PCF BANK

Simple banking. At your service.

PCF Group plc
Annual Report & Financial Statements
2018

PCF GROUP

Simple banking. At your service.

PCF Group plc is the AIM-listed parent company of the specialist bank, PCF Bank.

PCF Bank offers retail savings products for individuals and lending products for consumers and businesses to finance motor vehicles, plant and equipment.

Our commitment is to provide great customer service through expertise and simplicity.

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PCF GROUP

Company Information

PCF Group plc

Directors	**Tim Franklin** *Non-executive Chairman* **David Morgan** *Non-executive* **Mark Brown** *Non-executive* **Christine Higgins** *Non-executive* **David Titmuss** *Non-executive* **Scott Maybury** *Chief Executive* **Robert Murray** *Managing Director* **David Bull** *Finance Director*
Company Secretary	**Robert Murray**
Registered Office	Pinners Hall 105-108 Old Broad Street London EC2N 1ER
Registered Number	02863246
Auditors	**Ernst & Young LLP** 25 Churchill Place Canary Wharf London E14 5EY
Nominated Adviser & Broker	**Panmure Gordon (UK) Limited** One New Change London EC4M 9AF
Joint Broker	**Stockdale Securities Limited** 100 Wood Street London EC2V 7AN
Registrars	**Computershare Investor Services PLC** The Pavilions Bridgwater Road Bristol BS99 7NH
Media & Investor Relations	**Tavistock Communications Limited** 1 Cornhill London EC3V 3ND

PCF Bank Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, FRN number 747017. The Bank is registered in England and Wales, registration number 02794633, and is wholly owned by PCF Group plc, a company registered in England and Wales, registration number 02863246 and listed on the Alternative Investment Market. Certain subsidiaries of the Bank are authorised and regulated by the Financial Conduct Authority for consumer credit activities. Registered offices are at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.

Strategic Report
for the year ended 30 September 2018

Business highlights

- 75% increase in new business originations to £148.4 million (2017 – £84.6 million)
- Portfolio growth of 50% to £219 million (2017 – £146 million)
- Retail deposits total £191 million (2017 – £53 million) and over 3,400 new retail deposit customers welcomed to the Bank
- Post year end acquisition of Azule Limited on 30 October 2018
- Portfolio growth and recent acquisition puts the Group a year ahead of schedule to meet the portfolio target of £350 million by 2020
- Continued low impairment charge of 0.5% (2017 – 0.5%)
- Awarded 2018 Best New Provider by independent savings specialist, Savings Champion
- Awarded 2018 Top New Challenger Bank by industry specialist, Leasing World

Financial highlights

- Profit before tax up 44% to £5.2 million (2017 – £3.6 million)
- Earnings per share up 33% at 2.0p (2017 – 1.5p)
- Profit before tax and earnings per share are reported after expensing £0.27 million of one-off Azule acquisition costs
- Recommended final dividend of 0.3p (2017 – 0.19p) which, if approved, will be paid on 12 April 2019 to shareholders on the Register at 22 March 2019
- Net Interest Margin reduced slightly to 8.2% (2017 – 8.3%)
- After tax return on equity increased to 10.3% (2017 – 8.7%)
- CET1 capital ratio of 19.3% (2017 – 26.3%)
- £47 million (2017 – £31 million) of unearned finance charges to contribute to earnings in future years

Chairman's Statement

for the year ended 30 September 2018

I am delighted to report the Group's first full year results as a bank. The last 12 months have seen the successful creation of a bank operating platform which will be the foundation for sustainable and profitable portfolio growth in future years. We have seen accelerated progress and success on all fronts and, ahead of schedule, completed our first asset diversification opportunity post year end through the acquisition of Azule Limited on 30 October 2018. On behalf of the Board, I would like to extend my congratulations and thanks to the Executive team and all our staff for their achievements this year and the successes that have made these results possible. I would also like to welcome our new colleagues from Azule to the Group and wish them well in their future careers with us.

Our organic lending has a strategic emphasis in the prime segment of our two existing lending markets, Business Asset Finance and Consumer Motor Finance. This prime focus provides resilience and this will strengthen further as we diversify asset classes and routes to market. The diversification of our funding model into accepting retail deposits has also been a great success. By providing excellent customer service, we have welcomed over 3,400 new retail deposit customers this year and seen high retention rates. Each of these components contributes to a model which aligns our risk appetite to our cautious outlook for the UK economy over the short to medium-term.

Profits, shareholder return and capital

Profit before tax for the year ended 30 September 2018 was £5.2 million (2017 – £3.6 million). This is an increase of 44% and has delivered a 33% growth in earnings per share to 2.0p (2017 – 1.5p). Furthermore, profit before tax is reported after the one-off costs of acquiring Azule. These results have expensed costs amounting to £0.27 million, while the corresponding revenue benefits for Azule only start accruing from the effective acquisition date of 30 October 2018.

This strong set of results reflects our ability to utilise quickly our cheaper funding and scale up against a banking platform that has a considerably higher cost base. All the while, continued investment is being made for the future through additional resource and technology enhancements to promote efficiencies, meet the needs of our customers and deliver increasing profitability.

Net assets increased by 10.1% to £42.6 million (2017 – £38.7 million) and the Group Common Equity Tier 1 ('CET1') Ratio remained a healthy 19.3% (2017 – 26.3%). This capital position has provided the financial foundation to deliver on our organic portfolio growth and diversification strategies. The Board recommends the payment of a final dividend of 0.3p per ordinary share, which is an increase of 58% over the previous year (2017 – 0.19p). If approved, the dividend will be paid on 12 April 2019 to shareholders on the register at 22 March 2019. We intend to maintain a progressive dividend policy moving forward.

Governance and culture

The Board's responsibility to provide effective governance continues to be my focus. The Board and its committees are working well and we will continue to strengthen these areas in response to the upcoming changes in the UK Corporate Governance Code. The industry is heavily regulated and the structure and effectiveness of our governance regime is instrumental to our success and the good relationship we have with our regulators.

The combined experience of the Board will be a continued strength as we maintain a strong culture of core values and behaviours.

Outlook

This has been a year of important achievements. The Group has delivered continued financial success and growth is ahead of our original plan, bringing forward investment costs previously anticipated in future years.

We have set ourselves ambitious targets and we will increase the level of investment in the resources and technology necessary to maintain a robust governance structure and enhance future profits growth. The growth in the lending portfolio to £219 million at the year end, together with the Azule acquisition, has provided a base to achieve our medium-term target portfolio size of £350 million, a year earlier than previously anticipated. Likewise, our Return on Equity of 10.3% is within reach of our target of 12.5%.

Our loan book is performing well and, whilst we are an aspirational business, we will remain alert to current political uncertainties in regard to Brexit and the possible economic headwinds as we plan and pursue a sustainable growth strategy.

I look forward with confidence to the year ahead, as we build on the successes of 2018.

Tim Franklin
Chairman

8 February 2019

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Chief Executive's Statement

for the year ended 30 September 2018

A year of achievement

We have made excellent progress this year. It was important that we executed our growth strategy quickly as we recognised that our new banking platform entailed significant costs and a larger capital base, both of which require scale to deliver the benefits of operational gearing. This growth, however, needed to retain focus and remain prudent. Our success has come from lending increasingly into the prime segment of the existing markets in which we already have considerable experience. This provided speed to market and matched our desire for a low risk strategy. As previously mentioned, the competitive nature of the prime sector has started to put pressure on our Net Interest Margin ('NIM'), which fell from 8.3% to 8.2%. The effect in 2018 is small but we expect this to continue as a greater proportion of our lending portfolio becomes prime.

The long-term benefits of transforming into a bank are starting to accrue. These benefits include lower funding costs, the ability to reach and retain a wider range of customers, greater flexibility to diversify our business and a reduction in the risks of relying on wholesale funding.

Statutory profit for the year increased to £5.2 million (2017 – £3.6 million). This is an increase of 44% and a considerable achievement bearing in mind the costs of investment in the banking model and the £0.27 million of costs expensed in the year to acquire Azule Limited. Operating costs increased to £8.6 million (2017 – £6.6 million) but we saw a small fall in our cost-to-income ratio to 32.3% (2017 – 32.7%). The costs to support the bank operating model such as IT, risk, compliance and audit are significant. In the coming year, we will invest an additional £0.7 million in people, premises and our platform to keep pace with the recent diversification initiatives and to enhance portfolio growth.

Earnings per share increased strongly, up 33% to 2.0p (2017 – 1.5p). This is calculated off a larger capital base with an average number of shares in issue of 212.2m (2017 – 190.4m shares).

Return on equity improved to 10.3% (2017 – 8.7%), taking a significant step towards our medium-term target of 12.5%. The profit after tax for the year was £4.2 million (2017 – £2.8 million) on an effective Corporation Tax rate of 19.0% (2017 – 23.3%).

We have recommended a final dividend of 0.3p (2017 – 0.19p). PCF has grown the annual dividend payments, following a return to the dividend list two years ago, while retaining a dividend cover that is commensurate with a strongly growing business and the capital intensive nature of banking. A scrip alternative will also be available.

Organic growth and portfolio

New business originations increased in the year by 75% to £148.4 million (2017 – £84.6 million), achieving our volume targets. Compared to a 24% increase the previous year, this was an outstanding achievement by the new business team.

The Business Finance Division provided strong growth. Our proposition for this division has been well received by the broker market and we are able to leverage our service levels to achieve the desired credit quality and yield criteria. SME lending increased in the year by 76% to £86.2 million (2017 – £48.9 million). At 30 September 2018, the business finance portfolio was £121 million (2017 – £73 million). This business line now makes up 55% of our total lending portfolio (2017 – 50%). This proportion will grow further following the consolidation of Azule.

Origination growth in our Consumer Finance Division was just as pronounced with advances increasing by 75% (2017 – fall of 3%). Consumer finance lending in the year was £62.2 million (2017 – £35.6 million). This was a pleasing result considering the well documented difficulties in the motor vehicle market, namely sharply lower new car sales, the diesel emissions scandal, the regulatory focus on Personal Contract Purchase ('PCP') and the introduction of the Worldwide Harmonised Light Vehicle Test Procedure ('WLTP') legislation. I stress that our success in this market is a result of our position in the used vehicle market, which has been much more resilient and largely unaffected by the headwinds noted above. 96% of all our consumer finance originations are for nearly new or older vehicles. It is also worth reiterating that PCF Bank does not offer a PCP product or take a residual position on finance contracts, therefore eliminating an element of risk from falling values on diesels and motor vehicles in general.

Our success in consumer finance is also due in part to a specialisation in leisure vehicles such as horseboxes, motorhomes and caravans, as well as the continued success of our repeat channel of returning customers. Even greater focus will be applied to these specialist markets in 2019 and the repeat channel will be further developed with a broader offering to the existing customer base. Our finance proposition in this market will require additional automation and technology investment to support our strategic aim of growth in the prime sector. This will be a priority for 2019. At 30 September 2018, the consumer finance motor portfolio was £98 million (2017 – £72 million).

The Group remains committed to its existing markets, supporting consumers and SMEs in the purchase of motor vehicles, plant and machinery. We have considerable experience in these markets, which produce attractive returns and where the lending is supported by assets with strong collateral characteristics. We will, however, continue to investigate other asset classes where we can achieve the right balance of margin and quality.

The total lending portfolio grew during the year by 50% to £219 million (2017 – £146 million). The portfolio is reported net of unearned finance charges of £47 million (2017 – £31 million). These finance charges, which will be attributed to income over the next four years, contribute towards certainty and quality of earnings in the forthcoming periods. These future earnings are further underpinned by the quality of the

portfolio, which continues to perform well. We remain alert to trends in the credit cycle, and, while we feel the collection environment is less buoyant than at any time in the last four years, the Group has been set on a course of prime credit quality origination for many years and our default rates reflect this. Of the total new business originations of £148.4 million in 2018, 70% are in our prime credit grades (2017 – 63%).

The impairment charge was maintained at 0.5% (2017 – 0.5%). As we have highlighted previously, the record low levels for impairment are being enhanced by the recovery of long outstanding debts arising during the credit crisis. These recoveries are reducing over time and becoming less material. The actual impairment charge for the current lending book, therefore, should be recognised as being slightly higher than the headline rate reported this year. This robust impairment performance provides comfort in the event that the broader economic backdrop deteriorates and, by maintaining prudent underwriting standards, we are confident that we will continue to generate sustainable returns.

Diversification and strategic initiatives

On 30 October 2018, post year end, we completed the acquisition of Azule Limited. Azule is a UK market leader in providing specialist funding and leasing services direct to individuals and businesses in the broadcast and media industry. Azule also operates in the audio visual and photography markets and offers its services across Europe, as well as in the UK. Azule has been providing finance for more than twenty years and has built a strong market presence, with a sales capability to place asset finance to a wide range of banks and lending institutions, as well as originating asset finance for its own portfolio. The acquisition offers revenue synergies with PCF's existing asset finance operations, given Azule's focus on financing a niche class of business-critical assets with strong collateral characteristics, for prime credit grade customers. For the year ended 30 June 2018, Azule originated £54.3 million of asset finance, reported revenues of £3.1 million and a profit before tax of £0.8 million. Since the acquisition, trading has been in line with management expectations.

The acquisition delivers the strategic objectives of diversification through a new asset class and a new route to market. The acquisition will immediately enhance Group earnings and the experienced team are an ideal fit, both operationally and culturally. The integration and growth of Azule is a priority for 2019, including analysing how Azule's European capabilities could enhance PCF's business in the future.

The Bank also has plans to enter the bridging property finance market. We have recruited a small team of experienced staff, the first of whom has already joined us. This will further diversify PCF's lending model with a new asset class. The skill set of the team is rooted in bridging finance, with more than 30 years' experience of lending to this market. This is an opportunity to enter a large market place in a measured way. This diversification places value in our new liquidity model and the capital efficiencies incumbent in property lending. The intention is to be a specialist property finance provider, avoiding the competitive 'master broker' relationships and building a new business line that meets our NIM and return on equity targets.

This is a new market for PCF and there is cost in building our operating model. We therefore expect this new business line to make a contribution only at the gross profit level in 2019.

These diversification initiatives are in addition to our existing model, where we continue to drive growth in our organic portfolio. We currently have no greater than a 3.5% share in each of those existing core markets and there is further scope to make strong progress in those business lines. We

- have recruited Gerald Grimes to the new position of Head of Commercial Development to enhance the existing lending proposition and provide resource within the new diversified business lines;
- will continue to target the prime sector to augment the quality of our portfolio and provide resilience should the economic environment become less favourable;
- will make significant investment to enhance our credit decisioning to facilitate scale; and
- will use our ever-expanding database of prime consumers to improve customer retention with targeted marketing campaigns and pilot schemes of complementary product types.

Each of these initiatives will involve continued investment in technology to modernise our service proposition, deliver efficiencies in business delivery and deploy automation. The use of technology has always been integral to the success of the Group and it will remain a key enabler of growth and increased profitability.

The diversifications since year end and the execution of these strategies has us on track to reach our initial portfolio target of £350 million a year earlier than planned. Our longer-term objective is a lending portfolio of £750 million by 30 September 2022.

Balance sheet and liquidity

The net assets of the Group increased by 10.1% to £42.6 million (2017 – £38.7 million). Our year end CET1 Ratio was 19.3% (2017 – 26.3%) and the liquidity measurement of Overall Liquidity Adequacy Ratio was 221% (2017 – 126%). These ratios are ahead of the minimum requirement and provided the capacity to grow customer lending in 2018 and to acquire Azule.

During the year, the Bank increased retail deposit balances to £191 million (2017 – £53 million). We now have over 4,500 retail deposit customers (2017 – 1,060) and the success of our deposit activities has been matched with positive feedback from customers on the savings platform and speed of service. We continue to deliver on our savings proposition of 'Simple Banking. At your service'. We offer a range of products, with maturities from 100 days to 7 years and have an average balance outstanding of approximately £42,000 (2017 – £48,000) for an average term of 2.5 years (2017 – 2.7 years). The average cost of retail deposits has increased slightly in the year to 2.1% (2017 – 2.0%). The savings products are targetted at middle to older aged savers, providing ease of service by utilising our on-line application portal or, if they prefer, by postal application.

During the year, we gained membership of the Bank of England's Sterling Monetary Framework which provides access to beneficial schemes, such as a Reserve Account and the Discount Window Facility. We also became a participant in the Term Funding Scheme which, along with existing wholesale debt facilities, provides a diversified funding source alongside our retail deposits.

Our funding strategy will primarily use retail deposits to fund growth, largely by matching business origination with fixed rate, fixed term deposits to preserve profit margin and reduce market volatility. On the evidence to date, we see long-term sustainability in this strategy and our ability to fund both organic growth and further acquisitions.

Regulatory environment and risk

The Financial Conduct Authority recently published a policy statement 'Assessing Creditworthiness in Consumer Credit'. The rules and guidance arising from the statement have not disrupted our current practices to any great extent, but further enhancements were adopted in November 2018.

The General Data Protection Regulation was adopted in the year and assurance work was completed by internal audit ahead of the implementation. A post-implementation review is planned for 2019.

During the year, the Board also considered the feedback provided by the Prudential Regulation Authority's review of bank recovery plans. We determined that the external assurance reviews completed pre-mobilisation, in addition to the indicators and governance scorecard currently in place, met the regulatory requirements for a bank of our scale and complexity. Further assurance work will be scheduled for 2019. We continually review our risk management framework to refine credit policy, monitor the appropriateness of our risk tolerances and are alert to emerging risks.

The Group aims to minimise the adverse impact on net interest margin caused by any increase in the cost of borrowing. We are a fixed rate lender and use fixed rate retail deposits and debt to protect our profit margin. The recent interest rate rises, therefore, have no effect on our existing portfolio and, if we enter a higher interest rate environment, our terms for new lending will need to reflect any increase in funding cost.

For the next accounting year ending 30 September 2019, the Group will adopt International Financial Reporting Standard 9 ('IFRS 9'). IFRS 9 will fundamentally change our loan loss impairment methodology. The Standard will replace the previous incurred loss approach with a forward looking expected credit loss approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. The Group expects the impact to its impairment charge to be between 10 - 15% of current provisioning levels. A further analysis can be found in note 5.21.3.

People

During the course of the year, PCF was awarded 2018 'Best New Provider' by the independent savings specialist, Savings Champion and 2018 'Top New Challenger Bank' by industry specialist, Leasing World. Therefore, both our lending and borrowing functions have been acknowledged for their expertise and levels of customer service, which is a great credit to all the staff at PCF. Our staff operate to high standards, putting the customer first and conducting business dealings in a professional and committed manner. I would like to thank them for their efforts in 2018.

Staff numbers have increased in the year to 73 (2017 – 59) and more recently we have welcomed the 17 staff of Azule into the PCF team.

Current trading and outlook

We have once again delivered on our own key strategic objectives and market expectations.

New business originations remain strong and we are currently experiencing a good impairment performance from our lending portfolio. Our focus, over the past few years and today, on prime quality customers provides a level of confidence. Economic uncertainty arising from either the current political fallout from Brexit or other macro-economic factors remains a risk. This could manifest itself as decreased demand in our market places or rising impairments through an economic downturn. Such risks have the potential to slow our progress, but we have built PCF's lending model on sound credit and operational foundations and that stands us in good stead.

The momentum of excellent portfolio growth in 2018 has carried forward into the new financial year and, with the acquisition of Azule, we expect further progress and financial success in 2019. We will continue to invest in new business lines, our technology platform and staff to build a robust structure which is able to take advantage of the opportunities and meet the challenges of a growing organisation.

There is immense potential at PCF Bank and, with the execution of our strategic objectives, I have confidence in the future growth prospects of the Group.

Scott Maybury
Chief Executive

8 February 2019

Market and Business Overview

Business model

The Bank historically has had two operating divisions

- Business Finance Division, which provides finance for vehicles, plant and equipment to SMEs; and
- Consumer Finance Division, which provides finance for motor vehicles to consumers.

Both divisions transact prime quality, collateralised business which is processed through *eQuote*, the Bank's internet-based proposal system, which is able to underwrite high volumes of proposals quickly, at low cost. It also enables us to send information and documentation to our customers, dealers and introducers electronically, therefore speeding up the application process.

The Group predominantly uses broker intermediaries as its route to market. However, it is increasingly developing direct relationships with suppliers and distributors in niche products and markets. Part of the initiative to develop direct relationships resulted in the recent acquisition of Azule Limited, a specialist lender to the broadcast and media industry, and the decision to diversify into bridging property finance.

Simple banking. At your service.

We offer simple, easy to understand finance products.

Finance customers repay us by way of monthly instalments and we maintain a focus on ensuring that these payments are affordable.

Savings customers benefit from competitive interest rates for a range of term deposits and notice accounts.

We aim to offer excellent levels of service to our customers, intermediaries and dealers by using technology to speed up processes whenever we can. Our customers are at the heart of all that we do.

Our risk philosophy

The Group's risk philosophy is to

- finance assets which have strong collateral characteristics and readily identifiable second-hand markets. As such, the Group's preference is to finance assets such as motor cars, light and heavy commercial vehicles, coaches, buses, manufacturing equipment, engineering equipment, construction equipment, broadcast equipment and property;
- have a wide spread of risk and avoid large concentrations of risk; and
- ensure we understand our customers' needs and that they are creditworthy and can afford the monthly payments due to us.

Strategy for 2018

Our strategic objective for the year was to prove the concept of raising and utilising retail deposits as a new bank to grow our business in our existing chosen markets of consumer motor finance and SME asset finance. It was pleasing to be able to achieve this objective and to see our work recognised by winning the Leasing World award for 'Top New Challenger Bank 2018' and the Savings Champion Award for 'Best New Provider'.

The diversification into broadcast and media equipment finance occurred after the year end and we will integrate and grow this new business line in 2019.

Savings

The Bank's target savings market is UK-domiciled, middle to older aged savers, and is estimated to be approximately £154 billion in size.

We offer Term Deposits, ranging from 1 year to 7 years, and Notice Accounts to retail customers, with interest rates appropriate to each duration.

Since the launch of PCF Bank, we have raised over £190 million of deposits and now have over 4,500 savings customers. Most of our customers apply on-line to open an account, using our portal, which is both quick and simple to understand. However, we are one of a small number of banks that also offer a postal application and accept cheques.

The average deposit balance is approximately £42,000 with 92.5% of our deposit holdings in term deposit accounts, which have an average term of 2½ years and a blended rate of below 2.1%.

The vehicle and asset finance markets

Vehicle and asset finance are commonly used sources of finance for consumers and business, providing significant cash flow benefits for those using them. The markets in the UK are mature and vast, with PCF Bank having a share of no greater than 3.5% of each.

The asset finance market has performed very strongly in recent years and, in the twelve months to September 2018, members of The Finance & Leasing Association ('FLA') reported new business lending of £32.1 billion, which represented a 3% increase on the previous year.

The consumer used car finance market has performed equally well, although there has been a decline in new car sales. PCF Bank finances predominantly used cars and so has not been as affected by this sharp slowdown in the new car market. In the twelve months to September 2018, FLA members advanced £19.3 billion (2017 – 18.3 billion) and £17.2 billion (2017 – £14.6 billion) in respect of new and used cars respectively.

Competition

Due to the fact that both of our chosen markets are mature and sizeable, there is a significantly competitive nature to both of them. There are long established players who have sizeable market shares, but there are always new entrants coming into the sector, in particular in the business finance market. This continues to create a downward pressure on rates and margins.

As a relatively small participant, PCF Bank has never taken the approach of writing volume for volume's sake and has actively adopted a pricing policy of matching interest rate to risk. Our NIM has not been too adversely affected in the current year, however, we expect to see this fall in subsequent periods as we compete increasingly in the prime markets.

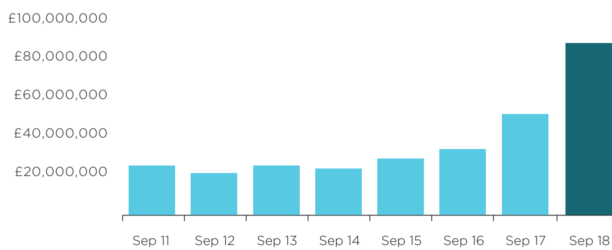
Business Finance Division

The Business Finance Division provides hire purchase and finance lease agreements to sole traders, partnerships and limited companies to help them acquire vehicles, plant and equipment.

The division had another strong year of growth, increasing new business originations from £49 million to £86.2 million, which represented a 76% increase on the previous year. 31% of the originations came from prime customers whom PCF Bank had been unable to attract in previous years due to its cost of funds. As a bank, with a much-reduced cost of funds, we are now able to penetrate this section of the market and, as it represents approximately 80% of the total market, it gives PCF Bank significant potential for further growth.

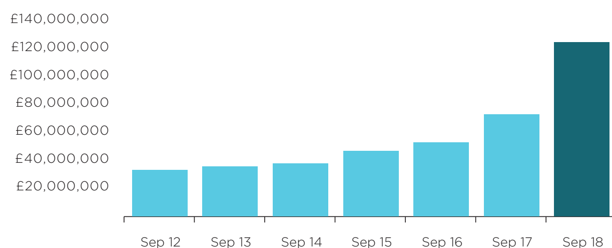
Prime customers tend to acquire newer and more expensive vehicles and equipment, resulting in our average transaction increasing from £32,800 to £40,600. We expect this trend to continue.

New business volumes



As a result of the increase in new business originations, the division's portfolio also increased significantly. At 30 September 2018, it had grown to £121 million, representing a 66% increase. We expect the division's recent growth to continue and for it to be the dominant part of our business in future years.

Portfolio



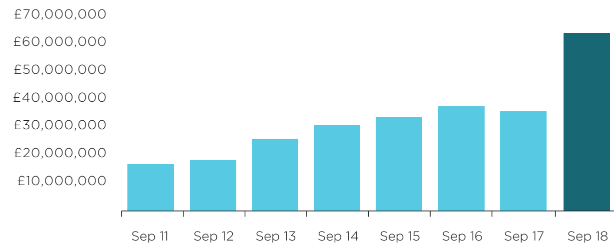
The portfolio is made up of almost 4,400 individual agreements with an average outstanding balance of approximately £27,000 and no customer having an aggregate exposure of more than 1% of the Group's total portfolio. Most of our largest customers are longstanding, with a number of them having had agreements with PCF Bank for more than ten years.

Consumer Finance Division

The Consumer Finance Division provides hire purchase and conditional sale agreements to retail customers to help them acquire vehicles. The vast majority of vehicles which we finance are used, so have suffered their initial depreciation and therefore represent good collateral to support our finance. Whilst the majority of finance we provide is in respect of motor cars, we also have specialist knowledge to enable us to finance classic cars, caravans, motorhomes and horseboxes.

This division also performed strongly during the year, increasing new business originations by 75% from £35.6 million in 2017 to £62.2 million. The major success for the division was the level of business written using our long-term finance product, which helps consumers to purchase leisure vehicles such as caravans, motorhomes and horseboxes. This product accounted for almost £11 million of our new business originations during the year and was typically for prime customers.

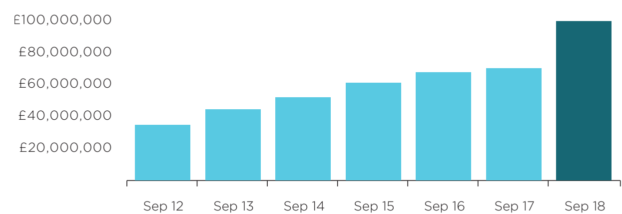
New business volumes



Our Consumer Finance Division's portfolio increased by 36% during the year from £72 million to £98 million.

The portfolio is made up of almost 10,000 individual agreements with an average outstanding balance of approximately £9,800.

Portfolio

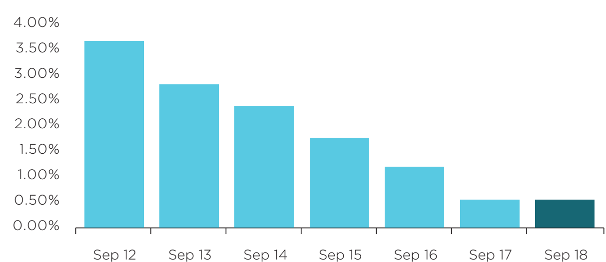


Total portfolio performance

The portfolio increased by 50% from £146 million to £219 million and performed in line with our expectations, with impairment charges remaining stable at 0.5%. The acquisition of Azule Limited after the year end contributed a further increase of £16.5 million to the size of the portfolio.

The quality of our portfolio continues to improve as we write increasing levels of prime business. The percentage of our portfolio which is comprised of prime business increased from 57% to 65% during the year. Our move into the prime segments of the market should help to maintain the low impairment charge for our portfolio, although we do recognise that there is greater uncertainty in economic outlook than there has been for some time.

Impairment Charges



At 30 September 2018, over 96% of all customer's agreements were up to date.

Risk overview

Overview and culture

Managing risk effectively is important to the Bank and is fundamental to our strategy. PCF Bank is a low cost, low risk, UK focused retail and commercial lending business. This has been achieved by maintaining a conservative business model which embodies a culture based on a prudent appetite for risk.

The Group's risk approach is founded on an effective control framework which guides how our employees approach their work, the way they behave and the decisions they make. The type and level of risk we are prepared to seek, accept or tolerate, otherwise known as risk appetite, works in tandem with our strategic plan and is approved by the Board. Our risk appetite is then embedded within policies, authorities and limits across the Group.

A clearly defined Risk Appetite Statement is in place which allows the setting of detailed risk appetite and reporting metrics for principal risks. The Risk Appetite Statement sets out the level of risk that the Group is willing to take in pursuit of its business objectives.

The Board ensures that the Group actively embraces a strong risk culture, where all staff are accountable for directly assessing, controlling and mitigating risks. The Board leads in setting the risk appetite and ensuring that the Risk Management Framework ('RMF') is fully embedded, with a strong focus on the adherence to risk appetite in all metrics.

Staff performance management and reward practices all have key risk inputs and a focus on risk management in their design. The Group aims for employees to be risk aware and to strike the right balance between delivering on objectives, individual accountability and maintaining a safe and secure business.

The RMF outlines the governance, policies, metrics, procedures, systems, tools, techniques and activities by which the Board and senior management establish and monitor PCF Bank's risk appetite and manage risk effectively.

Risk management refers to the process of identification, monitoring, reporting and response to the risks to which the Group is exposed. Senior management ensure that the RMF is embedded in its day-to-day management and control activities. It is important that the RMF takes account of strategic growth and business model changes.

Risk is managed using the 'Three Lines of Defence' principle, separating risk origination from risk oversight and risk assurance. Governance is provided through a formal committee process, including the Board and the Audit & Risk Committee ('ARC').

Risk strategy

The Group has clearly defined its risk management objectives and has a strategy to deliver them. The risk management strategy is to

- identify principal and emerging risks;
- define risk appetite and ensure that the strategic plans are consistent with it;
- avoid business activities that are not aligned to the Group's risk appetite or that do not provide the appropriate balance of risk and reward;
- manage risk within the business with independent effective oversight;
- ensure that the business lines are supported by effective risk controls, technology and technical competencies;
- manage the risk profile to ensure that the business strategy can withstand a range of adverse conditions;
- ensure a sound risk control environment and risk aware culture;
- ensure that remuneration practices take into account prudent risk taking;
- provide enhanced training and compliance awareness sessions to all employees; and
- aggregate and look at risk across the Group so that the business is sufficiently aware of its key vulnerabilities.

The Board focuses on the key risks with clear risk tolerance and accountability for risks. Risk management focuses on the key risks that could prevent the achievement of strategic objectives. Risk management is integrated into the corporate framework and business planning with regular reporting to the Board and other committees, such as the Audit and Risk Committee ('ARC') and Executive Committee ('ExCo').

Principal risks

Principal risks are the primary risks that the business faces which could impact the delivery of the Group's strategic objectives. The results, findings and conclusions of the risk appetite metrics are regularly reported to ExCo, ARC and the Board to support their governance role in monitoring material exposures to principal risks and the scope of mitigation strategies.

The Group has identified eight principal risks which could impact the delivery of its strategic objectives and has defined a Board approved risk appetite, with key mitigating factors and controls for the following risks.

Strategic & business risk

Definition - Strategic and business risk is the risk which affects the Group's ability to achieve its corporate and strategic objectives.

Statement - In order to maintain investor confidence in the Group's AIM listing and market expectations, the Board operates the business in such a way as to achieve a consistent increase in profits and shareholders' return.

Key mitigating factors and controls

- The Group does not intend to undertake any medium to long-term strategic actions within its business model which would put at risk its vision of being a successful, specialist lender in its chosen and target markets, backed by a strong and dependable savings franchise.
- The Group will monitor, review and challenge its performance against strategy using established key performance indicators.
- The Group will not put its core strategic and business objectives at a level of risk which is beyond its financial resources and operational capabilities under both normal and stressed conditions.
- Where the Group is going through a strategic change programme, it will consider, in addition to readiness and any risks to delivery, the impact of that change on the business in terms of customers, staff, the control environment and reputational impacts.
- The Board will set challenging but achievable financial targets.
- The Board and its committees will regularly monitor the business and macro-economic assumptions underlying its business, capital and liquidity plans.
- The Board will align the remuneration of senior management to key strategic objectives.
- The Board will be alert to emerging risks to the business.

Credit risk

Definition - Credit risk is the risk that a borrower fails to pay the interest or to repay the capital on the Group's loans and receivables, thereby giving rise to the Group incurring a financial loss on that borrower's account.

Statement - The Group aims to minimise the impact on profitability from defaults through a prudent and stringent underwriting policy and case management when customers are in difficulty.

Key mitigating factors and controls

- The Group will focus its lending on its specific areas of expertise.
- The Group currently limits its portfolio lending to the UK.
- The Group will embed clear lending policies in all business areas.
- The Group will review performance against risk appetite.
- The Group will hold credit committee meetings for larger exposures or new areas at risk.
- The Group will stress the portfolio to test resilience.
- The Group will conduct a product risk assessment on any new business lines.

Capital risk

Definition - Capital risk is the risk that the Group will have insufficient capital resources to support the business.

Statement - The Group aims to maintain a sufficient level of capital above the total regulatory capital requirement and CRD IV capital buffers, as detailed in the Internal Capital Adequacy Assessment Process ('ICAAP'). The level of surplus capital held will be formally reviewed by the Asset & Liability Committee ('ALCO'), ExCo, ARC and the Board on at least an annual basis, with metrics produced for review by the Board.

Key mitigating factors and controls

- ARC is responsible for reviewing and approving assumptions and stress scenarios in the planning stages of the ICAAP and Internal Liquidity Adequacy Assessment Process ('ILAAP'), including substantive changes to the previous assessment.
- The Group will consider the need for a Capital Planning Buffer ('CPB'), over and above the CRD IV capital buffers, to mitigate the risks of exposures under appropriate stress scenarios.
- The Group will monitor closely and regularly its capital and leverage ratios to ensure that it meets current and future regulatory requirements.
- The Group is able to accumulate additional capital through profits and by raising new equity as a listed company on a recognised stock exchange.
- The Group has a supportive majority shareholder who has participated in previous capital raisings.
- The Group is able to manage the demand for capital through management actions including adjusting its lending strategy.
- The Group will regularly conduct stress tests and sensitivity analysis on a forward-looking basis.
- The Group will regularly conduct forecasting and scenario planning.

Liquidity & funding risk

Definition - Liquidity and funding risk is the risk that the Group is not able to fund new business originations or meet cash flow or collateral obligations as they fall due without adversely affecting either its daily operations or its financial health.

Statement - The Group will at all times maintain liquidity resources that are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The Group will not tolerate liquidity risk that leads to it being unable to meet its liabilities as they fall due in a scenario consistent with its standard Pillar 1 and Pillar 2 ILAAP stress tests. The Group will maintain strong relationships with its banks for funding purposes, be active in the retail deposit taking market and will maintain a diversified funding strategy. The Group will align the tenor of its funding to the average effective life of its loan portfolio. The Group will continue to maintain wholesale debt and have at its disposal an appropriate level of committed facility headroom.

The Group will operate a treasury function which will be responsible for the day-to-day management of its liquidity and funding position and its implementation of the Board approved funding plan.

Key mitigating factors and controls

- The Group will at all times adhere to the Overall Liquidity Adequacy Rule ('OLAR') and operate within its risk tolerance.
- The Group will ensure compliance with the OLAR and liquidity risk tolerance and that liquidity stress testing is conducted as part of the ILAAP review.
- The Group will maintain its liquidity resources in the form of high quality liquid assets ('HQLA'). The amount of these will, at all times, exceed the minimum required by the OLAR and liquidity risk tolerance.
- The Group will carry out forward modelling to identify liquidity mismatches.

Market & interest rate risk

Definition - Market risk is the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. Market risk, therefore, results from all positions included in the Group's banking book, as well as from foreign exchange and other risk positions. Interest rate risk is the risk that the Group will be adversely affected by changes in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

Statement - The Group aims to minimise the adverse impact on NIM caused by an increased cost of variable rate borrowings and, where necessary, to fix the cost of borrowing through the use of interest rate swaps. The Group does not trade wholesale financial instruments and therefore does not have a trading book.

Key mitigating factors and controls

- The Group does not seek to take or expose itself to market risk and does not carry out proprietary trading.
- The Group's balance sheet exposures are predominantly in Sterling, so it has little foreign exchange risks. Some assets are bought or sold in foreign currency as are broking transactions, but these are short-term exposures.
- The Group manages its Interest Rate Risk in the Banking Book ('IRRBB') by identifying and quantifying interest rate risk gaps due to mismatches between assets, liabilities and existing interest rate swaps.
- Where a significant interest rate gap is identified, the Group will execute an interest rate swap to hedge the position. It will ensure that the change in Economic Value of Equity ('EVE') and Earnings at Risk ('EaR') are managed within policy limits at all times.

Operational risk

Definition - Operational risk is the risk of loss arising from inadequate or failed controls or processes, people and systems or from external events.

Statement - The Group will maintain a strong internal control environment to mitigate operational risk which is inherent to its business activities and to minimise the financial impact of operational risk arising from risks such as IT disruption, human error, a breakdown of procedures, non-compliance with policy and internal or external fraud.

Key mitigating factors and controls

- The Group will review IT system architecture to ensure systems are resilient and that the confidentiality, integrity and availability of critical systems and information assets are protected against cyber attacks.
- The Group will implement a robust project governance structure and delivery framework with respect to IT and change management to ensure there are appropriate controls in place covering scoping and planning, design, initiation, monitoring and risk assessment.
- The Group will implement actions from internal and external IT assurance reviews to enhance the resilience of systems supporting the processes most critical to customers.
- The Group will maintain competitive working practices to attract, retain and engage high quality employees.
- The Group will invest in enhanced protection of customer information, including limiting access to key systems and enhancing the security, durability and accessibility of critical information.
- The Group will manage effectively change projects so that they do not cause serious disruption or create processing inefficiencies to the business during or after their implementation.
- The Group will maintain a strong internal control environment and adopt policies and procedures to detect and prevent the use of its business for operational risk, money laundering, facilitating tax evasion, bribery and activities prohibited by legal and regulatory requirements.
- The Group will provide enhanced training and compliance awareness sessions to all employees.
- The Group will formally review and ratify all new products and business lines through its Marketing & New Products Approval Committee ('MNPA').

Regulatory risk

Definition - Regulatory risk is the risk that the Group is exposed to fines, censure, legal or enforcement action, civil or criminal proceedings due to failing to comply with applicable laws, regulations, codes of conduct or legal obligations.

Statement - The Group has put in place appropriate measures to avoid regulatory breaches, fines, censure, legal or enforcement action due to failing to comply with applicable laws, regulations and codes of conduct or legal obligations.

Key mitigating factors and controls

- The Group engages with industry bodies, such as UK Finance and The Finance and Leasing Association, and seeks external advice from auditors and consultants.
- Group policies and procedures set out the principles and key controls that should apply across the business and which are aligned to the Group's risk policies. Business units assess and implement policy and regulatory requirements and establish controls to ensure compliance. There is mandatory training for all employees.
- Risk & Compliance provide oversight, proactive support and constructive challenge to the business in identifying and managing regulatory issues.
- When appropriate, Risk & Compliance will conduct thematic reviews of regulatory compliance across businesses and divisions.

Conduct risk

Definition - Conduct risk is the risk of customer detriment, regulatory censure or a reduction in earnings value, through financial or reputational loss from an inappropriate or poor customer outcome or from business conduct. It is the risk that the Group's behaviour results in poor customer outcomes, exposing the firm to recourse from its customers, loss of business from reduced trading and the potential for regulatory action.

Statement - The Group has no appetite for conduct risk events through product design, corporate culture or operational processes. The Group restricts its activities to areas of established expertise and ensures the culture of the organisation delivers a fair outcome for customers.

Key mitigating factors and controls

- The Board has an approved statement on culture, adopted throughout the organisation.
- Customer focused policies and procedures. These reflect the customer outcomes the Board intends to achieve (e.g. product development, governance and distribution).
- Conduct risk appetite is established at Group and business area level.
- Customer needs are explicitly considered within business and product level planning and strategy.
- Enhanced product governance framework and MNPA ensures that products continue to offer fair value and meet the needs of the relevant target market throughout their life cycle.
- Enhanced recruitment, training and a focus on how the Group manages employee performance with clear customer accountabilities.
- Learning from past mistakes, including root cause analysis.
- Clear customer accountabilities for staff, with rewards and customer centric feedback built into performance appraisals.
- Complaints are viewed as a valuable source of management information and we recognise that, despite our intolerance of conduct risk failures, mistakes do happen and when they do we must rectify and learn from them.
- A programme of assurance reviews centred on conduct risk clusters, including product design and governance reviews, periodic product reviews, culture measurement, marketing and promotion reviews, the treatment of vulnerable customers and complaint handling.

Emerging risks

Emerging risks are those future risks which have been identified as possibly having an impact on the Group's future performance, compromise its existing strategy or threaten its business model.

Interest rate environment

Risk - The low interest rate environment, introduced to stimulate growth following the financial crisis, has persisted for longer than first expected. Interest rates have since increased and, if rates continue to increase or growth slows, unemployment or business failure may rise and loan servicing costs may increase, which could cause an increase in credit losses.

Mitigation - The Group continues to monitor these risks, although UK growth has remained positive in the face of domestic and international headwinds. The Group has not felt any significant adverse consequences but will continue to monitor the interest rate environment. The Group also lends at fixed rates, which mitigates the impact of rising rates on individual borrowers.

Future direction - Market consensus is that the short-term outlook for the UK will see interest rates increase by between ¼ and ½ percentage points during 2019.

Brexit and economic environment

Risk - The Group has considered the potential for the process of the UK leaving the European Union ('EU') to lead to stress events in addition to those identified in the ILAAP and ICAAP assessments. Although Brexit has the potential to disrupt UK banks' access to markets in the remainder of the EU, the Group has only limited brokerage business outside the UK following its acquisition of Azule Limited. However, there is broad consensus among economists that Brexit will likely, in the short-term at least, reduce the UK's real per-capita income level through changes to interest rates, employment, business profitability, household income and indebtedness. Such a result will heighten credit risk in the portfolio.

Management believes that Brexit's potential effect on the Group would be indirect and confined to the events identified above. Management's immediate concern is primarily focused on the negative effect that the prolonged process of Brexit is having on consumer and business sentiment and the effect this is having on demand in our core areas of business.

Mitigation - The Group continues to monitor closely the Brexit negotiations and the potential economic impact on credit risk and implications for the business. It will decide whether internal scenario planning is required as the political and economic situation develops.

Future direction - The Government has published a series of technical notices to allow businesses and citizens to understand what they would need to do under different Brexit scenarios, so they can make informed plans and preparations. Management will continue to review relevant technical notices as they are released and will model different Brexit outcomes, specifically looking at the effects it might have on the capital and liquidity of the Group.

Technology and system security

Risk - Cyber attacks and data leakage are daily threats to organisations globally. These threats are becoming increasingly sophisticated. The Group recognises that information is a critical asset and that how information is managed, controlled and protected can have a significant impact on the delivery of its services and the security of its customers. Information must be protected from unauthorised use, disclosure, modification, damage and loss.

Mitigation - The Board has approved a Cyber Strategy using best practice guidelines from the National Cyber Security Centre, the FCA and the Bank of England. This strategy sets out in detail how the Group will work to ensure it remains protected against the increasing threat of cyber atatcks. This strategy is the framework for the Group's response to these threats and sets out

five core objectives which have been delivered over the course of the financial year by implementing a number of cyber security led initiatives. These objectives are

- Understand cyber risk and act responsibly
- Understand the extent and potential impact of exposure to the attack
- Operate defences consistently across the Group's cyberspace, physical site and organisations
- Incident report
- Strengthen collaboration

The Group continues to be accredited under the Government's Cyber Essentials framework and is a member of the Cyber Security Information Sharing Partnership ('CiSP').

Future direction - The prevention of cybercrime remains a key focus for the Group. A significant enhancement to the Group's security is the introduction of a Security Operation Centre ('SOC'). The SOC will provide 24/7 monitoring of the Group's network for vulnerabilities, breaches, attacks and otherwise unusual behaviour, which could be indicative of undesirable and potentially harmful activity within its infrastructure.

Technological and competitive changes to the motor vehicle market

Risk - The Group has a substantial lending portfolio in motor cars which equates to over 48% of total loans and receivables. Technical obsolescence could result in a concentrated exposure to diesel vehicles and may lead to a diminution of vehicle values if defensive action is not taken. The evolution of electronic or autonomous vehicles is seen as long-term risk.

Mitigation - The sector risks are mitigated by collateral backed lending, sensible loan to value lending, low average lending balances, a wide range of models and marques for residual diversification and an increased focus on prime motor finance. The Group does not offer finance products that take a residual position in the motor vehicle.

Future direction - Continued successful participation in this sector requires a good understanding of the upcoming changes in regulation, prudent lending criteria and sensible lending practices. The Group will monitor its portfolio on a regular basis and amend its lending criteria to reflect changes in economic conditions and the vehicle market, including research into the electric vehicle sector. The Group has over twenty years' experience of the consumer motor finance sector.

By order of the Board

Scott Maybury

8 February 2019

Corporate Governance Report

UK Corporate Governance Code 2016 ('the Code') – Statement of Compliance

The Board of Directors (the 'Board') is committed to the highest standards of corporate governance and complies with most material aspects of the UK Corporate Governance Code 2016 (the 'Code'). The current composition of the Board and ARC represents a departure from the application of the Code. ARC includes only one independent non-executive director. The Group will appoint an additional independent non-executive director to the Board and ARC in 2019 and will consider the appointment of a Senior Independent non-executive director in 2020. Until our proposed changes to the membership of ARC are implemented, we consider that the experience and qualifications of the two members of ARC who are not independent non-executive directors continues to serve us well. The Code sets out the principles relating to the good governance of companies.

The Code is available at *www.frc.org.uk*

Corporate governance and culture starts at the top of any company and the Board and the Executive Committee together are driving the values, behaviours and attitudes that support the Group's strategy. The Board has an agreed statement on culture which has been adopted throughout the organisation.

Given the size of the Group and the policy of active dialogue being maintained with institutional shareholders by the executive directors, the Board is of the opinion that the appointment of a Senior Independent Director is not necessary at this current time. The Board's thinking on its composition in the future is detailed above.

This Corporate Governance Report describes how the Board has applied the principles of the Code and provides a clear and comprehensive description of the Group's governance arrangements.

It is the Board's intention to adopt the UK Corporate Governance Code 2018 which becomes effective for the Group in the accounting period commencing 1 October 2019.

Chairman's introduction

Dear shareholder,

As the Chairman of PCF Group, I am delighted to present our Corporate Governance Report for the year ended 30 September 2018.

The Board consists of eight directors and the majority shareholder currently has two representatives on it. The following pages describe how we comply with the main principles of the Code, how the Board and Committee structures operate and the key areas of focus for both the Board and its committees during the year. The existing governance framework has proved effective in 2018 and, where required, there have been enhancements to the Risk Management Framework to keep pace with changes in the business.

The Board recognises that one of the keys to the Group's long-term success is the development of a healthy corporate culture. As we continue to execute our strategy, the Group's size and complexity will continue to increase and the Board is cognisant that the Group's culture has to evolve alongside this.

Tim Franklin
Chairman

8 February 2019

Board of Directors

Tim Franklin

Non-executive Chairman,
appointed on 6 December 2016

Tim has a financial services background and has worked in banking for a number of organisations for over 30 years. He is currently a non-executive director of the Post Office, which is the UK's largest financial services retailer by number of outlets and is a member of its Audit Committee. He is also a non-executive director of Post Office Insurance and Topaz Finance Limited. Tim is an Institute of Leadership & Management Level 7 Coach and works extensively with senior executives across many industries, both in the UK and internationally.

Tim is a member of the Nomination & Remuneration Committee.

David Morgan

Non-executive director,
appointed on 9 July 2012

David has over 35 years' experience in international banking, building his career at Standard Chartered Bank in Europe and the Far East. Since leaving Standard Chartered in 2003, he has been involved in a range of business advisory and non-executive roles. He is currently a non-executive director of Somers Limited, Bermuda Commercial Bank Limited and Waverton Investment Management Limited. He is also Chairman of Harlequin FC, the Premiership rugby club.

David is a member of the Audit & Risk Committee and the Nomination & Remuneration Committee.

Mark Brown

Non-executive director,
appointed on 1 December 2015

Mark has been Chairman of Stockdale Securities since November 2014. He was previously Chief Executive of Collins Stewart Hawkpoint and brings a wealth of experience and leadership in both small and large financial services business. Having worked as Global Head of Research for ABN AMRO and HSBC and as Chief Executive of ABN's UK equities business, Mark led the successful turnaround of Arbuthnot Securities followed by Collins Stewart Hawkpoint.

Mark is a member the Nomination & Remuneration Committee.

Christine Higgins

Independent non-executive director,
appointed on 13 June 2017

Christine is a chartered accountant with over 25 years' experience in asset finance, working at 9 international banks. Over the last 9 years, she has served as non-executive director on a number of boards in the health, housing, leisure and finance sectors, including as chair of the audit and risk committee. She is currently a non-executive director of Buckinghamshire Building Society and chairs its audit committee.

Christine is the Chair of the Audit & Risk Committee and a member of the Nomination & Remuneration Committee.

David Titmuss

Independent non-executive director,
appointed on 11 July 2017

David has over 25 years' experience in both large and small financial services organisations, with a particular emphasis on customer acquisition and database management. His corporate background includes working at a senior level in public and privately backed businesses. He has also led companies both as CEO and as a board director. Latterly, David headed the marketing function of *webuyanycar.com* and is recognised as an expert in digital marketing and advising businesses on cost-effective customer acquisition.

David is the Chairman of the Nomination & Remuneration Committee.

Scott Maybury

Chief Executive ('CEO'),
appointed on 12 January 1994

Scott holds a degree in business studies and is a qualified accountant. He spent 6 years with BHP Billiton, one of Australia's largest multi-national corporations and five years with McDonnell Douglas Bank. He is one of the founding directors of PCF Group plc and was previously Finance Director until October 2008. Scott chaired the Project Board for the application and implementation of the banking licence initiative at PCF.

Robert Murray

Managing Director ('MD'),
appointed on 19 October 1993

Robert holds the ACIB Banking diploma and has over 40 years' banking and finance experience. He has extensive experience in lending to personal, corporate and international customers. He is one the founding directors of PCF Group plc.

David Bull

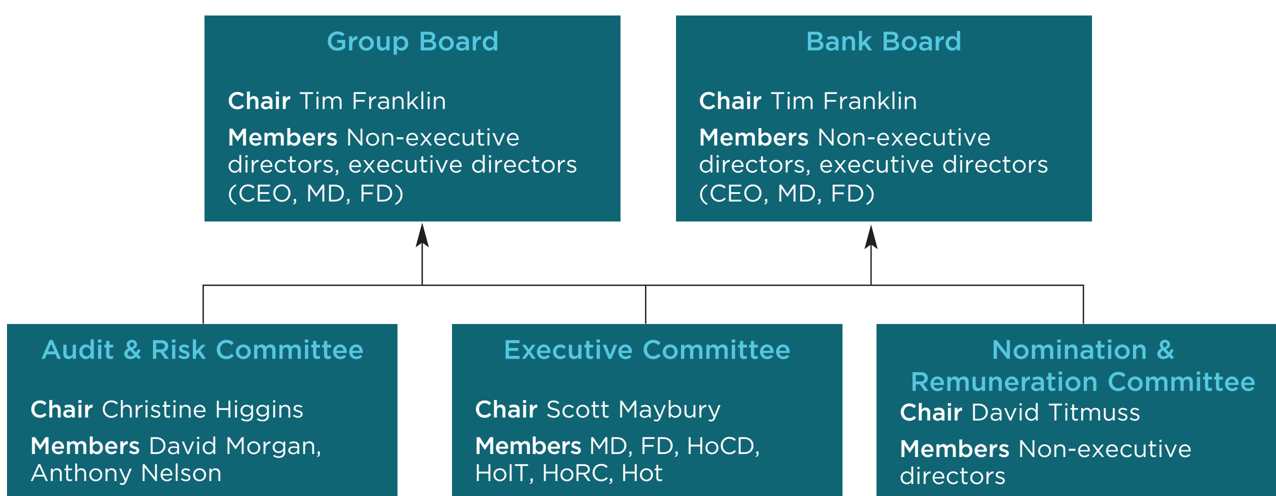
Finance Director ('FD'),
appointed on 3 August 2015

David holds a first-class degree in Mathematics and Statistics and is a chartered accountant. After qualifying in 1996, he has worked in the banking sector across a number of institutions, including KPMG, Deutsche Bank and was interim Chief Financial Accountant at the Bank of England. Before joining PCF Group, David was the Director of Finance and Company Secretary of Hampshire Trust Bank plc, a specialist challenger bank, where he was instrumental in setting up their banking operations.

Resignation of directors during the year

There were no resignations during the year.

Corporate Governance Structure



The Board is replicated at Group and PCF Bank Limited (the 'Bank') and the composition of both Boards is identical.

The Boards meet no less than nine times a year and their primary responsibilities are to provide leadership, set strategic objectives and develop robust corporate governance and risk management practices. The Boards delegate specific powers to other committees, as shown in the chart above.

The effectiveness of the Boards is the responsibility of the Independent non-executive Chairman. Board performance is reviewed at least annually. The Chairman will meet formally on an annual basis with the non-executive directors to measure board effectiveness, but this is also covered on an ongoing basis throughout the year through regular board meetings. The non-executive directors annually review the Chairman's performance. The performance of the Chief Executive is appraised annually by the Chairman and the other members of the Nomination & Remuneration Committee.

The Boards are supported by a number of established committees, namely the Executive Committee, Audit & Risk Committee and Nomination & Remuneration Committee.

Each committee has a set of clearly defined Terms of Reference. Responsibility for the implementation of the Group's strategies and day-to-day business is delegated to management. The organisation structure sets out clear segregation of roles and responsibilities, lines of accountability and levels of authority to ensure effective and independent stewardship.

Board balance and independence

The Group Board and Bank Board consist of three independent non-executive directors, two non-executive directors and three executive directors, and are chaired by Tim Franklin, one of the independent non-executive directors. The profiles of the members of the Board are provided on pages 22 to 23. The tenure of each of the three independent non-executive directors is less than nine years, which is in accordance with Provision B.1.1 of the Code.

The Boards consist of members with diverse and relevant professional backgrounds, skills, extensive experience and knowledge in the areas of banking, finance, marketing, information technology, business, general management and strategy required for the successful direction of the Group and the Bank.

With their diversity of skills, the Boards have been able to provide clear and effective collective leadership and have brought informed and independent judgement to strategy and performance to ensure that the highest standards of conduct and integrity are always at the core of the Group. None of the independent non-executive directors participate in the day-to-day management of the Group or the Bank.

The presence of the independent non-executive directors is essential in providing unbiased and independent opinions, advice and judgements to ensure that the interests, not only of the Group, but also of shareholders, employees, customers, suppliers and other communities in which the Group conducts its business are well represented and considered.

The Audit & Risk Committee ('ARC') monitors the effectiveness of the Group's financial reporting systems, internal control and risk management and the integrity of the Group's external and internal audit process.

The Nomination & Remuneration Committee ('RemCo') reviews the structure and size of the Board and appraises the performance and remuneration of the executive directors and other senior executives. The committee considered the appropriateness of the Board's composition during the year and concluded that it has the appropriate mix of skills and experience to fulfil its responsibilities.

The Bank Board holds separate board meetings immediately following the meetings of the Group Board. The Boards are collectively responsible for the success of the Group and the Bank.

Roles and responsibilities

The Board's role is to provide entrepreneurial leadership within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the strategic aims and ensures that the necessary financial and human resources are in place to meet objectives and review management performance.

The Board's roles and responsibilities include, without limitation, the following

- developing corporate objectives, policies and strategies;
- reviewing and adopting the strategic business plan for the Group's effective business performance;
- overseeing the conduct of the Group's business to evaluate whether the business is being managed effectively;
- identifying principal risks and ensuring the implementation of appropriate systems to manage and monitor identified risks effectively;
- ensuring that all candidates appointed to senior management positions are of the required calibre and that there are programmes in place to enable orderly succession of senior management;
- ensuring effective communication with shareholders and other stakeholders;
- reviewing the efficacy of internal control and of management information, including systems for compliance with applicable laws, regulations, rules, directives, and guidelines;
- setting the Group's values and standards and ensuring that its obligations to shareholders and other stakeholders are understood and met;
- approving the risk management framework, insurance and mitigation; and
- reviewing and approving acquisitions and disposals of undertakings and major investments.

The Board has adopted Terms of Reference ('ToR') which set out the Board's strategic intent and outline the Board's roles and responsibilities. ToR is a source reference and primary induction literature for existing and prospective members of the Board and is consistent with the Code.

The Board ToR also sets out the independence, duties and responsibilities that the members of the Board must observe in the performance of their duties. The Board ToR is subject to review on at least an annual basis.

Roles and responsibilities of the Chairman and Chief Executive

The Code recommends that there should be a clear division of responsibilities at the head of the Company to ensure that there is proper balance of power and authority.

All executive and non-executive directors have unrestricted and timely access to all relevant information necessary for informed decision making. The Chairman encourages participation and deliberation by the Board members to make best use of their collective wisdom and to promote consensus building.

Matters which are reserved for the Board's approval and delegation of powers to the Board Committees are set out in an approved framework on limits of authority.

The business affairs of the Group are governed by the Group's delegated authorities and its policy and procedures manuals. Any non-compliance issues are brought to the attention of the Executive Committee, Audit & Risk Committee and/or the Board for effective supervisory decision making and proper governance.

As the Group is expanding and its business growing, the division of authority is reviewed constantly to ensure that management's efficiency and performance remain at its level best.

Chairman

Tim Franklin served as Chairman throughout the year. The Chairman is responsible for the leadership of the Board and ensuring the effective running and management of the Board. He is also responsible for the Board's oversight of the Group's affairs, which includes ensuring that the directors receive accurate, timely and clear information, and the effective contribution of the non-executive directors. He has overall responsibility for leading the development of the Group's culture by the governing body as a whole.

Chief Executive

Scott Maybury served as Chief Executive throughout the year. He is responsible for the day-to-day management and executive leadership of the business. His other responsibilities include the progress and development of objectives for the Group, managing the Group's risk exposure, implementing the decisions of the Board, staff development and ensuring effective communication with all stakeholders and regulatory bodies. He has overall responsibility for the Group's performance of its obligations under the Senior Managers and Certification Regime.

Board meetings and supply of information

Before each Board meeting, the directors receive, on a timely basis, comprehensive papers and reports on the issues to be discussed at the meeting. In addition to board papers, directors are provided with relevant information between meetings.

The directors also have direct access to the advice and services of the outsourced Internal Audit function, in addition to other members of the senior management team. There is an agreed audit plan and the Internal Audit function reports directly to the Audit & Risk Committee.

The Board has regular scheduled meetings. During the year there were nine scheduled board meetings. As and when the need arises, additional meetings are held to deal with any specific time-critical business matters.

Attendance at meetings

The attendance of the directors at Board and the principal committee meetings that took place during the year are shown below.

Number of meetings attended/(eligible)	Board	Audit & Risk Committee	Nomination & Remuneration Committee	Executive Committee
Number of meetings held	12	4	4	22
Chairman				
Tim Franklin [(1)]	12(12)	1(1)	4(4)	–
Chief Executive				
Scott Maybury [(2)] [(3)]	12(12)	3(4)	4(4)	22(22)
Non-executive directors				
David Morgan	11(12)	4(4)	3(4)	–
Mark Brown	12(12)	–	4(4)	–
Independent non-executive directors				
Christine Higgins	12(12)	4(4)	4(4)	–
David Titmuss	12(12)	–	4(4)	–
Executive directors				
Robert Murray	12(12)	–	–	17(22)
David Bull [(2)]	12(12)	4(4)	–	21(22)

(1) Attended one Audit & Risk Committee meeting as an invitee.

(2) Attended regular Audit & Risk Committee meetings as an invitee.

(3) Attended regular Nomination & Remuneration Committee meetings as an invitee.

Appointments to the Board

The Nomination & Remuneration Committee ('RemCo') consists of two non-executive directors and three independent non-executive directors and is chaired by David Titmuss. RemCo makes independent recommendations for appointments to the Board. In making these recommendations, RemCo assesses the suitability of candidates, taking into account the required mix of skills, knowledge, expertise and experience, professionalism, integrity, gender diversity, competencies and other qualities before recommending them to the Board for appointment. RemCo will take steps to ensure that diversity in candidates is sought for appointment to the Board.

Appointment and re-appointment

The Code requires that all directors should stand for re-appointment at regular intervals, subject to continued satisfactory performance. The Company's Articles of Association provide that directors shall retire and shall be eligible for re-appointment if they were not appointed or re-appointed at one of the preceding two Annual General Meetings ('AGM') or if they were initially appointed during the period following the most recent AGM. Directors that are subject to retirement are eligible for re-appointment at the same AGM.

No person other than a director retiring at the AGM shall be eligible for appointment or re-appointment as a director at any general meeting unless he is recommended by the directors or if the resolution to propose the person for appointment or re-appointment as a director has been requisitioned by a member in accordance with the Companies Act 2006.

RemCo's role is to assess the performance, time commitments and independence of each non-executive director and makes a recommendation to the Board in this regard. In addition, the performance of executive directors is appraised. Giving consideration to the balance of skills, knowledge and experience on the Board as a whole, the Board concurred with the recommendation that Scott Maybury and David Bull should be proposed for re-appointment at the 2019 AGM.

Training and development of directors

Professional development

During the year, specific training sessions were held covering compliance, regulation and corporate governance issues. Topics covered included Financial Crime, Conflicts of Interest, General Data Protection Regulation ('GDPR'), Cyber Crime and IFRS 9. Board members are encouraged to attend relevant training programmes as part of their continuing professional development programmes and additional business, compliance and regulatory updates are also arranged as appropriate.

Company Secretary

The Company Secretary is responsible for ensuring that Board procedures and applicable rules and regulations are observed. He is responsible for advising the Board, through the Chairman, on all governance matters. All directors have direct access to the services and advice of the Company Secretary. Directors are able to take independent external professional advice to assist with the performance of their duties at the Company's expense.

Governance structure and delegated committee

The Board has established a number of committees to which responsibility for certain matters has been delegated. The Board committee structure is shown in the diagram on page 25. Each committee has written Terms of Reference setting out the committee's role

and responsibilities and the extent of the authority delegated by the Board. Minutes of each committee are circulated promptly following each meeting.

Reports of certain Board's committees are set out later in this Annual Report and provide further detail on their roles, responsibilities and the activities they have undertaken during the year.

Meetings of the Board

At each scheduled meeting, the Board receives reports from the Chief Executive on strategy and the Finance Director on the financial performance and results of the Group. The Managing Director updates the Board on operational performance and credit quality of the Group and the Bank. In addition, the Board receives minutes of the meetings of the Executive Committee ('ExCo'), Credit Committee ('CreditCo'), Risk, Compliance & Operations Committee ('RCO'), Marketing & New Products Approval Committee ('MNPA') and Asset & Liability Committee ('ALCO').

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. Meetings are structured to ensure that there is sufficient time for consideration and debate of all matters. In addition to scheduled or routine items, the Board also considers key issues that impact the Group and the Bank as they arise.

Executive Committee

The Board has delegated day-to-day management duties to ExCo, which meets at least monthly to deliberate and take policy decisions on the effective and efficient management of the Group and to monitor its performance. It also serves as a processing forum for issues to be discussed at Board level. ExCo's primary responsibility is to ensure the implementation of strategies approved by the Board, provide leadership to the senior management team and ensure efficient deployment of the Group's resources, including capital and liquidity.

ExCo meetings provide an avenue for the attendees, which comprise senior management of various departments, to engage and align to the strategy and policy as approved by the Board.

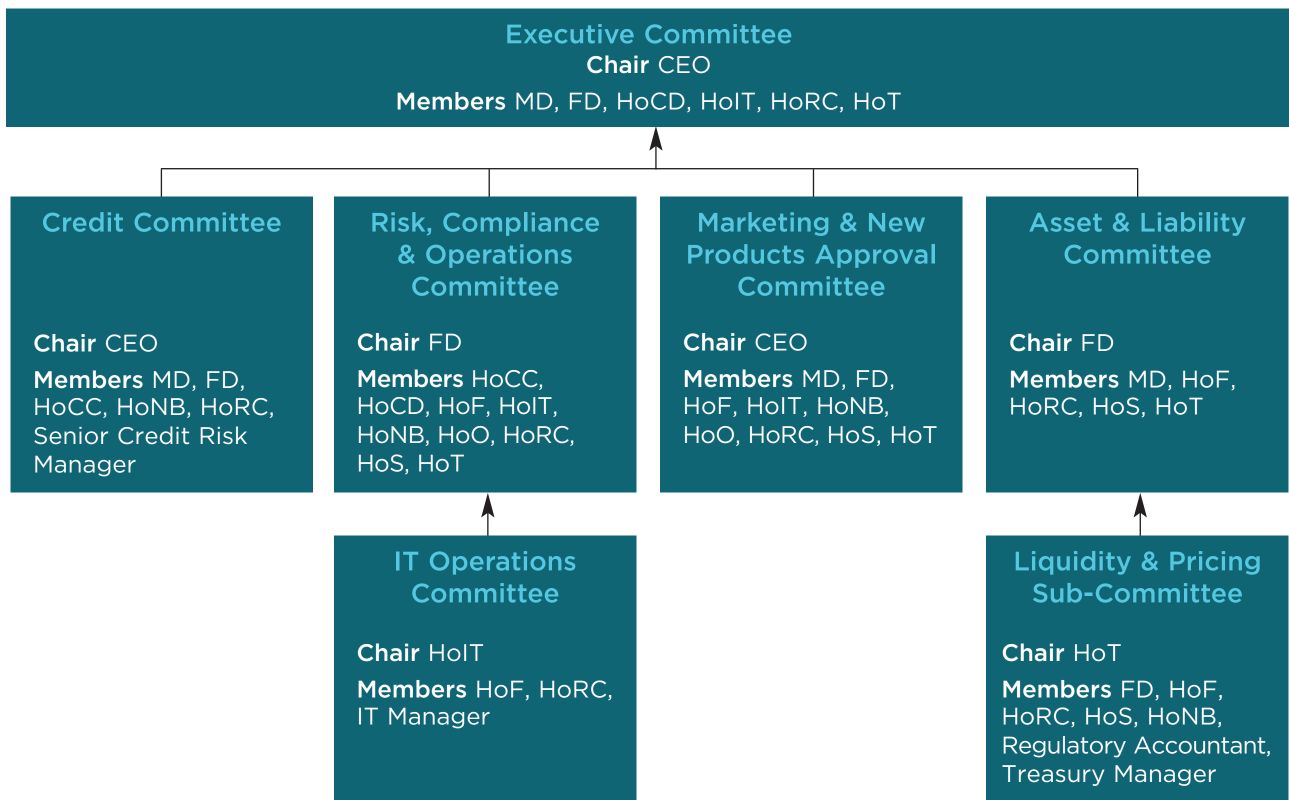
Scott Maybury (Chief Executive), Robert Murray (Managing Director) and David Bull (Finance Director) are members of ExCo. Their profiles can be found on page 23. The other members of ExCo are as follows.

Gerald Grimes
Head of Commercial Development ('HoCD')
Gerald joined PCF Group in July 2018 to help focus on the introduction of new products and markets and to head up Business & Broker Development. He comes with a wealth of experience in financial services with GE Capital, The Funding Corporation and as Managing Director of Hitachi Capital. Until recently, Gerald was a board director of the FLA and serving as Chairman for a number of years and was a member of the Bank of England Consultative Committee. Gerald now acts in an advisory capacity to the FCA and serves on their Smaller Business Practitioner Panel ('SBPP').

Andrew Barber
Head of IT ('HoIT')
Andrew joined PCF Group in June 2002 and is responsible for developing and implementing IT strategy as well as overseeing the effective and efficient operation of all technology solutions within the Group. Andrew also provides project management expertise to the Group using PRINCE2 to ensure all projects adhere to best practice.

Jim Coleman
Head of Treasury (HoT)
Jim joined PCF Group in October 2016 to oversee the establishment of a Treasury function in preparation for bank mobilisation in 2017. Since mobilisation, he is responsible for funding, liquidity and asset and liability management and funds transfer pricing. Jim has over 30 years' experience of bank and building society financial management, is a Fellow of the Association of Corporate Treasurers and holds an MBA from Imperial College Business School.

Jason McCabe
Head of Risk & Compliance ('HoRC')
Jason joined PCF Group in October 2016 and is responsible for the chief risk, compliance oversight and money laundering reporting senior management functions. He has over 15 years' experience in risk management and compliance and joined from Royal Bank of Canada, where he spent 8 years in various senior roles, including the Global Head of Operational Risk for Treasury Market Services and the Chief Risk Officer for RBC Investor Services UK.



Executive directors

CEO – Chief Executive
MD – Managing Director
FD – Financial Director

Heads of Department

HoCC – Credit Control
HoIT – Information Technology
HoRC – Risk & Compliance
HoCD – Commercial Developement
HoNB – New Business
HoS – Savings
HoF – Finance
HoO – Operations
HoT – Treasury

Where appropriate, delegates attend where members are absent.

Audit & Risk Committee Report

Committee members
Christine Higgins *Non-executive director (Chair)*
David Morgan *Non-executive director*
Anthony Nelson *Advisor*

Standing invitees
Scott Maybury *Chief Executive*
David Bull *Finance Director*
Jason McCabe *Head of Risk & Compliance*
Grant Thornton LLP representatives *(internal auditor)*
Ernst & Young LLP representatives *(external auditor)*

Responsibilities of the Audit & Risk Committee

- Monitor the integrity of the Group's financial statements and oversee the external audit relationship.
- Consider whether the Group has adopted appropriate accounting policies and made appropriate estimates and judgements.
- Oversight of internal controls and risk management.
- Monitor the work and effectiveness of the internal audit function and oversee the internal audit relationship.
- Advise the Board on the Group's overall risk appetite, tolerance and strategy.
- Challenge the Group's assessment of current and ongoing major risks to strategic objectives and reputation.
- Assess and monitor the activities and effectiveness of the Risk and Compliance function.
- Oversight of whistleblowing arrangements and procedures in place for detecting fraud and financial crime and preventing bribery and money laundering. The Chair of ARC is the Whistleblowing Champion and an independent point of escalation in accordance with the Group's Whistleblowing Policy.
- Review and approve assumptions and stress scenarios in the planning stage of the ICAAP and ILAAP, including substantive changes to the previous assessment.

Dear shareholder,

I am pleased to present my report to you as Chair of the Audit & Risk Committee ('ARC'/the 'Committee') and I have set out below the key areas of focus for the Committee during the year. In 2018/19 we will continue to concentrate on these areas, as well as the new accounting standard IFRS 9, emerging risks that could have a material impact on the Group and the impact of changes in the external environment to our risk appetite. We will also be re-tendering our external audit in 2019, in line with good governance practices.

Grant Thornton, our internal auditors, completed seven internal audits during the year and we are pleased to report that their overall assessment for the year was that 'the governance and risk and control framework is operating to support PCF Bank in adhering to its agreed risk appetite'. The annual internal audit plan was developed in conjunction with a Second Line of Defence compliance monitoring programme, which was overseen by the Committee.

Performance against risk appetite was reviewed at each meeting during the year and challenged where appropriate. The Committee discussed emerging risks and received presentations from the Head of Treasury and the Head of Credit Control on the key risks in their areas. The Committee also oversaw the development of further strategic metrics during the year, in particular ahead of a full Board review of strategic risks in March.

Members
ARC members comprise two non-executive directors and one adviser, Anthony Nelson. He is a former Chief Executive and non-executive director of the Group, a Fellow of the Association of Corporate Treasurers and former solicitor with specialist legal knowledge. David Morgan is a non-executive director and an experienced international banker. He is also a non-executive director of the Company's major shareholder. I am a chartered accountant with a background in international asset finance. Over the last nine years, I have sat on a number of boards as a non-executive director and board committee chair.

Members of the Committee have recent and relevant financial experience and extensive experience of corporate financial matters in the banking and financial services industry.

Meetings
ARC met four times during the year. The Chief Executive, Finance Director, Head of Risk & Compliance, internal audit and the external auditor are regular invitees at these meetings.

An oral report was made to the Board following each meeting and the approved minutes were subsequently provided.

Areas of focus
During the year, the areas of focus for ARC were as follows.

Financial reporting
ARC considered the Group's interim and annual financial statements. In reviewing the annual financial statements, the Committee discussed management's analysis and the external auditor's report and also reviewed and considered a number of significant areas of potential risk and key audit matters as follows.

- Misstatement of loans and advances to customers, including loan loss provisioning – ARC reviewed changes to the way the loan loss provision was calculated since last year.
- Fraudulent Revenue recognition through manipulation of Effective Interest Rate ('EIR') recognition – ARC reviewed the methodology used to calculate EIR, which is unchanged since last year.

Other areas of audit focus were as follows.

- Financial Close (manual adjustments to the process including management override of controls).
- Goodwill.
- The control environment required of a bank. Testing during the audit confirmed that enhancements made during the year to core banking system controls were all adequately designed.

- Disclosure of the impact of IFRS 9 and the accounting methodology to be adopted for its implementation.
- Accounting and disclosure for proposed acquisition of business – IFRS 3.
- Going concern – ARC assessed the appropriateness of the going concern basis of accounting and the statement that the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due.

In addition, ARC reviewed the content of the Annual Report and Financial Statements for the year ended 30 September 2018 for clarity and completeness of disclosure.

The Committee concluded that the Annual Report and Financial Statements as a whole were 'fair, balanced and understandable' and therefore recommended the Annual Report and Financial Statements to the Board for approval.

Internal audit

ARC oversees the internal audit function, approving its plans and scope, its resources and considers the reports produced.

The internal audit function reports directly to the Chair of ARC and also liaises directly with the Chief Executive and Finance Director, as appropriate. Internal audit attends and reports on progress and issues at each ARC meeting. The Chair of ARC meets with internal audit regularly and the Committee meets with internal audit at least once a year, without management present. The effectiveness of the internal audit function was evaluated through a discussion between ARC members, executive directors and senior management and the conclusion was that it was satisfactory.

Risk management, compliance and internal controls

The Board is responsible for the overall adequacy of the Group's system of internal controls and risk management. The Board has delegated to ARC the responsibility for reviewing and monitoring the effectiveness of the Group's systems of risk management, regulatory compliance and internal control.

In reviewing the adequacy of internal controls, ARC received and discussed a number of internal and external reports during the year, including

- Internal audit reports - This year there have been seven reports completed by Grant Thornton (Governance, New Business, Treasury, Account Management, GDPR, Cyber Risk, Conflicts of Interest) and they were presented and discussed at ARC meetings throughout the year. Management has already implemented a number of the recommendations made, with timely plans in place to address those remaining. The internal auditors have observed the culture within the areas they reviewed and also through interaction with management and have reported that it is one of openness, good risk awareness and understanding, and focus on achieving the right outcomes for customers;
- External audit reports - The external auditors, EY, provided the Committee with an update on the implementation of their 2016/17 recommendations and their risk assessment for 2017/18. The Committee also met privately with EY during the year, which provided an opportunity for relevant issues to be discussed directly; and
- Compliance - ARC considers reports from the Head of Risk and Compliance at its meetings which include performance against risk appetite, complaints, financial crime and anti-money laundering compliance, the fraud register, upcoming regulatory changes and emerging risks. A number of reports were completed during the year in line with the Compliance Monitoring Plan, with recommendations made and timely plans to implement them.

A revised Risk Management Framework and Risk Appetite Statement was reviewed by the Committee during the year and recommended to the Board for approval.

ARC also aims to identify wider existing and emerging risks and to question and, where appropriate, to challenge the executive directors regarding their plans for avoiding and/or mitigating these risks. Such areas include cyber security, fraud, money-laundering, changes to the car market with regard to electric and self-driving cars, Brexit, liquidity and capital adequacy and headwinds in the wider economy, including the housing market and a new credit crunch.

External audit

ARC is responsible for overseeing the relationship with the external auditor, including the ongoing assessment of the auditor's independence. ARC makes recommendations to the Board with regard to the appointment of the external auditor and approves their remuneration and terms of engagement.

EY was appointed as the Company's auditor in 1998. The current audit partner is Michael-John Albert, who has been in place since 2015.

ARC discussed and approved the planning of the external audit, including risk evaluation, scope and the materiality applied as well as the results of the audit. The audit did not give rise to any material financial adjustments but did highlight some areas where management should consider improvements in processes. Importantly, the auditor considered the appropriateness of material judgements and concluded that the balance was appropriate and consistent with previous years, where applicable.

During the year, ARC discussed with EY the review procedures they have in place to ensure audit quality. There was also a discussion of the results of their Financial Reporting Council ('FRC') inspection for 2017/18 and the impact of the findings on the audit plan.

Independence and effectiveness

ARC has reviewed the independence, objectivity and effectiveness of EY taking into account the auditor's report to the Committee on actions they take to comply with requirements for independence, compliance with the policy for the provision of non-audit services and conclusions from the evaluation undertaken of external audit effectiveness.

The level of audit fees charged by the Group's auditor is set out in note 15 to the financial statements. During the year, ARC approved two pieces of non-audit work by EY – one in relation to Term Funding Scheme ('TFS') funding and the other in relation to the acquisition of Azule. This work was within policy thresholds.

ARC evaluates the effectiveness of the external auditor on an annual basis, taking into account fees and the engagement letter, a review of the external audit plan, the objectivity and effectiveness of the audit, the quality of formal and informal communications with ARC and the views of management.

The Chair of ARC had private discussions with the auditor during the year and the Committee met with external audit at least once during the year, without management.

Following its review of the 2017/18 external audit process, ARC concluded that it was effective.

Re-appointment

The Group last tendered its external audit in March 2006 and appointed EY as its auditor. Based on EY's performance, ARC has recommended to the Board that EY be re-appointed as auditor for the coming year. The Board has concurred, and the re-appointment will be proposed to shareholders at the Annual General Meeting.

The current auditor appointment falls under the transitional arrangements for mandatory audit firm rotation under the EU Audit Reforms and a change of auditor is not required at this point. The Committee considered the most appropriate timing for the next audit tender and, as this will be the thirteenth year since the last tender, is recommending to the Board that it takes place during 2019, effective for the year ending 30 September 2020.

Committee effectiveness

ARC undertook an annual review of its own effectiveness during 2018 through a questionnaire sent to ARC invitees and the conclusions were that the Committee was operating effectively. Recommendations raised will be discussed by the Committee and a time frame agreed for implementation.

This report was approved by the Audit & Risk Committee on 4 February 2019.

Christine Higgins
Chair of the Audit & Risk Committee

8 February 2019

Nomination & Remuneration Committee Report

Dear shareholder,

I am pleased to present my report to you as Chairman of the Nomination & Remuneration Committee.

Introduction

The Nomination & Remuneration Committee ('RemCo') has delegated responsibility from the Board for reviewing the structure, size and composition of the Board, the performance of the executive directors, succession planning and remuneration of the directors and other senior executives. Membership of RemCo is limited to non-executive directors and chaired throughout the year by myself. Where appropriate, RemCo consults external advisers on remuneration and regulatory issues so as to align with the strategic aims of the Group and regulatory compliance requirements.

Approach to remuneration

The approach taken by the Group in respect of remunerating its staff emanates from a combination of regulatory guidance and, in particular, the Dual-Regulated Firms Remuneration Code (SYSC 19D), as appropriate for Level 3 firms, the rules on remuneration as published by the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') as amended from time to time, and its own best judgement. These guidelines assist with the design of awards and incentive packages which are effective in not only recruiting and retaining staff, but also in meeting the risk appetite and long-term interests of the Group.

Fundamentally, our approach to remuneration is based on promoting and rewarding the right behaviours which ensure that the interests of our customers and stakeholder value are at the forefront of everything we do.

Due to the size of our business, the Group applies proportionally to the principle (SYSC 19D.3.3R (2)) to ensure the practices and processes we promote are appropriate to size, internal organisation and the nature, scope and complexity of activities.

In applying PRA and FCA guidance, the Group classifies its employees as either Code or Non-Code staff. Code staff are comprised of executive and non-executive directors and also Senior Managers covered by the Senior Managers Regime. No staff have been classified as Material Risk Takers. Other key individuals are covered under the scope of the Conduct Regime.

Remuneration policy

The Group's remuneration policy is applicable to all its employees and a review is undertaken on an annual basis to assess its implementation and compliance with the Dual-Regulated Firms Remuneration Code.

The objective of the policy is to recruit and retain high calibre talent, capable of achieving the Group's objectives and to encourage and reward superior performance and the creation of shareholder value. The policy further sets out the use of performance-based remuneration to motivate and reward high performers who strengthen long-term customer relations, generate income, demonstrate the required behaviours (teamwork, co-operation, customer focus, risk awareness), comply with regulation, create a control environment, deliver good customer outcomes and protect and enhance shareholder value.

The Group's remuneration policy does not encourage taking risks that exceed the risk appetite of the Group. The remuneration policy enables incentives to be provided with the purpose of meeting the Group's long-term strategic objectives and general goals in areas of risk management, positive customer outcomes, regulatory and statutory compliance and other key stakeholder expectations.

The following guiding principles underpin the remuneration policy.

- Interests of our employees are aligned with the interests of our customers, long-term interests of the Group, shareholders and other stakeholders in the Group, as well as the public interest.
- Employees are not to be rewarded for taking risks that are unwarranted.
- Principles of 'malus' and 'clawback' will be implemented where relevant.
- As a level three firm under the Remuneration Code guidance on proportionality (SYSC 19D), the Group does not apply the following rules
  - retained shares or other instruments (SYSC 19D.3.56R).
  - deferral (SYSC 19D.3.59R).
  - performance adjustment (SYSC 19D.3.61R – 62R).

The Group seeks to combine various remuneration and incentive components to ensure an appropriate and balanced remuneration package that reflects responsibilities, the employee's role in a professional activity as well as market practice. The four remuneration components that every employee may be eligible to receive include

- Basic salary;
- Benefits;
- Cash bonus; and
- Share options.

Remuneration for the year

Fixed remuneration

Fixed remuneration comprises basic salaries and benefits including healthcare and life assurance cover. These are provided on the same basis for all employees. The Company has a workplace pension scheme with Standard Life, with a Company contribution rate based on 7% of qualifying earnings.

The Directors contribution rate is based on 10% of qualifying earnings. These are outside the workplace scheme and contributions are paid to a scheme of their choice or as a cash equivalent.

Variable remuneration

The annual performance award is a significant variable component of the overall remuneration and is at the discretion of RemCo. In determining the level of award paid to the Chief Executive, Managing Director and Finance Director, consideration was given not only to the financial performance of the Group (including returns to shareholders and the Group's profitability) in 2018, but also to their individual performance, based on a number of personal objectives. In respect of the Chief Executive, these included the strategic development of the Group, leadership and culture, operational performance, risk management and regulatory compliance. RemCo, in determining both the general level of the bonus pool and the awards to the executive directors, also reviewed risk factors.

PCF GROUP

Table of directors' remuneration

A summary of the total remuneration paid to directors is set out below.

	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Pension contributions £'000	Long-term incentive £'000	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Executive directors							
Scott Maybury*	205	205	1	21	7	439	381
Robert Murray	165	111	1	16	4	298	242
David Bull**	180	125	1	18	8	332	258
Non-executive directors							
David Anthony	–	–	–	–	–	–	8
Andrew Brook	–	–	–	–	–	–	16
Anthony Nelson	–	–	–	–	–	–	19
Mark Brown	37	–	–	–	–	37	26
Tim Franklin	90	–	–	–	–	90	62
Christine Higgins	52	–	–	–	–	52	19
David Morgan	37	–	–	–	–	37	26
David Titmuss	47	–	–	–	–	47	17
	813	441	3	55	19	1,331	1,074

* Pension received in cash
** Part of the pension received in cash

Non-executive directors

Non-executive directors are engaged under letters of appointment. Non-executive directors are subject to retirement by rotation every three years, or, if appointed during the year, are subject to retirement at the next AGM. Non-executive directors who are subject to retirement at the AGM are eligible for re-appointment. Non-executive directors participate in decisions concerning their own fees together with the recommendation of the executive directors, taking into account comparisons with peer group companies, their overall experience and knowledge and the time commitment required for them to undertake their duties, including any additional duties undertaken during the year.

Remuneration disclosures

The Group adheres to the requirements of the Dual-Regulated Firms Remuneration Code as defined by the Regulator. The non-executive directors do not receive variable remuneration. Information on the remuneration policy applicable to the Group is set out in the Pillar 3 disclosures and is published on our website *www.pcf.bank*

This report was approved by the Nomination & Remuneration Committee on 30 November 2018.

David Titmuss
Chairman of the Nomination & Remuneration Committee

8 February 2019

Directors' Report

for the year ended 30 September 2018

The directors present their report and audited financial statements for the year ended 30 September 2018.

Results and dividends

The consolidated results for the year are set out in the Consolidated Income Statement on page 46.

The directors recommend the payment of a final dividend of 0.3p per share in respect of the year ended 30 September 2018 (year ended 30 September 2017 – final dividend of 0.19p per share). Subject to approval at the Annual General Meeting to be held on 8 March 2019, the final dividend will be paid on 12 April 2019 to shareholders on the register at 22 March 2019.

Principal activities

The Group's principal activities are the purchase, hire, financing and sale of vehicles and equipment, the provision of retail savings products and the provision of related fee-based services. The Group will continue to administer its portfolio of financial assets to improve profitability for both its Consumer Finance and Business Finance Divisions.

Directors and their interests

The directors of the Company during the year were those listed on page 2.

The directors' interests in the shares of the Company, all of which were beneficial interests, at 30 September 2018 are listed below.

	At 30 September 2018 No. of ordinary shares of 5p each	At 30 September 2017 No. of ordinary shares of 5p each
Scott Maybury	1,717,653	1,717,653
Robert Murray	998,340	998,340
David Bull	230,568	230,568
David Morgan	500,000	500,000
Tim Franklin	90,173	82,810
Mark Brown	135,000	80,000
Christine Higgins	19,500	–

The following directors also held options in the Company's share option plans as listed below. Further details are provided in the Nomination & Remuneration Committee Report on page 33 and in note 14 to the financial statements.

	At 30 September 2018 No. of ordinary shares of 5p each	At 30 September 2017 No. of ordinary shares of 5p each
Scott Maybury	1,140,000	1,140,000
Robert Murray	770,000	770,000
David Bull	400,000	400,000

The Company's Articles of Association permit it to indemnify directors in accordance with the Companies Act.

Substantial shareholdings

At 30 September 2018, the Company had been notified of the following interests of 3% or more in its issued ordinary share capital.

	Percentage
Somers Limited	55.78
Bermuda Commercial Bank Limited	9.90
Hof Hoorneman Bankiers	9.02
Beleggingsclub 'T Stockpaert	3.23

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors must not approve the Group financial statements unless they are satisfied they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. The Group's policies and processes for managing its capital are described in the Strategic Report. Details of the Group's financial risk management objectives, its financial instruments and hedging activities and its exposures to credit risk and liquidity risk are also set out in the notes to the financial statements.

The directors have completed a formal assessment of the Group's financial resources, including forecasts and emerging risks, including Brexit. Based on this review, the directors believe that the Group is well placed to manage its business risks successfully within the expected economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Corporate governance

The Corporate Governance section provides disclosure of the Group's corporate governance arrangements.

The Group has complied with the provisions of the UK Corporate Governance Code 2016 during the year to the extent considered appropriate, given the nature and size of the business.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

Robert Murray
Director and Secretary

8 February 2019

Risk Management

for the year ended 30 September 2018

The management of risk is based on an understanding of the risks that the Group faces, an assessment of these risks and establishing an appropriate control environment. Risks are assessed at the inherent level (before being mitigated by controls) and at the residual level (once controls have been considered). Controls include risk appetite statements, defined limits to risk exposures, policies, procedures, mandates, oversight, and reporting. The design and effectiveness of controls is key and an assessment of these is performed by all Three Lines of Defence.

Risk policies and procedures are the formal documentation of the methods used to manage, control, oversee and govern each principal risk. They articulate the limits, operating standards, and procedures by which risks are identified, assessed and managed at all stages of the business and risk life cycle.

Risk accountability

The RMF articulates individual and collective accountabilities for risk management, risk oversight and risk assurance and supports the discharge of responsibilities to customers, shareholders, and regulators. It establishes a common risk language to facilitate the collection, analysis and synthesis of risk management data for risk aggregation and reporting. The framework is continually evolving and is periodically updated to reflect changes in the business and the external environment.

Governance is maintained through delegation of authority from the Board, down through the management hierarchy to individuals, and is supported by a committee-based structure designed to ensure that risk appetite, policies, procedures, controls and reporting are fully in line with regulations, law, corporate governance and industry best practice.

Board-level engagement, coupled with the direct involvement of senior management in Group-wide risk issues at Executive Committee level, ensures that issues are promptly escalated and remediation plans are initiated where required.

The interaction of the executive and non-executive governance structures relies upon a culture of transparency and openness that is encouraged by both the Board and senior management. A strong control framework remains a priority for the Group and is the foundation for the delivery of effective risk management.

Line management is directly accountable for identifying and managing any risks inherent or consequential in their individual businesses. A key objective is to ensure that business decisions strike an appropriate balance between risk and reward, consistent with the Group's risk appetite.

Assurance

The Group operates a 'Three Lines of Defence' model which defines clear responsibilities and accountabilities.

- Business lines as the 'First Line of Defence' hold the primary responsibility for risk decisions, identifying, measuring, monitoring, and controlling risks within areas of accountability.
- The 'Second Line of Defence' encompasses the risk oversight function, which is independent of the business and other functions and includes compliance monitoring and risk reviews.
- The 'Third Line of Defence' is provided by Internal Audit.
- The Group's Internal Audit function performs independent audits of the risk management functions, on a periodic basis, to ensure that objectives are achieved. Any deficiencies are reported to management, with significant deficiencies reported to senior management and the Audit & Risk Committee.
- The Group utilises other forms of evaluation to obtain reasonable assurance about the effectiveness of its risk management functions as required.
- The Group may also periodically use independent consultants to assess the risk management governance structure and management processes.

Information technology and data risk management annual independent assurance reviews include

- Cyber Essential Standards Assessment and Penetration Test;
- External Information Technology Risk Assurance Review;
- Payment Card Industry Data Security Standard ('PCI DSS') Compliance; and
- Somers Limited Cyber Security Review.

Risk appetite and culture

The Risk Appetite Statement ('RAS') provides an articulation of the Group's tolerance for risk in both quantitative measures and qualitative terms. It has been created following discussions among the Group's executive management and the members of ARC and the Board. It is used in mapping key risks, assessing their materiality and ultimately for underpinning the Group's overall risk management framework.

Throughout the year, all aspects of the risk appetite statements and metrics are reported to ARC and the Board by the Head of Risk and Compliance ('HoRC'). The HoRC is responsible for assessing the impact on the Group's risk appetite of any changes in circumstances (internal or external) that may warrant a change to the RAS and recommending any such changes to ARC and the Board ahead of the scheduled annual review.

The Board sets the risk appetite and culture and ensures that this is cascaded into day-to-day operations through policies, qualitative statements, risk appetite metrics, limits, Board and committee review, monitoring and assurance, recruitment of competent employees, training and aligning remuneration to risk appetite.

The Board held its first Annual Strategic Risk Review on 2 March 2018.

Risk governance and oversight

The Group's business model is shaped by the assessment of risk and return, together with the management of those risks. The Group recognises the importance of embedding a framework within the organisation that puts in place controls to manage those risks on a continuous basis. Management of risk entails the identification and monitoring of risk regularly and testing that the business operates within the agreed limits.

The Group operates a 'Three Lines of Defence' model, which defines clear responsibilities and accountabilities, and ensures effective independent oversight and assurance activities take place covering key decisions. This model is summarised in the diagram below.

All three Lines of Defence are responsible for supporting and developing a culture of risk awareness and for supporting each other in creating the best outcome for the business and its customers. In this way, risk management responsibilities are understood at all levels, ownership and accountability is clear and control and oversight is established throughout the Group.

Management establishes, with Board oversight, structures, reporting lines and appropriate authorities and responsibilities in the pursuit of the business objectives.

It is the aim of the Risk and Compliance function to co-ordinate the management and reporting of the Group's risks, ensuring that risk management is fully integrated into the day-to-day activities of the business. The Group's approach to managing risk within the business is governed by the Board approved RAS and the Group's RMF. The Group will continually enhance, design and implement a system of operational monitoring and internal controls to monitor and manage business risk. At the operational level, it is the responsibility of each business function to adhere to and manage effectively all Group risk management processes and standards. The business provides periodic feedback to Group risk functions on the adequacy of risk management processes and standards in relation to their function.

First Line of Defence (Risk management by business functions)

The 'First Line of Defence' encompasses the controls that the Group has in place to deal with day-to-day business and manages risks in the business, to pre-agreed tolerances or limits. It identifies, manages and monitors risk within each area of the business, reporting and escalating issues as necessary and evidences control.

Business lines have primary responsibility for risk decisions, identifying, measuring, monitoring and controlling risks within areas of accountability. They are required to establish effective governance and control frameworks for their business areas that are compliant with Group policy requirements, to maintain appropriate risk management skills and processes to act within the Group's risk appetite parameters set and approved by the Board.

Second Line of Defence (Independent risk control)

The 'Second Line of Defence' encompasses the risk oversight function, which is independent of the business and other functions. The second line supports a structured approach to risk management by maintaining and implementing the RMF and Group-wide risk policies and monitoring their proper execution by the 'First Line of Defence'. It also provides independent advice and oversight on risks relevant to the Group's strategy and activities, maintains an aggregate view of risk, monitors performance in

relation to the Group's risk appetite, monitors changes in and compliance with external regulation, undertakes compliance monitoring and risk review and promotes best practice.

The 'Second Line of Defence' reports systematically and promptly to the Board, ARC and senior management about risk management, in particular about perceived new risks or failures of existing controls.

Third Line of Defence (Audit & governance)

Internal Audit will provide independent assurance to the Board through ARC that the First and Second Lines of Defence are both effective in discharging their respective responsibilities. The use of independent compliance monitoring and risk reviews will provide additional support to the integrated assurance programme and ensures that the Group is effectively identifying, managing and reporting its risks.

Approach to assurance

- Self-review - Line management periodically review processes, systems, and activities to ensure that all risk management processes continue to be effective and appropriate;
- Risk review, including Risk Control Assessment ('RCA') and compliance monitoring - The purpose is to confirm the continued effectiveness of the management of risk within the business. This includes identification of potential control failures;
- Internal Audit - As part of an agreed audit programme, internal audit will provide the Group with risk based and timely assurance on important aspects of the Group's risk management control frameworks and practices. It is the responsibility of all business heads to provide responses to audit findings that focus on addressing root causes within the agreed timescales; and
- External reviews - External audit reviews provide stakeholders, the Board, the Audit & Risk Committee, business heads, staff, and the risk function with an independent assurance over financial reporting.

Risk identification, measurement and control

The three lines of defence model is governed and controlled as described in the diagram below and is supplemented by independent external audit and regulators.

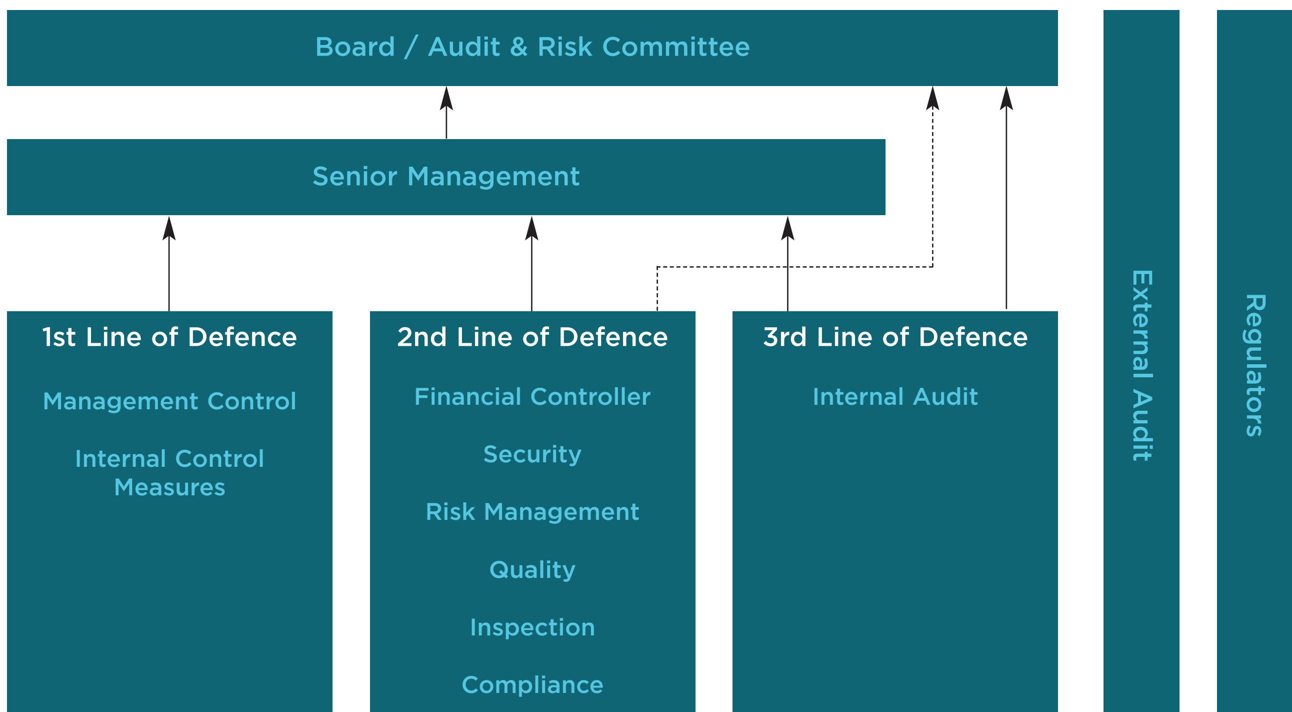
Each line of defence reports independently of the others to senior management. In addition, 'Second Line of Defence' has a 'dotted' reporting line to ARC, and 'Third Line of Defence' reports directly to ARC.

The process of identifying risk exposures is key to the success of the risk management process as all other elements of the process flow from this initial step. It is crucial, therefore, that a thorough process of risk identification is accomplished on a regular basis.

The process for risk identification, measurement and control is integrated into the overall framework for risk governance. Risk identification processes are forward-looking to ensure emerging risks are identified. Risks are captured in a comprehensive risk register and measured using robust and consistent quantification methodologies.

The measurement of risks includes the application of sound stress testing and scenario analysis and considers whether relevant controls are in place before risks are incurred.

When risks have been identified and assessed, the relevant business areas determine an appropriate method for addressing those risks.



ILAAP, ICAAP and stress testing

The Internal Capital Adequacy Assessment Process ('ICAAP'), Internal Liquidity Adequacy Process ('ILAAP') and associated stress testing exercises represent important elements of the Group's ongoing risk management processes. The results of the risk assessment contained in these documents are embedded in the strategic planning process and risk appetite to ensure that sufficient capital and liquidity are available at all times to support the Group's growth plans, as well as to cover its regulatory requirements at all times and under varying circumstances.

The ICAAP and ILAAP are reviewed on at least an annual basis and more often in the event of a material change in capital or liquidity. Ongoing stress testing and scenario analysis outputs are used to inform the formal assessments and determination of required buffers, the strategy and planning for capital and liquidity management and the setting of risk appetite limits. ARC is responsible for reviewing and approving assumptions and stress scenarios in the planning stages of the ICAAP and ILAAP, including substantive changes to the previous assessment. The Asset and Liability Committee ('ALCO') will review, challenge, and recommend to the Executive Committee and Board, for approval, the Group's ICAAP and ILAAP.

The Board and senior management have engaged in a number of exercises which have considered and developed stress-test scenarios. The output analysis enables management to evaluate the Group's capital and funding resilience in the face of severe but plausible risk shocks. In addition to the UK variant test on capital prescribed by the PRA, the stress tests have included a range of Group-wide, multi-risk category stress tests, market-wide and idiosyncratic financial shocks and operational risk scenario analyses. Stress-testing is an integral part of the adequacy assessment processes for liquidity and capital, and the setting of tolerances under the annual review of Group risk appetite.

The Group also performed reverse stress-tests to help management understand the full continuum of adverse impact and, therefore, the level of stress at which the Group would breach its individual capital and liquidity guidance requirements as set by the PRA under the ICAAP and ILAAP processes.

Recovery Plan and Resolution Pack

The Group has prepared and submitted a Recovery Plan and Resolution Pack ('RP&RP') in accordance with PRA Supervisory Statements SS18/13 and SS19/13 and submitted it to the PRA following Board approval.

The plan represents the Group's *'Living Will'* and examines in detail

- The consequences of severe levels of stress (i.e. beyond those in the ICAAP) impacting the Group at a future date;
- The state of preparedness and contingency plan to respond to and manage through such a set of circumstances; and
- The options available to management to withstand and recover from such an environment.

The Group will conduct a review of the Recovery Plan on at least an annual basis and a review on the Resolution Pack on at least a bi-annual basis, or more frequently in the event of a material change in the Group's status, capital or liquidity position. The Board and senior management are fully engaged in considering the scenarios and options available for remedial actions to be undertaken.

The Board considers that the Group's public status, its business model and the diversified nature of its business markets provide it with the flexibility to consider selective business or portfolio disposals, loan book run-off, equity-raising, or a combination of these actions. The Group would invoke the Recovery Plan and Resolution Pack if required.

Independent Auditor's Report

to the members of PCF Group plc
for the year ended 30 September 2018

Opinion

In our opinion

- PCF Group plc's financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs'), as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs, as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The PCF Group plc financial statements comprise

Group

- Consolidated balance sheet as at 30 September 2018;
- Consolidated income statement for the year then ended;
- Consolidated statement of comprehensive income for the year then ended;
- Consolidated statement of changes in equity for the year then ended;
- Consolidated statement of cash flows for the year then ended; and
- Related notes 1 to 39 to the financial statements, including a summary of significant accounting policies.

Parent company

- Balance sheet as at 30 September 2018;
- Statement of changes in equity for the year then ended;
- Statement of cash flows for the year then ended; and
- Related notes 1 to 39 to the financial statements including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters

- Risk of fraud in the recognition of revenue in respect of the application of the effective interest rate methodology.
- Impairment of loans and advances to customers.

Audit scope

- We performed an audit of the complete financial information of Group and parent company.
- Our Group audit scope included all PCF Group plc subsidiaries.

Materiality

- Overall Group materiality of £258,650, which represents 5% of profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk

Risk of fraud in the recognition of revenue in respect of the application of the effective interest rate ('EIR') methodology

Interest and similar income £25.494 million (2017 – £19.970 million).

Refer to the Audit & Risk Committee Report on page 30, note 5.1.3 and note 9 of the financial statements.

For certain product fees, the Group operates a model to recognise fee income (included within Interest Income) under the effective interest method. The effective interest method spreads the recognition of product fee income over the life of the financial instrument, as these are in substance an integral part of the overall yield.

Effective interest rate models are sensitive to judgements about the expected lives of the product to which they relate. As a result of the complexity of the calculations and the degree of judgement exercised there is a risk of fraud from management override and, therefore, this is considered a key audit matter.

Our response to the risk

We identified and tested key controls over the effective interest rate model. We determined that we could place reliance on these controls for the purposes of our audit.

We tested the key assumptions used in the EIR calculation including the expected behaviour and lifecycle of the products and forecasts of future interest rates. We checked that changes made to the EIR model were validated and approved by management and that the methodology applied was in line with accounting standards.

We utilised an independent leasing valuation specialist to recalculate the finance lease income using the EIR methodology for each product. We examined each product to obtain evidence that the EIR methodology was consistently applied, and, on a sample basis, we recalculated the finance lease income. We tested completeness and accuracy of data through reconciliation to source systems.

We tested that fees and commissions were appropriately included in the EIR calculations in accordance with the accounting standards.

We tested for management override through the use of topside journal entries. We selected a risk based sample of journal entries and vouched the journals for validity and appropriateness.

Key observations communicated to the Audit & Risk Committee

We concluded to the Audit & Risk Committee that the EIR calculations and methodology were in accordance with accounting policies and standards and interest income was appropriately derived.

Our testing concluded that the controls were designed and operating effectively.

Our testing of journal entries did not highlight any instances of inappropriate or unapproved journal entries that could not be traced to valid supporting evidence.

Impairment of loans and advances to customers

Loans and advances to customers.
£219.322 million (2017 – £145.718 million).

Impairment on loans and advances.
£4.369 million (2017 – £3.965 million).

Refer to the Audit & Risk Committee Report on page 30, note 5.3 and note 20 of the financial statements.

The Group's lending portfolio relates to small and medium sized enterprises (SMEs) leasing commercial vehicles and individual consumers leasing cars.

Estimating the Group's collective and specific provisioning is subjective, requires management to exercise significant judgement and incorporates the use of various assumptions, including second hand asset prices and recovery rates.

Given the level of judgement and subjectivity involved, there is a risk that the impairment provision could be materially misstated and therefore this is considered to be a key audit matter.

Our response to the risk

We examined the design adequacy and tested the operating effectiveness of key controls over loan origination, loan administration and impairment of loans related processes.

We examined and independently tested key assumptions including probability of default and loss given default. We challenged the incremental costs for selling assets for completeness, appropriateness of methodology and accuracy of calculation.

We performed back testing on the key assumptions used in impairment calculation for each segment including vouching proceeds from the sale of assets and back testing recovery rate assumptions.

We performed data integrity testing on key sources of data and information used for calculation of impairment including testing the ageing of loans.

We recalculated the impairment provision using management's provision methodology.

We reviewed the disclosure in the annual financial statements for compliance with IFRSs.

Key observations communicated to the Audit & Risk Committee

We concluded to the Audit & Risk Committee that the impairment models and assumptions employed by the Group were reasonable as at 30 September 2018.

Our testing concluded that the controls were designed and operating effectively, and the provisioning methodology was in line with IAS 39.

Our back testing conducted concurrently with management resulted in adjustments to the provisioning primarily as a result of increases in values in the second hand car market, recovery rates and probability of default rates. We also concluded that the disclosures presented were in compliance with IFRSs.

In the prior year, our auditor's report included a key audit matter in relation to impact of banking licence on taking of deposits, financial reporting and internal controls. In the current year, this matter has not been included as key audit matter as this was specific to the Bank's first year of operation.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements.

All the Group's subsidiary entities were subject to a full scope audit.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £258,650 (2017 – £183,577), which is 5% (2017 – 5%) of profit before tax. We have used profit before tax as we consider this to be one of the most important considerations for shareholders of the Group in assessing the financial performance of the Group and this approach is consistent with the wider industry and is the standard for listed and regulated entities.

During the course of our audit, we reassessed initial materiality and made adjustments based on the final financial performance of the Group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017 – 75%) of our planning materiality, namely £193,988 (2017 – £137,683). We have set performance materiality at this percentage based on our previous experience as auditors of the Group and no history of material misstatements have arisen during the course of our audit procedures.

Audit work at subsidiary level for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each subsidiary is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the performance materiality allocated to subsidiaries was £146,000.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit & Risk Committee that we would report to them all uncorrected audit differences in excess of £12,933 (2017 – £9,179), which is set at 5% (2017 – 5%) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report (set out on pages 3 to 82), including the Strategic Report (set out on page 3), Corporate Governance Report (set out on page 21), Directors' Report (set out on pages 35 to 36) and Risk Management Statement (set out on pages 37 to 41), other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities including fraud

The objectives of our audit, in respect to fraud, are to identify and assess the risks of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We understood how the Group is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and UK regulatory bodies reviewed minutes of the Board and Audit & Risk Committee and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's risk management framework and internal control processes.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of executive management, internal audit, and focused testing, as referred in the Key Audit Matters section above.
- The Group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered and assessed the adequacy of the experience and expertise of the engagement team and concluded that the team was appropriate for the size and complexity of the Group.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at *www.frc.org.uk/auditorsresponsibilities*. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 2 March 2018 to audit the financial statements for the year ending 30 September 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 20 years, covering the years ending 31 December 1998 to 30 September 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

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

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

12 February 2019

Notes

1 The maintenance and integrity of the PCF Group plc web site is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the year ended 30 September 2018

	Note	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Interest and similar income	8	**25,494**	19,970
Interest and similar expense	9	**(10,492)**	(8,906)
Net interest income		**15,002**	11,064
Fee and commission income		**492**	512
Fee and commission expense		**(844)**	(702)
Net fees and commission expense	10	**(352)**	(190)
Fair value gain/(loss) on financial instruments	11	**-**	(4)
Net operating income		**14,650**	10,870
Personnel expenses	13	**5,186**	3,903
Depreciation of property and equipment	22	**84**	71
Amortisation of intangible assets	23	**385**	275
Other operating expenses	15	**2,907**	2,309
Impairment loss on financial assets	12	**915**	679
Total operating expenses		**9,447**	7,237
Profit before tax		**5,173**	3,633
Income tax expense	16	**(981)**	(847)
Profit after tax		**4,192**	2,786
Earnings per 5p ordinary share - basic	17	**2.0**	1.5

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2018

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Profit after taxation	**4,192**	2,786
Other comprehensive income that will be reclassified to the income statement		
Fair value gain on available-for-sale ('AFS') financial instruments	**18**	-
Income tax credit/(expense)	**(3)**	-
Total items that will be reclassified to the income statement	**15**	387
Other comprehensive income that will not be reclassified to the income statement		
Fair value gain on cash flow hedges	**-**	459
Income tax credit/(expense)	**-**	(86)
Total items that will not be reclassified to the income statement	**-**	373
Total comprehensive income, net of tax	**4,207**	3,159

The accounting policies and notes on pages 51 to 82 form part of, and should be read in conjunction with, these financial statements.

Consolidated Balance Sheet

at 30 September 2018

	Note	Group		Company	
		30 September 2018 £'000	30 September 2017 £'000	30 September 2018 £'000	30 September 2017 £'000
Asset					
Cash and balances at central banks	18	**21,338**	17,018	**11**	18
AFS financial instruments	19	**39,902**	4,511	**–**	–
Loans and advances to customers	20	**219,322**	145,718	**2,912**	7,765
Investment in subsidiary undertakings	21	**–**	–	**22,000**	17,000
Property, plant and equipment	22	**224**	271	**–**	–
Other assets	25	**1,542**	1,041	**817**	830
Deferred tax assets	24	**1,185**	1,205	**196**	163
Goodwill and other intangible assets	23	**2,957**	2,704	**–**	–
Total assets		**286,470**	172,468	**25,936**	25,776
Liabilities					
Due to banks	26	**48,881**	77,067	**–**	–
Due to customers	29	**191,139**	53,120	**–**	–
Current tax liabilities		**414**	166	**–**	–
Other liabilities	31	**3,485**	3,454	**1,551**	1,075
Total liabilities		**243,919**	133,807	**1,551**	1,075
Equity					
Issued capital	32	**10,611**	10,611	**10,611**	10,611
Share premium	32	**8,527**	8,524	**8,527**	8,524
Other reserves	32	**15**	–	**–**	–
Own shares	32	**(355)**	(355)	**(355)**	(355)
Retained earnings		**23,753**	19,881	**5,602**	5,921
Total equity		**42,551**	38,661	**24,385**	24,701
Total liabilities and equity		**286,470**	172,468	**25,936**	25,776

The Company reported a profit for the financial year ended 30 September 2018 of £nil (year ended 30 September 2017 – profit of £427,000).

The financial statements were approved and authorised for issue by the Board on 8 February 2019.

On behalf of the Board

S D Maybury
Director

D R Bull
Director

The accounting policies and notes on pages 51 to 82 form part of, and should be read in conjunction with, these financial statements.

PCF GROUP

Consolidated Statement of Changes in Equity

for the year ended 30 September 2018

Group	Issued capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
	Attributable to equity holders of the Group					
	Non-distributable				Distributable	
Balance at 1 October 2017	10,611	8,524	(355)	–	19,881	38,661
Profit for the year	–	–	–	–	4,192	4,192
Issuance of new shares	–	3	–	–	–	3
Fair value gain on AFS financial instruments	–	–	–	15	–	15
Share-based payments	–	–	–	–	84	84
Cash dividends	–	–	–	–	(403)	(403)
Balance at 30 September 2018	10,611	8,527	(355)	15	23,753	42,551
Balance at 1 October 2016	7,956	174	(305)	(373)	17,255	24,707
Profit for the year	–	–	–	–	2,786	2,786
Issuance of new shares	2,655	8,805	–	–	–	11,460
Fair value gain on cash flow hedges recognised in Other Comprehensive Income	–	–	–	373	–	373
Exercise of convertible debt option	–	–	(50)	–	–	(50)
Share-based payments	–	–	–	–	52	52
Transaction costs	–	(455)	–	–	–	(455)
Cash dividends	–	–	–	–	(212)	(212)
Balance at 30 September 2017	10,611	8,524	(355)	–	19,881	38,661

Company	Issued capital £'000	Share premium £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
	Attributable to equity holders of the Company				
	Non-distributable			Distributable	
Balance at 1 October 2017	10,611	8,524	(355)	5,291	24,701
Profit for the year	–	–	–	–	–
Issuance of new shares	–	3	–	–	3
Share-based payments	–	–	–	84	84
Cash dividends	–	–	–	(403)	(403)
Balance at 30 September 2018	10,611	8,527	(355)	5,602	24,385
Balance at 1 October 2016	7,956	174	(305)	5,654	13,479
Profit for the year	–	–	–	427	427
Issuance of new shares	2,655	8,805	–	–	11,460
Exercise of convertible debt option	–	–	(50)	–	(50)
Share-based payments	–	–	–	52	52
Transaction costs	–	(455)	–	–	(455)
Cash dividends	–	–	–	(212)	(212)
Balance at 30 September 2017	10,611	8,524	(355)	5,921	24,701

The accounting policies and notes on pages 51 to 82 form part of, and should be read in conjunction with, these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 September 2018

	Note	Group 30 September 2018 £'000	Group 30 September 2017 £'000	Company 30 September 2018 £'000	Company 30 September 2017 £'000
Operating activities					
Profit before tax		**5,173**	3,633	**33**	569
Adjustment for					
Change in operating assets					
Net change in loans and advances		**(74,519)**	(24,615)	**4,853**	4,803
Net change in other assets		**(502)**	(318)	**57**	–
Transfer of property, plant and equipment to subsidiary		**-**	–	**-**	2,056
Change in operating liabilities					
Net change in amounts due to customers		**138,019**	53,120	**-**	–
Net change in AFS financial instruments		**15**	–	**-**	–
Net change in derivative financial instruments		**-**	(119)	**-**	–
Net change in debt securities in issue		**-**	–	**-**	(935)
Net change in other liabilities		**31**	1,547	**416**	–
Other non-cash items included in profit/(loss) before tax					
Depreciation of property, plant and equipment	22	**84**	71	**-**	71
Amortisation of other intangible assets	23	**385**	275	**-**	275
Share-based payments		**34**	52	**34**	52
Impairment losses on financial assets	12	**915**	679	**-**	–
Fair value movement on derivative financial instrument		**-**	4	**-**	–
Income tax paid		**(668)**	(825)	**-**	–
Net cash flows from operating activities		**68,967**	33,504	**5,393**	6,891
Investing activities					
Investment in subsidiary	21	**-**	–	**(5,000)**	(16,000)
Purchase of AFS financial instruments	19	**(35,390)**	(4,511)	**-**	–
Purchase of property and equipment	22	**(36)**	(195)	**-**	(195)
Purchase of intangible assets	23	**(637)**	(2,215)	**-**	(2,215)
Net cash flows used in investing activities		**(36,063)**	(6,921)	**(5,000)**	(18,410)
Financing activities					
Proceeds from capital during the year		**3**	11,005	**3**	11,005
Purchase of own shares	32	**-**	(50)	**-**	(50)
Proceeds from borrowings		**1,006**	69,451	**-**	–
Repayments of borrowings		**(29,190)**	(95,688)	**-**	–
Dividends paid to equity holders		**(403)**	(187)	**(403)**	(187)
Net cash flows (used in)/from financing activities		**(28,584)**	15,469	**(400)**	10,768

The accounting policies and notes on pages 51 to 82 form part of, and should be read in conjunction with, these financial statements.

PCF GROUP

Consolidated Statement of Cash Flows

year ending 30 September 2018

	Group		Company	
	30 September 2018 £'000	30 September 2017 £'000	30 September 2018 £'000	30 September 2017 £'000
Net increase/(decrease) in cash and cash equivalents	**4,320**	11,114	**(7)**	(751)
Cash and cash equivalents at 1 October	**17,018**	5,904	**18**	769
Cash and cash equivalents at 30 September	**21,338**	17,018	**11**	18
Operational cash flows from interest and dividends				
Interest paid	**3,976**	5,002	**–**	–
Interest received	**510**	5	**–**	–

The accounting policies and notes on pages 51 to 82 form part of, and should be read in conjunction with, these financial statements.

Notes to the Financial Statements

for the year ended 30 September 2018

1 Corporate information

PCF Group plc ('the Company') is a public company limited by shares, registered in England and domiciled in the United Kingdom together with its subsidiaries(collectively, the 'Group'). The Company's ordinary shares are listed on the Alternative Investment Market ('AIM') of the London Stock Exchange. The Company's registered office is at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.

The principal activities of the Company are investment holding and support services to the subsidiary undertakings. The Company's wholly-owned subsidiary, PCF Bank Limited (the 'Bank'), is a specialist banking group engaged in the provision of finances for vehicles, plant and equipment for consumers and businesses. The Bank also provides retail savings products for individuals.

The Group's consolidated financial statements for the year ended 30 September 2018 were authorised for issue in accordance with a resolution of the Board on 5 February 2019.

2 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial instruments and derivative financial instruments, both of which have been measured at fair value. The consolidated financial statements are presented in Pound Sterling (£) and all values are rounded to the nearest thousands (£'000), except where otherwise indicated.

3 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union ('EU'), interpretations issued by the International Accounting Standards Board ('IASB') and the Companies Act 2006.

4 Basis of consolidation

The consolidated financial statements consolidate the financial statements of the Company and its subsidiary undertakings, of which there were 4 at 30 September 2018 (10 at 30 September 2017). The financial statements of the subsidiaries are prepared for the same reporting period as the parent undertaking, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions which are recognised in assets or liabilities, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases.

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. Of the profit for the financial year, no profit (30 September 2017 – £427,000) was attributable to the Company.

5 Summary of significant accounting policies

5.1 Financial instruments - initial recognition and subsequent measurement

5.1.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, (i.e. the date the Group becomes a party to the contractual provisions of the instrument). This includes regular trades, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Group recognises 'due to customers' balances when funds reach the Group.

5.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention when acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial liabilities recorded at fair value through profit or loss.

5.1.3 The effective interest rate method

The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instrument and are further explained in notes

5.1.5 for 'Loans and advances to customers';
5.3 for 'Impairment of financial assets'; and
5.5 for 'Recognition of income and expenses'.

5.1.4 Available-for-sale financial instruments

Available-for-sale financial instruments include debt securities. Debt securities in this category are intended to be held for an indefinite period and may be sold in response to needs for liquidity or in response to changes in market conditions.

The Group has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial instruments are subsequently measured at fair value, with fair value gains recognised in other comprehensive income.

Interest earned whilst holding available-for-sale financial instruments is reported as interest income using the EIR method, which takes into account any discount or premium and qualifying transaction costs that are an integral part of the instrument's yield.

5.1.5 Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market.

Conditional sale agreements, hire purchase contracts and finance leases are initially recognised at the lower of fair value of the asset financed or the present value of the minimum instalments or lease payments. These loans and receivables are subsequently measured at an amount equal to the net investment in the contract, less any provision for impairment. Other loans and receivables, are initially recognised at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the EIR method, less any provision for impairment.

5.2 De-recognition of financial assets and financial liabilities

5.2.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when the rights to receive cash flows from the asset have expired. The Group also de-recognises the asset if it has both transferred the asset and the transfer qualifies for de-recognition.

A transfer only qualifies for de-recognition if either

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In relation to the above, the Group considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

5.2.2 Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

5.3 Impairment of financial assets

The Group assesses, on an on-going basis, whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred), discounted at the financial asset's original EIR. The carrying amount of the asset is reduced through the use of a loan loss provision. The amount of the loss is recognised in the income statement as a loan loss provisioning charge.

The Group first assesses whether objective evidence of impairment exists individually for financial assets which are individually significant and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Future cash flows for a group of loan assets that are collectively evaluated for impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with similar credit characteristics.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

5.3.1 Available-for-sale financial instruments

For available-for-sale financial instruments, the Group assesses at each reporting date, whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment such as observable data regarding a decline in estimated future cash-flows and/or a decline in underlying collateral impacting the Group's ability to recover all cash flows. The amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss, and the interest income is recorded as part of interest and similar income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

5.3.2 Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on default of financial assets. The collateral is the asset subject to financing. The fair value of collateral is generally assessed, as a minimum, at inception.

5.3.3 Collateral repossessed

The Group's policy is to sell repossessed assets. Repossessed assets are sold typically through auction houses and should the asset generate a surplus over the outstanding debt, the surplus is returned to the borrower.

5.4 Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use or acquire ownership of the asset.

5.4.1 Group as a lessee

Leases that do not transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which it is incurred.

5.4.2 Group as a lessor

Leases where the Group does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the year in which they are earned.

5.5 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

5.5.1 Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the EIR method. The calculation takes into account all of the contractual terms of the financial instrument (e.g. prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

5.5.2 Fee and commission income

The Group earns fee and commission income from a range of services it provides to its customers.

Fee income, other than that accounted for using the EIR method, is recognised immediately and can be divided into the following two categories.

- Secondary lease income arising from finance leases which have completed their primary lease period; and
- Fees earned from late payment charges and recharge of costs incurred from the recovery of assets under hire purchase and finance lease agreements.

5.6 Investment in subsidiaries

Investments in subsidiaries are initially and subsequently measured at cost. These are assessed for impairment in line with the accounting policy detailed in note 5.11.

5.7 Cash and cash equivalents

Cash and cash equivalents as referred to in the Consolidated Statement of Cash Flows statement comprises cash on hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

5.8 Property, plant and equipment

Property, plant and equipment are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful live as follows.

Computer hardware	-	3 to 10 years
Office equipment, fixtures and fittings	-	5 years
Operating lease equipment	-	1 to 10 years

Property, plant and equipment are de-recognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is de-recognised.

5.9 Goodwill

Goodwill arising on acquisition represents the excess of the cost of a business over the fair values of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised but is reviewed at least annually for impairment. For the purpose of impairment testing, goodwill is allocated to each Cash Generating Unit ('CGU'). Each CGU is consistent with the Group's primary reporting segments. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

5.10 Intangible assets

The Group's other intangible assets consist solely of computer software and capitalised expenses relating to the project of applying to become and becoming a bank.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Acquired software and subsequent enhancements are capitalised as intangible assets and amortised over their useful lives (3 to 10 years) on a straight-line basis. All other software development and maintenance costs are recognised as an expense as incurred. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

5.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For all non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Impairment losses relating to goodwill are not reversed in future periods. The Group did not need to record impairment for its non-financial assets over the reported periods. Disclosures of the assumptions used to test for impairment are given in note 23.

5.12 Share-based payment transactions

The Company operates an approved and an unapproved equity-settled share option plan for its employees. For awards granted after 7 November 2002 (and not vested by 1 January 2006) and in accordance with IFRS 2 'Share-based payment', an expense is recognised in respect of the fair value of employee services received in exchange for the grant of share options. A corresponding amount is recorded as an increase in equity within retained earnings. The expense is spread over the relevant vesting period and is calculated by reference to the fair value of the share options granted.

In arriving at fair values, the Black-Scholes pricing model is used and estimates are made of dividend yields, share price volatility, risk-free rates and expected life of the share options.

5.13 Pension benefits

The Group operates a defined contribution pension plan. The contributions payable to a defined contribution plan are in proportion to the services rendered to the Group by the employees and are recorded as an expense under personnel expenses. Unpaid contributions are recorded as a liability. The Group does not operate a defined benefit plan.

5.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

5.15 Taxes

5.15.1 Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the country where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The detailed approach is further explained in note 16.

5.15.2 Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities ('DTL') are recognised for all taxable tempory differences, except

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets and foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to other comprehensive income. These exceptions are subsequently reclassified from other comprehensive income to the income statement together with the respective deferred loss or gain. The Group also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Group only offsets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Group's intention to settle on a net basis.

5.15.3 Value Added Tax ('VAT')

Revenues, expenses and assets are recognised net of the recoverable amount of VAT except in the case of overdue loans and receivables, other receivables and other payables which are shown inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of other receivables or other payables in the balance sheet.

5.16 Own shares

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

5.17 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

5.18 Short-term benefits

Wages, salaries, commissions, bonuses, social security contributions, paid annual leave and non-monetary benefits, including death-in-service premiums, are accrued in the period in which the associated services are rendered by employees of the Group.

5.19 Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either the termination of employment or a voluntary redundancy offer.

5.20 IFRS 3 'Business Combinations'

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 'Financial Instruments', is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IAS 39. Other contingent consideration that is not within the scope of IAS 39 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at fair value. Subsequently, it is measured at the higher amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the requirements for revenue recognition.

5.21 Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 October 2018 have not been early adopted in the preparation of the Group's financial statements. New standards but not yet effective that may affect the Group are as follows:

	Effective from
• IFRS 2 (amendment) 'Share Based Payments'	1 January 2018
• IFRS 9 'Financial Instruments'	1 January 2018
• IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
• IFRS 16 'Leases'	1 January 2019
• IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	Deferred

5.21.1 Amendment to IFRS 2 'Share-based payments'

These amendments were issued in June 2016 and clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based transactions from cash-settled to equity-settled. This amendment is effective for periods beginning on or after January 2018. The share-based payments managed by the Group are equity-settled and therefore this amendment will have no impact.

5.21.2 IFRS 16 'Leases'

This standard was issued in January 2016 and it replaces the existing standard IAS 17 'Leases'. The standard requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 'Leases'. The new standard is effective from periods beginning on or after 1 January 2019 with early adoption permitted, provided the new revenue standard, IFRS 15 'Revenue from contracts with customers', has been applied, or is applied at the same date as IFRS 16. This standard does not have a material impact on the Group as a lessor but during 2018/19, the Group will be assessing the impact as a lessee. The Group does not intend to early adopt IFRS 16 and therefore will only adopt it from 1 October 2019.

5.21.3 IFRS 9 'Financial instruments'

The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 and it is effective for annual periods beginning on or after 1 January 2018. IFRS 9 sets out the requirements for recognizing and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'.

The Group has determined the Date of Initial Application for IFRS 9 to be 1 October 2018. The classification, measurement and impairment requirements are applied retrospectively by adjusting the opening statement of financial position at 1 October 2018. The Group will not restate the comparatives as permitted by IFRS 9.

(a) Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through statement of income.

Loans and advances to customers are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Investments in Government bonds are currently classified as available-for-sale, measured at fair value through other comprehensive income and the Group has concluded that these investments will continue to meet the criteria for fair value through other comprehensive income. Therefore, reclassification for these instruments is not required.

The adoption of this standard will not have a significant impact on the classification and measurement of Group's financial assets and financial liabilities.

(b) Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. The IFRS 9 expected credit loss ('ECL') model replaces the current 'incurred loss' model of IAS 39.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability-weighted lifetime ECL will be recorded. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment are intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

The Group has completed the development and testing of operating models and methodologies for the calculation of ECL. The Group continues to revise, refine and validate the impairment models and related process controls. The Group is in the process of finalising the potential impact of the expected provision for credit losses in accordance with IFRS 9. As of 30 September 2018, the transition adjustment with regard to ECL is expected to be between 10-15% of current provisioning levels, which will be a transitional adjustment to opening retained earnings.

5.21.4 IFRS 15 ‘Revenue from contracts with customers’

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 ‘Construction Contracts’ and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cashflows with customers. The Group has assessed the impact of IFRS 15. Based on the assessment, adoption of IFRS 15 is not expected to have any material effect on the Group's financial statements.

5.21.5 IFRS 10 and IAS 28 ‘Sale or Contribution of Assets between an Investor and its Associate or Joint Venture’

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture.

The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

6 Significant accounting judgements, estimates and assumptions

The preparation of the Group’s consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group’s accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group’s control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to the judgements/estimates involved.

6.1 Impairment losses on loans and advances

The Group reviews its loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement.

The detailed approach for is further explained in note 5.3 which includes an element of management’s judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

Additionally, judgements around the inputs and calibration of the collective impairment models include the criteria for the identification of smaller homogenous portfolios, the effect of concentrations of risks and economic data (including levels of unemployment, repayment trends, collateral values of assets under financing, the performance of different individual groups, and bankruptcy trends), and for determination of the emergence period. The methodology and assumptions are reviewed regularly in the context of actual loss experience.

The impairment methodology and its application is disclosed in more detail in notes 5.3.

6.2 Effective Interest Rate (‘EIR’) method

The Group's EIR methodology, as explained in note 5.1.3, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well as expected changes to the Bank of England’s base rate and other fee income andexpense that are integral parts of the instrument.

7 Segment information

The Group has been organised into two reportable segments, with the addition of its retail deposit-taking function being grouped into the existing consumer finance segment from July 2017, subsequent to the banking licence being granted to its' banking subsidiary in December 2016. For management purposes, the Group has been organised into two operating segments based on products and services, as follows.

Consumer finance
Individual customers' deposits and consumer hire purchase, personal loan and conditional sale finance for motor vehicles.

Business finance
Business hire purchase and lease finance for vehicles, plant and equipment.

The Executive Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the consolidated financial statements. However, income taxes are managed on a Group basis and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue for the years ended 30 September 2017 and 30 September 2018.

Segment assets include cash and balances at central banks, loans and advances to customers, and available-for-sale financial instruments and tax assets. Segment liabilities comprise of amount due to banks, amount due to customers, derivative financial instruments and tax liabilities but exclude certain borrowings that are for general corporate purposes.

No geographical analysis is presented because the Group only operates within the United Kingdom.

The following table presents income and profit and certain asset and liability information for the Group's operating segments.

Group **Year ended 30 September 2018**	**Consumer finance £'000**	**Business finance £'000**	**Total £'000**
Interest and similar income	13,108	12,387	25,494
Interest and similar expense	(5,404)	(5,089)	(10,492)
Net interest income	7,704	7,298	15,002
Fee and commission income	96	397	493
Fee and commission expense	(435)	(410)	(845)
Net fees and commission (expense)/income	(339)	(13)	(352)
Net operating income	7,365	7,285	14,650
Personnel expenses	2,667	2,519	5,186
Depreciation of property and equipment	43	41	84
Amortisation of intangible assets	198	187	385
Other operating expenses	1,494	1,413	2,907
Impairment loss on financial instruments	601	314	915
Total operating expenses	5,003	4,474	9,477
Segment profit before tax	2,362	2,811	5,173
Income tax expense	–	–	(981)
Profit for the year	2,362	2,811	4,192
Assets			
Additions to property and equipment	18	18	36
Additions to other intangible assets	327	310	637
Total assets	128,863	157,607	286,470
Total liabilities	109,535	134,384	243,919

Group Year ended 30 September 2017	Consumer finance £'000	Business finance £'000	Total £'000
Interest and similar income	11,292	8,678	19,970
Interest and similar expense	(5,298)	(3,608)	(8,906)
Net interest income	5,994	5,070	11,064
Fee and commission income	115	397	512
Fee and commission expense	(397)	(305)	(702)
Net fees and commission (expense)/income	(282)	92	(190)
Net loss on financial assets and liabilities designated at fair value through profit or loss	(4)	–	(4)
Net operating income	5,708	5,162	10,870
Personnel expenses	2,207	1,696	3,903
Depreciation of property and equipment	40	31	71
Amortisation of intangible assets	156	119	275
Other operating expenses	1,306	1,003	2,309
Impairment loss on financial instruments	384	295	679
Total operating expenses	4,093	3,144	7,237
Segment profit before tax	1,615	2,018	3,633
Income tax expense	–	–	(847)
Profit for the year	1,615	2,018	2,786
Assets			
Additions to property and equipment	110	85	195
Additions to other intangible assets	1,253	962	2,215
Total assets	85,821	86,647	172,468
Total liabilities	93,177	40,630	133,807

8 Interest and similar income

Group	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Cash and short-term funds	**75**	–
Loans and advances to customers	**25,203**	19,970
Financial instruments - available-for-sale	**216**	–
	25,494	19,970

9 Interest and similar expense

Group	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Due to banks	**3,125**	4,951
Due to customers	**2,085**	124
Credit-related fees and commission forming part of EIR	**5,282**	3,831
	10,492	8,906

10 Net fee and commission expense

Group	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Fees and commission income		
Secondary lease income	**312**	348
Other fees not forming part of EIR	**180**	164
	492	512
Fees and commission expenses		
Debt recovery and valuation fees	**(338)**	(334)
Creditworthiness due diligence costs	**(506)**	(368)
	(844)	(702)
Net fee and commission expense	**(352)**	(190)

11 Fair value (loss)/gain on financial instruments

This relates to derivative financial instruments in the form of interest rate swaps that were used by the Group as cash flow hedging instruments. At 30 September 2018, there were no outstanding positions (30 September 2017 – £nil). Movements in the amounts are recognised in other reserves. Once the position has been closed, the reserves are recognised in the income statement.

12 Impairment losses on financial assets

Impairment losses on financial assets relates to impairment losses on loans and advances to customers. The credit risk inherent in loans and advances to customers is detailed in note 34. The charge during the year was as follows.

Group	Instalment credit £'000	Finance lease £'000	Total £'000
30 September 2018			
Impairment charge for the year on loans and advances to customers	899	16	915
30 September 2017			
Impairment charge for the year on loans and advances to customers	608	71	679

Movements in impairment charge and amounts written off are further detailed in note 20.

13 Personnel expenses

The aggregate payroll costs of the Group, including Directors and Chairman, were

Group	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Salaries and fees	**4,514**	3,350
Social security cost	**491**	405
Pension costs - defined contribution plan	**147**	111
Share-based payments	**34**	37
	5,186	3,903

The average monthly number of persons employed by the Group during the year was 67 (year ended 30 September 2017 – 60).

14 Directors' remuneration and staff costs

Group	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Directors' remuneration		
Directors' emoluments	**1,257**	997
Payments in respect of personal pension plans	**55**	49
Long-term incentive schemes	**19**	28
	1,331	1,074

There are three directors receiving company contributions to personal pension schemes (September 2017 – three).

Directors' remunerations are disclosed in the Nomination & Remuneration Committee Report on page 33.

Share-based payments
Company equity-settled share option plans
The grant price is determined by reference to the average mid-market price of the Company's ordinary shares for the three days immediately preceding the date of the grant. The options are conditional on continued employment and have a minimum vesting period of three years. If options remain unexercised after a period of ten years from the date of the grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest. The weighted average remaining contractual life is seven years (30 September 2017 – seven years).

Company	30 September 2018 £'000	Weighted average exercise price (pence)	30 September 2017 £'000	Weighted average exercise price (pence)
Outstanding at the beginning of the year	**2,960**	**16**	2,610	15
Granted during the year	**250**	**28**	350	23
Expired during the year	**–**	**–**	–	–
Outstanding at the end of the year	**3,210**	**17**	2,960	16
Exercisable at the end of the year	**2,100**	**13**	1,200	9

The fair value was measured at the grant date using the Black-Scholes model. The inputs were as follows.

During the year ended 30 September 2018

Grant date	26 July
Share price at grant date	28.4p
Exercise price	28.4p
Shares under option	250,000
Vesting period	3 – 10 years
Expected volatility	20-30%
Expected life	6.5 years
Risk-free rate	0.6%
Expected dividends	nil
Fair value per model at grant date	8.9p

During the year ended 30 September 2017

Grant date	7 June
Share price at grant date	22.6p
Exercise price	22.6p
Shares under option	350,000
Vesting period	3 – 10 years
Expected volatility	20-30%
Expected life	6.5 years
Risk-free rate	0.3%
Expected dividends	nil
Fair value per model at grant date	6.9p

The expected volatility is based on historical volatility over a period consistent with the expected option life. The risk-free rate is based on UK Government bonds.

15 Other operating expenses

Group	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Advertising and marketing	**217**	45
Administrative expenses	**617**	648
Information technology and systems	**717**	461
Professional fees	**769**	626
Rental charges payable under operating lease	**464**	430
Expenses relating to banking services and licences	**123**	99
	2,907	2,309

Professional fees include fees payable to the auditor of £152,000 (year ended 30 September 2017 – £147,000), as analysed below.

Group	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Statutory audit of the Company	**87**	72
Statutory audit of the Company's subsidiaries	**65**	75
	152	147

16 Income tax

(a) **The components of income tax expense for the year ended 30 September 2018 and its comparative**

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Current tax		
UK Corporation Tax on profit for the year	**(829)**	(558)
Adjustments in respect of prior periods	**(85)**	(143)
Total current tax	**(914)**	(701)
Deferred tax		
Origination and reversal of temporary differences	**(175)**	(129)
Adjustments in respect of prior periods	**90**	138
Change in tax rate	**18**	(155)
	(67)	(146)
Total tax charge for the year	**(981)**	(847)

(b) **Deferred tax on items recognised directly in equity**

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Relating to share-based payments	**50**	14
	50	14

(c) **Factors affecting current tax charge for the year**

The tax assessed for the year differs from the standard rate of Corporation Tax in the UK of 19.0% (period ended 30 September 2017 – 19.5%). The differences are explained below.

The Finance (No.2) Act 2015 enacted a reduction in the main rate of Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019. The Finance Act 2016 enacted a reduction in the main rate of Corporation Tax main rate at 17% for the year starting the 1 April 2020. Deferred tax balances should be calculated at the rate which the balances are expected to be settled, based on tax rates that have been substantively enacted at the balance sheet date. The deferred tax balances have been therefore calculated with reference to these rates.

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Accounting profit before tax	**5,173**	3,633
UK Corporation Tax of 19% (year ended 30 September 2017 – 19.5%)	**(983)**	(708)
Effects of		
Expenses not deductible for taxation purposes	**(47)**	(6)
Adjustments in respect of prior years	**5**	(6)
Change in tax rate	**18**	(127)
Other differences	**26**	–
Income tax expense as reported in the consolidated income statement	**(981)**	(847)
Effective tax rate for the year	**19%**	23%

17 Earnings per share

Basic earnings per share ('EPS') is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

The following table shows the income and share data used in the basic EPS calculations.

	30 September 2018 £'000	30 September 2017 £'000
Net Company profit attributable to the adjusted for the effect of dilution	**4,192**	2,786

	30 September 2018 '000 units	30 September 2017 '000 units
Basic weighted average number of shares	**212,225**	190,409
Basic earnings per 5p ordinary share	**2.0**	1.5

18 Cash and balances at central banks

	Group		Company	
	30 September 2018 £'000	30 September 2017 £'000	30 September 2018 £'000	30 September 2017 £'000
Cash and demand deposits	**21,338**	1,455	**11**	18
Money market funds	**–**	15,563	**–**	–
	21,338	17,018	**11**	18

The Group and the Company do not have monies held in trust for clients at the reporting date.

19 Available-for-sale financial instruments

Group	30 September 2018 £'000	30 September 2017 £'000
UK Government debt securities	**509**	4,511
Other OECD sovereign guaranteed debt securities	**7,517**	-
Multilateral development bank debt securities	**18,185**	-
Covered bond securities	**13,691**	-
	39,902	4,511

There are no allowances for impairment losses on available-for-sale financial instruments during the year and at year end.

20 Loans and advances to customers

Group	30 September 2018 £'000	30 September 2017 £'000
Consumer lending - gross	**127,975**	93,218
Business lending - gross	**142,210**	87,815
	270,185	181,033
Allowance for impairment losses	**(4,369)**	(3,965)
Unearned future finance income	**(46,494)**	(31,350)
	219,322	145,718

A reconciliation of the allowance for impairment losses for loans and advances, by class, is as follows.

Group	Consumer finance £'000	Business finance £'000	Total £'000
At 1 October 2017	2,233	1,732	3,965
Charge for the year (note 12)	601	314	915
(Recoveries)/write offs	(549)	37	(512)
At 30 September 2018	2,285	2,083	4,368
Made up of			
Individual impairment	2,185	1,939	4,124
Collective impairment	100	144	244
Total impairment	2,285	2,083	4,368

Group	Consumer finance £'000	Business finance £'000	Total £'000
At 1 October 2016	2,179	1,702	3,881
Charge for the year (note 12)	384	295	679
Recoveries	(330)	(265)	(595)
At 30 September 2017	2,233	1,732	3,965
Made up of			
Individual impairment	2,058	1,645	3,703
Collective impairment	175	87	262
Total impairment	2,233	1,732	3,965

Loans and advances at Company level relate to subsidiary undertakings and are eliminated at Group level. These balances arose mainly from daily operations, payments on behalf of and subordinated loans to subsidiary undertakings. Loans and advances to subsidiary undertakings are unsecured, interest-free and repayable on demand.

21 Investment in subsidiary undertakings

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings. All the subsidiaries are incorporated and operate in the United Kingdom and are registered in England and Wales. The Company does not have any joint ventures or associates. Significant subsidiaries of the Company were as follows.

Name of company	Nature of business	Percentage of equity interest 30 September 2018	Percentage of equity interest 30 September 2017
PCF Bank Limited	Banking, leasing & hire purchase	100	100
AMC Trust Limited	Dissolved	–	100*
PCF Finance Group Limited ('PCFGL')	Dissolved	–	100*
Private and Commercial Finance Company Limited ('P&C Finance')	Dissolved	–	100*
PCF Asset Finance Limited ('PCF Asset')	Dissolved	–	100*
PCF Business Finance Limited ('PCF Business')	Dissolved	–	100*
PCF Leasing Limited ('PCF Leasing')	Dissolved	–	100*
PCF Credit Limited ('PCF Credit')	Leasing & hire purchase	100*	100*
PCF Equipment Leasing Limited	Dormant	100*	100*
PCF Financial Leasing Limited	Dormant	100*	100*

*Held by a subsidiary of the Company

The registered office of all subsidiaries is Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.

All companies have an Accounting Reference Date of 30 September.

Company	30 September 2018 £'000	30 September 2017 £'000
Cost and net book value		
At beginning of the year	**17,000**	1,000
Increase in investments	**5,000**	16,000
At 30 September	**22,000**	17,000

The Company has an investment in PCF Bank Limited (the 'Bank'). The net asset value of the Bank at 30 September 2018 was £36,670,000 (30 September 2017 – £25,710,000). If the investment had been sold at this valuation, any potential capital gains arising on the sale would have been exempt under the substantial shareholdings legislation. If the disposal had given rise to a loss, the loss would not be an allowable loss for tax purposes. There was an additional investment of £5,000,000 in the Bank during the year (30 September 2017 – £16,000,000).

It is the opinion of the directors that the recoverable amount of the Company's investment in the Bank is not less than the amount at which it is stated in the Company's financial statements.

22 Property, plant and equipment

Group	Leasehold improvement 30 September 2018 £'000	Office equipment 30 September 2018 £'000	Total 30 September 2018 £'000
Cost			
At 1 October 2017	26	407	433
Additions during the year	6	31	37
Disposals during the year	–	–	–
At 30 September 2018	32	438	470
Accumulated depreciation			
At 1 October 2017	15	147	162
Disposals during the year	–	–	–
Depreciation during the year	7	77	84
At 30 September 2018	22	224	246
Net book value	10	214	224

Group	Leasehold improvement 30 September 2017 £'000	Office equipment 30 September 2017 £'000	Total 30 September 2017 £'000
Cost			
At 1 October 2016	26	254	280
Additions during the year	–	195	195
Depreciation during the year	–	(42)	(42)
At 30 September 2017	26	407	433
Accumulated depreciation			
At 1 October 2016	9	124	133
Disposals during the year	–	(42)	(42)
Depreciation during the year	6	65	71
At 30 September 2017	15	147	162
Net book value	11	260	271

The majority of the property, plant and equipment is computer hardware and office machinery.

Company	Leasehold improvement 30 September 2017 £'000	Office equipment 30 September 2017 £'000	Total 30 September 2017 £'000
Cost			
At 1 October 2016	26	254	280
Additions during the year	–	195	195
Disposals during the year	–	(42)	(42)
Transferred during the year	(26)	(407)	(433)
At 30 September 2017	–	–	–
Accumulated depreciation			
At 1 October 2016	9	124	133
Disposals during the year	–	(42)	(42)
Depreciation during the year	6	65	71
Transferred during the year	(15)	(147)	(162)
At 30 September 2017	–	–	–
Net book value	–	–	–

23 Goodwill and other intangible assets

Goodwill relates entirely to the Group's Consumer Finance Division and arises from the acquisition of a subsidiary company, TMV Finance Limited ('TMV'), in November 2000. Subsequently, a corporate reorganisation resulted in the assets and business model of TMV being transferred to its related companies in the Group, PCF Credit and PCF Bank.

The rationale for the acquisition was to increase market share and adopt the business model for new business generation which involved contractual relationship with broker introductory sources. As the business model was new to the Group at the time of acquisition and has continued to be the primary source of new business for the Group, the directors believe that the underlying net assets from PCF Credit and PCF Bank are sufficient to cover the carrying value of the goodwill, and there is no indication of impairment.

Group	30 September 2018 £'000	30 September 2017 £'000
Cost and net book value		
At 1 October and 30 September	**397**	397

Other intangible assets

Other intangible assets consist solely of computer software and capitalised expenses relating to the project of applying to become and becoming a bank.

	Group		Company	
	30 September 2018 £'000	30 September 2017 £'000	30 September 2018 £'000	30 September 2017 £'000
Cost				
At 1 October	**4,611**	2,396	**–**	2,396
Additions during the year	**638**	2,215	**–**	2,215
Transfers during the year	**–**	–	**–**	(4,611)
At 30 September	**5,249**	4,611	**–**	–
Accumulated depreciation				
At 1 October	**2,304**	2,029	**–**	2,029
Amortisation during the year	**385**	275	**–**	275
Transfers during the year	**–**	–	**–**	(2,304)
At 30 September	**2,689**	2,304	**–**	–
Net book value at 30 September	**2,560**	2,307	**–**	–

	Group		Company	
	30 September 2018 £'000	30 September 2017 £'000	30 September 2018 £'000	30 September 2017 £'000
Net book value of combined goodwill and other intangible assets	**2,957**	2,704	**–**	–

24 Deferred tax assets

	Group		Company	
	30 September 2018 £'000	30 September 2017 £'000	30 September 2018 £'000	30 September 2017 £'000
Accelerated capital allowances	**994**	(94)	**–**	–
Decelerated capital allowances	**85**	1,239	**80**	103
Other temporary differences	**106**	60	**116**	60
	1,185	1,205	**196**	163
At 1 October	**1,205**	1,424	**163**	89
Recognised in income	**(66)**	(146)	**(9)**	51
Adjustment in respect of prior year timing difference	**–**	–	**(8)**	9
Recognised in other comprehensive income	**(3)**	(87)	**–**	–
Recognised in equity	**49**	14	**50**	14
At 30 September	**1,185**	1,205	**196**	163

In the Summer Budget 2015 and 2016, the UK Government announced legislation reducing the main rate of Corporation Tax from 20% to 19% for the years starting 1 April 2017, 2018 and 2019 and to 17% for the year starting 1 April 2020. The deferred tax asset has been calculated based on a rate of 17% to the extent that it is expected to reverse in future years.

The impact of measuring the deferred tax asset at the current tax rate of 19.5% is £139,000. As the timing of the reversal of the deferred tax asset is uncertain, the Group has taken the approach of measuring the deferred tax asset at the lowest enacted tax rate.

There is an unrecognised deferred tax asset of £1,839 (30 September 2017 – £1,839). This asset relates to tax losses arising in prior years, which are unutilised at the reporting date.

25 Other assets

	Group		Company	
	30 September 2018 £'000	30 September 2017 £'000	30 September 2018 £'000	30 September 2017 £'000
Prepayments	**1,394**	871	**788**	736
Other receivables	**148**	170	**29**	94
	1,542	1,041	**817**	830

Other assets are not interest-bearing and are generally on terms of up to 30 days. The maximum exposure to credit risk and the fair value of trade and other receivables equates to the carrying amount.

26 Due to banks

Group	30 September 2018 £'000	30 September 2017 £'000
Current		
Secured loans and borrowings	**9,323**	62,234
Non-current		
Secured loans and borrowings	**39,558**	14,833
	48,881	77,067

Bank overdrafts
The Company had no bank overdraft facility at 30 September 2018.

Interest bearing loans and borrowings
£50.0 million block discounting facilities granted to PCF Credit
These loans have fixed interest rates and maturity dates of up to five years. The facilities are secured by assigned receivables of PCF Credit.

£83.0 million term loan facility granted to PCF Credit by a related party to the shareholders
This loan has a fixed interest rate and a maturity date of 30 June 2021. The facility is secured by a charge over specified loans and receivables and the guarantee of the Company.

£25.0 million term loan facility granted to PCF Bank by the Bank of England under the Term Funding Scheme
This facility has a rate linked to the Bank of England's Base Rate and has a maturity in February 2022. The loan is secured by a charge over specified loans and receivables and the guarantee of the Company.

27 Debt securities in issue

During the year, no debt securities were in issue.

28 Derivative financial instruments

Derivative financial instruments relates to cash flow hedge utilised by the Group for the purpose of managing its exposure to interest rate fluctuations as the Group borrows at both fixed and floating interest rates. The derivatives used for this hedge are interest rate swaps where the Group pays fixed rate interest on a quarterly basis. Further details are explained in the section on financial risk management in note 34.

As at 30 September 2018, there was an £8,000,000 open contract of cash flow hedge in place (30 September 2017 – £nil). No valuation took place at the end of the financial period due to the purchase being at market value on the last day of the year.

The fair value of derivative financial instruments included in the financial statements, together with their notional amounts, is summarised as follows.

	Fair value 30 September 2018 £'000	Notional 30 September 2018 £'000	Fair value 30 September 2017 £'000	Notional 30 September 2017 £'000
Interest rate swaps	**–**	**8,000**	–	–
	–	**8,000**	–	–

29 Due to customers

Group	30 September 2018 £'000	30 September 2017 £'000
Retail customers		
Notice account	**14,107**	3,245
Term deposit	**177,032**	49,875
	191,139	53,120

Included in amounts due to customers is accrued interest amounting to £1,086,000 (30 September 2017 – £118,000) and £58,000 (30 September 2017 – £5,000) for term deposits and notice accounts respectively.

30 Financing activity

The table below details changes in the Group's liabilities arising from financing activities.

	Note	1 October 2017 £'000	Cash flows £'000	30 September 2018 £'000
Due to banks	26	77,067	(28,186)	48,881
		77,067	(28,186)	48,881

31 Other liabilities

	Group		Company	
	30 September 2018 £'000	30 September 2017 £'000	30 September 2018 £'000	30 September 2017 £'000
Other payables	**210**	691	**242**	294
Accruals	**3,275**	2,763	**1,309**	781
	3,485	3,454	**1,551**	1,075

Other liabilities includes other payables and accruals that are not interest-bearing and are normally settled on 30 day terms.

32 Issued capital and reserves

Company	30 September 2018 '000 units	30 September 2017 '000 units	30 September 2018 £'000	30 September 2017 £'000
Authorised ordinary shares of 5p each	**250,000**	250,000	**12,500**	12,500
Ordinary shares issued and fully paid				
At 1 October	**212,220**	159,127	**10,611**	7,956
Issuance of new shares during the year	**-**	42,000	**-**	2,100
Dividend reinvestment	**10**	96	**-**	5
Exercise of convertible debt options	**-**	10,997	**-**	550
At 30 September	**212,230**	212,220	**10,611**	10,611

Share premium

	£'000
At 1 October	8,524
Share premium arising from issuance of new shares during the year	-
Share premium arising from conversion of convertible loan notes during the year	-
Dividend reinvestment	3
Transaction costs for issued share capital	-
At 30 September	8,527

Other reserves

From 1 April 2007, the Group adopted hedge accounting for the existing and any new derivative financial instruments. The hedging reserve includes the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions which have not yet occurred. The hedging reserve appears in 'Other reserves'. As well as the hedging reserve appearing in 'Other reserves', the 'revaluation reserve' for AFS financial instruments also appears in 'Other reserves'.

Own shares (Employee Share Option Plans)

Own shares represent 1,237,925 (30 September 2017 – 1,237,925) ordinary shares held by the Company's Employees Benefits Trust 2003 ('EBT') to meet obligations under the Company's Share Option Plans. The shares are stated at cost and their market value at 30 September 2018 was £354,666 (30 September 2017 – £352,809). If they had been sold at this value, there would have been a capital gain of £250,680 (30 September 2017 – £117,603) arising on the sale.

	£'000
At 1 October 2017	(355)
Purchase of own shares during the year	-
At 30 September 2018	(355)

Dividend

At the forthcoming Annual General Meeting, a final dividend of 0.3 pence per share in respect of the year ended 30 September 2018 (year ended 30 September 2017 – 0.19 pence per share), amounting to a dividend payable of £636,689 (year ended 30 September 2017- £403,000) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by shareholders, will be accounted for in equity as an appropriation of retained earnings in the year ending 30 September 2019.

33 Financial instruments

The Group invests in highly liquid financial instruments to support its liquid asset buffer and raises wholesale funding by issuing financial instruments. The Group also uses derivative financial instruments to manage the risks arising from its operations. The risks associated with financial instruments represents a significant component of the total risks faced by the Group and are analysed in more detail below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 5.3.

33.1 Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained in note 33.3.

33.2 Valuation governance

The Group's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives including their valuation methodologies are subject to approvals by various functions of the Group, Company and the Bank including the Risk and Finance functions. The responsibility of ongoing measurement resides with the business and product line divisions.

Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions. The independent price verification process for financial reporting is ultimately the responsibility of the independent price verification team within the Finance function, which reports to the Finance Director.

33.3 Assets and liabilities by classification, measurement and fair value hierarchy

The following table summarises the classification of the carrying amounts of the Group's financial assets and liabilities.

Group	Amortised cost £'000	Held at fair value as available-for-sale assets £'000	Total £'000
30 September 2018			
Cash and balances at central banks	21,338	–	21,338
Loan and advances to customers	219,322	–	219,322
Available-for-sale financial instruments	–	39,902	39,902
Derivative financial instruments	–	–	–
Total financial assets	240,660	39,902	280,562
Other non-financial assets			5,908
Total assets			286,470
Due to banks	48,881	–	48,881
Due to customers	191,139	–	191,139
Total financial liabilities	240,020	–	240,020
Other non-financial liabilities			3,899
Total liabilities			243,919
30 September 2017			
Cash and balances at central banks	17,018	–	17,018
Loan and advances to customers	145,718	–	145,718
Available-for-sale financial instruments	–	4,511	4,511
Derivative financial instruments	–	–	–
Total financial assets	162,736	4,511	167,247
Other non-financial assets			5,221
Total assets			172,468
Due to banks	77,067	–	77,067
Debt securities in issue	–	–	–
Derivative financial instruments	–	–	–
Due to customers	53,120	–	53,120
Total financial liabilities	130,187	–	130,187
Other non-financial liabilities			3,620
Total liabilities			133,807

The Group holds certain financial assets at fair value grouped into Levels 1 to 3 of the fair value hierarchy as explained below but no liabilities at fair value.

Level 1 – The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio mainly comprises gilts, fixed rate bonds and floating rate notes for which traded prices are readily available.

Level 2 – These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets.

Level 3 – These are valuation techniques for which one or more significant inputs are not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, similar market products, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's-length.

The following table shows an analysis of financial instruments recorded at amortised cost by level of the fair value hierarchy.

Group	Level 1 £'000	Level 2 £'000	Level 3 £'000	Carrying value £'000	Fair value £'000
Financial instruments held at amortised cost 30 September 2018					
Cash and balances at central banks	21,338	–	–	21,338	21,338
Loans and advances to customers	–	–	219,322	219,322	255,922
	21,338	–	219,322	240,660	277,260
Due to banks	48,881	–	–	48,881	48,881
Due to customers	–	191,139	–	191,139	191,139
	48,881	191,139	–	240,020	240,020

Group	Level 1 £'000	Level 2 £'000	Level 3 £'000	Carrying value £'000	Fair value £'000
Financial instruments held at amortised cost 30 September 2017					
Cash and balances at central banks	17,018	–	–	17,018	17,018
Loans and advances to customers	–	–	145,718	145,718	165,984
	17,018	–	145,718	162,736	183,002
Due to banks	77,067	–	–	77,067	77,067
Due to customers	–	53,120	–	53,120	53,120
	77,067	53,120	–	130,187	130,187

The carrying value of amounts due to customers are considered to approximate the fair value as it would be impractical to determine the fair value due to a lack of historical data available.

		Group	
	Level 1 value £'000	Carrying value £'000	Fair value £'000
Financial instruments held at fair value through Other Comprehensive Income 30 September 2018			
Available-for-sale financial instruments	39,902	39,902	39,902
Derivative financial instruments	–	–	–
At 30 September 2017			
Available-for-sale financial instruments	4,511	4,511	4,511
Derivative financial instruments	–	–	–

33.4 Valuation techniques

Available-for-sale financial instruments

Government debt securities are financial instruments issued by sovereign governments and include both long-term bonds and short-term bills with fixed or floating rate interest payments. These instruments are generally highly liquid and traded in active markets resulting in a Level 1 classification. When active market prices are not available, the Group uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future index levels and extrapolating yields outside the range of active market trading, in which instances the Group classifies those securities as Level 2. The Group does not have Level 3 government securities where valuation inputs would be unobservable.

Government debt securities

Whilst most of these instruments are standard fixed or floating rate securities, some may have more complex coupon or embedded derivative characteristics. The Group uses active market prices when available, or other observable inputs in discounted cash flow models to estimate the corresponding fair value including CDS data of the issuer to estimate the relevant credit spreads. Municipal bonds and bonds issued by financial institutions are generally Level 1 and corporate bonds are generally Level 2 instruments as well as convertible bonds where usually there is not sufficient third party trading data to justify Level 1 classification. Level 3 instruments are those where significant inputs cannot be referenced to observable data and, therefore, inputs are adjusted for relative tenor and issuer quality.

Loans and advances to customers

For loans and receivables designated at FVPL, a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. The element of fair value attributable to the credit risk is calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics. All loans and advances to customers are Level 3.

34 Financial risk management

The Group and its its operations are based solely in the United Kingdom, as explained in note 7. Whilst risk is inherent in the Bank's activities, it is managed through an integrated risk management framework, including ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to liquidity risk, market risk and credit risk.

34.1 Liquidity risk

Liquidity risk is defined as the risk that the Group might encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Group on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Group also has lines of credit that it can access to meet liquidity needs. In accordance with the Group's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month. The ratios during the year were as follows.

(a) Liquidity ratios

Advances to deposit ratios

Group	30 September 2018 £'000	30 September 2017 £'000
Year end	**1.1**	2.7
Average	**0.4**	1.3

The Group recognises the importance of notice accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of core customer notice and savings accounts, together with term funding with a remaining term to maturity in excess of one year.

(b) Contractual maturities

Group	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
At 30 September 2018						
Financial assets						
Cash and balances at central banks	21,338	–	–	–	–	21,338
Loans and advances to customers	9,611	10,111	56,068	186,079	8,316	270,185
Available-for-sale financial investments	–	18,338	740	22,275	–	41,353
Total undiscounted financial assets	30,949	28,449	56,808	208,354	8,316	332,876
Financial liabilities						
Due to banks	–	3,526	16,693	30,127	–	50,346
Due to customers	–	9,885	88,034	94,533	8,103	200,555
Other liabilities	–	3,485	–	–	–	3,485
Total undiscounted financial liabilities	–	16,896	104,727	124,660	8,103	254,386
Surplus/(shortfall)	30,949	11,553	(47,919)	83,694	213	78,490

Group	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
At 30 September 2017						
Financial assets						
Cash and balances at central banks	1,455	15,563	-	-	-	17,018
Loans and advances to customers	8,481	16,016	40,880	114,273	1,383	181,033
Available-for-sale financial investments	-	4,511	-	-	-	4,511
Total undiscounted financial assets	9,936	36,090	40,880	114,273	1,383	202,562
Financial liabilities						
Due to banks	-	5,068	57,166	14,833	-	77,067
Due to customers	-	305	17,360	32,703	2,752	53,120
Other liabilities	-	3,454	-	-	-	3,454
Total undiscounted financial liabilities	-	8,827	74,526	47,536	2,752	133,641
Surplus/(shortfall)	9,936	27,263	(33,646)	66,737	(1,369)	68,921

The Group's policy on funding capacity is to ensure there is always sufficient stable funding in place to support the Group's lending. At 30 September 2018 the Group had total wholesale and retail funding of £240.0 million (£130.2 million at 30 September 2017) that supported net loans and advances of £219.3 million (£145.7 million at 30 September 2017). Moreover, at 30 September 2018 the Group had a net stable funding ratio in excess of the regulatory minimum of 100%.

Surplus liquidity in periods shown above will be used to cover liquidity shortfalls in subsequent periods.

Company	On demand £'000	Over 5 years £'000	Total £'000
At 30 September 2018			
Financial assets			
Cash and balances at central banks	11	–	11
Loans and advances to customers	2,912	–	2,912
Total undiscounted financial assets	2,923	–	2,923
Financial liabilities			
Other liabilities	1,551	–	1,551
Total undiscounted financial liabilities	1,551	–	1,551
Surplus	1,372	–	1,372

Company	On demand £'000	Over 5 years £'000	Total £'000
At 30 September 2017			
Financial assets			
Cash and balances at central banks	18	–	18
Loans and advances to customers	5,265	2,500	7,765
Total undiscounted financial assets	5,283	2,500	7,783
Financial liabilities			
Other liabilities	1,075	–	1,075
Total undiscounted financial liabilities	1,075	–	1,075
Surplus	4,208	2,500	6,708

(c) **Analysis of encumbered and unencumbered assets**

Group	Encumbered £'000	Unencumbered Available as collateral £'000	Unencumbered Other £'000	Total £'000
At 30 September 2018				
AFS financial instruments	25,173	14,727	2	39,902
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	25,776	203,857	–	229,633
Unsecured loans	–	–	365	365
Finance leases of equipment, plant and vehicles	8,028	32,159	–	40,187
Gross assets	58,977	250,743	367	310,087

Group	Encumbered £'000	Unencumbered Available as collateral £'000	Unencumbered Other £'000	Total £'000
At 30 September 2017				
AFS financial instruments	–	4,511	–	4,511
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	83,918	60,025	5,250	149,193
Unsecured loans	–	–	420	420
Finance leases of equipment, plant and vehicles	18,200	10,698	2,522	31,420
Gross assets	102,118	75,234	8,192	185,544

Company

The loans and advances as shown on the Company balance sheet comprise amounts due from subsidiary undertakings of £2,911,900 (30 September 2017 – £5,265,000) which are repayable on demand and £nil (30 September 2017 – £2,500,000) of amounts due from subsidiary companies with repayment terms of five years or more respectively. The amounts due from subsidiary undertakings are interest free.

34.2 Market risk - Interest rate risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Due to the nature and geographical operations of the Group, the Group's market risk is primarily of interest rate risk. The Group borrows at fixed and floating interest rates. At 30 September 2018, the proportion of the Group's borrowings at fixed rates was 90% (30 September 2017 – 100%), fixed for an average period of two years (30 September 2017 – three years).

Based on the exposure to interest rate risk, an increase in LIBOR by ½ of 1 percentage point for the whole financial year would have a favourable effect on profits of £23,000 (30 September 2017 – no effect) and a favourable impact on capital of £18,000 (30 September 2017 – no effect).

34.3 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has an established credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

	Neither past due nor impaired £'000	Past due but not impaired £'000	impaired £'000	Total £'000
Credit quality analysis at 30 September 2018				
AFS financial instruments	39,902	–	–	39,902
Cash and balances at central banks	21,338	–	–	21,338
Loans and advances	250,777	8,786	10,622	270,185
Total	312,017	8,786	10,622	331,425

34.3.1 Impairment assessment

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed as defined in note 5.3.

34.3.2 Analysis of maximum exposure to credit risk and collateral

	Group		Company	
	30 September 2018 £'000	30 September 2017 £'000	30 September 2018 £'000	30 September 2017 £'000
Financial assets				
Cash and balances at central banks				
Cash and demand deposits	**21,338**	1,455	**11**	18
Money market funds	**–**	15,563	**–**	–
Loans and advances to customers				
Consumer lending (net)	**125,689**	90,985	**–**	–
Business lending (net)	**140,127**	86,083	**–**	–
Intercompany balances	**–**	–	**2,912**	7,765
Available-for-sale financial investments	**39,902**	4,511	**–**	–
	327,056	198,597	**2,923**	7,783
Other non-financial assets	**5,908**	5,221	**23,013**	17,993
	332,964	203,818	**25,936**	25,776

35 Commitments and guarantees

(a) **Operating lease commitments - Group or Company as lessee**

The Company has entered into commercial leases for premises and equipment. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases (e.g. such as those concerning dividends, additional debt and further leasing). Future minimum lease payments under non–cancellable operating leases at 30 September are as follows.

Group and Company	30 September 2018 £'000	30 September 2017 £'000
Within one year	**223**	243
After one year but not more than five years	**–**	223
	223	466

(b) **Operating lease commitments - Group or Company as lessor**

Future minimum rentals receivable under non-cancellable operating leases are £nil (30 September 2017 – £nil).

36 Material litigation

The Group's Bank subsidiary operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. The Group and the Bank have formal controls and policies for managing legal claims. Based on professional legal advice, the Group provides and/or discloses amounts in accordance with its accounting policies described in note 5.14 at year end, there had been no material litigation against the Group or the Company.

37 Related parties

Apart from non-executive directors holding a total of £102,805 in savings accounts in the Bank at 30 September 2018, directors' remuneration disclosed in note 14, the £83 million (30 September 2017 – £83 million) term loan facility with Bermuda Commercial Bank as disclosed in note 26 and guarantees as also disclosed in note 35, there were no other related party transactions during the period.

The loan from Bermuda Commercial Bank is a commercial arrangement made at arm's length.

38 Events after the balance sheet date

Acquisition of Azule Limited and its subsidiaries ('Azule Group')

On 30 October 2018, and therefore after the year end, the Group acquired 100% of the voting shares of Azule Group, a UK market leader in providing specialist funding and leasing services to individuals and businesses in the broadcast and media industry. Azule also operates in the audio visual and photography markets and offers its services across Europe, as well as in the UK.

Azule has been providing finance for more than 20 years and it has built a strong market presence, with a sales capability to place asset finance to a wide range of banks and lending institutions, as well as originating asset finance for its own portfolio. The acquisition offers revenue synergies with the Group's existing asset finance operations, given Azule's focus on financing a niche class of business-critical assets with strong collateral characteristics, for prime credit grade customers. For the year ended 30 June 2018, Azule originated £54.3 million of asset finance, reported revenues of £3.1 million and a profit before tax of £0.8 million. Since the acquisition, trading has been in line with management expectations. The purchase consideration for Azule was £5.6 million, with a contingent consideration of £1.5 million subject to the level of aggregate new business originations in the first and second years of the new ownership.

The Group acquired Azule Group because it offers revenue synergies in a niche class of business-critical assets with strong collateral characteristics and lending to prime credit grade customers. Due to the acquisition occurring subsequent to the year end, a fair value assessment of assets and liabilities had not been performed at the time of this report. An assessment will take place during the year ending 30 September 2019.

The book value of the identifiable assets and liabilities of Azule Limited as at the date of acquisition was as follows.

Assets	Book value recognised on acquisition £'000
Property, plant and equipment	111
Cash and cash equivalents	515
HP and leasing loans	16,531
Prepayment and other debtors	429
	17,586

Liabilities	Book value recognised on acquisition £'000
Trade creditors	(1,141)
Corporate taxes	(304)
Other creditors	(311)
Block funding	(12318)
Other funding	(376)
	(14,450)

	£'000
Total identifiable net assets at carrying value	3,136
Purchase consideration transferred, split as follows	5,636
Cash consideration	3,386
Equity consideration	750
Deferred equity consideration	1,500
Excess of consideration over carrying value	2,500

The Company issued 1,923,076 ordinary shares as part of the consideration of the 100% acquisition of Azule Group. The fair value of the shares was calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was 39p per share. The fair value of the consideration given was, therefore, £750,000.

Contingent consideration

As part of the purchase agreement with the previous owners of Azule Limited and its subsidiaries, a deferred consideration has been agreed. This consideration is subject to the level of aggregate new business originations in the first and second years of the new ownership. The fair value of the deferred consideration at the acquisition date and signing date was £1,500,000, which comprises of £750,000 at each anniversary. The deferred consideration is due for final measurement and payment at each anniversary.

39 Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements of the local banking supervisor, the Bank of England. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Group in supervising the Bank.

The Group and the Bank have complied in full with all its externally imposed capital requirements over the reported period.

The primary objectives of the Group's capital management policy are to ensure that the Group and the Bank comply with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Prudential Regulation Authority ('PRA') supervises the Group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ('FCA'). The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three 'pillars'.

Pillar 1 - Minimum capital requirements

Pillar 2 - Supervisory review process

Pillar 3 - Market discipline

Under Pillar 2, the Group completes an annual self assessment of risks known as the 'Internal Capital Adequacy Assessment Process' ('ICAAP'). The ICAAP is reviewed by the PRA which culminates in the PRA setting 'Individual Capital Guidance' ('ICG') on the level of capital the Group and its regulated subsidiaries are required to hold. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that Group's capital, risk exposures and risk assessment process. The Group's Pillar 3 disclosures can be found on the group's website, *www.pcf.bank/investors*

The Group maintains a strong capital base to support the development of the business and to ensure the Group meets Pillar 1 capital requirements, ICG and additional Capital Requirements Directive buffers at all times.

As a result, the Group maintains capital adequacy ratios which are significantly above minimum regulatory requirements.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of PCF Group plc (the 'Company') will be held at 1 Cornhill, London EC3V 3ND at 10.00 a.m. on Friday 8 March 2019 to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 7 will be proposed as ordinary resolutions and resolution 8 as a special resolution.

Ordinary Business

1 To receive and approve the Report of the Directors and the audited Financial Statements of the Company for the year ended 30 September 2018.

2 To receive and approve the Report on the Directors' Remuneration as set out in the audited Financial Statements for the year ended 30 September 2018.

3 To re-elect Scott Maybury, who is retiring as a director by rotation pursuant to Article 91 of the Company's Articles of Association, as a director of the Company.

4 To re-elect David Bull, who is retiring as a director by rotation pursuant to Article 91 of the Company's Articles of Association, as a director of the Company.

5 To re-appoint Ernst & Young LLP as auditors of the Company and to authorise the directors to determine their remuneration.

6 To declare a final dividend of 0.3 pence per ordinary share in respect of the year ended 30 September 2018.

Special Business

7 To consider and, if thought fit, pass the following as an ordinary resolution.

'That the directors be and are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares and grant rights to subscribe for or to convert into shares in the Company ('relevant securities') up to an aggregate nominal amount of £2,500,000 provided that such authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next annual general meeting of the Company, save that the Company may prior to the expiry of such authority make an offer, agreement or other arrangement under which the relevant securities would be or might fall to be allotted after such expiry and the directors may allot such relevant securities pursuant to any such offer, agreement or other arrangement as if the authority conferred by this resolution had not expired.'

8 To consider and, if thought fit, pass the following as a special resolution.

'That the directors be and are hereby empowered, pursuant to Section 571 of the Companies Act 2006 (the 'Act'), to allot equity securities for cash pursuant to the authority conferred by Resolution 8 set out in the Notice of Annual General Meeting of the Company dated 13 February 2019, as if Section 561 (1) of the Act did not apply to such allotment, provided that any such allotment shall be limited to

(a) the allotment of equity securities for cash where such securities have been offered by rights issue, open offer or otherwise) to holders of equity securities in proportion (as nearly as may be) to their holdings of ordinary shares of 5 pence each of the Company but subject to the directors having the right to make such exclusions or other arrangements in connection with such offer as they deem necessary or expedient to deal with fractional entitlements and legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange or otherwise; and

(b) any allotment (otherwise than pursuant to sub-paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £750,000, and shall expire (unless previously renewed, varied or revoked) at the conclusion of the next annual general meeting of the Company but so that the directors shall be entitled to make, at any time prior to the expiry of the power hereby conferred, any offer, agreement or other arrangement under which the relevant securities would be or might fall to be allotted after such expiry and the directors may allot securities pursuant to such offer, agreement or other arrangement as if the powers conferred by this resolution had not expired'.

By order of the Board

Robert Murray
Secretary

13 February 2019

Registered Office
Pinners Hall
105-108 Old Broad Street
London
EC2N 1ER

Notes

1 A member entitled to attend and vote at the above Annual General Meeting is entitled to appoint a proxy to attend and vote on their behalf. Members may appoint more than one proxy provided that each proxy is appointed to exercise rights attached to different shares. A proxy need not be a member of the Company.

2 A Form of Proxy is enclosed. To be valid, the Form of Proxy must be lodged with the Company's Registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY not less than 48 hours before the time appointed for the holding of the Annual General Meeting.

3 Completion of a Form of Proxy will not prevent a member from attending and voting in person at the Annual General Meeting, if the member so wishes.

4 The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members registered in the Register of Members of the Company at 10.00 a.m. on Wednesday 6 March 2019 shall be entitled to vote at the meeting in respect of the number of ordinary shares registered in their name at the relevant time. Changes to entries in the Register of Members after 10.00 a.m. on Wednesday 6 March 2019 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed (a) voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

6 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('EUI') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments specified in the notice of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

7 CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

8 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

PCF BANK

Simple banking. At your service.

PCF Bank Limited Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER

www.pcf.bank

Lending Consumer Finance 020 7227 7506 Business Finance 020 7227 7560

Savings 020 7227 7577 **Credit Control** 020 7227 7517 **Switchboard** 020 7222 2426

PCF Bank Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, FRN number 747017. The Bank is registered in England and Wales, registration number 02794633 and is wholly owned by PCF Group plc, a company registered in England and Wales, registration number 02863246 and listed on the Alternative Investment Market. Certain subsidiaries of the Bank are authorised and regulated by the Financial Conduct Authority for consumer credit activities. Registered offices are at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.