfolios from many of the same consumer lenders from whom we acquire Core customer portfolios, the volumes and pricing characteristics as well as the competitors are different. Based upon market dynamics, the profitability of portfolios purchased in the Insolvency and Core markets may differ over time. We have found periods when Insolvency accounts were more profitable and other times when Core accounts were more profitable. A primary driver of portfolio profitability is determined by the amount of purchase price relative to the expected returns of the acquired portfolios. When pricing becomes more competitive due to reduced portfolios available for purchase or increased demand from competitors entering or increasing their presence in the market, prices tend to go up, driving down the purchase price multiple and lowering the overall expected returns. When pricing relaxes due to market dynamics, purchase price multiples tend to increase, thereby increasing the overall expected returns.

In order to collect our Core portfolios, we generally need to employ relatively higher amounts of labor and incur additional collection costs to generate each dollar of cash collections as compared with Insolvency portfolios. In order to achieve acceptable levels of net return on investment (after direct expenses), we are generally targeting a higher total cash collections to purchase price multiple for Core portfolios. On the other hand, Insolvency accounts generate the majority of their cash collections through the efforts of bankruptcy courts and trustees. In this process, cash is remitted to our Company with no corresponding cost other than the cost of filing claims at the time of purchase, court fees associated with the filing of ownership claim transfers and general administrative costs for monitoring the progress of each account through the bankruptcy process. As a result, overall collection costs are much lower for us when liquidating a pool of Insolvency accounts as compared to a pool of Core accounts, but conversely the price we pay for Insolvency accounts is generally higher than Core accounts. We generally target similar net returns on investment (measured after direct expenses) for Insolvency and Core portfolios at any given point in the market cycles. However, because of the lower related collection costs, we can pay more for Insolvency portfolios, which causes the estimated total cash collections to purchase price multiples of Insolvency pools generally to be lower. In summary, compared to a similar investment in a pool of Core accounts, to the extent both pools had identical targeted net returns on investment (measured after direct expenses), the Insolvency pool would be expected to generate less revenue, less direct expenses, similar operating income, and a higher operating margin. From time to time, especially in Europe, we purchase Core portfolios which consist of a majority of paying previously charged-off accounts. These portfolios have some of the same financial dynamics as Insolvency accounts, with lower collection costs and lower purchase price multiples.

As a result of these purchase price and collection cost dynamics, the mix of our portfolios impacts the relative profitability we realize in a given year. We minimize the impact of higher pricing, to the degree possible, with increased analytics used to score Core accounts and determine on which of those accounts to focus our collection efforts.

We utilize a long-term approach to collecting our owned portfolios of receivables. This approach has historically caused us to realize significant cash collections and revenues from purchased portfolios of finance receivables years after they are originally acquired. As a result, we have in the past been able to temporarily reduce our level of current period acquisitions without a material negative current period impact on cash collections and revenue.

The following tables, which exclude any proceeds from cash sales of finance receivables, illustrate historical cash collections, by year, on our portfolios.

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Cash Collections by Year, By Year of Purchase <sup>(2)</sup>

Amounts in thousands

| Purchase Period            | Purchase Price <sup>(3)</sup> | 1996 - 2005    | 2006           | 2007           | 2008           | 2009           | 2010           | 2011           | 2012           | 2013             | 2014             | 2015             |
|----------------------------|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|
| <b>Americas-Core</b>       |                               |                |                |                |                |                |                |                |                |                  |                  |                  |
| 1996 - 2005                | \$368,600                     | \$649,674      | \$193,966      | \$152,002      | \$101,551      | \$74,323       | \$57,937       | \$47,892       | \$37,925       | \$27,395         | \$19,764         | \$14,811         |
| 2006                       | 90,038                        | —              | 17,363         | 43,736         | 34,038         | 25,351         | 19,522         | 16,663         | 11,895         | 8,316            | 5,724            | 4,000            |
| 2007                       | 179,835                       | —              | —              | 39,412         | 87,039         | 69,175         | 60,230         | 50,996         | 39,585         | 28,244           | 19,759           | 14,811           |
| 2008                       | 166,506                       | —              | —              | —              | 47,253         | 72,080         | 62,363         | 53,654         | 42,850         | 31,307           | 21,027           | 13,811           |
| 2009                       | 125,175                       | —              | —              | —              | —              | 40,703         | 95,627         | 84,339         | 69,385         | 51,121           | 35,555           | 24,811           |
| 2010                       | 148,265                       | —              | —              | —              | —              | —              | 47,076         | 113,554        | 109,873        | 82,014           | 55,946           | 38,811           |
| 2011                       | 209,815                       | —              | —              | —              | —              | —              | —              | 61,971         | 174,461        | 152,908          | 108,513          | 73,811           |
| 2012                       | 254,750                       | —              | —              | —              | —              | —              | —              | —              | 56,901         | 173,589          | 146,198          | 97,811           |
| 2013                       | 391,734                       | —              | —              | —              | —              | —              | —              | —              | —              | 101,614          | 247,849          | 199,811          |
| 2014 <sup>(1)</sup>        | 406,542                       | —              | —              | —              | —              | —              | —              | —              | —              | —                | 92,660           | 259,811          |
| 2015                       | 448,100                       | —              | —              | —              | —              | —              | —              | —              | —              | —                | —                | 110,811          |
| 2016                       | 139,312                       | —              | —              | —              | —              | —              | —              | —              | —              | —                | —                | —                |
| YTD                        |                               |                |                |                |                |                |                |                |                |                  |                  |                  |
| Subtotal                   | 2,928,672                     | 649,674        | 211,329        | 235,150        | 269,881        | 281,632        | 342,755        | 429,069        | 542,875        | 656,508          | 752,995          | 849,811          |
| <b>Americas-Insolvency</b> |                               |                |                |                |                |                |                |                |                |                  |                  |                  |
| 2004 - 2005                | 36,770                        | 9,074          | 19,456         | 14,711         | 8,300          | 3,814          | 1,546          | 615            | 358            | 259              | 176              | 97,811           |
| 2006                       | 17,627                        | —              | 5,608          | 9,455          | 6,522          | 4,398          | 2,972          | 1,526          | 665            | 419              | 261              | 209,811          |
| 2007                       | 78,524                        | —              | —              | 2,850          | 27,972         | 25,630         | 22,829         | 16,093         | 7,551          | 1,206            | 714              | 509,811          |
| 2008                       | 108,579                       | —              | —              | —              | 14,024         | 35,894         | 37,974         | 35,690         | 28,956         | 11,650           | 1,884            | 1,009,811        |
| 2009                       | 156,001                       | —              | —              | —              | —              | 16,635         | 81,780         | 102,780        | 107,888        | 95,725           | 53,945           | 5,709,811        |
| 2010                       | 209,107                       | —              | —              | —              | —              | —              | 39,486         | 104,499        | 125,020        | 121,717          | 101,873          | 43,811           |
| 2011                       | 181,275                       | —              | —              | —              | —              | —              | —              | 15,218         | 66,379         | 82,752           | 85,816           | 76,811           |
| 2012                       | 251,975                       | —              | —              | —              | —              | —              | —              | —              | 17,388         | 103,610          | 94,141           | 80,811           |
| 2013                       | 228,158                       | —              | —              | —              | —              | —              | —              | —              | —              | 52,528           | 82,596           | 81,811           |
| 2014                       | 149,153                       | —              | —              | —              | —              | —              | —              | —              | —              | —                | 37,045           | 50,811           |
| 2015                       | 65,074                        | —              | —              | —              | —              | —              | —              | —              | —              | —                | —                | 3,311            |
| 2016                       | 24,194                        | —              | —              | —              | —              | —              | —              | —              | —              | —                | —                | —                |
| YTD                        |                               |                |                |                |                |                |                |                |                |                  |                  |                  |
| Subtotal                   | 1,506,437                     | 9,074          | 25,064         | 27,016         | 56,818         | 86,371         | 186,587        | 276,421        | 354,205        | 469,866          | 458,451          | 349,811          |
| <b>Total Americas</b>      | <b>4,435,109</b>              | <b>658,748</b> | <b>236,393</b> | <b>262,166</b> | <b>326,699</b> | <b>368,003</b> | <b>529,342</b> | <b>705,490</b> | <b>897,080</b> | <b>1,126,374</b> | <b>1,211,446</b> | <b>1,199,622</b> |
| <b>Europe-Core</b>         |                               |                |                |                |                |                |                |                |                |                  |                  |                  |
| 2012                       | 20,459                        | —              | —              | —              | —              | —              | —              | —              | 11,604         | 8,995            | 5,641            | 3,111            |
| 2013                       | 20,371                        | —              | —              | —              | —              | —              | —              | —              | —              | 7,068            | 8,540            | 2,311            |
| 2014 <sup>(1)</sup>        | 798,397                       | —              | —              | —              | —              | —              | —              | —              | —              | —                | 153,180          | 29,811           |
| 2015                       | 424,056                       | —              | —              | —              | —              | —              | —              | —              | —              | —                | —                | 45,811           |
| 2016                       | 176,053                       | —              | —              | —              | —              | —              | —              | —              | —              | —                | —                | —                |
| YTD                        |                               |                |                |                |                |                |                |                |                |                  |                  |                  |
| Subtotal                   | 1,439,336                     | —              | —              | —              | —              | —              | —              | —              | 11,604         | 16,063           | 167,361          | 34,811           |
| <b>Europe-Insolvency</b>   |                               |                |                |                |                |                |                |                |                |                  |                  |                  |
| 2014                       | 10,880                        | —              | —              | —              | —              | —              | —              | —              | —              | —                | 5                | 4,211            |
| 2015                       | 19,594                        | —              | —              | —              | —              | —              | —              | —              | —              | —                | —                | 2,911            |

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|          |             |           |           |           |           |           |           |           |           |             |             |     |   |
|----------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|-------------|-----|---|
| 2016     |             |           |           |           |           |           |           |           |           |             |             |     |   |
| YTD      | 5,233       | —         | —         | —         | —         | —         | —         | —         | —         | —           | —           | —   | — |
| Subtotal | 35,707      | —         | —         | —         | —         | —         | —         | —         | —         | —           | 5           | 7,2 |   |
| Total    |             |           |           |           |           |           |           |           |           |             |             |     |   |
| Europe   | 1,475,043   | —         | —         | —         | —         | —         | —         | —         | 11,604    | 16,063      | 167,366     | 35  |   |
| Total    |             |           |           |           |           |           |           |           |           |             |             |     |   |
| PRA      | \$5,910,152 | \$658,748 | \$236,393 | \$262,166 | \$326,699 | \$368,003 | \$529,342 | \$705,490 | \$908,684 | \$1,142,437 | \$1,378,812 | \$1 |   |

- Group
- (1) The amount reflected in the Purchase Price column includes the acquisition date finance receivable portfolios in Canada and Europe that were acquired in connection with the Aktiv acquisition.
- (2) For our international amounts, cash collections are presented using the average exchange rates during the cash collection period.

For our international amounts, purchase price is presented at the exchange rate at the end of the quarter in which (3) the portfolio was purchased. In addition, any purchase price adjustments that occur throughout the life of the pool are presented at the period end exchange rate for the respective quarter of purchase.

#### Collections Productivity (Domestic Portfolio)

The following tables display various collections productivity measures that we track.

#### Cash Collections per Collector Hour Paid

##### Domestic Portfolio

##### Core cash collections <sup>(1)</sup>

|                | 2016  | 2015  | 2014  | 2013  | 2012  |
|----------------|-------|-------|-------|-------|-------|
| First Quarter  | \$274 | \$247 | \$223 | \$193 | \$166 |
| Second Quarter | —     | 245   | 220   | 190   | 169   |
| Third Quarter  | —     | 250   | 217   | 191   | 171   |
| Fourth Quarter | —     | 239   | 203   | 190   | 150   |

##### Total cash collections <sup>(2)</sup>

|                | 2016  | 2015  | 2014  | 2013  | 2012  |
|----------------|-------|-------|-------|-------|-------|
| First Quarter  | \$358 | \$350 | \$337 | \$304 | \$258 |
| Second Quarter | —     | 344   | 354   | 315   | 275   |
| Third Quarter  | —     | 343   | 338   | 310   | 279   |
| Fourth Quarter | —     | 325   | 310   | 308   | 245   |

##### Non-legal cash collections <sup>(3)</sup>

|                | 2016  | 2015  | 2014  | 2013  | 2012  |
|----------------|-------|-------|-------|-------|-------|
| First Quarter  | \$303 | \$294 | \$282 | \$251 | \$216 |
| Second Quarter | —     | 288   | 293   | 261   | 225   |
| Third Quarter  | —     | 287   | 280   | 259   | 230   |
| Fourth Quarter | —     | 273   | 259   | 256   | 200   |

##### Non-legal/non-insolvency cash collections <sup>(4)</sup>

|                | 2016  | 2015  | 2014  | 2013  | 2012  |
|----------------|-------|-------|-------|-------|-------|
| First Quarter  | \$219 | \$191 | \$167 | \$140 | \$125 |
| Second Quarter | —     | 188   | 158   | 137   | 120   |
| Third Quarter  | —     | 194   | 159   | 140   | 122   |
| Fourth Quarter | —     | 187   | 151   | 138   | 105   |

Represents total cash collections less Insolvency cash collections from trustee-administered accounts. This metric (1) includes cash collections from Insolvency accounts administered by the Core call center as well as cash collections generated by our internal staff of legal collectors. This calculation does not include hours paid to our internal staff of legal collectors or to employees processing the required notifications to trustees on Insolvency accounts.

(2) Represents total cash collections (assigned and unassigned) divided by total hours paid (including holiday, vacation and sick time) to collectors (including those in training).

(3) Represents total cash collections less external legal cash collections. This metric includes internal legal collections and all insolvency collections and excludes any hours associated with either of those functions.

(4) Represents total cash collections less external legal cash collections and less Insolvency cash collections from trustee-administered accounts. This metric does not include any labor hours associated with the Insolvency or legal (internal or external) functions but does include internally-driven cash collections from the internal legal channel.

## Seasonality

Cash collections in the Americas tend to be higher in the first and second quarters of the year and lower in the third and fourth quarters of the year; by contrast, cash collections in Europe tend to be higher in the third and fourth quarters of the year. Customer payment patterns are affected by seasonal employment trends, income tax refunds and holiday spending habits geographically.

The following table displays our quarterly cash collections by geography and portfolio type, for the periods indicated.

## Cash Collections by Geography and Type

Amounts in thousands

|                        | 2016      |           | 2015      |           | 2014      |           |           |           |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                        | Q1        | Q4        | Q3        | Q2        | Q1        | Q4        | Q3        | Q2        |
| Americas-Core          | \$219,571 | \$195,835 | \$210,725 | \$218,838 | \$219,371 | \$185,921 | \$189,027 | \$190,229 |
| Americas-Insolvency    | 68,646    | 73,842    | 81,865    | 92,974    | 95,533    | 103,104   | 110,544   | 124,101   |
| Europe-Core            | 94,091    | 97,149    | 85,635    | 76,602    | 83,876    | 84,398    | 73,172    | 4,944     |
| Europe-Insolvency      | 2,025     | 2,545     | 2,528     | 1,210     | 967       | 5         | —         | —         |
| Total Cash Collections | \$384,333 | \$369,371 | \$380,753 | \$389,624 | \$399,747 | \$373,428 | \$372,743 | \$319,274 |

The following table provides additional details on the composition of our U.S. Core cash collections for the periods indicated.

## Domestic Portfolio Core Cash Collections by Source

Amounts in thousands

|                                      | 2016      |           | 2015      |           | 2014      |           |           |           |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                      | Q1        | Q4        | Q3        | Q2        | Q1        | Q4        | Q3        | Q2        |
| Call Center and Other Collections    | \$127,851 | \$108,979 | \$117,560 | \$121,148 | \$122,316 | \$95,784  | \$92,814  | \$90,128  |
| External Legal Collections           | 43,203    | 42,432    | 47,318    | 49,995    | 49,578    | 46,761    | 49,930    | 55,011    |
| Internal Legal Collections           | 39,080    | 38,998    | 41,338    | 42,482    | 42,464    | 38,157    | 41,400    | 45,090    |
| Total Domestic Core Cash Collections | \$210,134 | \$190,409 | \$206,216 | \$213,625 | \$214,358 | \$180,702 | \$184,144 | \$190,229 |

## Portfolio Purchasing

The following table displays our quarterly portfolio purchases for the periods indicated.

## Portfolio Purchases by Geography and Type

Amounts in thousands

|                            | 2016      |           | 2015      |           | 2014      |           |           |           |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                            | Q1        | Q4        | Q3        | Q2        | Q1        | Q4        | Q3        | Q2        |
| Americas-Core              | \$136,057 | \$120,554 | \$90,912  | \$98,317  | \$138,498 | \$119,714 | \$118,018 | \$91,904  |
| Americas-Insolvency        | 22,952    | 20,589    | 9,300     | 19,111    | 16,437    | 24,949    | 38,535    | 16,187    |
| Europe-Core <sup>(1)</sup> | 172,557   | 79,735    | 240,385   | 88,499    | 21,579    | 123,194   | 734,803   | 1,121     |
| Europe-Insolvency          | 5,212     | 4,976     | 3,959     | 2,450     | 8,510     | 11,625    | —         | —         |
| Total Portfolio Purchases  | \$336,778 | \$225,854 | \$344,556 | \$208,377 | \$185,024 | \$279,482 | \$891,356 | \$109,212 |

<sup>(1)</sup> Excludes the \$27.9 million and \$34.7 million investment in a securitized fund in Poland during the years ended December 31, 2015 and December 31, 2014, respectively.

## Portfolio Purchases by Stratifications (Domestic Only)

The following table categorizes our life-to-date domestic portfolio purchases as of March 31, 2016 into major asset type, delinquency category, and geographic location.

Domestic Portfolio Purchases by Stratification, Life-To-Date  
Amounts in thousands

| Stratifications            | Number         |      | Face Value   |      | Original              |      |
|----------------------------|----------------|------|--------------|------|-----------------------|------|
|                            | of<br>Accounts | %    | (1)          | %    | Purchase<br>Price (2) | %    |
| <b>Major Asset Type</b>    |                |      |              |      |                       |      |
| Major Credit Cards         | 22,034         | 53 % | \$58,294,535 | 66 % | \$2,637,462           | 59 % |
| Consumer Finance           | 6,719          | 16   | 8,754,346    | 10   | 164,033               | 4    |
| Private Label Credit Cards | 12,161         | 29   | 16,046,607   | 18   | 1,484,050             | 33   |
| Auto Deficiency            | 681            | 2    | 4,857,624    | 6    | 164,883               | 4    |
| Total                      | 41,595         | 100% | 87,953,112   | 100% | 4,450,428             | 100% |

## Delinquency Category

|            |        |      |            |      |           |      |
|------------|--------|------|------------|------|-----------|------|
| Fresh      | 4,586  | 11 % | 9,953,552  | 11 % | 1,208,209 | 27 % |
| Primary    | 5,436  | 13   | 10,289,387 | 12   | 664,897   | 15   |
| Secondary  | 9,759  | 23   | 12,823,280 | 15   | 684,451   | 15   |
| Tertiary   | 4,876  | 12   | 6,826,029  | 8    | 138,631   | 3    |
| Insolvency | 6,054  | 15   | 24,368,731 | 28   | 1,571,693 | 35   |
| Other      | 10,884 | 26   | 23,692,133 | 26   | 182,547   | 5    |
| Total      | 41,595 | 100% | 87,953,112 | 100% | 4,450,428 | 100% |

## Geographic Location

|                |        |      |              |      |             |      |
|----------------|--------|------|--------------|------|-------------|------|
| California     | 4,507  | 11 % | 11,533,643   | 13 % | 552,592     | 12 % |
| Texas          | 5,525  | 13   | 9,362,305    | 11   | 392,351     | 9    |
| Florida        | 3,345  | 8    | 8,213,469    | 9    | 391,360     | 9    |
| New York       | 2,387  | 6    | 5,091,428    | 6    | 231,052     | 5    |
| Ohio           | 1,883  | 5    | 3,311,065    | 4    | 181,812     | 4    |
| Pennsylvania   | 1,531  | 4    | 3,233,436    | 4    | 165,594     | 4    |
| Illinois       | 1,573  | 4    | 3,173,678    | 4    | 175,350     | 4    |
| North Carolina | 1,521  | 4    | 3,140,574    | 4    | 158,978     | 4    |
| Georgia        | 1,383  | 3    | 2,919,943    | 3    | 173,030     | 4    |
| Other (3)      | 17,940 | 42   | 37,973,571   | 42   | 2,028,309   | 45   |
| Total          | 41,595 | 100% | \$87,953,112 | 100% | \$4,450,428 | 100% |

(1) Represents the original face amount purchased from sellers and has not been reduced by any adjustments, including payments and buybacks.

(2) Represents the cash paid to sellers to acquire portfolios of nonperforming loans and has not been reduced by any adjustments, including payments and buybacks.

(3) Each state included in "Other" represents less than 2% of the face value of total life-to-date domestic purchases.

## Investments in Securitized Assets

We hold a majority interest in a closed-end Polish investment fund. The fund was formed in December 2014 to acquire portfolios of nonperforming loans in Poland. Our investment consists of a 100% interest in the Series B certificates and a 20% interest in the Series C certificates. Each certificate comes with one vote and is governed by a co-investment agreement. Series C certificates, which share equally in the residual profit of the fund, are accounted for as debt securities classified as available-for-sale and are stated at fair value. Income is recognized using the effective yield method.





The total initial investment by the Polish investment fund in finance receivables is \$62.6 million. The gross estimated remaining collections and gross total estimated collections, related to our proportional ownership of the fund are \$107.8 million and \$129.2 million, respectively at March 31, 2016.

#### Estimated Remaining Collections

The following chart shows our ERC by geographical region at March 31, 2016 (amounts in millions).

#### Liquidity and Capital Resources

Historically, our primary sources of cash have been cash flows from operations, bank borrowings, and convertible debt and equity offerings. Cash has been used for acquisitions of finance receivables portfolios, corporate acquisitions, repurchases of our common stock, repayments of bank borrowings, operating expenses, purchases of property and equipment, and working capital to support our growth.

As of March 31, 2016, cash and cash equivalents totaled \$79.4 million, compared to \$71.4 million at December 31, 2015. We had approximately \$1.9 billion in borrowings outstanding as of March 31, 2016, with \$435.7 million of availability under all of our credit facilities. See the "Borrowings" section below for more information.

Obligations during the twelve month period ending March 31, 2017 include forward flow portfolio purchase commitments, payment of the Note Payable, and payment of interest on our borrowings. We have in place forward flow and other commitments for the purchase of nonperforming loans in which the maximum amount that could be purchased is approximately \$477.3 million as of March 31, 2016. Additionally we may enter into new or renewed flow commitments and close on spot transactions in addition to the aforementioned flow agreements. We believe that funds generated from operations and from cash collections on finance receivables, together with existing cash and available borrowings under our credit facilities will be sufficient to finance our operations, planned capital expenditures, forward flow purchase commitments, and additional portfolio purchasing during the next twelve months. Business acquisitions, adverse outcomes in pending litigation or higher than normal levels of portfolio purchasing could require additional financing from other sources.

For domestic income tax purposes, we recognize revenue from the collections of finance receivables using the cost recovery method. The IRS has audited and issued a Notices of Deficiency for the tax years ended December 31, 2005 through 2012. It has asserted that tax revenue recognition using the cost recovery method does not clearly reflect taxable income. We have filed petitions in the U.S. Tax Court (the "Tax Court") challenging the deficiencies and believe we have sufficient support for the technical merits of our positions. On July 10, 2015 and July 21, 2015, the IRS filed Motions for Summary Judgment for tax years 2008 through 2012 and 2005 through 2007 respectively. On November 12, 2015, the Tax Court denied the IRS's Motions for Summary Judgment and set this matter for trial to begin on September 19, 2016. If we are unsuccessful in the Tax Court and any potential appeals, we may ultimately be required to pay the related deferred taxes, and possibly interest and penalties, which may require additional

financing from other sources. Deferred tax liabilities related to this matter were \$252.3 million at March 31, 2016. Our estimate of the potential federal and state interest is \$95.2 million as of March 31, 2016.

Cash generated from operations is dependent upon our ability to collect on our finance receivables. Many factors, including the economy and our ability to hire and retain qualified collectors and managers, are essential to our ability to generate cash flows. Fluctuations in these factors that cause a negative impact on our business could have a material impact on our future cash flows.

On October 22, 2015, our board of directors authorized a share repurchase program to purchase up to \$125 million of our outstanding shares of common stock on the open market. Repurchases depend on prevailing market conditions and other factors. The repurchase program may be suspended or discontinued at any time. During 2015, we purchased 2,072,721 shares of our common stock under the new share repurchase program at an average price of \$38.60 per share. At March 31, 2016, the maximum remaining purchase price for share repurchases under the new program is approximately \$45.0 million.

Our operating activities provided cash of \$12.1 million and \$64.0 million for the three months ended March 31, 2016 and 2015, respectively. In these periods, cash from operations was generated primarily from net income earned through cash collections and fee income received for the period. In addition, changes in other accounts related to our operating activities impacted our cash from operations; these changes included the establishment of a \$46.6 million escrow account related to the acquisition of DTP S.A. which is included in "Other assets" in our consolidated balance sheet as of March 31, 2016.

Our investing activities used cash of \$169.6 million and \$17.2 million during the three months ended March 31, 2016 and 2015, respectively. Cash used in investing activities is primarily driven by business acquisitions, acquisitions of nonperforming loans and purchases of property and equipment. Cash provided by investing activities is primarily driven by cash collections applied to principal on finance receivables. The majority of the change in cash used in investing activities was due to an increase in acquisitions of finance receivables, to \$321.6 million for the three months ended March 31, 2016, from \$183.8 million for the three months ended March 31, 2015. In addition, business acquisitions increased to \$25.0 million for the three months ended March 31, 2016, from \$0 for the three months ended March 31, 2015. This was partially offset by an increase in collections applied to principal on finance receivables to \$177.8 million for the three months ended March 31, 2016, from \$171.3 million for the three months ended March 31, 2015.

Our financing activities provided cash of \$146.8 million and used cash of \$53.0 million during the three months ended March 31, 2016 and 2015, respectively. Cash for financing activities is normally provided by draws on our line of credit. Cash used in financing activities is primarily driven by principal payments on our lines of credit, principal payments on long-term debt and repurchases of our common stock. The increase in cash provided by financing activities was primarily driven by an increase in net borrowings on our lines of credit from \$155.6 million for the three months ended March 31, 2016, compared to \$46.9 million during the three months ended March 31, 2015. This was partially offset by increases in cash used in financing activities for repurchases of our common stock and principal payments on long-term debt during the prior year period. During the three months ended March 31, 2015, we repurchased \$77.8 million of our common stock compared to \$0 for the three months ended March 31, 2016. In addition, during the three months ended March 31, 2015, we had payments on long-term debt of \$33.8 million compared to \$5.0 million for the three months ended March 31, 2016.

Cash paid for interest was \$16.9 million and \$14.4 million for the three months ended March 31, 2016 and 2015, respectively. Interest was paid on our revolving credit facilities, long-term debt, convertible debt and interest rate swap agreements. The increase was the result of a higher average balance on our borrowings. Cash paid for income taxes was \$6.2 million and \$7.1 million for the three months ended March 31, 2016 and 2015, respectively.

#### Borrowings

##### Domestic Revolving Credit and Term Loan

On December 19, 2012, we entered into a credit facility with Bank of America, N.A., as administrative agent, and a syndicate of lenders named therein (such agreement as later amended or modified, the "Credit Agreement"). On March 24, 2016, we entered into a Loan Modification Agreement and Seventh Amendment (the "Seventh Amendment") to the Credit Agreement which (a) extended the maturity date of loans and commitments under the Credit Agreement

in an aggregate principal amount of approximately \$745.9 million, including a \$23.0 million net increase in the commitments of the extending lenders, to the earlier of December 21, 2020 or 91 days prior to the maturity of the our 3.00% Convertible Senior Notes due August 1, 2020 (the "Notes"), (b) modified the accordion feature under the Credit Agreement to allow us to request from new and existing lenders up to an additional \$125.0 million in loans and commitments under the Credit Agreement, (c) increased the credit given in the domestic borrowing base for estimated remaining collections of eligible asset pools, (d) increased the baskets available for permitted investments, equity repurchases and redemptions of our convertible notes, and (e) increased our maximum total leverage ratio to 2.25 to 1.0.

The total credit facility under the Credit Agreement includes an aggregate principal amount of \$963.0 million (subject to compliance with a borrowing base and applicable debt covenants), which consists of (i) a fully funded \$165.0 million term loan, (ii) a \$748 million domestic revolving credit facility, and (iii) a \$50 million Canadian revolving credit facility. Our revolving credit facility includes an optional increase in commitments for a \$20 million swingline loan sublimit and a \$125.0 million accordion feature, and also provides for up to \$20 million of letters of credit that would reduce amounts available for borrowing. The facility matures on the earlier of December 21, 2020 or 91 days prior to the maturity of the Notes. As of March 31, 2016, after taking into account borrowing base restrictions, we could have borrowed up to \$219.0 million on the domestic revolving credit facility and up to \$1.9 million on the Canadian revolving credit facility. The Credit Agreement is secured by a first priority lien on substantially all of our assets.

Borrowings outstanding on this credit facility at March 31, 2016 consisted of \$165.0 million outstanding on the term loan with an annual interest rate as of March 31, 2016 of 2.93% and \$544.0 million outstanding on the revolving facilities with a weighted average interest rate of 2.98%. At December 31, 2015, the Company's borrowings on this credit facility consisted of \$170.0 million outstanding on the term loan with an annual interest rate as of December 31, 2015 of 2.92% and \$541.8 million outstanding on the revolving facility with a weighted average interest rate of 2.89%.

#### Note Payable

In conjunction with the closing of the Aktiv business acquisition on July 16, 2014, we entered into a \$169.9 million promissory note with an affiliate of the seller in the Aktiv transaction. On December 30, 2015, we exercised our option to extend the maturity date of the promissory note to July 19, 2016. The promissory note bears interest at the three-month London Interbank Offered Rate ("LIBOR") plus 3.75%. The quarterly interest due can be paid or added into the promissory note balance at our option. At March 31, 2016, the balance due on the promissory note was \$169.9 million with an annual interest rate of 4.38%.

#### Multicurrency Revolving Credit Facility

On October 23, 2014, we entered into a credit agreement with DNB Bank ASA for a Multicurrency Revolving Credit Facility (such agreement as later amended or modified, "the Multicurrency Revolving Credit Agreement"). On February 19, 2016, we entered into a Second Amendment to the Multicurrency Revolving Credit Agreement which provided for, (i) the extension of the final repayment date to February 19, 2021, (ii) an increase to the total commitments from \$750 million to \$900 million, subject to certain requirements, (iii) an ERC ratio (as defined in Multicurrency Revolving Credit Agreement) ranging from 32.2% to 38.7% depending on the mix of portfolios owned, subject to the payment of additional associated fees.

Under the terms of the Multicurrency Revolving Credit Agreement, the credit facility includes an aggregate amount of \$900.0 million, of which \$168.8 million is available to be drawn (subject to the borrowing base), accrues interest at the IBOR plus 2.50-3.30% (as determined by the ERC Ratio as defined in the Multicurrency Revolving Credit Agreement), bears an unused line fee of 35% of the margin, currently 1.05% per annum, payable monthly in arrears, and matures on February 19, 2021. The Multicurrency Revolving Credit Agreement also includes an Overdraft Facility aggregate amount of \$40.0 million, of which \$12.9 million is available to be drawn (subject to the borrowing base), accrues interest (per currency) at the daily rates as published by the facility agent, bears a facility line fee of 0.125% per annum, payable quarterly in arrears, and also matures February 19, 2021.

The Multicurrency Revolving Credit Agreement is secured by i) the shares of most of the subsidiaries of Aktiv, and ii) all intercompany loans to Aktiv's subsidiaries.

At March 31, 2016, the balance on the Multicurrency Revolving Credit Agreement was \$758.3 million, with a weighted average annual interest rate of 3.86%. At December 31, 2015, the balance on the Multicurrency Revolving Credit Agreement was \$576.4 million, with a weighted average annual interest rate of 3.64%.

#### Convertible Senior Notes

On August 13, 2013, we completed the private offering of \$287.5 million in aggregate principal amount of the Notes. The Notes were issued pursuant to an Indenture, dated August 13, 2013 (the "Indenture") between us and Wells Fargo Bank, National Association, as trustee. The Indenture contains customary terms and covenants, including certain events of default after which the Notes may be due and payable immediately. The Notes are our senior unsecured

obligations and mature on August 1, 2020. Interest on the Notes is payable semi-annually, in arrears, on February 1 and August 1 of each year, beginning as of February 1, 2014. Prior to February 1, 2020, the Notes will be convertible only upon the occurrence of specified events. On or after February 1, 2020, the Notes will be convertible at any time. Upon conversion, the Notes may be settled, at our option, in cash, shares of our common stock, or any combination thereof. Holders of the Notes have the right to require us to repurchase all or some of their Notes at 100% of their principal amount, plus any accrued and unpaid interest, upon the occurrence of a fundamental change (as defined in the Indenture). In addition, upon the occurrence of a make-whole fundamental change (as defined in the Indenture), we may, under certain circumstances, be required to increase the conversion rate for the Notes converted in connection with such a

make-whole fundamental change. The conversion rate for the Notes is initially 15.2172 shares per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$65.72 per share of our common stock, and is subject to adjustment in certain circumstances pursuant to the Indenture. We do not have the right to redeem the Notes prior to maturity. As of March 31, 2016, none of the conditions allowing holders of the Notes to convert their Notes had occurred.

We believe we were in compliance with all covenants under our financing arrangements as of March 31, 2016 and December 31, 2015.

#### Undistributed Earnings of Foreign Subsidiaries

We intend to use remaining accumulated and future undistributed earnings of foreign subsidiaries to expand operations outside the United States; therefore, such undistributed earnings of foreign subsidiaries are considered to be indefinitely reinvested outside the United States. Accordingly, no provision for federal and state income tax has been provided thereon. If management's intentions change and eligible undistributed earnings of foreign subsidiaries are repatriated, we would be subject to additional U.S. income taxes, net of a possible adjustment for foreign tax credits, and withholding taxes payable to various foreign jurisdictions, where applicable. This could result in a higher effective tax rate in the period in which such a decision is made to repatriate accumulated or future undistributed foreign earnings. The amount of cash on hand related to foreign operations with permanently reinvested earnings was \$56.9 million and \$51.5 million as of March 31, 2016 and December 31, 2015, respectively. Refer to the Notes of the Consolidated Financial Statements for further information related to our income taxes and undistributed foreign earnings.

#### Stockholders' Equity Attributable to PRA Group, Inc.

Stockholders' equity attributable to PRA Group, Inc. was \$864.9 million at March 31, 2016 and \$800.5 million at December 31, 2015. The increase was primarily attributable to \$32.0 million in net income during the three months ended March 31, 2016 and a \$32.7 million increase in accumulated net foreign currency translation gains.

#### Contractual Obligations

Our contractual obligations as of March 31, 2016 were as follows (amounts in thousands):

| Contractual Obligations             | Total       | Payments due by period |             |             |                   |
|-------------------------------------|-------------|------------------------|-------------|-------------|-------------------|
|                                     |             | Less than 1 year       | 1 - 3 years | 3 - 5 years | More than 5 years |
| Operating leases                    | \$59,197    | \$10,783               | \$20,016    | \$9,346     | \$19,052          |
| Line of credit <sup>(1)</sup>       | 1,609,438   | 47,700                 | 244,914     | 1,316,824   | —                 |
| Long-term debt <sup>(2)</sup>       | 720,766     | 206,514                | 50,691      | 463,561     | —                 |
| Purchase commitments <sup>(3)</sup> | 479,008     | 437,216                | 41,792      | —           | —                 |
| Employment agreements               | 16,499      | 8,828                  | 7,671       | —           | —                 |
| Total                               | \$2,884,908 | \$711,041              | \$365,084   | \$1,789,731 | \$19,052          |

This amount includes estimated interest and unused line fees due on our domestic and multicurrency lines of credit (1) and assumes that the balances on the lines of credit remain constant from the March 31, 2016 balances of \$544.0 million and \$758.3 million, respectively.

(2) This amount includes scheduled interest and principal payments on our term loan, our note payable and our convertible debt.

(3) This amount includes the maximum remaining amount to be purchased under forward flow and other contracts for the purchase of defaulted finance receivables in the amount of approximately \$477.3 million.

#### Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements as defined by Item 303(a)(4) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

#### Recent Accounting Pronouncements

For a summary of recent accounting pronouncements and the anticipated effects on our consolidated financial statements see Note 12 "Recent Accounting Pronouncements" to the Consolidated Financial Statements as included in this Quarterly Report.



### Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Our significant accounting policies are discussed in Note 1 of the Notes to the Consolidated Financial Statements of our 2015 Annual Report on Form 10-K filed on February 26, 2016. Our significant accounting policies are fundamental to understanding our results of operations and financial condition because they require that we use estimates, assumptions and judgments that affect the reported amounts of revenues, expenses, assets, and liabilities. Three of these policies are considered to be critical because they are important to the portrayal of our financial condition and results, and because they require management to make judgments and estimates that are difficult, subjective, and complex regarding matters that are inherently uncertain.

We base our estimates on historical experience, current trends and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. If these estimates differ significantly from actual results, the impact on our consolidated financial statements may be material.

Management has reviewed these critical accounting policies with the Company's Audit Committee.

#### Revenue Recognition - Finance Receivables

We account for our investment in finance receivables under the guidance of ASC 310-30. Revenue recognition for finance receivables accounted for under ASC 310-30 involves the use of estimates and the exercise of judgment on the part of management. These estimates include projections of the quantity and timing of future cash flows and economic lives of our pools of finance receivables. Significant changes in such estimates could result in increased or decreased revenue or the incurrence of allowance charges.

We implement the accounting for income recognized on finance receivables under ASC 310-30 as follows:

We create each accounting pool using our projections of estimated cash flows and expected economic life. We then compute the effective yield that fully amortizes the pool over a reasonable expectation of its economic life based on the current projections of estimated cash flows. As actual cash flow results are recorded, we balance those results to the data contained in our proprietary models to ensure accuracy, then review each pool watching for trends, actual performance versus projections and curve shape (a graphical depiction of the timing of cash flows), regularly re-forecasting future cash flows utilizing our statistical models. The review process is primarily performed by our finance staff; however, our operational and statistical staff are also involved, providing updated statistical input and cash projections to the finance staff. Significant judgment is used in evaluating whether overperformance is due to an increase in projected cash flows or an acceleration of cash flows (a timing difference). If determined to be a significant increase in expected cash flows, we will recognize the effect of the increase prospectively first through an adjustment to any previously recognized valuation allowance for that pool and then through an increase in yield. If the overperformance is determined to be due to a timing difference, we will: a) adjust estimated future cash flows downward which effectively extends the amortization period to fall within a reasonable expectation of the pool's economic life, b) adjust future cash flow projections as noted previously coupled with an increase in yield in order for the amortization period to fall within a reasonable expectation of the pool's economic life, or c) take no action at all if the amortization period falls within a reasonable expectation of the pool's expected economic life. To the extent there is underperformance, we will record an allowance if the underperformance is significant and will also consider revising estimated future cash flows based on current period information, or take no action if the pool's amortization period is reasonable and falls within the currently projected economic life.

#### Valuation of Acquired Intangibles and Goodwill

In accordance with FASB ASC Topic 350, "Intangibles-Goodwill and Other" ("ASC 350"), we amortize intangible assets over their estimated useful lives. Goodwill, pursuant to ASC 350, is not amortized but rather is evaluated for impairment annually and more frequently if indicators of potential impairment exist. Goodwill is reviewed for potential impairment at the reporting unit level. A reporting unit is an operating segment or one level below. Goodwill is evaluated for impairment either under the qualitative assessment option or the two-step test approach depending on facts and circumstances of a reporting unit, including the excess of fair value over carrying amount in the last valuation or changes in business environment. If the Company qualitatively determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, the two-step impairment test is



unnecessary. Otherwise, goodwill is evaluated for impairment using the two-step test, where the carrying amount of a reporting unit is compared to its fair value in Step 1; if the fair value exceeds the carrying amount, Step 2 is unnecessary. If the carrying amount exceeds the reporting unit's fair value, this could indicate potential impairment and Step 2 of the goodwill evaluation process is required to determine if goodwill is impaired and

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to measure the amount of impairment loss to recognize, if any. When Step 2 is necessary, the fair value of individual assets and liabilities is determined using valuations (which in some cases may be based in part on third-party valuation reports), or other observable sources of fair value, as appropriate. If the carrying amount of goodwill exceeds its implied fair value, the excess is recognized as an impairment loss.

We determine the fair value of a reporting unit by applying the approaches prescribed under the fair value measurement accounting framework, the income approach, the market approach, and the transaction approach. Depending on the availability of public data and suitable comparables, we may or may not use the market approach and the transaction approach or we may emphasize the results from the approaches differently. Under the income approach, we estimate the fair value of a reporting unit based on the present value of estimated future cash flows and a residual terminal value. Cash flow projections are based on management's estimates of revenue growth rates, operating margins, necessary working capital, and capital expenditure requirements, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the reporting unit's ability to execute on the projected cash flows. Under the market approach, we estimate fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with operating and investment characteristics similar to the reporting unit. Under the transaction approach, we estimate fair value based on market multiples from comparable transactions where the acquisition target has similar operating and investment characteristics to the reporting unit. The transaction approach is less likely to be used given the lack of publicly available detailed data on transactions for comparable companies.

#### Income Taxes

We are subject to the income tax laws of the various jurisdictions in which we operate, including U.S. federal, state, local, and international jurisdictions. These tax laws are complex and are subject to different interpretations by the taxpayer and the relevant government taxing authorities. When determining our domestic and foreign income tax expense, we must make judgments about the application of these inherently complex laws.

We follow the guidance of FASB ASC Topic 740 "Income Taxes" ("ASC 740") as it relates to the provision for income taxes and uncertainty in income taxes. Accordingly, we record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with ASC 740, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, and for operating losses and tax credit carry-forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The evaluation of a tax position in accordance with the guidance is a two-step process. The first step is recognition: the enterprise determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. We record interest and penalties related to unrecognized tax benefits as a component of income tax expense.

In the event that all or part of the deferred tax assets are determined not to be realizable in the future, a valuation allowance would be established and charged to earnings in the period such determination is made. If we subsequently realize deferred tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in a positive adjustment to earnings in the period such determination is made. The establishment or release of a valuation allowance does not have an impact on cash, nor does such an allowance

preclude the use of loss carry-forwards or other deferred tax assets in future periods. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations and financial position.

For domestic income tax purposes, we recognize revenue using the cost recovery method with respect to our debt purchasing business. We believe cost recovery to be an acceptable method for companies in the bad debt purchasing industry. Under the cost recovery method, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before any income is recognized.

Our international expansion requires the use of material estimates and interpretations of complex tax laws in multiple jurisdictions, and increases the complexity of our accounting for income taxes.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Interest Rate Risk

We are subject to interest rate risk from outstanding borrowings on our variable rate credit facilities. As such, our consolidated financial results are subject to fluctuations due to changes in the market rate of interest. We assess this interest rate risk by estimating the increase or decrease in interest expense that would occur due to a change in short-term interest rates. The borrowings on our variable rate credit facilities were approximately \$1.6 billion as of March 31, 2016. Assuming a 25 basis point decrease in interest rates, for example, interest expense over the following twelve months would decrease by an estimated \$3.4 million. Assuming a 50 basis point increase in interest rates, interest expense over the following twelve months would increase by an estimated \$6.7 million.

To reduce the exposure to changes in the market rate of interest, we have entered into interest rate swap agreements for a portion of our floating rate financing arrangements. Terms of the interest rate swap agreements require us to receive a variable interest rate and pay a fixed interest rate. For the majority of our floating rate financing arrangements, we have no interest rate swap agreements in place. The sensitivity calculations above consider the impact of our interest rate swap agreements.

The fair value of our interest rate swap agreements was a net liability of \$3.3 million at March 31, 2016. A hypothetical 25 basis point decrease in interest rates would cause a decrease in the estimated fair value of our interest rate swap agreements and the resulting estimated fair value would be a liability of \$7.7 million at March 31, 2016. Conversely, a hypothetical 50 basis point increase in interest rates would cause an increase in the estimated fair value of our interest rate swap agreements and the resulting estimated fair value would be an asset of \$1.8 million at March 31, 2016.

#### Currency Exchange Risk

We operate internationally and enter into transactions denominated in foreign currencies, including the euro, the Great British pound, the Canadian dollar, Norwegian kroner, Swiss franc, Danish kroner, Swedish kroner, Polish zloty, and Brazilian real. In the three months ended March 31, 2016, we generated \$54.4 million of revenues from operations outside the United States and used nine functional currencies. Weakness in one particular currency might be offset by strength in other currencies over time.

As a result of our international operations, fluctuations in foreign currencies could cause us to incur foreign currency exchange gains and losses, and could adversely affect our comprehensive income and stockholders' equity.

Additionally, our reported financial results could change from period to period due solely to fluctuations between currencies.

Foreign currency exchange gains and losses are primarily the result of the re-measurement of account balances in certain currencies into an entity's functional currency. Foreign currency gains and losses are included as a component of other income and (expense) in our consolidated income statements.

When an entity's functional currency is different than the reporting currency of its parent, foreign currency translation adjustments may occur. Foreign currency translation adjustments are included as a component of other comprehensive (loss)/income in our consolidated statements of comprehensive income and as a component of equity in our consolidated balance sheets.

We have taken measures to mitigate the impact of foreign currency fluctuations. We have restructured our European operations so that portfolio ownership and collections generally occur within the same entity. Our European credit facility is a multi-currency facility, allowing us to borrow in the same currency as our entity's functional currency. We strive to maintain the distribution of our European borrowings within defined thresholds based on the currency composition of our finance receivables portfolios. When those thresholds are exceeded, we engage in foreign exchange spot transactions to mitigate our risk.

### Item 4. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures.** We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the

SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or

that the degree of compliance with the policies or procedures may deteriorate. We conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer have concluded that, as of March 31, 2016, our disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting.** There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

For information regarding legal proceedings as of March 31, 2016, refer to Note 10 "Commitments and Contingencies" of our Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our 2015 Annual Report on Form 10-K filed with the SEC on February 26, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- 3.1 Fourth Amended and Restated Certificate of Incorporation of PRA Group, Inc. (Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed on October 29, 2014).
- 3.2 Amended and Restated By-Laws of PRA Group, Inc. (Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed on May 22, 2015).
- 4.1 Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 of Amendment No. 1 to the Registration Statement on Form S-1 filed on October 15, 2002).
- 4.2 Form of Warrant (Incorporated by reference to Exhibit 4.2 of Amendment No. 2 to the Registration Statement on Form S-1 filed on October 30, 2002).
- 4.3 Indenture dated August 13, 2013 between Portfolio Recovery Associates, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on August 14, 2013).
- 10.1 Loan Modification Agreement and Seventh Amendment to the Credit Agreement dated as of December 19, 2012. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on March 30, 2016).
- 10.2 Second Amendment to Multicurrency Revolving Credit Agreement dated as of October 23, 2014. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on February 25, 2016).
- 31.1 Section 302 Certifications of Chief Executive Officer.
- 31.2 Section 302 Certifications of Chief Financial and Administrative Officer.
- 32.1 Section 906 Certifications of Chief Executive Officer and Chief Financial and Administrative Officer.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkable Document
- 101.LAB XBRL Taxonomy Extension Label Linkable Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkable Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRA Group, Inc.  
(Registrant)

May 10, 2016 By: /s/ Steven D. Fredrickson  
Steven D. Fredrickson  
Chairman of the Board of Directors, and Chief Executive Officer  
(Principal Executive Officer)

May 10, 2016 By: /s/ Kevin P. Stevenson  
Kevin P. Stevenson  
President, Chief Administrative Officer, and Interim Chief Financial Officer  
(Principal Financial and Accounting Officer)