PRA GROUP INC
Form 10-Q
August 09, 2016
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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 June 30, 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

PRA Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware		75-3078675
(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)
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 þ 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 þ 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 þ 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 þ
The number of shares of the registrant's common stock outstanding as of August 5, 2016 was 46,343,827.

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Part I. Financial Information
Item 1. Financial Statements

PRA Group, Inc.
Consolidated Balance Sheets
June 30, 2016 and December 31, 2015
(unaudited)
(Amounts in thousands)

	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$117,071	$71,372
Investments	66,560	73,799
Finance receivables, net	2,399,949	2,202,113
Other receivables, net	30,079	30,771
Income taxes receivable	13,871	1,717
Net deferred tax asset	15,713	13,068
Property and equipment, net	46,852	45,394
Goodwill	544,337	495,156
Intangible assets, net	32,655	23,788
Other assets	38,509	33,389
Total assets	$3,305,596	$2,990,567
Liabilities and Equity		
Liabilities:		
Accounts payable	$3,719	$4,190
Accrued expenses	79,202	95,380
Income taxes payable	20,888	21,236
Net deferred tax liability	276,360	261,498
Interest-bearing deposits	58,041	46,991
Borrowings	1,912,283	1,717,129
Other liabilities	19,922	4,396
Total liabilities	2,370,415	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, 46,341 at June 30, 2016; 100,000 authorized shares, 46,173 issued and outstanding shares at December 31, 2015	463	462
Additional paid-in capital	66,838	64,622
Retained earnings	1,032,709	964,270
Accumulated other comprehensive loss	(213,933)	(228,861)
Total stockholders' equity - PRA Group, Inc.	886,077	800,493
Noncontrolling interest	49,104	39,254
Total equity	935,181	839,747
Total liabilities and equity	$3,305,596	$2,990,567

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

PRA Group, Inc.
Consolidated Income Statements
For the three and six months ended June 30, 2016 and 2015
(unaudited)
(Amounts in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Income recognized on finance receivables, net	$204,008	$220,064	$410,515	$448,467
Fee income	22,347	13,878	38,613	26,931
Other revenue	2,101	3,255	4,210	7,005
Total revenues	228,456	237,197	453,338	482,403
Operating expenses:				
Compensation and employee services	64,793	68,320	131,558	133,591
Legal collection fees	15,098	14,114	28,048	27,805
Legal collection costs	18,799	19,556	35,981	40,410
Agency fees	11,309	7,784	22,193	16,045
Outside fees and services	15,876	12,466	31,684	25,263
Communication	8,423	8,073	18,305	18,491
Rent and occupancy	4,038	3,479	7,834	7,039
Depreciation and amortization	6,085	4,916	12,155	9,526
Other operating expenses	11,279	9,610	21,930	19,188
Total operating expenses	155,700	148,318	309,688	297,358
Income from operations	72,756	88,879	143,650	185,045
Other income and (expense):				
Interest expense	(20,569)	(13,452)	(40,528)	(28,228)
Foreign exchange gain	2,029	3,584	179	10,373
Income before income taxes	54,216	79,011	103,301	167,190
Provision for income taxes	17,348	27,586	33,580	57,630
Net income	36,868	51,425	$69,721	$109,560
Adjustment for net income attributable to noncontrolling interest	412	—	1,282	—
Net income attributable to PRA Group, Inc.	$36,456	$51,425	$68,439	$109,560
Net income per common share attributable to PRA Group, Inc.:				
Basic	$0.79	$1.06	$1.48	$2.26
Diluted	$0.79	$1.06	$1.48	$2.25
Weighted average number of shares outstanding:				
Basic	46,333	48,325	46,288	48,525
Diluted	46,402	48,529	46,387	48,790

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

PRA Group, Inc.
Consolidated Statements of Comprehensive Income/(Loss)
For the three and six months ended June 30, 2016 and 2015
(unaudited)
(Amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$36,868	$51,425	$69,721	$109,560
Other comprehensive (loss)/income:				
Change in foreign currency translation	(12,980)	25,112	23,714	(37,587)
Total other comprehensive income	23,888	76,537	93,435	71,973
Comprehensive income attributable to noncontrolling interest:				
Net income attributable to noncontrolling interest	412	—	1,282	—
Change in foreign currency translation	4,818	—	8,786	—
Comprehensive income attributable to noncontrolling interest	5,230	—	10,068	—
Comprehensive income attributable to PRA Group, Inc.	$18,658	$76,537	$83,367	$71,973

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

PRA Group, Inc.
Consolidated Statement of Changes in Equity
For the six months ended June 30, 2016
(unaudited)
(Amounts in thousands)

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity
Balance at December 31, 2015	46,173	$ 462	$ 64,622	$ 964,270	$ (228,861)	$ 39,254	$ 839,747
Components of comprehensive income:							
Net income	—	—	—	68,439	—	1,282	69,721
Foreign currency translation adjustment	—	—	—	—	14,928	8,786	23,714
Distributions paid to noncontrolling interest	—	—	—	—	—	(218)	(218)
Vesting of nonvested shares	168	1	(1)	—	—	—	—
Amortization of share-based compensation	—	—	6,136	—	—	—	6,136
Tax deficiency from share-based compensation	—	—	(1,477)	—	—	—	(1,477)
Employee stock relinquished for payment of taxes	—	—	(2,442)	—	—	—	(2,442)
Balance at June 30, 2016	46,341	$ 463	$ 66,838	$ 1,032,709	$ (213,933)	$ 49,104	$ 935,181

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

PRA Group, Inc.
Consolidated Statements of Cash Flows
For the six months ended June 30, 2016 and 2015
(unaudited)
(Amounts in thousands)

	Six Months Ended June 30, 2016		2015	
Cash flows from operating activities:				
Net income	$ 69,721		$ 109,560	
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of share-based compensation	6,136		7,665	
Depreciation and amortization	12,155		9,526	
Amortization of debt discount and issuance costs	5,436		2,104	
Deferred tax expense	8,450		7,272	
Net foreign currency transaction (gain)	(481	)	(10,373	)
Changes in operating assets and liabilities:				
Other assets	1,908		(407	)
Other receivables, net	1,139		(5,484	)
Accounts payable	(766	)	(515	)
Income taxes payable, net	(14,485	)	(2,842	)
Accrued expenses	(22,352	)	(20,424	)
Other liabilities	15,499		(28	)
Net cash provided by operating activities	82,360		96,054	
Cash flows from investing activities:				
Purchases of property and equipment	(9,450	)	(5,523	)
Acquisition of finance receivables, net of buybacks	(538,122	)	(387,858	)
Collections applied to principal on finance receivables	361,020		340,904	
Business acquisitions, net of cash acquired	(65,176	)	—	
Purchase of investments	—		(43,007	)
Proceeds from sales and maturities of investments	8,837		43,648	
Net cash used in investing activities	(242,891	)	(51,836	)

Cash flows from financing activities:				
Tax (deficiency)/benefit from share-based compensation	(1,477	)	4,140	
Proceeds from lines of credit	645,362		326,039	
Principal payments on lines of credit	(465,426	)	(234,400	)
Repurchases of common stock	—		(77,802	)
Distributions paid to noncontrolling interest	(218	)	—	
Principal payments on long-term debt	(10,000	)	(37,500	)
Payments of debt issuance costs	(8,552	)	(5,000	)
Net increase in interest-bearing deposits	10,220		7,176	
Net cash provided by/(used in) financing activities	169,909		(17,347	)
Effect of exchange rate on cash	36,321		(9,721	)
Net increase in cash and cash equivalents	45,699		17,150	
Cash and cash equivalents, beginning of period	71,372		39,661	
Cash and cash equivalents, end of period	$ 117,071		$ 56,811	
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 30,469		$ 22,866	
Cash paid for income taxes	39,572		49,557	

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 and six months ended June 30, 2016 and 2015 and long-lived assets held at June 30, 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 Three Months Ended June 30, 2016		As Of And For The Three Months Ended June 30, 2015	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	$165,639	$ 35,542	$184,191	$ 35,931
Outside the United States	62,817	11,310	53,006	10,284
Total	$228,456	$ 46,852	$237,197	$ 46,215

	As Of And For The Six Months Ended June 30, 2016		As Of And For The Six Months Ended June 30, 2015	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	$336,146	$ 35,542	$368,862	$ 35,931
Outside the United States	117,192	11,310	113,541	10,284
Total	$453,338	$ 46,852	$482,403	$ 46,215

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 June 30, 2016, its consolidated income statements and statements of comprehensive income/(loss) for the three and six months ended June 30, 2016 and 2015, its consolidated statement of changes in stockholders' equity for the six months ended June 30, 2016, and its consolidated statements of cash flows for the six months ended June 30, 2016 and 2015. The consolidated income statements of the Company for the three and six months ended June 30, 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.

PRA Group, Inc.
Notes to Consolidated Financial Statements

2. Finance Receivables, net:

Changes in finance receivables, net for the three and six months ended June 30, 2016 and 2015 were as follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	$2,377,077	$1,954,772	$2,202,113	$2,001,790
Acquisitions of finance receivables [(1)]	245,477	204,030	581,856	387,858
Foreign currency translation adjustment	(39,411)	23,310	(23,000)	(36,192)
Cash collections	(387,202)	(389,624)	(771,535)	(789,371)
Income recognized on finance receivables, net	204,008	220,064	410,515	448,467
Cash collections applied to principal and net allowance charges	(183,194)	(169,560)	(361,020)	(340,904)
Balance at end of period	$2,399,949	$2,012,552	$2,399,949	$2,012,552

(1) Acquisitions of finance receivables are net of buybacks and include certain capitalized acquisition related costs.

At the time of acquisition, the life of 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 June 30, 2016 are estimated to be as follows for the twelve months in the periods ending June 30, (amounts in thousands):

2017	$651,557
2018	524,675
2019	402,713
2020	320,795
2021	216,193
2022	121,244
2023	59,031
2024	49,815
2025	29,281
2026	15,436
Thereafter	9,209
Total	$2,399,949

At June 30, 2016, the Company had aggregate net finance receivables balances in pools accounted for under the cost recovery method of $113.3 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 and six months ended June 30, 2016 and 2015 were as follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	$2,879,750	$2,504,156	$2,727,204	$2,513,185
Income recognized on finance receivables, net	(204,008)	(220,064)	(410,515)	(448,467)
Additions	199,691	173,888	459,940	346,270
Reclassifications from nonaccretable difference	91,003	49,729	89,968	168,981
Foreign currency translation adjustment	(35,010)	30,938	64,829	(41,322)
Balance at end of period	$2,931,426	$2,538,647	$2,931,426	$2,538,647

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 and six months ended June 30, 2016 and 2015 (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Beginning balance	$124,588	$87,796	$114,861	$86,166
Allowance charges	13,422	4,910	23,440	7,595
Reversal of previously recorded allowance charges	(502)	(25)	(622)	(1,080)
Net allowance charges	12,920	4,885	22,818	6,515
Foreign currency translation adjustment	(756)	—	$(927)	$—
Ending balance	$136,752	$92,681	$136,752	$92,681

3. Investments:

Investments consist of the following at June 30, 2016 and December 31, 2015 (amounts in thousands):

	June 30, 2016	December 31, 2015
Available-for-sale		
Securitized assets	$4,258	$ 4,649
Government bonds and fixed income funds	652	3,405
Held-to-maturity		
Securitized assets	46,004	50,247
Other investments		
Private equity funds	15,646	15,498
Total investments	$66,560	$ 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 and six months ended June 30, 2016 from this investment.

Government bonds and fixed income funds: The Company's investments in government bonds and fixed income are classified as available-for-sale and are stated at fair value. Fair value is estimated using the net asset value of the investment. Unrealized gains and losses are included in comprehensive income and reported in equity.

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

PRA Group, Inc.
Notes to Consolidated Financial Statements

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 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 are recorded in the Other Revenue line item in the income statement. During the three and six months ended June 30, 2016, revenues recognized on these investments were $1.6 million and $3.2 million, respectively. During the three and six months ended June 30, 2015, revenues recognized on these investments were $1.9 million and $3.1 million respectively.
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 $0.3 million and $0.6 million during the three and six months ended June 30, 2016. Distributions received from investments carried at cost were $3.1 million and $5.1 million during the three and six months ended June 30, 2015.
The amortized cost and estimated fair value of available-for sale and held-to-maturity investments at June 30, 2016 and December 31, 2015 were as follows (amounts in thousands):

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
Available-for-sale				
Securitized assets	$5,223	$ —	$ 965	$ 4,258
Government bonds and fixed income funds	652	—	—	652
Held-to-maturity				
Securitized assets	46,004	4,817	—	50,821

	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

PRA Group, Inc.
Notes to Consolidated Financial Statements

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

	June 30, 2016	December 31, 2015
Domestic and Canadian revolving credit	$593,703	$541,799
Term loan	160,000	170,000
Note payable	169,938	169,938
Multicurrency revolving credit	716,324	576,433
Polish revolving credit	4,868	—
Convertible senior notes	287,500	287,500
Bonds payable	6,476	—
Less: Debt discount and issuance costs	(26,526)	(28,541)
Total	$1,912,283	$1,717,129

The following principal payments are due on the Company's borrowings as of June 30, 2016 for the twelve month periods ending June 30, (amounts in thousands):

2017	$211,282
2018	179,614
2019	10,000
2020	10,000
2021	1,527,913
Total	$1,938,809

The Company believes it was in compliance with the covenants of its material financing arrangements as of June 30, 2016 and December 31, 2015.

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 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 $958.0 million (subject to compliance with a borrowing base and applicable debt covenants), which consists of (i) a fully-funded $160.0 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 June 30, 2016, the unused portion of the domestic and Canadian revolving credit facilities was $204.3 million. Considering borrowing base restrictions, as of June 30, 2016, the amount available to be drawn was $178.9 million. On July 18, 2016, the Company paid the outstanding principal balance plus accrued interest due on the note payable of $169.9 million incurred in connection with the acquisition of Aktiv Kapital AS ("Aktiv") which was funded mainly by a draw on its domestic revolving credit facility.

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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 outstanding borrowings under this credit facility at June 30, 2016 consisted of $160.0 million on the term loan with an annual interest rate of 2.96% and $593.7 million on the revolving credit facilities with a weighted average interest rate of 3.01%. At December 31, 2015, the Company's outstanding borrowings on this credit facility consisted of $170.0 million on the term loan with an annual interest rate of 2.92% and $541.8 million on the revolving credit facilities 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, 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 June 30, 2016, the balance due on the note was $169.9 million with an annual interest rate of 4.40%. On July 18, 2016, the Company paid the outstanding principal balance due of $169.9 million plus accrued interest.

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 $900 million, subject to certain requirements, and (iii) an ERC ratio (as defined in the 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 (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 1.16% 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 (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. As of June 30, 2016, the unused portion of the Multicurrency Revolving Credit Agreement (including the Overdraft Facility) was $223.7 million. Considering borrowing base restrictions and other covenants, as of June 30, 2016, the amount available to be drawn under the Multicurrency Revolving Credit Agreement (including the Overdraft Facility) was

$19.4 million.

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;

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- 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 (except for the quarters ended March 31 and June 30, 2016, for which the GIBD Ratio could not exceed 3.75 to 1.0 and 3.25 to 1.0, respectively);
- 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 June 30, 2016, the outstanding balance on the Multicurrency Revolving Credit Agreement was $716.3 million, with a weighted average annual interest rate of 3.65%. At December 31, 2015, the outstanding 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 Company's 3.00% Convertible Senior Notes (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 June 30, 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.

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):

	June 30, 2016	December 31, 2015
Liability component - principal amount	$287,500	$287,500
Unamortized debt discount	(20,193)	(22,402)
Liability component - net carrying amount	$267,307	$265,098
Equity component	$31,306	$31,306

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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 Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest expense - stated coupon rate	$2,156	$2,156	$4,312	$4,312
Interest expense - amortization of debt discount	1,109	1,056	2,209	2,104
Total interest expense - convertible senior notes	$3,265	$3,212	$6,521	$6,416

Polish Revolving Credit and Bonds Payable
With the acquisition of DTP S.A. ("DTP") in the second quarter of 2016, the Company assumed the outstanding debt of DTP which included revolving credit facilities and bonds. As of June 30, 2016, the outstanding balance on the revolving credit facilities was $4.9 million, with a weighted average interest rate of 4.4%. On July 29, 2016, the Company repaid the outstanding balance on the facilities and any fees and terminated the credit facilities. As of June 30, 2016, the outstanding balance of the bonds was $6.5 million, with a weighted average interest rate of 6.1%. Of the $6.5 million, $2.3 million matures on August 22, 2016 and $4.2 million matures on June 25, 2017.
5. Property and Equipment, net:
Property and equipment, at cost, consisted of the following as of the dates indicated (amounts in thousands):

	June 30, 2016	December 31, 2015
Software	$66,222	$62,198
Computer equipment	22,495	21,109
Furniture and fixtures	15,177	11,888
Equipment	14,029	12,874
Leasehold improvements	15,028	15,112
Building and improvements	7,277	7,235
Land	1,296	1,296
Accumulated depreciation and amortization	(94,672)	(86,318)
Property and equipment, net	$46,852	$45,394

Depreciation and amortization expense relating to property and equipment for the three and six months ended June 30, 2016 was $4.3 million and $8.6 million, respectively. Depreciation and amortization expense relating to property and equipment for the three and six months ended June 30, 2015 was $3.9 million and $7.7 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.

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At June 30, 2016 and 2015, the carrying value of goodwill was $544.3 million and $503.0 million, respectively. The following table represents the changes in goodwill for the three and six months ended June 30, 2016 and 2015 (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period:				
Goodwill	$531,267	$503,050	$501,553	$533,842
Accumulated impairment loss	(6,397)	(6,397)	(6,397)	(6,397)
	524,870	496,653	495,156	527,445
Changes:				
Acquisitions	22,776	—	27,518	—
Foreign currency translation adjustment	(3,309)	6,348	21,663	(24,444)
Net change in goodwill	19,467	6,348	49,181	(24,444)
Goodwill	550,734	509,398	550,734	509,398
Accumulated impairment loss	(6,397)	(6,397)	(6,397)	(6,397)
Balance at end of period:	$544,337	$503,001	$544,337	$503,001

The $22.8 million addition to goodwill during the three months ended June 30, 2016, was attributable to the acquisition of DTP. The goodwill recognized from the DTP acquisition is not expected to be deductible for U.S. income tax purposes.

The $27.5 million addition to goodwill during the six months ended June 30, 2016, was attributable to the acquisition of DTP during the second quarter and the acquisition of Recovery Management Systems Corporation ("RMSC") in the first quarter. The goodwill recognized from the RMSC acquisition is expected to be deductible for U.S. income tax purposes.

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 $2.7 million and $6.1 million for the three and six months ended June 30, 2016, respectively. Total share-based compensation expense was $3.6 million and $7.7 million for the three and six months ended June 30, 2015, respectively. Tax benefits resulting from tax deductions in excess of cumulative compensation cost and related deferred tax asset recognized under the provisions of FASB ASC Topic 718 "Compensation-Stock Compensation" ("ASC 718"), or windfall tax benefits, 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 $0.1 million and $2.5 million for the three and six months ended June 30, 2016 and $0.3 million and $7.8 million for the three and six months ended June 30, 2015, respectively.

Nonvested Shares

As of June 30, 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 $9.3 million with a weighted average remaining life for all nonvested shares of 1.8 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 the respective vesting period for the awards.

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The following summarizes all nonvested share transactions, excluding those related to the LTI program, from December 31, 2014 through June 30, 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	186	28.42
Vested	(90)	46.30
Canceled	(47)	53.05
June 30, 2016	333	$ 40.36

The total grant date fair value of shares vested during the three and six months ended June 30, 2016 was $0.8 million and$4.2 million, respectively. The total grant date fair value of shares vested during the three and six months ended June 30, 2015 was $0.7 million and $3.5 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 June 30, 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	(176)	34.59
Canceled	(41)	44.80
June 30, 2016	439	$ 39.60

The total grant date fair value of shares vested during both the three and six months ended June 30, 2016 was $6.1 million. The total grant date fair value of shares vested during both the three and six months ended June 30, 2015 was $5.1 million.

At June 30, 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 $8.5 million. The Company assumed a forfeiture rate for these grants between 7.5%-10% and the remaining shares have a weighted average life of 1.2 years at June 30, 2016.

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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. 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. On July 5, 2016, the Tax Court granted the IRS’s Motion for Continuance filed on June 28, 2016. On July 14, 2016, the Tax Court set the trial to begin on May 15, 2017.
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 June 30, 2016 and December 31, 2015, deferred tax liabilities related to this matter were $252.4 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 June 30, 2016 and December 31, 2015, the Company's estimate of the potential federal and state interest was $100.7 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 June 30, 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 $77.9 million and $51.5 million as of June 30, 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 June 30, 2016. Share-based awards that are contingent upon the

attainment of performance goals are included in the computation of diluted EPS if the effect is dilutive. 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 tax benefit that would be realized upon assumed exercise.

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The following table provides a reconciliation between the computation of basic EPS and diluted EPS for the three and six months ended June 30, 2016 and 2015 (amounts in thousands, except per share amounts):

	For the Three Months Ended June 30,					
	2016			2015		
	Net income attributable to PRA Group, Inc.	Weighted Average Common Shares	EPS	Net income attributable to PRA Group, Inc.	Weighted Average Common Shares	EPS
Basic EPS	$36,456	46,333	$0.79	$51,425	48,325	$1.06
Dilutive effect of nonvested share awards		69	—		204	—
Diluted EPS	$36,456	46,402	$0.79	$51,425	48,529	$1.06

	For the Six Months Ended June 30,					
	2016			2015		
	Net income attributable to PRA Group, Inc.	Weighted Average Common Shares	EPS	Net income attributable to PRA Group, Inc.	Weighted Average Common Shares	EPS
Basic EPS	$68,439	46,288	$1.48	$109,560	48,525	$2.26
Dilutive effect of nonvested share awards		99	—		265	(0.01)
Diluted EPS	$68,439	46,387	$1.48	$109,560	48,790	$2.25

There were no antidilutive options outstanding for the three and six months ended June 30, 2016 and 2015.

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 June 30, 2016, estimated future compensation under these agreements is approximately $15.4 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 $15.4 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 June 30, 2016 total approximately $57.4 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 June 30, 2016 is approximately $329.9 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 June 30, 2016, excluding the potential interest associated with the IRS matter described below, is from $0 to $81 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 indemnities. The Company has not recorded any potential recoveries under the Company's insurance policies or third-party indemnities as of June 30, 2016.

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 ("the Settlement Agreement") under which the parties agreed to seek court approval of class certification and the proposed settlement. As required by the Settlement Agreement, which remains subject to final court approval, the parties sought preliminary Court approval of the Settlement Agreement, and the Company paid $18 million to resolve the MDL action during second quarter of 2016. 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. On July 5, 2016, the Tax Court granted the IRS's Motion for Continuance filed on June 28, 2016. On July 14, 2016, the Tax Court set the trial to begin on May 15, 2017. 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 $252.4 million at June 30, 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

PRA Group, Inc.
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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 $100.7 million as of June 30, 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 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 June 30, 2016 and December 31, 2015 (amounts in thousands):

	June 30, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$117,071	$ 117,071	$71,372	$ 71,372
Held-to-maturity investments	46,004	50,821	50,247	55,613
Other investments	15,646	14,763	15,498	16,803
Finance receivables, net	2,399,949	2,882,793	2,202,113	2,704,432
Financial liabilities:				
Interest-bearing deposits	58,041	58,041	46,991	46,991
Revolving lines of credit	1,314,895	1,314,895	1,118,232	1,118,232
Term loans	160,000	160,000	170,000	170,000
Notes and bonds payable	176,414	176,414	169,938	169,938
Convertible senior notes	267,307	224,057	265,098	241,126

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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.
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 bonds 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.

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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 June 30, 2016 and December 31, 2015 (amounts in thousands):

	Fair Value Measurements as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale investments	$652	$ —	$4,258	$4,910
Liabilities:				
Interest rate swap contracts (recorded in accrued expenses)	—	4,640	—	4,640

	Fair Value Measurements as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
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.
Fair value of the Company's investment in government bonds and fixed income funds is estimated using quoted market prices. Accordingly, the Company uses Level 1 inputs.
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 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 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.

In June 2016, FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)" ("ASU 2016-13"). ASU 2016-13 requires the measurement of expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable forecasts. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years and allows for early adoption as of the beginning of an interim or annual reporting period beginning after December 15,

2018. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements.

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.
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"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, Germany 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 June 30, 2016 employ 3,816 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 June 30, 2016, net income attributable to PRA Group, Inc. was $36.5 million, or $0.79 per diluted share, compared with $51.4 million, or $1.06 per diluted share, in the three months ended June 30, 2015. Total revenues decreased 3.7% to $228.5 million in the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Revenues in the three months ended June 30, 2016 consisted of $204.0 million in income recognized on finance receivables, net, $22.3 million in fee income and $2.1 million in other revenue. Income recognized on finance receivables, net, in the three months ended June 30, 2016 decreased $16.1 million, or 7.3%, over the three months ended June 30, 2015, primarily as a result of an $8.0 million increase in net allowance charges and a $2.4 million decrease in cash collections. During the three months ended June 30, 2016, we incurred $12.9 million in net allowance charges, compared with $4.9 million in the three months ended June 30, 2015. Our finance receivables amortization rate, including net allowance charges/reversals, was 47.3% for the three months ended June 30, 2016 compared to 43.5% for the three months ended June 30, 2015. Our finance receivables amortization rate, excluding net allowance charges/reversals, was 44.0% for the three months ended June 30, 2016 compared to 42.3% for the three months ended June 30, 2015. Cash collections, which drive our finance receivable income, were $387.2 million in the three months ended June 30, 2016, down 0.6%, or $2.4 million, as compared to the three months ended June 30, 2015.

Fee income increased to $22.3 million during the three months ended June 30, 2016 from $13.9 million in the three months ended June 30, 2015. This was primarily due to an increase in fee income related mainly to one case by Claims Compensation Bureau, LLC (“CCB”) and increases in fee income generated by PRA Location Services, LLC (“PLS”), PRA Government Services, LLC (“PGS), RMSC, our recently acquired Insolvency business, and RCB Investimentos S.A. (“RCB”), which we acquired in the third quarter of 2015. This was offset by a decrease in fee income from PRA Europe which is due primarily to an expected decline in the amount of contingent fee work provided to us by debt owners.

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A summary of the sources of our revenue during the three months ended June 30, 2016 and 2015 is presented below (amounts in thousands):

	For the Three Months Ended June 30,	
	2016	2015
Cash collections	$387,202	$389,624
Amortization of investment	(170,274)	(164,675)
Net allowance charges	(12,920)	(4,885)
Income recognized on finance receivables, net	204,008	220,064
Fee income	22,347	13,878
Other revenue	2,101	3,255
Total revenues	$228,456	$237,197

Operating expenses were $155.7 million for the three months ended June 30, 2016, an increase of $7.4 million or 5.0%, as compared to the three months ended June 30, 2015.

During the three months ended June 30, 2016 and 2015, we acquired finance receivables portfolios at an approximate cost of $249.5 million and $208.4 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 June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Income recognized on finance receivables, net	89.3 %	92.8 %	90.6 %	92.9 %
Fee income	9.8 %	5.8 %	8.5 %	5.6 %
Other revenue	0.9 %	1.4 %	0.9 %	1.5 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Compensation and employee services	28.4 %	28.8 %	29.0 %	27.7 %
Legal collection fees	6.6 %	6.0 %	6.2 %	5.8 %
Legal collection costs	8.2 %	8.2 %	7.9 %	8.4 %
Agency fees	5.0 %	3.3 %	4.9 %	3.3 %
Outside fees and services	6.9 %	5.3 %	7.0 %	5.2 %
Communication	3.7 %	3.4 %	4.0 %	3.8 %
Rent and occupancy	1.8 %	1.5 %	1.7 %	1.5 %
Depreciation and amortization	2.7 %	2.1 %	2.7 %	2.0 %
Other operating expenses	4.9 %	4.1 %	4.8 %	4.0 %
Total operating expenses	68.2 %	62.5 %	68.3 %	61.6 %
Income from operations	31.8 %	37.5 %	31.7 %	38.4 %
Other income and (expense):				
Interest expense	(9.0)%	(5.7)%	(8.9)%	(5.9)%
Foreign exchange gain	0.9 %	1.5 %	— %	2.2 %
Income before income taxes	23.7 %	33.3 %	22.8 %	34.7 %
Provision for income taxes	7.6 %	11.6 %	7.4 %	11.9 %
Net income	16.1 %	21.7 %	15.4 %	22.7 %
Adjustment for net income attributable to noncontrolling interest	0.2 %	— %	0.3 %	— %
Net income attributable to PRA Group, Inc.	16.0 %	21.7 %	15.1 %	22.7 %

Three Months Ended June 30, 2016 Compared To Three Months Ended June 30, 2015

Revenues

Total revenues were $228.5 million for the three months ended June 30, 2016, a decrease of $8.7 million, or 3.7%, compared to total revenues of $237.2 million for the three months ended June 30, 2015.

Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net was $204.0 million for the three months ended June 30, 2016, a decrease of $16.1 million, or 7.3%, compared to income recognized on finance receivables, net, of $220.1 million for the three months ended June 30, 2015. The decrease was primarily the result of an $8.0 million increase in net allowance charges and a $2.4 million decrease in cash collections. The decrease in cash collections was mainly caused by a decrease in our Insolvency portfolio collections offset by an increase in our collections in Europe. During the three months ended June 30, 2016, we incurred $12.9 million in net allowance charges, compared with $4.9 million in the three months ended June 30, 2015. Our finance receivables amortization rate, including net allowance charges/reversals, was 47.3% for the three months ended June 30, 2016 compared to 43.5% for the three months ended June 30, 2015. Our finance receivables amortization rate, excluding net allowance charges/reversals, was 44.0% for the three months ended June 30, 2016 compared to 42.3% for the three months ended June 30, 2015. Cash collections,

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which drive our finance receivable income, were $387.2 million in the three months ended June 30, 2016, down $2.4 million, or 0.6%, as compared to the three months ended June 30, 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 June 30, 2016, the Company reclassified $91.0 million from nonaccretable difference to accretable yield primarily due to increased cash collection forecasts relating to pools acquired from 2009-2015. 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 June 30, 2015, the Company reclassified $49.7 million from nonaccretable difference to accretable yield primarily due to increased cash collection forecasts relating to pools acquired from 2007-2014.

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 June 30, 2016, we recorded net allowance charges of $12.9 million. On our domestic Core portfolios, we recorded net allowance charges of $12.5 million on portfolios purchased mainly between 2012-2014. We also recorded allowance charges of $0.4 million on our European portfolios.

For the three months ended June 30, 2015, we recorded net allowance charges of $4.9 million. On our domestic Core portfolios, we recorded net allowance charges of $4.1 million on portfolios purchased mainly in 2012. On our Insolvency portfolios, we recorded allowance charges of $0.1 million on our domestic portfolios. We also recorded an allowance charge of $0.7 million on our legacy UK portfolios which were purchased in 2013, prior to the Aktiv acquisition. No allowance charges or reversals were recorded during the period on the portfolios acquired from Aktiv or purchased by PRA 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 $22.3 million in the three months ended June 30, 2016 from $13.9 million in the three months ended June 30, 2015, primarily due to an increase in fee income by CCB, mainly related to one case, as well as increases in fee income generated by PLS and PGS. Additional fee income was generated by RMSC, which we acquired in the first quarter of 2016, and RCB, which we acquired in the third quarter of 2015. This was offset by a decrease in fee income from PRA Europe which is due primarily to an expected decline in the amount of contingent fee work provided to us by debt owners.

Other Revenue

Other revenue decreased to $2.1 million in the three months ended June 30, 2016 from $3.3 million in the three months ended June 30, 2015, primarily due to a decrease in revenue generated by our investments.

Operating Expenses

Operating expenses were $155.7 million for the three months ended June 30, 2016, an increase of $7.4 million or 5.0% compared to operating expenses of $148.3 million for the three months ended June 30, 2015. This increase was primarily due to an increase in outside fees and services and agency fees. Operating expenses were 38.0% of cash receipts for the three months ended June 30, 2016 compared to 36.8% for the three months ended June 30, 2015.

Compensation and Employee Services

Compensation and employee services expenses were $64.8 million for the three months ended June 30, 2016, a decrease of $3.5 million, or 5.1%, compared to compensation and employee services expenses of $68.3 million for the three months ended June 30, 2015. The decrease in compensation and employee services expenses was mainly due to a decrease in discretionary bonus and other incentive compensation expenses, including share-based compensation expenses. Total full-time equivalents remained relatively unchanged at 3,816 as of June 30, 2016, compared to 3,820 as of June 30, 2015. Compensation and employee services expenses as a percentage of cash receipts decreased to 15.8% for the three months ended June 30, 2016, from 16.9% of cash receipts for the three months ended June 30, 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 $15.1 million for the three months ended June 30, 2016, compared to legal collection fees of $14.1 million for the three months ended June 30, 2015. The increase is attributable to an increase in legal collection fees incurred by our European operations. Legal collection fees were 3.7% of cash receipts for the three months ended June 30, 2016 compared to 3.5% of cash receipts for the three months ended June 30, 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 $18.8 million for the three months ended June 30, 2016, a decrease of $0.8 million, or 4.1%, compared to legal collection costs of $19.6 million for the three months ended June 30, 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 June 30, 2016 were 4.6% of cash receipts, compared to 4.8% for the three months ended June 30, 2015.

Agency Fees

Agency fees primarily represent third party collection fees and costs paid to repossession agents to repossess vehicles. Agency fees were $11.3 million for the three months ended June 30, 2016, compared to $7.8 million for the three months ended June 30, 2015. This increase was mainly attributable to third-party collection fees incurred by our international operations where we utilize third party agencies.

Outside Fees and Services

Outside fees and services expenses were $15.9 million for the three months ended June 30, 2016, an increase of $3.4 million, or 27.2%, compared to outside fees and services expenses of $12.5 million for the three months ended June 30, 2015. This increase was primarily due to a $2.1 million dollar increase in consulting fees and a $1.6 million increase in corporate legal expenses.

Communication

Communication expenses were $8.4 million for the three months ended June 30, 2016, compared to communication expenses of $8.1 million for the three months ended June 30, 2015. None of the increase was attributable to any significant identifiable items.

Rent and Occupancy

Rent and occupancy expenses were $4.0 million for the three months ended June 30, 2016, an increase of $0.5 million, or 14.3%, compared to rent and occupancy expenses of $3.5 million for the three months ended June 30, 2015. The increase was primarily due to additional rental expenses incurred as a result of our acquisition of RCB, RMSC and DTP as well as the additional rent expense associated with the expansion of our headquarters in Norfolk, Virginia.

Depreciation and Amortization

Depreciation and amortization expenses were $6.1 million for the three months ended June 30, 2016, an increase of $1.2 million, or 24.5%, compared to depreciation and amortization expenses of $4.9 million for the three months ended June 30, 2015. The increase was primarily due to the amortization expense incurred on intangible assets acquired in connection with the acquisition of RCB and RMSC.

Other Operating Expenses

Other operating expenses were $11.3 million for the three months ended June 30, 2016, an increase of $1.7 million, or 17.7%, compared to other operating expenses of $9.6 million for the three months ended June 30, 2015. The increase was primarily due to a $1.0 increase in software related expenses. None of the remaining increase was attributable to any significant identifiable items.

Interest Expense

Interest expense was $20.6 million during the three months ended June 30, 2016, an increase of $7.1 million or 52.6%, compared to $13.5 million for the three months ended June 30, 2015. The increase was primarily due to an increase in average borrowing during the three months ended June 30, 2016 compared to the three months ended June 30, 2015.

Net Foreign Currency Transaction Gains

Net foreign currency transaction gains were $2.0 million for the three months ended June 30, 2016 compared to net foreign currency transaction gains of $3.6 million for the three months ended June 30, 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 $17.3 million for the three months ended June 30, 2016, a decrease of $10.3 million, or 37.3%, compared to provision for income taxes of $27.6 million for the three months ended June 30, 2015. The decrease is primarily due to a 31.4% decrease in income before taxes for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. During the three months ended June 30, 2016, our effective tax rate was 32.0%, compared to 34.9% for the three months ended June 30, 2015. The decrease in the effective tax rate was due primarily to the changes in projected taxable income between various tax jurisdictions.

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 $77.9 million and $29.5 million as of June 30, 2016 and 2015, respectively.

Six Months Ended June 30, 2016 Compared To Six Months Ended June 30, 2015

Revenues

Total revenues were $453.3 million for the six months ended June 30, 2016, a decrease of $29.1 million, or 6.0%, compared to total revenues of $482.4 million for the six months ended June 30, 2015.

Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net was $410.5 million for the six months ended June 30, 2016, a decrease of $38.0 million, or 8.5%, compared to income recognized on finance receivables, net, of $448.5 million for the six months ended June 30, 2015. The decrease was primarily due to a $16.3 million increase in net allowance charges in addition to a decrease in cash collections on our finance receivables to $771.5 million for the six months ended June 30, 2016, from $789.4 million for the six months ended June 30, 2015, a decrease of $17.9 million, or 2.3%. The decrease in cash collections was mainly caused by a decrease in our Insolvency portfolio collections offset by an increase in our collections in Europe. Our finance receivables amortization rate, including net allowance charges, was 46.8% for the six months ended June 30, 2016 compared to 43.2% for the six months ended June 30, 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 six months ended June 30, 2016 and 2015, the Company reclassified $90.0 million and $169.0 million, respectively, from nonaccretable difference to accretable yield due primarily to increased cash collection forecasts relating to pools acquired from 2009-2015. 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.
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 six months ended June 30, 2016, we recorded net allowance charges of $22.8 million. On our domestic Core portfolios, we recorded net allowance charges of $19.6 million on portfolios purchased between 2011 and 2014. On our Insolvency portfolios, we recorded net allowance charges of $0.4 million on our domestic portfolios. We also recorded net allowance charges of $2.8 million on our foreign portfolios, primarily on our UK portfolios. For the six months ended June 30, 2015, we recorded net allowance charges of $6.5 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 $6.8 million on portfolios purchased between 2010 and 2012. On our Insolvency portfolios, we recorded net allowance reversals of $0.2 million on our domestic portfolios. We also recorded an allowance charge of $0.7 million on our UK portfolios purchased in 2013.
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, non-optimal operational activities (relating to the collection and movement of accounts on both our collection floor and external channels), and decreases in productivity related to turnover of our collection staff.

Fee Income

Fee income increased to $38.6 million in the six months ended June 30, 2016 from $26.9 million in the six months ended June 30, 2015, primarily due to an increase in fee income by CCB, mainly related to one case, as well as increases in fee income generated by PLS and PGS and 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, which we acquired in the third quarter of 2015. This was offset by a decrease in fee income from PRA Europe which is due primarily to an expected decline in the amount of contingent fee work provided to us by debt owners.

Other Revenue

Other revenue decreased to $4.2 million in the six months ended June 30, 2016 from $7.0 million in the six months ended June 30, 2015, primarily due to a decrease in revenue earned on our investments.

Operating Expenses

Operating expenses were $309.7 million for the six months ended June 30, 2016, an increase of $12.3 million or 4.1% compared to operating expenses of $297.4 million for the six months ended June 30, 2015. This increase was due primarily to a $6.4 million increase in outside fees and services, a $6.1 million increase in agency fees, a $2.7 million increase in other operating expenses and a $2.7 million increase in depreciation and amortization. This was offset by a $4.4 million decrease in legal collection costs and $2.0 million decrease in compensation and employee services. Operating expenses were 38.2% of cash receipts for the six months ended June 30, 2016 compared to 36.4% for the six months ended June 30, 2015.

Compensation and Employee Services

Compensation and employee services expenses were $131.6 million for the six months ended June 30, 2016, a decrease of $2.0 million, or 1.5% compared to compensation and employee services expenses of $133.6 million for the six months ended June 30, 2015. The decrease in compensation and employee services expenses was mainly due to a decrease in discretionary bonus and other incentive compensation expenses, including share-based compensation expenses. Total full-time equivalents remained relatively unchanged at 3,816 as of June 30, 2016, compared to 3,820 as of June 30, 2015. Compensation and employee services expenses as a percentage of cash receipts decreased to 16.2% for the six months ended June 30, 2016, from 16.4% of cash receipts for the six months ended June 30, 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 $28.0 million for the six months ended June 30, 2016, an increase of $0.2 million,

or 0.7%, compared to legal collection fees of $27.8 million for the six months ended June 30, 2015. Legal collection fees as a percentage of cash receipts were 3.5% for the six months ended June 30, 2016 and 3.4% six months ended June 30, 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 $36.0 million for the six months ended June 30, 2016, a decrease of $4.4 million, or 10.9%, compared to legal collection costs of $40.4 million for the six months ended June 30, 2015. Between 2012 and 2015, we expanded the number of accounts brought into the legal collection process resulting in increased legal collection costs. This expansion has subsided over the last several quarters which led to the decrease in the current period. Legal collection costs for the six months ended June 30, 2016 were 4.4% of cash receipts, compared to 5.0% for the six months ended June 30, 2015.

Agency Fees

Agency fees primarily represent third party collection fees and costs paid to repossession agents to repossess vehicles. Agency fees were $22.2 million for the six months ended June 30, 2016, compared to $16.0 million for the six months ended June 30, 2015. This increase was mainly attributable to third-party collection fees incurred by our international operations where we utilize third party agencies.

Outside Fees and Services

Outside fees and services expenses were $31.7 million for the six months ended June 30, 2016, an increase of $6.4 million, or 25.3%, compared to outside fees and services expenses of $25.3 million for the six months ended June 30, 2015. This increase was primarily due to a $3.4 million dollar increase in corporate legal expenses and a $3.1 million increase in consulting fees.

Communication

Communication expenses were $18.3 million for the six months ended June 30, 2016, a decrease of $0.2 million, or 1.1%, compared to communication expenses of $18.5 million for the six months ended June 30, 2015. None of the decrease was attributable to any significant identifiable items.

Rent and Occupancy

Rent and occupancy expenses were $7.8 million for the six months ended June 30, 2016, an increase of $0.8 million, or 11.4%, compared to rent and occupancy expenses of $7.0 million for the six months ended June 30, 2015. The increase was primarily due to additional rental expenses incurred as a result of our acquisition of RCB, RMSC and DTP as well as the additional rent expense associated with the expansion of our headquarters in Norfolk, Virginia.

Depreciation and Amortization

Depreciation and amortization expenses were $12.2 million for the six months ended June 30, 2016, an increase of $2.7 million, or 28.4%, compared to depreciation and amortization expenses of $9.5 million for the six months ended June 30, 2015. The increase was primarily due to the amortization expense incurred on intangible assets acquired in connection with the acquisition of RCB and RMSC.

Other Operating Expenses

Other operating expenses were $21.9 million for the six months ended June 30, 2016, an increase of $2.7 million, or 14.1%, compared to other operating expenses of $19.2 million for the six months ended June 30, 2015. The increase was primarily due to the $0.8 increase in software related expenses, a $1.2 million increase in taxes, fees and licenses and a $0.6 million increase in repairs and maintenance expenses.

Interest Expense

Interest expense was $40.5 million and $28.2 million for the six months ended June 30, 2016 and 2015, respectively. The increase was primarily due to an increase in average borrowings during the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

Net Foreign Currency Transaction Gains

Net foreign currency transaction gains were $0.2 million for the six months ended June 30, 2016 compared to net foreign currency transaction gains of $10.4 million for the six months ended June 30, 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 $33.6 million for the six months ended June 30, 2016, a decrease of $24.0 million, or 41.7%, compared to provision for income taxes of $57.6 million for the six months ended June 30, 2015. The decrease is primarily due to a 38.2% decrease in income before taxes for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. During the six months ended June 30, 2016, our effective tax rate was 32.5%, compared to 34.5% for the six months ended June 30, 2015.The decrease in the effective tax rate was due primarily to the changes in projected taxable income between various tax jurisdictions.

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; however, foreign tax credits would be available to partially reduce U.S. income taxes. The amount of cash on hand related to foreign operations with permanently reinvested earnings was $77.9 million and $29.5 million as of June 30, 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 estimates of future 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.

Multiples Tables
Amounts in thousands

Purchase Period	Purchase Price [3]	Net Finance Receivables [4]	ERC-Historical Period Exchange Rates [5]	Total Estimated Collections [6]	ERC-Current Period Exchange Rates [7]	Current Estimated Purchase Price Multiple	Original Estimated Purchase Price Multiple [2]
Americas-Core							
1996 - 2005	$368,600	$3,334	$ 19,070	$1,408,360	$ 19,070	382 %	250 %
2006	90,038	4,015	10,181	198,315	10,181	220 %	225 %
2007	179,835	10,537	35,461	449,326	35,461	250 %	227 %
2008	166,505	11,643	31,031	380,550	31,031	229 %	220 %
2009	125,174	3,925	50,401	461,152	50,401	368 %	252 %
2010	148,255	10,888	79,030	539,822	79,030	364 %	247 %
2011	209,794	24,386	122,964	722,503	122,964	344 %	245 %
2012	254,709	59,324	191,681	700,213	191,681	275 %	226 %
2013	391,688	142,619	410,431	1,023,824	410,431	261 %	211 %
2014 [1]	406,470	203,772	559,694	1,008,899	553,926	248 %	204 %
2015	447,450	336,679	698,659	937,296	702,087	209 %	205 %
2016 YTD	271,701	254,584	494,340	533,833	499,518	196 %	196 %
Subtotal	3,060,219	1,065,706	2,702,943	8,364,093	2,705,781		
Americas-Insolvency							
2004 - 2005	36,770	—	241	58,680	241	160 %	148 %
2006	17,627	21	372	32,474	372	184 %	139 %
2007	78,524	204	1,005	106,513	1,005	136 %	150 %
2008	108,579	901	2,053	169,549	2,053	156 %	163 %
2009	156,000	—	7,621	473,638	7,621	304 %	214 %
2010	208,977	143	11,096	550,579	11,096	263 %	184 %
2011	180,637	2,885	13,534	366,459	13,534	203 %	155 %
2012	251,754	27,723	48,927	377,511	48,927	150 %	136 %
2013	228,110	60,493	87,644	338,810	87,644	149 %	133 %
2014	149,077	68,228	93,246	204,836	93,111	137 %	124 %
2015	64,334	56,549	67,363	79,444	67,363	123 %	125 %
2016 YTD	57,202	52,985	63,700	68,930	63,700	121 %	121 %
Subtotal	1,537,591	270,132	396,802	2,827,423	396,667		
Total Americas	4,597,810	1,335,838	3,099,745	11,191,516	3,102,448		
Europe-Core							
2012	20,457	54	429	31,963	354	156 %	187 %
2013	20,371	1,411	2,738	22,141	2,212	109 %	119 %
2014 [1]	798,172	462,628	1,383,233	2,014,036	1,199,962	252 %	208 %
2015	423,858	328,238	621,403	721,986	577,370	170 %	160 %
2016 YTD	239,523	231,039	396,645	406,874	391,644	170 %	170 %
Subtotal	1,502,381	1,023,370	2,404,448	3,197,000	2,171,542		
Europe-Insolvency							
2014	10,878	4,993	10,335	17,165	9,306	158 %	129 %
2015	19,532	13,983	23,798	28,858	21,330	148 %	139 %
2016 YTD	22,655	21,765	29,120	29,808	28,471	132 %	132 %
Subtotal	53,065	40,741	63,253	75,831	59,107		

Total Europe	1,555,446	1,064,111	2,467,701	3,272,831	2,230,649
Total PRA Group	$6,153,256	$2,399,949	$5,567,446	$14,464,347	$5,333,097

(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 Estimated Purchase Price multiple represents the initial estimated full year purchase price multiple in the year of acquisition.

(3) 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.

(4) For our international amounts, Net Finance Receivables are presented at the June 30, 2016 exchange rate.

(5) For our international amounts, ERC-Historical Period Exchange Rates is presented at the period-end exchange rate for the respective quarter of purchase.

(6) For our international amounts, Total Estimated Collections is presented at the period end exchange rate for the respective quarter of purchase.

(7) For our international amounts, ERC-Current Period Exchange Rates is presented at the June 30, 2016 exchange rate.

Portfolio Financial Information
Amounts in thousands

Purchase Period	Purchase Price [3]	Cash Collections [2]	Gross Revenue [2]	Amortization [2]	Allowance [2]	Net Revenue [2]	Net Finance Receivables [4]
Americas-Core							
1996 - 2005	$368,600	$5,356	$4,810	$546	$125	$4,685	$3,334
2006	90,038	1,491	953	538	—	953	4,015
2007	179,835	5,227	3,786	1,441	295	3,491	10,537
2008	166,505	5,197	3,265	1,932	(200)	3,465	11,643
2009	125,174	9,125	7,513	1,612	—	7,513	3,925
2010	148,255	14,220	10,888	3,332	(225)	11,113	10,888
2011	209,794	27,893	21,918	5,975	620	21,298	24,386
2012	254,709	34,577	25,678	8,899	3,375	22,303	59,324
2013	391,688	69,904	50,524	19,380	14,700	35,824	142,619
2014 [1]	406,470	98,745	62,120	36,625	1,103	61,017	203,772
2015	447,450	121,882	61,430	60,452	94	61,336	336,679
2016 YTD	271,701	39,695	20,399	19,296	—	20,399	254,584
Subtotal	3,060,219	433,312	273,284	160,028	19,887	253,397	1,065,706
Americas-Insolvency							
2004 - 2005	36,770	33	20	13	—	20	—
2006	17,627	70	37	33	(20)	57	21
2007	78,524	163	73	90	(100)	173	204
2008	108,579	390	133	257	—	133	901
2009	156,000	1,483	1,483	—	—	1,483	—
2010	208,977	3,240	3,162	78	490	2,672	143
2011	180,637	25,846	14,998	10,848	—	14,998	2,885
2012	251,754	33,365	14,606	18,759	—	14,606	27,723
2013	228,110	34,364	13,634	20,730	—	13,634	60,493
2014	149,077	23,513	8,767	14,746	(78)	8,845	68,228
2015	64,334	8,685	2,397	6,288	—	2,397	56,549
2016 YTD	57,202	5,239	1,017	4,222	—	1,017	52,985
Subtotal	1,537,591	136,391	60,327	76,064	292	60,035	270,132
Total Americas	4,597,810	569,703	333,611	236,092	20,179	313,432	1,335,838
Europe-Core							
2012	20,457	1,182	1,073	109	—	1,073	54
2013	20,371	746	450	296	256	194	1,411
2014 [1]	798,172	131,172	75,654	55,518	2,021	73,633	462,628
2015	423,858	53,667	16,252	37,415	362	15,890	328,238
2016 YTD	239,523	10,296	4,935	5,361	—	4,935	231,039
Subtotal	1,502,381	197,063	98,364	98,699	2,639	95,725	1,023,370
Europe-Insolvency							
2014	10,878	1,975	549	1,426	—	549	4,993
2015	19,532	2,099	550	1,549	—	550	13,983
2016 YTD	22,655	695	259	436	—	259	21,765
Subtotal	53,065	4,769	1,358	3,411	—	1,358	40,741
Total Europe	1,555,446	201,832	99,722	102,110	2,639	97,083	1,064,111
Total PRA Group	$6,153,256	$771,535	$433,333	$338,202	$22,818	$410,515	$2,399,949

(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.

(3) 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.

(4) For our international amounts, net finance receivables are presented at the June 30, 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.

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 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.

Cash Collections by Year, By Year of Purchase [2]

Amounts in thousands

Purchase Period	Purchase Price [3]	1996 - 2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	201
Americas-Core												
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
2006	90,038	—	17,363	43,736	34,038	25,351	19,522	16,663	11,895	8,316	5,724	4,0
2007	179,835	—	—	39,412	87,039	69,175	60,230	50,996	39,585	28,244	19,759	14,
2008	166,505	—	—	—	47,253	72,080	62,363	53,654	42,850	31,307	21,027	13,
2009	125,174	—	—	—	—	40,703	95,627	84,339	69,385	51,121	35,555	24,
2010	148,255	—	—	—	—	—	47,076	113,554	109,873	82,014	55,946	38,
2011	209,794	—	—	—	—	—	—	61,971	174,461	152,908	108,513	73,
2012	254,709	—	—	—	—	—	—	—	56,901	173,589	146,198	97,
2013	391,688	—	—	—	—	—	—	—	—	101,614	247,849	194
2014 [1]	406,470	—	—	—	—	—	—	—	—	—	92,660	253
2015	447,450	—	—	—	—	—	—	—	—	—	—	116
2016 YTD	271,701	—	—	—	—	—	—	—	—	—	—	—
Subtotal	3,060,219	649,674	211,329	235,150	269,881	281,632	342,755	429,069	542,875	656,508	752,995	844
Americas-Insolvency												
2004 - 2005	36,770	9,074	19,456	14,711	8,300	3,814	1,546	615	358	259	176	97
2006	17,627	—	5,608	9,455	6,522	4,398	2,972	1,526	665	419	261	205
2007	78,524	—	—	2,850	27,972	25,630	22,829	16,093	7,551	1,206	714	500
2008	108,579	—	—	—	14,024	35,894	37,974	35,690	28,956	11,650	1,884	1,0
2009	156,000	—	—	—	—	16,635	81,780	102,780	107,888	95,725	53,945	5,7
2010	208,977	—	—	—	—	—	39,486	104,499	125,020	121,717	101,873	43,
2011	180,637	—	—	—	—	—	—	15,218	66,379	82,752	85,816	76,
2012	251,754	—	—	—	—	—	—	—	17,388	103,610	94,141	80,
2013	228,110	—	—	—	—	—	—	—	—	52,528	82,596	81,
2014	149,077	—	—	—	—	—	—	—	—	—	37,045	50,
2015	64,334	—	—	—	—	—	—	—	—	—	—	3,3
2016 YTD	57,202	—	—	—	—	—	—	—	—	—	—	—
Subtotal	1,537,591	9,074	25,064	27,016	56,818	86,371	186,587	276,421	354,205	469,866	458,451	344
Total Americas	4,597,810	658,748	236,393	262,166	326,699	368,003	529,342	705,490	897,080	1,126,374	1,211,446	1,1
Europe-Core												
2012	20,457	—	—	—	—	—	—	—	11,604	8,995	5,641	3,1
2013	20,371	—	—	—	—	—	—	—	—	7,068	8,540	2,3
2014 [1]	798,172	—	—	—	—	—	—	—	—	—	153,180	291
2015	423,858	—	—	—	—	—	—	—	—	—	—	45,
2016 YTD	239,523	—	—	—	—	—	—	—	—	—	—	—
Subtotal	1,502,381	—	—	—	—	—	—	—	11,604	16,063	167,361	343
Europe-Insolvency												

2014	10,878	—	—	—	—	—	—	—	—	—	5	4,2
2015	19,532	—	—	—	—	—	—	—	—	—	—	2,9
2016 YTD	22,655	—	—	—	—	—	—	—	—	—	—	—
Subtotal	53,065	—	—	—	—	—	—	—	—	—	5	7,2
Total Europe	1,555,446	—	—	—	—	—	—	—	11,604	16,063	167,366	35(
Total PRA Group	$6,153,256	$658,748	$236,393	$262,166	$326,699	$368,003	$529,342	$705,490	$908,684	$1,142,437	$1,378,812	$1

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(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.
(3) 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.

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 [1]				
	2016	2015	2014	2013	2012
First Quarter	$274	$247	$223	$193	$166
Second Quarter	269	245	220	190	169
Third Quarter	—	250	217	191	171
Fourth Quarter	—	239	203	190	150

	Total cash collections [2]				
	2016	2015	2014	2013	2012
First Quarter	$358	$350	$337	$304	$258
Second Quarter	356	344	354	315	275
Third Quarter	—	343	338	310	279
Fourth Quarter	—	325	310	308	245

	Non-legal cash collections [3]				
	2016	2015	2014	2013	2012
First Quarter	$303	$294	$282	$251	$216
Second Quarter	301	288	293	261	225
Third Quarter	—	287	280	259	230
Fourth Quarter	—	273	259	256	200

	Non-legal/non-insolvency cash collections [4]				
	2016	2015	2014	2013	2012
First Quarter	$219	$191	$167	$140	$125
Second Quarter	214	188	158	137	120
Third Quarter	—	194	159	140	122
Fourth Quarter	—	187	151	138	105

(1) Represents total cash collections less Insolvency cash collections from trustee-administered accounts. This metric 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Americas-Core	$213,741	$219,571	$195,835	$210,725	$218,838	$219,371	$185,921	$189,027
Americas-Insolvency	67,745	68,646	73,842	81,865	92,974	95,533	103,104	110,544
Europe-Core	102,972	94,091	97,149	85,635	76,602	83,876	84,398	73,172
Europe-Insolvency	2,744	2,025	2,545	2,528	1,210	967	5	—
Total Cash Collections	$387,202	$384,333	$369,371	$380,753	$389,624	$399,747	$373,428	$372,743

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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Call Center and Other Collections	$119,568	$127,851	$108,979	$117,560	$121,148	$122,316	$95,784	$92,814
External Legal Collections	40,369	43,203	42,432	47,318	49,995	49,578	46,761	49,930
Internal Legal Collections	34,505	39,080	38,998	41,338	42,482	42,464	38,157	41,400
Total Domestic Core Cash Collections	$194,442	$210,134	$190,409	$206,216	$213,625	$214,358	$180,702	$184,144

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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Americas-Core	$130,529	$136,057	$120,554	$90,912	$98,317	$138,498	$119,714	$118,018
Americas-Insolvency	33,723	22,952	20,589	9,300	19,111	16,437	24,949	38,535
Europe-Core [(1)] [(2)]	68,835	171,038	79,735	240,385	88,499	21,579	123,194	734,803
Europe-Insolvency	16,410	6,731	4,976	3,959	2,450	8,510	11,625	—
Total Portfolio Purchases	$249,497	$336,778	$225,854	$344,556	$208,377	$185,024	$279,482	$891,356

(1) 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.

(2) The amount reflected in Q3 of 2014 includes the nonperforming loan portfolios that were acquired as a result of the Aktiv acquisition.

Portfolio Purchases by Stratifications (Domestic Only)

The following table categorizes our life-to-date domestic portfolio purchases as of June 30, 2016 into major asset type, delinquency category, and geographic location.

Domestic Portfolio Purchases by Stratification, Life-To-Date

Amounts in thousands

Stratifications	Number of Accounts	%	Face Value (1)	%	Original Purchase Price (2)	%
Major Asset Type						
Major Credit Cards	22,443	53 %	$58,709,073	66 %	$2,685,933	59 %
Consumer Finance	6,719	16	8,762,000	10	165,649	4
Private Label Credit Cards	12,558	30	16,615,969	19	1,570,381	34
Auto Deficiency	682	1	4,862,621	5	165,714	3
Total	42,402	100%	88,949,663	100%	4,587,677	100%
Delinquency Category						
Fresh	4,712	11 %	10,173,987	11 %	1,250,257	27 %
Primary	5,551	13	10,487,203	12	694,887	15
Secondary	10,283	24	13,322,731	15	735,470	16
Tertiary	4,876	11	6,826,029	8	138,631	3
Insolvency	6,088	14	24,439,619	27	1,585,395	35
Other	10,892	27	23,700,094	27	183,037	4
Total	42,402	100%	88,949,663	100%	4,587,677	100%
Geographic Location						
California	4,598	11 %	11,655,206	13 %	569,768	12 %
Texas	5,602	13	9,454,965	11	405,305	9
Florida	3,413	8	8,299,049	9	403,067	9
New York	2,435	6	5,144,267	6	238,086	5
Ohio	1,914	5	3,347,602	4	186,910	4
Pennsylvania	1,565	4	3,273,399	4	171,196	4
Illinois	1,602	4	3,208,566	4	180,366	4
North Carolina	1,553	4	3,183,384	4	164,370	4
Georgia	1,413	3	2,953,444	3	177,711	4
Other (3)	18,307	42	38,429,781	42	2,090,898	45
Total	42,402	100%	$88,949,663	100%	$4,587,677	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 $97.1 million and $122.0 million, respectively at June 30, 2016.

Estimated Remaining Collections

The following chart shows our ERC by geographical region at June 30, 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 June 30, 2016, cash and cash equivalents totaled $117.1 million, compared to $71.4 million at December 31, 2015. Included in cash and cash equivalents are funds held on the behalf of others arising from the collection of accounts placed with us. The balance of the funds held on behalf of others was $19.9 million and $3.9 million at June 30, 2016 and December 31, 2015, respectively. There is an offsetting liability that is included in "Other liabilities" on our consolidated balance sheets. We had approximately $1.9 billion in borrowings outstanding as of June 30, 2016, with $430.7 million of availability under all of our credit facilities, subject to compliance with borrowing base and applicable debt covenants. Considering borrowing base restrictions and other covenants, the aggregate amount available to be drawn on all of our credit facilities was $201.0 million. See the "Borrowings" section below for more information.

Obligations during the twelve month period ending June 30, 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 $329.9 million as of June 30, 2016. We may also 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 expected 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. On July 5, 2016, the Tax Court granted the IRS's Motion for Continuance filed on June 28, 2016. On July 14, 2016, the Tax Court set the trial to begin on May 15, 2017. 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 $252.4 million at June 30, 2016. Our estimate of the potential federal and state interest is $100.7 million as of June 30, 2016.

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 June 30, 2016, the maximum remaining purchase price for share repurchases under the new program is approximately $45.0 million.

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.

Our operating activities provided cash of $82.4 million and $96.1 million for the six months ended June 30, 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.

Our investing activities used cash of $242.9 million and $51.8 million during the six months ended June 30, 2016 and 2015, respectively. Cash used in investing activities is primarily driven by acquisitions of finance receivables, business acquisitions, 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 $538.1 million for the six months ended June 30, 2016, from $387.9 million for the six months ended June 30, 2015. In addition, business acquisitions increased to $65.2 million for the six months ended June 30, 2016, from $0 for the six months ended June 30, 2015, and there were no purchases of investments in the current six month period compared with $43.0 million during the six months ended June 30, 2015. This was partially offset by an increase in collections applied to principal on finance receivables to $361.0 million for the six months ended June 30, 2016, from $340.9 million for the six months ended June 30, 2015.

Our financing activities provided cash of $169.9 million and used cash of $17.3 million during the six months ended June 30, 2016 and 2015, respectively. Cash for financing activities is normally provided primarily 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 of $179.9 million for the six months ended June 30, 2016, compared to $91.6 million during the six months ended June 30, 2015. This was partially offset by decreases in cash used in financing activities for repurchases of our common stock and principal payments on long-term debt compared to the prior year period. During the six months ended June 30, 2015, we repurchased $77.8 million of our common stock compared to $0 for the six months ended June 30, 2016. In addition, during the six months ended June 30, 2015, we had payments on long-term debt of $37.5 million compared to $10.0 million for the six months ended June 30, 2016.

Cash paid for interest was $30.5 million and $22.9 million for the six months ended June 30, 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 $39.6 million and $49.6 million for the six months ended June 30, 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

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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 $958.0 million (subject to compliance with a borrowing base and applicable debt covenants), which consists of (i) a fully funded $160.0 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 June 30, 2016, the unused portion of the domestic and Canadian revolving credit facilities was $204.3 million. Considering borrowing base restrictions, as of June 30, 2016, the amount available to be drawn was $178.9 million. On July 18, 2016, we paid the outstanding balance plus accrued interest due on the note payable of $169.9 million incurred in connection with the acquisition of Aktiv which was funded mainly by a draw on our domestic revolving credit facility. The Credit Agreement is secured by a first priority lien on substantially all of our assets.

Borrowings outstanding under this credit facility at June 30, 2016 consisted of $160.0 million outstanding on the term loan with an annual interest rate of 2.96% and $593.7 million outstanding on the revolving credit facilities with a weighted average interest rate of 3.01%. At December 31, 2015, borrowings outstanding under this credit facility consisted of $170.0 million outstanding on the term loan with an annual interest rate of 2.92% and $541.8 million outstanding on the revolving credit 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 June 30, 2016, the balance due on the promissory note was $169.9 million with an annual interest rate of 4.40%. On July 18, 2016, we paid the outstanding balance due of $169.9 million plus accrued interest.

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 (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 (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. As of June 30, 2016, the unused portion of the Multicurrency Revolving Credit Agreement (including the Overdraft Facility) was $223.7 million. Considering borrowing base restrictions and other covenants, as of June 30, 2016, the amount available to be drawn under the Multicurrency Revolving Credit Agreement (including the Overdraft Facility) was $19.4 million.

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 June 30, 2016, the balance on the Multicurrency Revolving Credit Agreement was $716.3 million, with a weighted average annual interest rate of 3.65%. 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 June 30, 2016, none of the conditions allowing holders of the Notes to convert their Notes had occurred.

Polish Revolving Credit and Bonds Payable

With the acquisition of DTP in the second quarter of 2016, we assumed the outstanding debt of DTP which included revolving credit facilities and bonds. As of June 30, 2016, the balance on the revolving credit facilities was $4.9 million, with a weighted average interest rate of 4.4%. On July 31, 2016, we repaid the outstanding balance on the facilities and any fees and terminated the credit facilities. As of June 30, 2016, the balance on the bonds was $6.5 million, with a weighted average interest rate of 6.1%. Of the $6.5 million, $2.3 million matures on August 22, 2016 and $4.2 million matures on June 25, 2017.

We believe we were in compliance with the covenants of our material financing arrangements as of June 30, 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 $77.9 million and $51.5 million as of June 30, 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 $886.1 million at June 30, 2016 and $800.5 million at December 31, 2015. The increase was primarily attributable to $68.4 million in net income during the six months ended June 30, 2016 and a $14.9 million increase in accumulated net foreign currency translation gains.

Contractual Obligations

Our contractual obligations as of June 30, 2016 were as follows (amounts in thousands):

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Operating leases	$57,387	$10,822	$18,847	$9,498	$18,220
Revolving credit [1]	1,503,946	51,108	215,649	1,237,189	—
Long-term debt [2]	721,919	216,021	77,381	428,517	—
Purchase commitments [3]	331,771	310,847	20,924	—	—
Employment agreements	15,375	8,833	6,542	—	—
Total	$2,630,398	$597,631	$339,343	$1,675,204	$18,220

(1) This amount includes estimated interest and unused line fees due on our revolving credit and assumes that the outstanding balances on the revolving credit remain constant from the June 30, 2016 balances to maturity.

(2) This amount includes scheduled interest and principal payments on our term loan, our note and bonds 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 $329.9 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 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 June 30, 2016. Assuming a 25 basis point decrease in interest rates, for example, interest expense over the following twelve months would decrease by an estimated $3.3 million. Assuming a 50 basis point increase in interest rates, interest expense over the following twelve months would increase by an estimated $6.9 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 $4.6 million at June 30, 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 $6.8 million at June 30, 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 a liability of $0.6 million at June 30, 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 June 30, 2016, we generated $62.8 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 June 30, 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 June 30, 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 June 30, 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, except as follows:

The vote by the United Kingdom to leave the European Union, and the ultimate exit of the United Kingdom from the European Union, could adversely impact our business, results of operations and financial condition.

On June 23, 2016, the United Kingdom (“UK”) voted to leave the European Union (“EU”). Although the vote had no binding legal effect, it adversely impacted global markets and resulted in a decline in the value of the British pound as compared to the US dollar and other currencies. The UK’s actual exit from the EU, or Brexit, could take several years because the UK must first give notice to the EU of its intention to leave and the parties have two years from the date the notice is given to complete exit negotiations. However, perceptions concerning the impact of the UK’s withdrawal from the EU may adversely affect business activity, political stability and economic conditions in the UK, the EU and globally, which could in turn adversely affect European or worldwide political, regulatory, economic and financial market conditions.

As of June 30, 2016, the total ERC of our UK portfolios constituted approximately 14% of our consolidated ERC. We expect volatility in exchange rates in the short term as the UK negotiates its exit from the EU. A weaker British pound compared to the US dollar during a reporting period could cause local currency results of our UK operations to be translated into fewer US dollars. In the longer term, any impact from Brexit on our business, results of operations and financial condition will depend on the final terms negotiated by the UK and the EU, including arrangements concerning taxes and financial services regulation.

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	Employment Agreement, dated June 21, 2016, by and between Peter M. Graham and PRA Group, Inc. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on June 22, 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)

August 8, 2016 By: /s/ Steven D. Fredrickson
Steven D. Fredrickson
Chairman of the Board of Directors, and Chief Executive Officer
(Principal Executive Officer)

August 8, 2016 By: /s/ Kevin P. Stevenson
Kevin P. Stevenson
President, Chief Administrative Officer, and Interim Chief Financial Officer
(Principal Financial and Accounting Officer)