PCF BANK

PCF Group plc

Annual Report &
Financial Statements
2020

PCF GROUP

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

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

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* **Mark Brown** *Non-executive* **Christine Higgins** *Non-executive* **Marian Martin** *Non-executive* **David Morgan** *Non-executive* **David Titmuss** *Non-executive* **Garry Stran** *Interim Chief Executive Officer (appointed 5 October 2021)* **Caroline Richardson** *Chief Financial Officer (appointed 5 October 2021)* **Scott Maybury** *Chief Executive Officer (resigned 21 May 2021)* **Robert Murray** *Managing Director (resigned 26 March 2021)* **David Bull** *Finance Director (resigned 16 March 2020)*
Company Secretary	**Robert Murray** *(resigned 31 March 2021)* **LDC Nominee Secretary Limited** *(appointed 31 March 2021)*
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 (‘NOMAD’)	**Peel Hunt LLP** 100 Liverpool Street London EC2M 2AT
Joint Broker	**Shore Capital Limited** Cassini House 57 St. James’s Street London SW1A 1LD
Registrars	**Computershare Investor Services plc** The Pavilions Bridgwater Road Bristol BS99 7NH
Media & Investor Relations	**Tavistock Communications Limited** 1 Cornhill London EC3V 3ND

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

Strategic Report

The Strategic Report provides a holistic view of PCF Group plc's (the 'Group') business model, strategy and performance in the year ended 30 September 2020 along with its future prospects.

The Group issued its Preliminary Results for 2020 on 9 December 2020. As disclosed on 21 October 2021, a number of items have caused a reduction to profit before tax of approximately £7 million for the twelve months to 30 September 2020, compared with the preliminary results published in December 2020.

This was driven predominantly by an approximate £6 million revision to the impairment methodology for defaulted receivables, adjustments principally from the financial controls review increased cost of the 2020 audit and audit adjustments as disclosed in the Regulatory News Service ('RNS') published on 11 March 2021.

Business and financial highlights

- Underlying loss before tax[1] of £(3.1) million (2019 – profit of £8.0 million).
- Underlying profit reduction driven by credit impairment charges of £14.4 million (2019 – £3.3 million), including the incremental cost of potential pandemic related credit losses.
- Statutory loss before tax was £(4.8) million (2019 – profit of £8.0 million), including a partial impairment of goodwill arising on the acquisition of Azule Limited[2] £1.75 million.
- Focus on portfolio quality with 85% (2019 – 73%) of year to 30 September 2020 originations in the highest quality segments[3] of the Group's credit grades.
- Net Loan book increased to £427 million (2019 – £339 million).
- Portfolio forbearance has reduced since the early stages of the pandemic and as at 30 September 2020 only 9% of balances were in forbearance. The improving trend has continued into 2021.
- Operating income increased by 15% to £26.7 million (2019 – £23.3 million).
- Net interest margin reduced to 6.9% (2019 – 7.8%) reflecting the focus on higher quality lending partially offset by a cheaper cost of funds.
- Cost to income ratio[4] increased to 57.5% (2019 – 51.6%).
- £272 million (2019 – £276 million) of new business originations comprising:
  - New business origination for 'own portfolio' increasing by 11% to £246 million (2019 – £222 million).
  - £26 million (2019 – £54 million) of brokered Azule new business origination, generating commission income.
  - Bridging finance lending of £61 million in first full year of operation (2019 – 9 months – £14 million).
- Total deposits of £342 million (2019 – £267 million) with over 7,950 retail deposit customers (2019 – over 6,100).
- Drawings of £62.4 million (2019 – £25.0 million) under the Bank of England's Term Funding Scheme ('TFS') and Term Funding Scheme with additional incentives for small and medium sized entities ('TFSME').
- Earnings per share of (1.7)p (2019 – 2.7p).
- Underlying return on equity[5] of (4.5)% (2019 – 12.6%).
- Statutory return on equity of (7.6)% (2019 – 12.6%).
- CET1 capital ratio of 15.1% (2019 – 18.0%).
- Liquidity coverage ratio of 673% (2019 – 715%).
- Leverage ratio[6] of 11.5% (2019 – 14.8%).
- Total capital ratio of 16.8% (2019 – 18%).

1 Underlying loss before tax is before the deduction of impairment to goodwill of £1.75 million.

2 Azule was acquired in November 2018 and therefore 2019 comparative figures relating to Azule represent 11 months to 30 September 2019.

3 Highest quality credit grades refer to internal rating grades 1 to 4. Refer to the Risk Management Report ('RMF') for further details.

4 Cost to income ratio excludes impairment of goodwill and impairment losses on financial assets.

5 Underlying return on equity adds back the impairment of goodwill of £1.75 million.

6 Leverage ratio – transitional definition of Tier 1 capital.

Strategic Report (cont'd)

Chairman's Statement

for the year ended 30 September 2020

Before commenting on the financial year ended 30 September 2020, I begin my statement with an apology on behalf of the Group and the Board to all stakeholders and shareholders in particular for the delay in publishing this report and for the reporting, control and governance shortcomings that caused this delay and the continuing suspension of trading in the Group's shares on AIM.

Post 30 September 2020 events

Accounting errors and misstatements, initially identified by the Group's new Chief Financial Officer as a result of audit enquiries, resulted in trading in the Group's shares being suspended on 19 May 2021 after discussions with the Group's nominated adviser ('NOMAD').

This situation has been deeply concerning, unsatisfactory and a huge disappointment to your Board. For further details please refer to pages 41 to 42 of the Audit & Risk Committee Report.

Putting it right

Since the discovery of and in response to these events the Board has taken, and is in the progress of taking, the following actions:

1. Discovery and investigation
   - Commissioned PricewaterhouseCoopers LLP ('PwC') to conduct independent forensic investigations into accounting errors and misstatements, see page 41 for more information.
   - The Group's Finance team then reviewed the output of the PwC investigations and also performed a further detailed review of the Group's balance sheet. Details of this finance review, overseen by the CFO is set out in the Audit & Risk Committee report.
   - Appointed Garry Stran as interim Chief Executive Officer to lead the Group and the remediation programme.
2. Short-term mitigation
   - New executive appointments in the key roles of Chief Risk Officer, Chief Operating Officer, General Counsel, and Chief of Staff, provide significant industry knowledge and experience.
   - Strengthen the Risk, Finance and Change functions to deliver the short-term 'repair' activity, whilst supporting the longer-term, more efficient, sustainable solutions.
   - Instigated cultural change initiatives in advance of a wider culture programme, focusing on understanding personal responsibility for risk, active listening and speaking up. This includes clear and open communications to all our stakeholders whilst adhering to market rules.
   - Initiating longer-term programmes to deliver the required changes in Corporate Governance, financial control and Culture that will underpin the Group now and into the future.
3. Longer-term sustainable solutions
   - Deliver and embed a culture programme across the Group as part of building back our reputation with key stakeholders.
   - Deliver and embed a comprehensive RMF, embedding this across the Group, in conjunction with the planned appointment of a Senior Independent Director to the Board.
   - Deliver the Finance transformation programme focused on financial controls and the provision of timely and accurate data.
   - Continue our investment in IT systems to develop a technologically advanced digital and modern operating platform replacing residual manual processes.

The discovery and investigation phase is complete, with short-term mitigation actions in place. We are mobilising the programmes to deliver sustainable solutions, demonstrating our long-term commitment to change.

Lifting the suspension of share trading

The remediation phases required to enable the lifting of the suspension of trading in the Group's shares are well underway, and the Board and Executive Team continue to work closely with the Group's NOMAD with the goal of achieving the lifting of that suspension as soon as possible.

Moreover, we are in the process of updating our Financial Position and Prospects Procedures memorandum ('FPPP') which will be completed following publication of this Annual Report & Financial Statements.

Following publication of this Annual Report & Financial Statements, we will further communicate progress in lifting the suspension of trading in the Group's shares once we have more certainty on its timing towards the end of January 2022.

It should be noted by the shareholders that the London Stock Exchange can apply and/or provide derogations to the AIM Rules at their discretion, including in respect of the suspension of trading in the Group's shares and its continued listing on AIM. The Group, through its NOMAD, remains in an ongoing dialogue with the Exchange on these matters.

Business' performance for the year ended 30 September 2020

Turning to the Group's business performance for the year ended 30 September 2020, the pandemic was completely unforeseen and has presented individuals, families, businesses and economies with challenges not seen in living memory. However, with significant effort and support from all colleagues, the business remained operational throughout, whilst maintaining customer and colleague wellbeing.

I therefore thank all my colleagues for their efforts and dedication to serving the Group's customers through a hugely challenging period for everyone.

Profitability, balance sheet strength and the effect of the pandemic

Net operating income increased by 15% in the twelve months driven by strong loan growth which more than offset the reduction in the net interest margin which reflected a particular focus on a tightening of the Group's credit risk appetite throughout the pandemic. Lending in Consumer finance and Bridging finance was strong, while Business finance experienced lower demand due to competing Government support schemes such as the Coronavirus Business Interruption Loan Scheme ('CBILS'). The continuing presence of similar schemes will restrict growth in this segment.

Chairman's Statement

for the year ended 30 September 2020

Operating expenses, excluding the impairment of goodwill and credit impairment charges, were well managed but increased to support the growth of the business. As a result, profit before tax, excluding the impairment of goodwill and credit impairment charges, increased to £11.4 million (2019 – £11.3 million), demonstrating that the core business performed well.

The Group's credit impairment charge increased significantly in 2020 to £14.4 million (2019 – £3.3 million), reflecting the impact of COVID-19, a more cautious economic outlook on future expected losses and significant items of £8.5 million set out below. Under IFRS 9, credit impairment charges cover the potential future losses which would arise from the effects of COVID-19 on the performance of the loan book. The charge for the year also includes the previously announced £6 million increase to impairments on defaulted receivables[2], resulting from revisions to recovery expectations against those exposures. There are also additional specific provision increases related to forbearance and COVID-19 provisions (£1.1 million) and customer specific provisions (£1.4 million).

This resulted in the Group generating an underlying loss before tax of £(3.1) million[1] (2019 – profit of £8.0 million) for the twelve months to 30 September 2020.

In addition, the Group impaired the value of goodwill in respect of the purchase of Azule Limited by £1.75 million, which meant that on statutory basis, the Group generated a loss before tax of £(4.8) million (2019 – profit of £8.0 million). The loss after tax was £(4.3) million (2019 – a profit of £6.4 million), equivalent to a return on equity of (7.6)% (2019 – 12.6%) and earnings per share of (1.7)p (2019 – 2.7p).

The Group's net assets decreased to £53.9 million (2019 – £58.8 million). At 30 September 2020, the Group's total capital ratio of 16.8% (2019 – 18.0%) remain comfortably above the regulatory requirement. Liquidity was managed in excess of risk appetite and regulatory requirements throughout the period.

Given the financial performance for the year and to maintain our capital position, the Board is not recommending a dividend in respect of the twelve months to 30 September 2020.

1 Underlying loss before tax is before the deduction of impairment to goodwill of £1.75 million.

2 receivables that were either seriously in arrears or where the asset which acted as security for the receivable had been sold and a balance of the receivable remained outstanding.

Governance and culture

The discovery of reporting, control and governance shortcomings is hugely disappointing. The management team is absolutely focused on building the tactical initiatives already undertaken into a full cultural programme of change alongside RMF.

The commitment of colleagues continues to be one of the Group's greatest strengths. The Board and management have supported and will continue to support colleagues with a safe, healthy working environment and with increased communications, training and development to enable each of them to achieve their potential. The Board is determined that the Group, alongside cultural change, will drive programmes around governance and financial control. This will provide a fit for purpose, long term and sustainable platform to build long-term value for stakeholders.

Outlook

This outlook should be read in conjunction with the emerging risks and uncertainties section on page 16. The Group has a well-established business model, which gives the Board confidence that the business will overcome the current challenges and return to growth over the medium-term.

Given the current credit environment, including the potential impact of COVID-19 on impairment losses, and the level of remediation actions and change underway in the Group, bringing with it substantial short-term costs, the Board does not believe that it is appropriate to provide firm guidance on future performance. Therefore, the Group's previous operating targets remain withdrawn. The Group will seek to re-establish guidance once its remediation activity is more fully complete.

Moreover, increased operating costs are expected as the Group significantly increases headcount and the investment in IT to improve and embed the new reporting controls and systems. In addition, the Group expects to continue to incur high remediation costs while it addresses the issues identified and implements the required remediation actions.

Conclusion

In conclusion, since my last statement the Group has faced substantial difficulties, your Board is confident that the business is on the path to recovery from these challenges, after which all colleagues will be able to turn their full focus to the delivery of sustainable profits and long-term value for all stakeholders.

Tim Franklin
Chairman

22 December 2021

Strategic Report (cont'd)

Chief Executive Officer's review

for the year ended 30 September 2020

This is my first report as your CEO following my appointment in May 2021. The circumstances that led to my appointment have created many challenges for the business in addition to those already in existence due to the COVID-19 pandemic, and these challenges have dominated my time in the role to date.

I regret that the time since my appointment has been an uncertain one for shareholders, but it was absolutely essential that my team and I focused on carrying out the review of the Group's financial controls and processes to ensure that the Group could plan for the future with confidence. The issues facing us were inter-linked and complex and have taken time to resolve. For further details please refer to 50 to 53 of the Audit & Risk Committee Report.

I am fully aware that during this period of uncertainty some shareholders may have been disappointed with the frequency and granularity of the information that we have supplied. However, I can assure you that at all times the interests of shareholders were front of mind for both the executive team and the Board, but the need to take account of a number of regulatory and legal issues had an impact on the timing, content and our ability to make these disclosures.

Moreover, I thank all my colleagues who make up the PCF team for their commitment and support during a difficult period. Many of them are long serving and have been devastated by the discovery of the issues that have so consumed us over the last few months. This, combined with the challenges of the pandemic, including working remotely for 18 months, has undoubtedly resulted in many colleagues experiencing circumstances in their work and personal lives that they would never wish to see repeated. Their commitment and desire to see PCF repair its reputation is clear to me and the executive team.

Turning to business performance, taking account of the pandemic impacts and before the higher one-off impairment charges the underlying business performance of our core business was resilient.

Response to the pandemic

The second half of the financial year to September 2020 was disrupted by the operational and economic impacts of the pandemic. The business acted swiftly to deploy home working and, supported by our technology team, our entire team was working from home within days without business interruption.

Throughout the pandemic period, our focus has been on protecting our core assets – our people, our customers and our balance sheet. These have been challenging times for both our colleagues and our customers and of particular importance to us was our effort to support colleague wellbeing and to assist customers who may have suffered hardship through no fault of their own.

In respect of our colleagues, we have put in place support mechanisms and new ways of working which have enabled them to have the flexibility to continue to contribute fully to our business whilst ensuring that they are able to dedicate time to take care of themselves and their loved ones. We are proud of the way they have risen to the challenges they have faced.

Where our customers have approached us to assist them, we have met our regulatory obligations. At 30 September 2020, 9% of our total loan book was in forbearance or COVID-19 related payment deferral plans. This has reduced since the early stages of the pandemic and the improving trend has continued into 2021.

Trading and profitability

In the twelve months to 30 September 2020, the Group incurred an underlying loss before tax of £(3.1) million (2019 – profit of £8.0 million). This was driven by a significant increase in credit impairment charges which more than offset the increase in net operating income.

Net operating income of £26.7 million increased 15% in the year (2019 – £23.3 million) and was supported by loan growth, particularly in consumer and Bridging finance. Net loans and advances to customers increased to £427 million (2019 – £339 million). The quality of new business improved, with 85% of business written in our highest credit grades, compared to 73% in 2019. Whilst this improved the overall quality of the loan book, it has led to some compression to the Group's net interest margin which fell to 6.9% (2019 – 7.8%).

Operating expenses, excluding the impairment of goodwill and credit impairment charges, increased to £15.4 million from £12.0 million in 2019. The Group's cost:income[1] ratio increased to 57.5% (2019 – 51.6%).

Profit before tax, excluding the impairment of goodwill and credit impairment charges, increased to £11.4 million (2019 – £11.3 million).

The Group's credit impairment charge increased significantly in 2020 to £14.4 million (2019 – £3.3 million), reflecting the impact of COVID-19 and a more cautious economic outlook on future expected losses. Under IFRS 9, credit impairment charges cover the potential future losses which would arise from the effects of COVID-19 on the performance of the loan book. The charge for the year also includes the previously announced £6 million increase to impairments on 'defaulted receivables' (receivables that were either seriously in arrears or where the asset which acted as security for the receivable had been sold and a balance of the receivable remained outstanding), resulting from revisions to recovery expectations against those exposures. There are also additional specific provision increases related to forbearance and COVID-19 provisions (£1.1 million) and client specific provisions (£1.4 million).

The Group's impairment charge for the year, as a percentage of average gross loan balances was 3.6% (2019 – 1.1%). The IFRS 9 expected credit loss provision on the balance sheet, as a percentage of gross loan balances, increased to 4.2% (2019 – 2.0%).

As a result, the Group generated an underlying loss before tax of £(3.1) million (2019 – profit of £8.0 million) for the year.

The Group partially impaired the goodwill paid on the acquisition of Azule, the broadcast and media specialist finance business acquired in 2018, by £1.75 million. This impairment of goodwill was driven by the likelihood of

reduced profitability in the near-term, as a result of the impact of COVID-19 and lower new business originations on the future expected cash flows relating to the Azule business.

On a statutory basis, therefore, the Group generated a loss before tax of £(4.8) million (2019 – profit of £8.0 million). This represents a return on equity of (7.6)% (2019 – 12.6%) and an earnings per share of (1.7)p (2019 – 2.7p).

[1] Cost:income ratio calculated excluding impairment on goodwill and credit impairment charges.

Business lines and portfolio quality

New business origination in the year fell slightly to £272 million (2019 – £276 million) which is a strong performance in the context of the pandemic with the diversification into Bridging finance contributing to that success. The quality of new business origination continued to improve with 85% of originations in our highest credit grades, compared to 73% in the previous year.

The total gross loan book grew to £446 million (2019 – £345 million) and the overall quality of the loan book improved, with 78% of the portfolio in our highest credit grades (2019 – 68%).

The Group continued to be cash generative through all trading months by way of a combination of the embedded recurring cashflows from our loan book and a continued focus on cost control.

Segmental business review

Consumer finance division

The used motor vehicle finance market has proved resilient throughout the period. After an initial fall in demand following lockdown in March 2020, new business origination picked up in May 2020 and further increased when dealerships reopened on 1 June 2020. This is consistent with data on used car sales and used car asset values. The leisure market has also been buoyant, in particular for motorhome finance, as a greater number of people took holidays in the UK.

New business originations in the year were £91 million (2019 – £73 million), an increase of 24%, and the loan book grew by 31% to £172 million (2019 – £131 million). Credit quality was strong with 93% of originations in our highest credit grades (2019 – 80%), and we have maintained cautious underwriting terms in respect of loan to values.

Levels of forbearance and COVID-19 related payment deferrals in this portfolio are relatively low at less than 4% of balances at 30 September 2020. The impairment charge for the year was £4.9 million (2019 – £1.0 million).

Business finance division

New business origination in this division has been more noticeably affected by lower demand. Sole traders and small companies understandably deferred investment decisions and, where working capital can be accessed through one of the Government's support schemes at preferential terms, our asset finance products have become less competitive. We remain focused on prudent underwriting as the difficult trading conditions for most small and medium sized enterprises ('SME') raises questions about the long-term sustainability of SME financial commitments.

New business originations in the year were £81 million (2019 – £120 million), a decrease of 33%. However, the gross loan book grew to £190 million (2019 – £181 million) with 78% of origination in our highest credit grades (2019 – 71%).

Levels of forbearance and COVID-19 related payment deferrals have been high in this portfolio but had reduced to 13% of balances at 30 September 2020. The impairment charge for the year was £8.4 million (2019 – £2.2 million).

Azule

Azule Limited, PCF's specialist broker of funding for the broadcast and media sector, has been particularly affected by the lockdown with TV, film, sports, and live events all severely impacted. In the second half of the year the division focused its activity on assisting customers with applications under the UK Government's CBILS scheme. The business has more recently seen increased activity as the sector returns to business as usual.

Despite the goodwill impairment for this division, we expect it to recover over time as the need for content to support on-demand streaming services drives investment in new equipment.

New business originations in the year were £39 million (2019 – £69 million), a decrease of 43%, and the loan book in relation to the broadcast and media sector stands at £23 million (2019 – £20 million).

The impairment charge for the year was £0.6 million (2019 – £nil).

Azule was acquired in November 2018 and therefore 2019 comparative figures relating to Azule represent 11 months to 30 September 2019.

Bridging finance

This division has seen strong demand. The Group took advantage of several non-bank competitors withdrawing from the market in the early months of the pandemic and this has allowed us to build relationships with new introducers. We are pleased with the quality and terms of business in this market and encouraged by the performance and outlook for this sector.

Originations in the year were £61 million (2019 9 months – £14 million) and from a small base this division has been a key contributor to the Group's asset growth with a gross loan book of £61 million (2019 – £13 million). We lend primarily on residential property with first charge security and conservative loan to values.

While the portfolio experienced no actual losses in the year, the IFRS 9 Expected Credit Loss provision for potential future losses was £0.5 million (2019 – £nil).

Savings

We continued to offer a range of good value savings products through the year, increasing savings balances to £342 million (2019 – £267 million) demonstrating our ability to raise funds as required at rates which facilitate our business objectives. The Group offers a range of fixed term and notice accounts that are designed to offer good value to our retail customers whilst meeting our need to manage the liquidity and interest rate risks associated with our loan books. Savings customer numbers grew to over 7,950 in 2020, from just over 6,100 in 2019.

Strategic Report (cont'd)

Chief Executive Officer's review

for the year ended 30 September 2020

Capital management and treasury

The Group entered the pandemic period with a diversified funding model utilising retail deposits, wholesale debt and drawings from the Bank of England's Term Funding Schemes. At 30 September 2020, we had drawn £62.4 million (2019 – £25 million) from TFS and TFSME and held £342 million in retail deposits (2019 – £267 million). Our retail deposits have been relatively consistent, with an average balance of £42,500 (2019 – £42,200).

The Group's cost of funding fell to 1.7% (2019 – 2.2%) and we retain a strong liquidity position with a Liquidity Coverage Ratio of 673% at 30 September 2020 (2019 – 715%).

The Group had a total capital ratio of 16.8% (2019 – 18.0%) which exceeds our regulatory minimum total capital requirement. The Group has utilised its Tier 2 capital facility, issuing a total of £7 million of subordinated notes to British Business Investments Limited ('BBI') between November 2019 and May 2020 (2019 – £nil). Prudent management of capital resources has been a particular focus since the start of the pandemic.

Regulatory capital and ratios are set out in the Risk Management Report on pages 59 to 60.

2021 strategic objectives, current trading and outlook

This outlook should be read in conjunction with the emerging risks and uncertainties section on page 16.

The objectives for 2021 were to maintain and stabilise the business following the pandemic, to maintain credit quality and to continue to invest in our IT infrastructure. Events have overtaken a significant part of our strategic objectives and whilst we have remained focused on the credit quality of our lending and continued investment in our IT infrastructure, a significant amount of management time has inevitably been directed to the remediation activities highlighted elsewhere in this report.

As a result of the current position in respect of our controls framework and the pandemic, we have taken the decision to manage our lending volumes carefully to ensure that the next stage of our development is built on firm governance, culture, systems and controls, and we continue to focus on maintaining credit quality.

However, once our planned remedial actions have been completed, we will be well placed to return to a strategy of controlled and prudent growth.

Delayed interim financial report and completion of the Annual Report & Financial Statements

The Chairman's report on pages 5 to 7 sets out the steps that led to the share trading suspension and a RNS detailing the initial findings was issued on 28 June 2021. The work undertaken is set out in more detail in the Audit & Risk Committee ('ARC') Report which highlights how these developments have delayed the finalisation of these Annual Report & Financial Statements as well as impacting the issuance of our interim results for the current year.

Since my appointment as Interim Chief Executive Officer in May 2021, my immediate focus has been to develop a remediation plan to address the issues set out above and start its implementation.

Implementation of the remediation plan

I anticipate the implementation of our remediation plan by the executive team will take a further 18-24 months to fully complete.

The aim of this plan is to build firm foundations for the future growth of the business, restore confidence with our investors and our regulators and following the suspension of the trading of our shares on 19 May 2021, move as quickly as possible to meet the requirements for this suspension to be lifted.

The Group's transformation programme started with experienced financial services hires joining my executive team including a General Counsel, a Chief Risk Officer, and Chief of Staff, and a replacement Chief Operating Officer (more detail on pages 33 to 34). This strengthened executive team is already making significant change.

Conclusion

Despite the challenges, the core competencies within our customer facing business remain strong and we have long established relationships with our customers and intermediaries.

Our core operating platform and balance sheet are robust and through utilisation of an increased headcount, assistance from our external advisers, and close governance, we will successfully deliver the transformation required. Combining this with a new progressive ethos, the underlying strength of the business model and the direction that the executive team will give will make the Group unrecognisable when compared to the past. This will be supported by a data driven, automated and digitalised operating platform providing remarkable service and products to drive shareholder value.

We remain confident that the opportunity for growth will return once our remediation is complete. We have relatively small shares of our chosen lending markets and the potential to grow them and to develop new products remains unchanged.

I am proud to be leading the PCF team towards a brighter future and thank all my colleagues at PCF and our investors, regulators, and all stakeholders for the patience they have shown during these difficult times. Finally, I join the Chairman in apologising once again for the legacy challenges faced by the business and the impact on shareholders and other stakeholders.

G G Stran
Interim Chief Executive Officer

22 December 2021

Strategic Report (cont'd)
Market and Business Overview

The market and business overview stated below has described our performance for the year ended 30 September 2020.

PCF Bank. At your service
The Group offers a range of savings products for retail customers that are term or notice. The Group offers straightforward lending products using loans, conditional sales, hire purchases and finance lease agreements which are available to individuals and businesses. Lending customers primarily repay through monthly instalments, and we maintain a focus on ensuring that these payments are affordable.

We seek to improve our service to our customers, intermediaries and dealers by adopting technology to simplify and speed up processes.

Borrowers
The Group categorises its borrowing customers according to their type and needs and supports them with four lending divisions:

- SMEs and business owners requiring finance for vehicles, plant and equipment are supported by the Group's Business Finance Division ('BFD').
- Consumers' needs for motor vehicle finance are met by the Consumer Finance Division ('CFD').
- Specialist finance for business customers in the broadcast and media industry is arranged by Azule.
- Professional property investors requiring finance for bridging, refurbishment and developer exit are supported by Bridging finance.

The Group's two largest and most established lending divisions, CFD and BFD, provide hire purchase and finance lease facilities to consumers and corporate customers respectively. Both divisions operate a finance broker-introduced model, which provides a cost-effective route to market and enables a national presence without the costs of a sales force. Some repeat business is also achieved directly with existing customers. CFD specialises in financing used motor vehicles. BFD specialises in financing a wide range of vehicles including cars, light and heavy commercial vehicles, coaches, buses and minibuses. In addition, it finances equipment for the construction, engineering and manufacturing industries.

Azule specialises in originating financing for equipment such as cameras, lenses, audio-visual equipment, lighting and post-production equipment. This business is sourced through direct relationships with manufacturers, distributors and customers. The business also has a sales capability to place equipment finance to a wide range of banks and lending institutions for a commission, as well as originating transactions for the Group's own portfolio.

In early 2019, the Group established the Bridging finance division and since then has built a team of experienced industry professionals. The business is sourced from brokers and repeat customer relationships.

Lending activities by CFD, BFD and Azule are undertaken solely within the United Kingdom and are denominated in sterling. Bridging finance also lends exclusively in sterling and operates in England and Wales only. The Group has a small legacy portfolio of euro denominated loans to broadcast and media customers through its Irish subsidiary, Azule Finance Limited.

The Group's portfolio risk is managed and diversified through asset-backed lending, providing a wide spread of risk by asset type, contract size, industry sector and UK geographical spread.

Our lending philosophy
The Group's lending philosophy is to:

- Provide finance for assets (vehicles, plant, equipment and property) which have strong collateral characteristics and readily identifiable resale markets.
- Have a diverse spread and avoid large concentrations of risk.
- Ensure we understand our customers' needs, that they are creditworthy and can afford the payments due to us.

Savers
Through PCF Bank Limited, the Group accepts sterling denominated deposits from UK resident individuals, with products targeted at specific customer segments, namely:

- Customers looking to maximise their return whilst preserving capital and who are willing to commit to leave their money with the Bank for an agreed term are offered competitive fixed term, fixed rate deposit products with terms of between 12 months and 84 months.
- Savers requiring more immediate access to their money have the option of competitive variable rate accounts with notice periods of 100 and 180 days.

The Bank offers online and telephone service to its savings customers, enabling them to service their accounts in the way they prefer.

For customers whose fixed term deposits are nearing maturity, the Bank ensures that it offers a range of renewal products with fixed rates that are at least as attractive as those offered to new depositors.

Strategy for 2020
Our strategic objectives for the year ended 30 September 2020 were to:

- Launch our new streamlined, automated decisioning system for consumer motor finance, as well as a more 'prime proposition'.
- Trial new direct to consumer products on the new consumer finance platform.
- Build out our Bridging finance division beyond the pilot initiative.
- Evaluate how Azule's European capabilities could enhance the Group's business in the future.
- Complete the integration of Azule operations to maximise its sales potential.
- Improve our customer journey for savers and borrowers with additional online functionality.
- Optimise technology across the organisation to support scale and gain efficiencies.

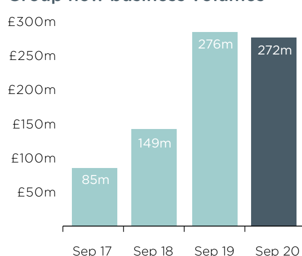
Whilst we were successful with a number of these objectives, in particular, those relating to our CFD and Bridging finance divisions, some were curtailed by the onset of the pandemic in March 2020. Our new, automated decisioning system for consumer motor finance and the launch of a prime proposition into that market were undoubted successes, resulting in CFD increasing gross new business originations by 24% to £91 million. Similarly, bridging finance achieved a year of significant growth, lending £61 million. Work is underway to increase the level of automation across all our operations. However, our plans to enhance Azule's capabilities in Europe were hampered by the effects of the pandemic and Brexit and have not been implemented.

The Group's new business originations across the four lending divisions combined was £272 million (2019 – £276 million). The pandemic obviously had an impact on origination levels, especially in the early months of lockdown when they fell quite dramatically. This was followed by an encouraging rebound in the summer months. The impact of the pandemic is best highlighted by the difference between origination levels in the first half of the year, £153 million, and the second half, £119 million, and by the differing results in each of our lending divisions, which saw growth in CFD and Bridging finance, but a reduction in new business originations in BFD and Azule.

The total of £272 million was comprised of:

- Business Finance Division
  £81 million (2019 – £120 million)
- Consumer Finance Division
  £91 million (2019 – £73 million)
- Azule
  £39 million (2019 – 11 months – £69 million)
- Bridging Finance
  £61 million (2019 – 9 months – £14 million)

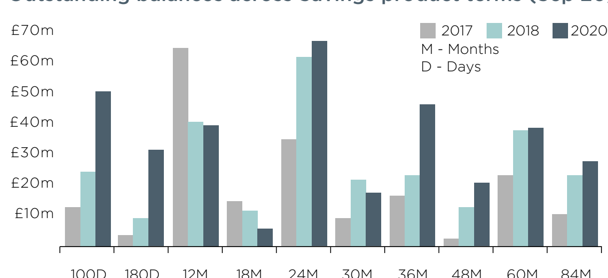
Group new business volumes



Savings

Amounts on deposit with the Group increased from £267 million to £342 million to fund the growth of the lending operations. We now have over 7,950 savings customers as of 30 September 2020. We offer an online application process to all our customers, using our own portal, which is both quick and simple to understand and operate. Online applications are typically completed and the account opened within 15 minutes.

Outstanding balances across Savings product terms (Sep 20)



The average deposit balance has been relatively stable at approximately £42,500 (2019 – £42,200).

Business Finance Division

BFD provides hire purchase and finance lease agreements to sole traders, partnerships and limited companies to help them acquire vehicles, plant and equipment. Lending is typically for up to 5 years with longer terms of up to 10 years for specialist niche assets. The average transaction size of agreements written in 2020 was approximately £46,800 (2019 – £45,200).

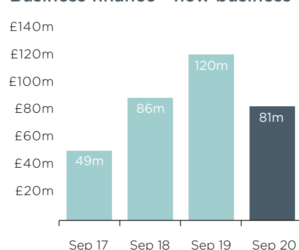
Vehicle and asset finance are commonly used sources of finance for businesses, providing significant cash flow benefits for those using them. The market in the UK is both mature and vast, with the Group having a share of less than 1%. (2019 – less than 1%).

The business asset and vehicle finance markets were affected by the pandemic, in particular during the period April to June 2020 when new business lending dropped to its lowest levels since 2014.

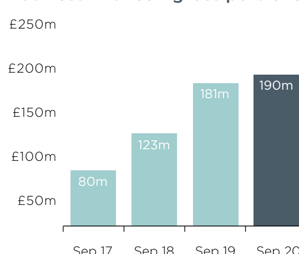
The division predominantly uses broker intermediaries as its route to market, with transactions being processed through the Group's internet-based proposal system.

The division's activities were noticeably affected in the second half of the year by the pandemic, which resulted in many SMEs putting their investment plans on hold or using the UK Government's CBILS scheme and Bounce Back Loan Scheme ('BBLS') as a more preferable form of finance than that offered by the Group. Volumes in the second half of the year totalled only £14 million, compared to £67 million in the first half. Consequently, new business origination levels for the full year were below our forecasts at £81 million (2019 – £120 million). The pandemic also caused us to review our risk appetite, resulting in the percentage of business written to customers in our top four credit grades increasing from 71% to 78%. We will keep our lending strategy, and the focus on the higher quality risk grades, under review. The impairment charge for the year was £8.4 million (2019 – £2.2 million).

Business finance - new business volumes



Business finance - gross portfolio



Notwithstanding the fall in annual new business originations from 2019 levels, the division's gross lending portfolio has slightly increased, with new business replacing maturing agreements. At 30 September 2020 gross lending was £190 million (2019 – £181 million). The portfolio is made up of over 5,850 (2019 – 5,800) individual agreements with an average balance of approximately £32,550 (2019 – £32,960) with no customer having an aggregate exposure of more than

Strategic Report (cont'd)
Market and Business Overview

1% (2019 – 1%) of the Group's total portfolio. Most of our largest customers are longstanding, with many of them having had agreements with the Group for more than 10 years.

We expect demand for our Business Finance products to remain subdued in the coming year due to the economic situation and the continuation of the Government's financial support schemes. We will remain cautious in our risk appetite during this period.

Consumer Finance Division

CFD provides hire purchase and conditional sale agreements to retail customers. Whilst most of the 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. Most of the vehicles financed are used, so have suffered their initial depreciation and, therefore, represent good collateral to support our finance. CFD provides terms of up to five years on cars and up to ten years on leisure vehicles. The average transaction size of agreements written in 2020 was approximately £18,000 (2019 – £17,100).

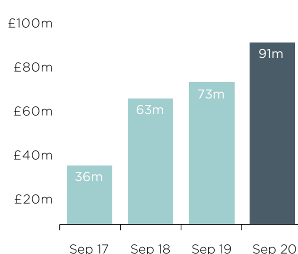
The consumer car finance market experienced a contraction during the year as a result of the lockdown in spring 2020, when many dealerships were forced to close temporarily and business picked up strongly when they reopened on 1 June 2020. Terms of business over the past three years has progressively limited exposure to diesel cars.

As with BFD, this division also predominantly uses broker intermediaries as its route to market, with transactions being processed through the Group's internet-based proposal system.

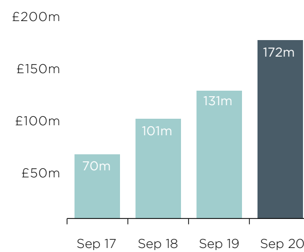
During the year ended September 2020, we launched an improved product to the broker base aimed at attracting increased business volumes through technology led automated decisioning functionality to support the point-of-sale market. The proposition, which provides instant credit and affordability assessments in line with our responsible lending guidelines, proved to be a success, particularly following the onset of the pandemic lockdown in March 2020 as independent, non-bank competitors withdrew from the market or cut back on their lending activities.

In addition, the Group's offering in the leisure vehicle market continued to be well received and during the peak season of June to August 2020 accounted for over 60% of all business written in CFD. The Group now has an established foothold and good reputation in this specialist market where there are only a handful of competitors.

Consumer finance - new business volumes



Consumer finance - gross portfolio



Our CFD portfolio increased by 31% during the year from £131 million to £172 million.

The portfolio is made up of almost 12,680 (2019 – 10,960) individual agreements with an average balance of £13,550 (2019 – £11,980). Our highest credit grades now account for 81% (2019 – 66%) of the total portfolio and we will keep this strategy under review. The impairment charge for the year was £4.9 million (2019 – £1.0 million).

In January 2021, we introduced new commission structures for our motor finance products, in line with new FCA rules and guidance, and will closely monitor these to ensure we remain competitive in our chosen markets.

Azule

In 2018 the Group acquired Azule, a broadcast and media lending and broking specialist. Azule provides direct to end user asset finance origination in the UK and across Europe to niche markets, including broadcast and media, sound, lighting and audio visual. It finances assets such as cameras, lenses, sound equipment, lighting equipment, post-production equipment and audio-visual equipment. Business is generated through direct end user relationships along with manufacturer, distributor and dealer introductions. The broadcast and media loans are either written on the Group's balance sheet or placed with other banks for which Azule receives a commission. Loans placed with other banks are done so for risk, pricing and exposure reasons. Azule has historically operated across Europe to support its manufacturers, funded by local partner banks for which Azule receives a commission. During the year the level of business undertaken was particularly affected by the pandemic lockdown with the social distancing restrictions affecting TV, film, sports and live events. As a result, new business originations decreased from £69 million last year to £39 million, which represented a 43% reduction. The impairment charge for the year was £0.6 million (2019 – £0.05 million). The Group impaired the value of goodwill in respect of the purchase of Azule by £1.75 million.

Azule was acquired in November 2018 and therefore 2019 comparative figures relating to Azule represent 11 months to 30 September 2019.

Whilst there continue to be concerns over the economy and the pandemic and having direct impacts of both on the broadcast and media sector, the film and television sector is likely to see an improvement as a direct result of streaming services such as Netflix, Disney+ and Amazon Prime. The need for these providers to produce high-end content is driving demand for services and studio space across the UK. Both Netflix and Disney have made long-term commitments to the UK by signing leases for studios at Pinewood and Shepperton.

Bridging Finance

The division launched its first product in early 2019. It provides unregulated Bridging finance facilities to experienced property investment businesses, ranging from sole traders to partnerships and limited companies, secured on residential and commercial real estate in England and Wales. The primary focus is lending for the purchase, refinance and refurbishment of property. Facilities are typically for between 6 and 18 months with a maximum loan to value of 75%, and the Group wrote £61 million of bridging business in the year (2019 – 9 months – £14 million). The impairment charge for the year was £0.5 million (2019 – £nil).

Short-term finance for developers has been the predominant product, accounting for 45% (2019 – 13%) of all business and benefitting from a noticeable increase in transactions between April and June 2020 as we took the opportunity to gain a greater foothold in the market whilst competitors took defensive positions withdrawing or cutting back on lending activities. Traditional Bridging finance has accounted for 41% (2019 – 55%) of business and refurbishment finance for 14% (2019 – 32%). 81% (2019 – 82%) of business written was on residential properties with the other 19% written on semi commercial and commercial properties.

Group portfolio performance

The portfolio increased by 29% from £345 million to £446 million.

Due to the growth in CFD and Bridging finance, the composition of the Group portfolio by division has changed over the course of the year as follows:

	September 2020 £'000		September 2019 £'000	
Business Finance Division	**190,462**	**43%**	180,822	52%
Consumer Finance Division	**171,854**	**38%**	131,425	38%
Azule	**23,001**	**5%**	20,142	6%
Bridging Finance	**60,612**	**14%**	12,954	4%
Gross lending	**445,929**	**100%**	345,343	100%

Our focus since becoming a bank in 2017 has been to grow the business in distinct segments of our chosen markets. Our portfolio is secured on vehicles, assets and property and our prudent and resilient business model has served us well over 25 years.

Forbearance levels were impacted by the COVID-19 pandemic but recovered during the year.

Strategic Report (cont'd)
Risk Overview

Risk is a natural consequence of the Group's business activities and the environment in which it operates. Managing risk is therefore essential to the Group and is fundamental to the successful implementation of its strategy.

Following the announcements in 2021, and the events that led to them, significant remediation work has been, and continues to be, undertaken. A strong culture of risk awareness, listening and speaking up need to be at the heart of PCF and its RMF. Strong frameworks guide colleagues' approach to their work, the way they behave and the decisions they make. They make clear the type and level of risk which the business is prepared to tolerate in pursuit of its business objectives; the 'risk appetite'.

Through its recently launched culture project the Board seeks to ensure that the Group actively embraces a culture of risk awareness, where colleagues are accountable for assessing, controlling and mitigating risks; where colleagues are encouraged to speak up if they see something that does not look or feel right, and where any concerns will be listened to. Colleague performance management and reward practices will all have key risk inputs and a focus on risk management in their design. The Group aims for colleagues to be risk aware and to strike the right balance between delivering on objectives, individual accountability and maintaining a safe and secure business.

Risk within the Group is managed using a 'Three Lines of Defence' model, separating risk origination (First Line) from risk oversight (Second Line) and internal audit (Third Line). Controls and expertise are being strengthened across the two internal lines of defence (First & Second), and significant additional Third Line assurance is now being provided by external parties. The Corporate Governance structure, described on pages 28 to 34, includes the Executive Risk Committee ('ERC') and the Audit & Risk committee which has subsequently separated into the Board Risk Committee ('BRC') and Board Audit Committee ('BAC'). The Board acknowledges its systems and controls did not operate to prevent the financial and regulatory misstatements that have come to light since 30 September 2020, and it is remediating this.

Risk strategy

The Group has defined its risk management objectives and strategy and is building up the culture of risk awareness. Ongoing activities that continue to support the strategy include:

- Strengthening the RMF and control environment to be appropriate for future business aspirations.
- Articulating the Group's risk profile, ensuring that principal and emerging risks are appropriately identified, owned and managed.
- Defining risk appetite and ensuring that the strategic plans are consistent with it.
- Ensuring risk appetite metrics are proportionate and regularly reported to ERC, Executive Committee ('ExCo'), BRC and the Board to support oversight and the scope of mitigation strategies.
- Ensuring an appropriate return for risks taken within product pricing.
- Continuing to develop the Risk function with programmes covering the independent oversight of business risk exposures, as well as comprehensive risk and compliance monitoring.
- Utilising stress testing to support robust business strategy able to withstand a range of adverse conditions.
- Reviewing remuneration practices to ensure these do not detract from prudent risk taking.
- Providing enhanced risk and compliance awareness sessions to all employees.

The Board focuses on the principal risks that could prevent the Group from achieving its strategic objectives.

Principal risks

Principal risks are the inherent risks faced by the Group in pursuit of its strategic objectives.

The Group has identified eight principal risks that could impact the delivery of its strategic objectives, and each has a Board approved risk appetite, and the RMF identifies ownership, responsibilities, management approaches, mitigants and controls. Each of these risks is defined and considered in more detail within the Risk Management Report on pages 53 to 64. In future reporting periods Climate Change risk will be added as an additional principal risk.

- Strategic and business risk
- Credit risk
- Capital risk
- Liquidity and funding risk
- Market risk
- Operational risk
- Regulatory risk
- Conduct risk

Emerging risks and uncertainties

Corporate Governance and the RMF need to operate effectively to manage risk appropriately, with the Group focused on delivering improvements in both these key areas. Emerging risks and uncertainties are either newly identified risks with the inherent potential to impact the Group's strategy, business model or material performance; or a previously identified principal risks where the residual risk has materially increased.

COVID-19 Pandemic and macro-economic uncertainty

Uncertainties arising from the longer-term impacts of the COVID-19 pandemic continue to affect many of the key risks faced by the Group.

As COVID-19 financial support measures unwind, including the loan payment deferral scheme, job retention and various other lending schemes available to small business, the impact on credit arrears and

losses is not clear. The Group has so far seen that the majority of its customers who had requested COVID-19 related payment deferrals have returned to full servicing of their loans. The Group continues to monitor this and any subsequent payment arrears that might result in higher credit losses closely.

The Bank is a member of the Sterling Monetary Framework ('SMF') through which it obtains TFSME funding and liquidity facilities from the Bank of England ('BoE'). Such facilities are collateralised, and the BoE currently only accepts into its collateral pools business finance loan receivables written by PCF Bank that are not subject to the provisions of the Consumer Credit Act. The pandemic has significantly reduced the quantum of such loans written and as a consequence it may be necessary to redeem TFSME funding before its final maturity in 2024.

The pandemic has had an unprecedented impact on the world economy, with the Office for National Statistics ('ONS') initially estimating a decline in UK GDP of more than 20% during the early part of 2020. Nevertheless, despite a downturn of 9.7% in 2020, the UK economy has rebounded significantly since vaccination against COVID-19 was rolled out in the first half of 2021. Therefore, as of October 2021, Oxford Economics ('OE') is forecasting the UK economy to grow by 7.2% in 2021 and 5.7% in 2022.

OE identifies several risks to the UK economic recovery it forecasts for late 2021 and 2022. The greatest risk to this forecast comes from the potential for rising COVID-19 cases, especially as the weather cools and there is greater indoor mixing, which in turn could damage consumer confidence and discourage social consumption; and the reimposition of some restrictions cannot be ruled out. Rising unemployment is also a risk, given financial pressures on the corporate sector and the ending of the Job Retention Scheme at the end of September 2021. Inflation also presents a risk, with the potential for consumer price inflation to increase on the back of higher commodity prices, higher inflation expectations, and a disappointing recovery in labour market participation, which in turn leads to a downturn in domestic demand.

While these macroeconomic risks are far from certain, if one or more of them materialise it may restrict market prospects for the Group and increase the risk of loan impairments.

Implications of the delayed finalisation of the Annual Report & Financial Statements, share trading suspension and the resulting remediation project

As highlighted in the Chairman's Statement, accounting errors and misstatement uncovered by the new CFO as a result of audit enquiries have resulted in a delay in the finalisation of the Annual Report & Financial Statements and trading in the Group's shares being suspended. The Board is particularly conscious of the risk of potential impacts arising from this. The specific risks identified, together with appropriate mitigation, are reviewed by the Board Risk Committee.

During this period of remediation, which commenced in the 2021 financial year, the Group's cost base has and will continue to increase significantly, both in the short term, due to advisor fees and remediation activity, and in the longer-term as the Group ensures sufficiently qualified and experienced colleagues are in place to ensure an appropriate level of accountability, control and oversight.

We have kept in close contact with our regulators as we have finalised the Annual Report & Financial Statements and will continue to do so as we implement the necessary changes. We also continue to work closely with our NOMAD, to enable compliance with AIM regulation requirements. The Chairman's statement sets out activities that are underway that should lead to the lifting of the suspension of trading in the Group's shares by AIM. However, if our NOMAD and AIM are not satisfied with the progress made or any other matter then the London Stock Exchange could cancel the admission of the Group's shares on AIM.

The remediation required in the Group's control functions has dependencies on both systems and people and will take time to develop and embed fully. A culture programme, recently approved by the Board, with risk at the heart of it is also being implemented. There is a risk that the remediation required is not implemented effectively, on a timely basis, or to the required scope and expected cost. Additionally, there is the risk that whilst manual processes, controls and models persist and whilst the Financial Control Framework is being further developed and implemented, new errors could arise in financial reporting. This together with the potential impact of ineffective remediation could result in increased cost, continuing higher levels of operational and people risk, an extended remediation period and further management distraction.

Recognising the particular importance of a successful remediation programme the Group has invested in additional senior change resources and updated the governance of change so that there is appropriate oversight of the remediation programme by the Executive Committee and the Board. This reinvigorated change governance will, once fully embedded, monitor and ensure progress on all change including the remediation programme and provide oversight to management and the Board.

At 30 September 2020 and currently, capital and liquidity metrics were above regulatory requirements. However, options to access capital and financial markets are limited in the current circumstances, reducing the Group's ability both to raise capital and transact financial instruments for the purpose of interest rate hedging. There is a risk that the Group may experience volatility in its profit and loss should it not be able to freely adjust its interest rate swap positions as facilities are currently restricted. Management believe that following the Annual Report & Financial Statements 2020 finalisation and the lifting of the suspension in trading of the Group's shares, our bankers will reinstate these facilities once these changes are reviewed. Management monitors the interest rate gap risk closely and, where required, seeks to hedge asset exposures naturally with appropriate tenor retail deposits.

The Bank has a term loan facility from the Bank of England under the Term Funding Scheme with additional incentives for SMEs ('TFSME'), a subordinated note facility from British Business Investments Limited ('BBI') and a revolving credit facility from Leumi ABL Limited ('Leumi'). The Group and the Bank are required under the terms of the facilities to file their Annual Report & Financial Statements 2020 with BBI and Leumi. BBI has since agreed a filing extension to 31 December 2021 whereas Leumi has not agreed a formal extension and the facility will be terminated by 31 December 2021.

Risk Overview

Currently the Bank has £7m drawn down under the BBI facility and no drawings under the Leumi facility. The Group has agreed with BBI that no new drawings will be undertaken under the facility until the Annual Report & Financial Statements 2020 have been published. The Group has agreed with Leumi that no drawings will be undertaken under the facility as the facility will be terminated by 31 December 2021.

Regulatory risk and legislative change

The issues leading to the delay in the finalisation of the financial reports has been discussed extensively with both the Prudential Regulatory and the Financial Conduct Authorities. The control and other issues identified have resulted in an increased level of interaction with both regulators. The current position gives rise to an increased level of risk of regulatory scrutiny, which in turn may lead to regulatory action and/or increased levels of regulatory requirements.

The UK regulatory landscape continues to move at pace. Regulators' continued guidance on COVID-19 financial support measures place considerable responsibility on technology, control and operations functions. Significant policy initiatives including operational resilience, climate stress testing, UK Capital Requirements Regulation ('CRR') and the Basel 3.1 package of capital framework reforms will require significant consideration and implementation effort. In addition, the pace of regulatory change and evolving practice results in a risk that the Group does not meet new requirements on a timely basis and may therefore leave itself open to regulatory action, increased operational risk or speculative approaches from claims management companies.

The Group has increased the size and experience of its Risk, Compliance and Legal teams to help position itself appropriately to address these issues. It also is engaging with regulators and industry trade bodies, such as the Finance and Leasing Association, on these and other industry significant issues arising.

Planning uncertainties

A reduced level of retained profits, combined with the suspension of trading of shares will affect the Group's ability to grow capital reserves and its balance sheet over the coming year. Therefore, the Group will effectively be capital constrained during this period, which will impact its ambitions for growth.

The Group is currently rebuilding the level of surplus capital it holds to remain well capitalised by lowering new business volumes below those required to replace lending paid down. The future plans will use the surplus capital above the Board's risk appetite to lend sustainably with the intention of maintaining its capital buffers at this level.

The business is currently capital constrained with resulting reductions in business lending as set out above. The strategic plan for the Group includes costs associated with remediation activity, but a return to profitability and growth that will once again enable the Group to generate shareholder value and capitalise on significant growth opportunities in our core operating segments.

The Group's performance, and return to profitability in the medium-term plan, is underpinned by a number of key inputs and assumptions which cover:

- The raising of external capital.
- The funding of new business through retail deposits and other wholesale funding.
- New business origination levels.
- Net interest margin on new business originations.
- The expected date of completion of the Group's remediation activities and the impact on the Group's expenses.
- The level of impairment losses on financial assets.
- Capital requirements, both from a regulatory and internal management perspective.
- Dividends, which have been assumed at zero in the medium-term plan.

As with any medium-term planning process, there is a risk that these assumptions do not materialise. The most significant of these are the raising of external capital and the extent to which we can raise funding through our retail deposit franchise and wholesale funding.

In addition to this, the overall shape and outcome of the medium-term plan could be adversely impacted by a number of factors, including an extended period of remediation activity, a deterioration in the credit outlook, levels of new business originations, an increase in the cost of funding, increases to the amount of regulatory capital that the Group is expected to hold or other future regulatory measures the Group may become subject to.

As discussed in the Directors' Report and the Board Audit Committee report, there is a risk that this cannot be achieved in line with the plan, which indicates a material uncertainty in respect of going concern and is summarised in note 1.2 Basis of Preparation to the financial statements.

People risk

People risk can arise in many forms and continues to be the subject of close management attention. The COVID-19 pandemic has given rise to remote working together with new operational processes. Additionally, increased flexibility in working arrangement across many different sectors has given rise to new norms and the Group has sought to ensure that new working arrangements continue to deliver high standards of competency, compliance and oversight, whilst ensuring that we remain an employer of choice that is able to attract, develop and retain the best talent.

The Group recognises the impact COVID-19 has had on colleagues. Significant investment has been made in adapting systems to enable colleagues to work remotely during the pandemic. It has also adopted a hybrid return to the office policy, which will support colleagues to continue to work from home for part of the working week. This is part of the Group's approach to ensure that it remains an attractive choice for employment.

The uncovering of issues leading to a delay in finalising the Annual Report & Financial Statements and subsequent share trading suspension, may also lead to uneasiness amongst colleagues, and may result in higher levels of unplanned attrition. Additionally, the Group is increasing the skills and resources in new hirings however the recruitment market is competitive for financial services control function skillsets. The executive team has adopted a strategy of regular and open communication with all colleagues. A recent colleague survey shows evidence that this is providing reassurance to colleagues. The executive team monitors risk associated with its people and is seeking to reduce key person dependencies in the Group and improving the skills and colleague resources through additional recruitment and increased learning and development opportunities. Finally, succession planning is being improved to ensure key roles have appropriate cover.

Operational resilience including cyber risk

Operational resilience is the ability of firms and the financial sector as a whole to prevent, adapt, respond to, recover and learn from operational disruptions. These disruptions and the unavailability of important business services have the potential to cause wide-reaching harm to consumers and market integrity, threaten the viability of firms and cause instability in the financial system.

In December 2019, the FCA consulted – in CP19/32 – on proposed changes to how firms approach their operational resilience. By 31 March 2022, firms must have identified their important business services, set impact tolerances for the maximum tolerable disruption and carried out mapping and testing to a level of sophistication necessary to do so. Firms must also have identified any vulnerabilities in their operational resilience. PCF Group has established an Operational Resilience Framework with an independent review of the design, but these have not currently been presented to Regulators.

The dependency on suppliers and outsourcing of services introduces risk where the failure of specific suppliers could have an impact on the Group's ability to continue to provide important services to its customers. A Supplier & Outsourcing Assurance Framework provides corporate visibility of risks arising from contracts with third-party suppliers and confidence that they are being effectively identified and proportionately managed.

Cyberattacks continue to be a threat globally that is inherent across all industries, with PCF Group observing a 500% increase in the number of phishing attacks observed during the pandemic.

With more people working from home came an increase in vulnerability to cyber fraud, as criminals sought to exploit the changing circumstances. To ensure the Group continued to remain secure a cyber and working from home internal audit was completed focusing on remote working guidance/standards; maintaining data protection and privacy good practice; and information and system security including data loss prevention.

We continue to invest in the Cyber Control Environment, including in Cyber protection, benchmarking ourselves using the Cyber Essentials Framework, and significantly enhanced our cyber control profile to support increased remote working with no significant risk events or change in security posture.

The Group acknowledges the evolving threat and will continue to focus on the 'Defend, Deter, Develop' themes as recommended by the National Cyber Security Centre: These key themes have been broken down into a series of initiatives that will be implemented using best practice guidance published by the National Cyber Security Centre, the FCA, PRA, and based upon established frameworks including PCI-DSS, 10 Steps to Cyber Security, and Cyber Essentials.

Financial loss resulting from physical or transitional impacts of climate change

Climate change represents a material financial risk to regulated firms as social and economic policy is changing at a fast pace. Climate change risk is defined as the risk of financial or reputational loss as a result of the inadequate management of the transition to a low carbon economy (climate change transition risk) or the inadequate management of the risks associated with global warming (climate change physical risk).

The Group is developing a roadmap for the development of a model framework to manage financial risks from climate change in accordance with PRA guidance including consideration of the impacts on the Group's business strategy relating to vehicle financing. Senior management responsibility for the oversight of the management of financial risks from climate change is assigned to the Group's Chief Compliance Officer. The Group's approach to identifying and managing climate change risk is founded on it impacting other principal risks: strategic and business risk, credit risk, market risk, capital risk, operational risk, regulatory risk and conduct risk.

Benchmark interest rate reforms

The BoE set out a timeline to achieve the transition from London Interbank Offered Rate ('LIBOR') by no later than the end of 2021, with the expectation that firms use other rates such as the Sterling Overnight Index Average ('SONIA'). Legislation to enhance regulator powers around benchmarking rates and to support firms in moving legacy contracts away from LIBOR continues to be developed.

In 2017 the Group's Asset & Liability Committee ('ALCO') set a policy that the Group would wherever possible avoid the use of LIBOR rates in its lending, borrowing or derivative activities. In compliance with this policy, all floating rate assets, liabilities and interest rate swaps are linked to either SONIA, BoE rate or a PCF managed rate. The sole exception to this policy is the revolving credit facility provided by Leumi ABL Limited, which when drawn accrues at overnight LIBOR plus a fixed spread. Leumi has advised that it intends to rebase the facility to SONIA by the end of 2021 in line with the LIBOR transition.

Strategic Report (cont'd)
Stakeholder Engagement Report

Section 172 Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in a way that he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard, amongst other factors, to:

- The likely consequences of any decision in the long term.
- The interests of the company's employees.
- The need to foster the company's business relationships with suppliers, customers and others.
- The impact of the company's operations on the community and the environment.
- The desirability of the company maintaining a reputation for high standards of business conduct.
- The need to act fairly, as between members of the company.

Members (shareholders and investors)

- We remain committed to communicating with members openly and transparently. However, our ability to update investors is constrained by our legal, regulatory and market obligations.
- We have historically maintained engagement with existing and potential new members through our Annual Report & Financial Statements and Interim Reports, trading updates, presentations and attendance at investor forums.
- Our Annual General Meeting held on 6 March 2020, a matter of days before the first national lockdown, included, for the first time, a live online video stream for those shareholders who felt unable to attend the meeting in person.
- In April 2020, when other companies were cancelling their dividends, the Board decided to proceed with payment of the final dividend for the year ended 30 September 2019, which had been approved by shareholders at the Annual General Meeting. A final dividend for the year ended 30 September 2020 was not recommended.
- We acknowledge that recent events, specifically the delay to the Annual Report & Financial Statements 2020 and the suspension of trading in the Group's shares on AIM has affected the goodwill we have built up with our many investors. The significant uncertainty on the rate of progress and outcome of the independent forensic investigation, further finance review and audit, set out on page 40, which completed in November 2021 have meant it has not been possible to update shareholders with regular, timely and granular information. Reporting precise and accurate information was a key factor in considering what, and when, the Group communicated to shareholders. Furthermore, as set out in the Chairman's report we do not yet have certainty on when our share trading suspension might be lifted.
- The Board is confident that the remediation programme when complete will improve the quality and timeliness of reporting to our investors, with short-term actions ensuring safeguards against the recurrence of recent events. The Board are confident that our proven business model will deliver once again an attractive return on equity in the medium to long term and recognise that it will take time to rebuild the goodwill of our investors.

Employees

- Our employees are important to us. We seek to ensure that we attract, develop and retain talent. We actively encourage our employees to gain professional qualifications and are pleased to have seen a number of our team do so.
- Historically we have maintained a small company ethos which has helped us to maintain a high colleague retention rate over many years. Since the year end, we have significantly increased our headcount with new employees, contractors and advisors both to support our remediation and to support our existing employees through the changes we are undertaking.
- We provide our employees with regular updates on all issues relating to the business and in the last year this engagement was enhanced during the pandemic to include our response to lockdown and the introduction of remote working from home. The wellbeing and mental health of our workforce during COVID-19 have been carefully supported through our HR team and through access to employee helplines.
- Our new executive team has put a programme of cultural change in place covering more tactical short-term solutions and longer-term initiatives including:
  - Ensuring new employees are adequately supported on joining, especially when joining remotely and can assimilate the new Group culture whether in the office or homeworking.
  - Promoting colleague engagement initiatives through our Human Resources team and encouraging colleague engagement through a variety of colleague working groups such as our Diversity & Inclusion group who worked with our Human Resources team to develop our new Diversity and Inclusion policy.
- We have recently launched a new culture which we will report on in our 2021 Annual Report and Financial statements.

Customers

- Our customers are at the heart of our business, and we treat them fairly, professionally and respectfully in line with regulatory rules and guidance.
- We provide our savings customers with high levels of services, as evidenced by our achievement of receiving the 'Feefo' Platinum Trusted Service Award, which is only available to businesses which have been awarded the Gold Trusted Service Award for three successive years.

- We responded to our customer's requests for financial assistance during the COVID-19 pandemic effectively and efficiently.
- We developed an online application process to speed up the processing of forbearance requests.
- We regularly reviewed the numbers and details of customers in forbearance and COVID-19 related payment deferrals as to how best to deal with their requests for assistance.
- We maintained good customer service levels and remained open to new lending throughout the year, albeit focusing on our highest credit grades, given the COVID-19 pandemic.

Suppliers

- We take pride in the longstanding nature of our relationships with many suppliers, including our intermediaries and others such as software providers and credit information bureau.
- We review our Supplier & Outsourcing Assurance Framework, which provides the Board with oversight of the risks arising from third party supplier contracts, on an annual basis.
- During the year, we implemented a new purchase order and invoice processing system to enhance efficiency and improve internal and external process of payment to our suppliers.

Regulators

- Our compliance with regulation is overseen by our Board Audit and Risk Committees.
- Our executive team is committed to maintaining open and transparent regular direct engagement with our regulators. In 2021 we have increased the focus and depth of engagement with our regulators with senior hires in our Risk function, ensuring they are kept up to date with progress on our remediation programme.
- We review and act on regulatory developments and monthly digests from the PRA and FCA. We increased interactions during the COVID-19 pandemic, ensuring that our operations complied with regulatory rules and guidance.
- Given weaknesses identified in our Regulatory reporting we have undertaken a thorough independent review of our regulatory reporting this work is expected to complete in 2022. We will continue to invest in our regulatory reporting processes, systems and staffing.

Communities and the environment

- We commenced participation in a scheme which restores the wilderness through rewilding and reforestation projects across a variety of ecosystems around the world (the Mossy Earth project).
- Employees collectively contributed to a number of charitable causes, such as Headway, Macmillan Cancer Support and KidsOut, by way of a variety of engagement initiatives throughout the year.

The Strategic Report has been approved by the Board and signed on its behalf by:

G G Stran
Interim Chief Executive

22 December 2021

Sustainability Report

In July 2019, the Financial Reporting Council issued a joint statement with other regulators on how companies should report on the effect of their activities on climate change. This follows the Government's publication of its Green Finance Strategy which anticipates mandatory disclosures by 2022.

PCF's Consumer Finance and Business Finance Divisions provide finance to consumers and businesses to acquire a wide range of vehicles. Whilst we have no control over our customers' choice of vehicles, we do have the ability to adapt our lending policies to ensure that we are making a contribution to climate change and a carbon neutral economy. We have started to achieve this by limiting the term of finance for certain diesel vehicles and we monitor and review this policy on at least an annual basis.

At a corporate level, we are implementing two new initiatives to demonstrate our commitment to the environment and the transition to a carbon neutral economy:

- In financial year 2021, we commenced participation in the Mossy Earth project, which restores the wilderness through rewilding and reforestation projects across a variety of ecosystems around the world. Our commitment to this project takes the form of a donation of £2 for every finance agreement we process.
- We are seeking to introduce electric vehicle company cars for our sales employees.

GHG Emissions and Energy Use Summary

The Group takes its responsibility towards the environment seriously and recognises the important part it has to play in supporting the transition to a carbon neutral economy. We will consider our approach to the Taskforce for Climate Related Financial Disclosures ('TCFD') in the coming year. The Group's emissions have been calculated in line with the Greenhouse Gas Protocol Standard, using the Environmental Reporting Guidance published by the UK Government. All our emissions are UK based.

UK	tCO2e	kWh
Scope 1 Emissions from activities for which the Company is responsible	3	14,037
Scope 2 Emissions from the purchase of electricity for own use	32	138,837
Total Scope 1 and Scope 2 emissions	35	152,873
Emission intensity Scope 1 and Scope 2 in tCO2e/Net operating income in £m	1.3	

PCF GROUP

Corporate Governance Report
Chairman's introduction

Dear Shareholder,

As the Chairman of PCF Group plc, I present our Corporate Governance Report for the year ended 30 September 2020. This report is dated 22 December 2021. Given the passage of time since the year end, where appropriate, it is brought up to date for recent events and matters relevant to the Group's current operating model.

In light of the events and issues that have come to the attention of the Board since the 2020 year end and which have been the subject of the independent investigations, ensuring more effective corporate governance and oversight is a priority of the Board. The Board has brought in a substantially new executive management team for the business. The Board is now taking steps to remediate the deficiencies identified in financial controls and corporate governance.

We have also since embarked on the culture initiative and training programme to make risk at the centre of all that we do at PCF. The Board, together with the Executive Committee, is driving those values, behaviours and attitudes to support the Group's strategy.

At an operational level, the Group applies the UK Corporate Governance Code 2018 (the 'Code'). The Code sets out the principles and provisions relating to the good governance of companies. This report describes how we comply with the principles and provisions 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. In accordance with the terms of the Code, an explanation is provided for those instances where we do not comply with its provisions.

The Board consists of eight directors, six of whom are non-executive and two of whom are executive. One non-executive director has been nominated by the majority shareholder. David Bull resigned as a director on 16 March 2020 and left the Group's employment on 30 September 2020. The process of recruiting a new Chief Financial Officer ('CFO') to replace David Bull was completed and, we appointed Caroline Richardson to the role of CFO on 15th March 2021. Since then, Robert Murray resigned as Managing Director on 26 March 2021 and Company Secretary on 31 March 2021 and Scott Maybury resigned as the Chief Executive Officer on 21 May 2021. Scott was replaced as CEO on an interim basis by Garry Stran, the then Chief Operating Officer of the Group. Garry and Caroline were appointed to the Board on 5 October 2021 having confirmed their regulatory approvals.

The Audit & Risk Committee separated into a separate Board Audit Committee and a separate Board Risk Committee towards the end of the financial year. The current corporate governance structure of the Group and its committees is set out below with an explanation of changes from the 2019 report and account. Christine Higgins, an independent non-executive director, is Chair of Board Audit Committee and Marian Martin, also an independent non-executive director, is the Chair of the Board Risk Committee.

In addition to its scheduled eleven meetings during the financial year, the Board met on a weekly basis during the first two months of the COVID-19 pandemic and later at the time of the suspension of trading in PCF's shares to monitor the impact of it on colleagues, customers, other stakeholders and the financial wellbeing of the Group. In the circumstances, meetings were held using video conferencing facilities.

The effectiveness of the Board was reviewed during the year. This review was a self-assessment which was externally facilitated by Independent Audit Limited, using their online self-assessment service Thinking Board®. The primary purpose of the review was to direct the Board's attention to areas where there might be opportunities to improve its performance. As part of their review, Independent Audit Limited also attended a Board meeting.

Recent events demonstrate that learnings and improvements are required, and these are and will inform the future development of the Board individually and collectively. Furthermore, to increase its capabilities, the Board is seeking to appoint a Senior Independent Director.

The Board recognises that one of the keys to the Group's long-term success is the development of its new culture, coupled with improved governance and effective controls, and this will be our significant focus in the coming year.

Tim Franklin
Chairman

22 December 2021

The UK Corporate Governance Code 2018 (the 'Code')

The Board of Directors (the 'Board') is committed to high standards of corporate governance, details of which are set out in this report. In terms of corporate governance, the Board has adopted the Code, which is issued by the Financial Reporting Council, but does not purport to fully comply with all of its provisions for 2020.

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

It is the Board's view that it complies with the principles and provisions set out in the Code with the exception of the following:

- Lack of Workforce Director (Code Provision 5) The Board has not appointed a director from the workforce, created a formal workforce advisory panel or appointed a designated non-executive director to maintain engagement with the workforce. The Board contains two executive directors who have daily contact with colleagues and has an experienced Chief People Officer who is regularly invited to report to the Board on colleague matters, including colleague engagements. Given the size of the workforce a full-time, experienced Chief People Officer is considered the most effective means of developing and monitoring colleague engagement.
- Less than half of Board, excluding the Chairman are independent non-executive directors (Code Provision 11) The Board consists of four independent non-executive directors (including the Chairman, Tim Franklin), two non-executive directors and two executive directors (although until 16 March 2020 there were three executive directors). As a result, less than half of the Board, excluding the Chairman, is made up of independent non-executive directors. The Board is in the process of recruiting a Senior Independent Director which, once appointed, will result in half the Board comprising independent non-executive directors.
- Lack of a Senior Independent Director and lack of Chairman's appraisal (Code Provision 12) As mentioned above, the Board is seeking to appoint a Senior Independent Director. In the absence of the Senior Independent Director role, an appraisal of the Chairman's performance was not conducted. Once appointed, the Senior Independent Director will be responsible for appraising the Chairman's performance.
- Evaluation of the performance of individual directors (Code provision 21) As reported in the Chairman's introduction to this section whilst the effectiveness of the Board, as a whole, was evaluated during the year, there was not a formal evaluation of the performance of individual directors. An assessment of the individual director's skills and their training needs was undertaken in July 2021 and individual evaluations are to be undertaken in the current financial year.
- Lack of Diversity Policy (Code Provision 23) The Group does have various diversity initiatives in place and an active Diversity and Inclusion committee was set up in December 2020 with colleague representation from across the Group. However, until recently the Group did not have a formal Diversity and Inclusion policy in place but for future reporting periods the Group expects to be Code compliant in respect of Diversity & Inclusion policy.
- Policies and procedures to ensure effectiveness internal and external audit function (Code Provision 25) The Audit Committee has not yet concluded its reviews of the effectiveness of the internal and external audit functions due to the delay in finalising the Annual Report & Financial Statements but both will be concluded now that they have been finalised.
- Lack of a Viability Statement (Code Provision 31) The Board should provide an explanation of how it assessed the prospects of the Group over a given period. In light of the circumstances of the Group's suspension of shares on AIM, a viability assessment has not been prepared and no statement is made in this Annual Report. Please refer to the Directors' Report for the Board's assessment of Going Concern.
- Disparity in Pension Contribution Rates (Code Provision 38) The pension contribution rates for executive directors are 10% whereas they are 7% for the workforce. The Remuneration Committee will be giving further consideration to this discrepancy for new Executive hirings with a view to being Code compliant for those hirings.
- Engagement with shareholders and workforce on remuneration matters (Code Provision 41) There has been no specific engagement to report on in this year with (i) the shareholders to seek feedback on remuneration policy and outcomes and/or (ii) the workforce to explain the alignment of executive pay with wider Company pay policy. The Company has not yet made plans to do so but will continue to consider this in the current financial year.

Internal controls

Board responsibility

The Board is responsible for the Group's risk management and system of internal controls and is committed to ensuring that a suitable internal control framework is maintained to deliver effective risk management. Owing to the limitations inherent in any internal control framework as evidenced by the events and issues that have come to the attention of the Board since the 2020 year end, the Board is particularly focused on reviewing and improving that framework to ensure more effective corporate governance and oversight including the improvement in the controls and risk frameworks set out in the Board Audit and Board Risk Committee reports.

Reviews by the Board

The effectiveness of the RMF and internal control systems is and will continue to be reviewed by the Board Risk Committee and Board Audit Committee. The Board Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures. The Board Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, oversight of external and outsourced internal audit activities, controls, compliance and whistleblowing.

Overall assessment

As described elsewhere in this report, the Board has considered accounting errors and control observations reported by the external auditor; the accounting errors and misstatements identified since the September 2020 year end and the findings of the PwC independent forensic investigation into these matters; the external review of the Group's regulatory reporting and its Risk Management Framework, and the reports of the outsourced internal audit provider. Appropriate actions have been or are being taken as a result of this work.

Corporate Governance Report (cont'd)
Board of Directors

Tim Franklin
Non-executive Chairman,
appointed 6 December 2016

Tim has extensive experience in the financial services industry having worked for over 30 years in the retail banking and building society sectors. Tim served as a non-executive director of the Post Office for over 7 years until December 2019. He remains Chairman of Post Office Insurance. Additionally, he is a non-executive director of Computershare Loan Services. 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. In addition, he is an Associate of the Chartered Institute of Banker.

Tim is the Chairman of the Nomination Committee and a member of the Remuneration Committee.

David Morgan
Non-executive director,
appointed 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 and Waverton Investment Management Limited. He is also the Chairman of Harlequin FC, the Premiership rugby club.

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

Mark Brown
Non-executive director,
appointed 1 December 2015

Mark was Chairman of Stockdale Securities from November 2014 until it was bought by Shore Capital in April 2019 and is now Vice Chairman of Shore Capital Markets. He was previously Chief Executive of Collins Stewart Hawkpoint and brings a wealth of experience and leadership in both small and large financial services businesses. 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 of Board Audit Committee, Nomination Committee and Remuneration Committee.

Christine Higgins
Independent non-executive director,
appointed 13 June 2017

Christine is a chartered accountant with over 25 years' experience in asset finance, both UK and international. Over the last 11 years, she has served as non-executive director on boards in the health, housing, leisure and finance sectors. Christine is currently a non-executive director at Buckinghamshire Building Society and Macquarie Capital Europe Ltd and is a Trustee at Refuge and she chairs their audit committees.

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

David Titmuss
Independent non-executive director,
appointed 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.

David has direct experience of credit decisioning and debt collection for companies and consumers gained from holding senior roles in the finance industry over a number of years.

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. He is also a Trustee of the Cystic Fibrosis Trust.

David is the Chairman of the Remuneration Committee and a member of the Nomination Committee.

Marian Martin

Independent non-executive director,
appointed 27 July 2019

Marian Martin is Chairman of the Board Risk Committee and is a member of Board Audit Committee, the Nomination Committee and the Remuneration Committee. Marian is a chartered accountant with a background in risk management and audit and has spent her career in the financial services sector. She is also a non-executive director at Starling Bank and Castle Trust Bank where she is Chair of the Board Risk Committee. As an executive, Marian has significant experience in retail banking and financial services most recently as Chief Risk Officer ('CRO') at Virgin Money throughout a period of significant growth and strategic change.

Garry Stran

Executive director,
appointed 5 October 2021

Garry Stran is the interim Chief Executive Officer ('CEO'). Garry joined the Group in July 2020 and was originally appointed Chief Operating Officer on 1 March 2021 and was subsequently appointed interim CEO on 21 May 2021. Garry is an experienced Financial Services professional and has previously had roles within banking, credit management, corporate finance, advisory and most recently in the Fintech sector. Garry assumed the role of Chief Operating Officer on the retirement of the former Managing Director Robert Murray, a founding director of PCF, and assumed the role of interim CEO on the resignation of the former CEO Scott Maybury, also a founding director of PCF.

Caroline Richardson

Executive director,
appointed 5 October 2021

Caroline Richardson is the Chief Financial Officer ('CFO'). Caroline has significant experience as a finance director, most recently as CFO and Board member at White Oak UK, where she was responsible for the Finance and Treasury teams. During her 25 years of experience in finance and banking, Caroline has developed significant listed entity and banking expertise through her roles as Group Finance and Transformation Director at Arrow Global plc, her role as Chief Accounting Officer of the Co-operative Bank plc and during nearly twelve years at Deutsche Bank, latterly as UK Finance Director. Caroline's experience, notably at the Co-operative Bank plc has included close liaison with the Prudential Regulation Authority. Caroline is a Chartered Accountant and has a First-class Honours Degree in Economics from the University of Hull.

Appointment & resignation of directors during the year

David Bull resigned as a director on 16 March 2020 and left the Company's employment on 30 September 2020.

Robert Murray resigned as a director on 26 March 2021 and Scott Maybury resigned as a director on 21 May 2021.

Caroline Richardson and Garry Stran were appointed as directors on 5 October 2021.

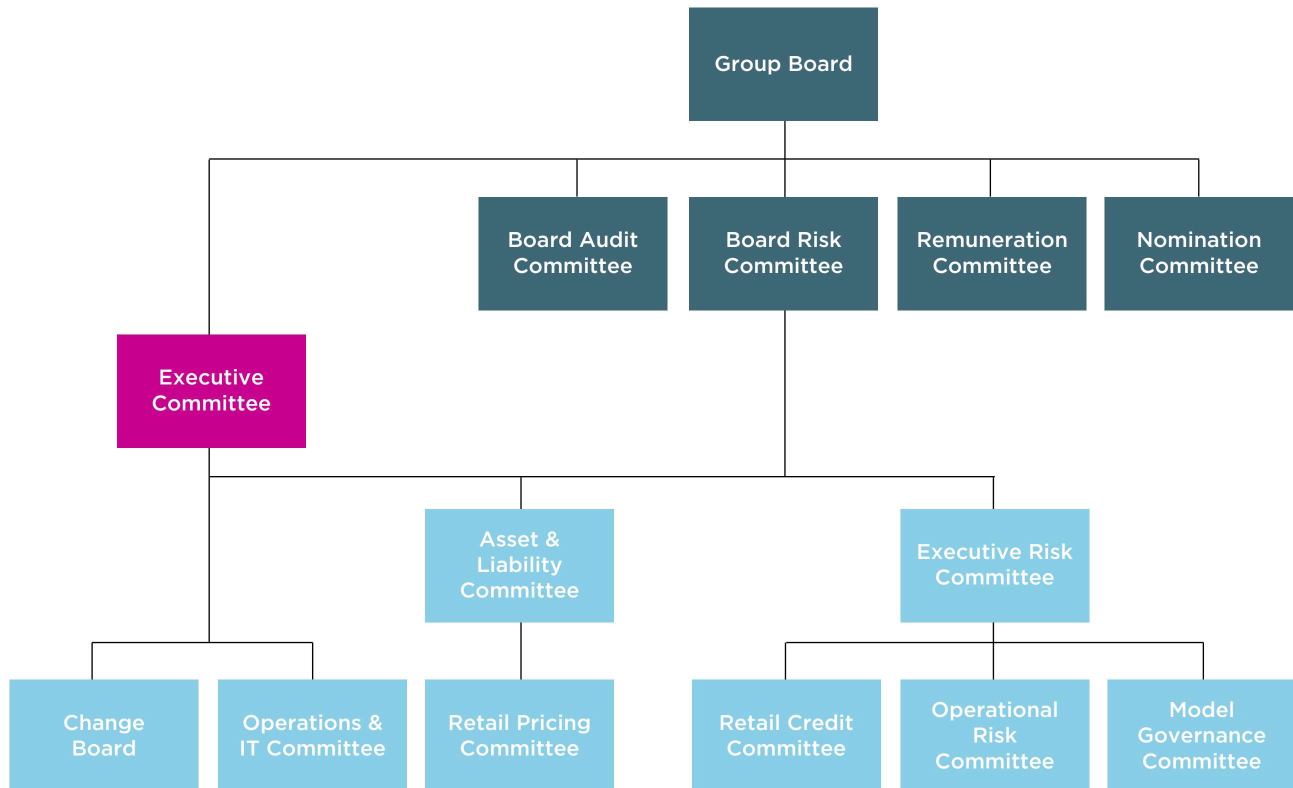
Corporate Governance Report (cont'd)

Corporate Governance Structure

The Board is principally supported by and delegates specific powers to a number of established Board committees, namely the:

- Nomination Committee.
- Remuneration Committee.
- Board Audit Committee.
- Board Risk Committee.
- Executive Committee.

The overall Group corporate governance structure is as set out below



The composition of the Board is usually replicated and operates concurrently at Group and PCF Bank Limited (the 'Bank'). 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 Board 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 at regular Board meetings. The performance of the Chief Executive is appraised annually by the Chairman and the other members of the Remuneration Committee.

Each of the Executive Committee, the Board Audit Committee, the Board Risk Committee, the Nomination Committee and the Remuneration Committee has a set of clearly defined Terms of Reference. Responsibility for the implementation of Group's strategies and day-to-day business are 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.

As highlighted in the Chairman's statement, improvements in Governance are a remediation priority. The Chief Risk Officer ('CRO') has recently started to address this by making changes to governance through a new committee structure and responsibilities for those committees that are not direct committees of the Board. These changes, together with additional resourcing, are designed to support the improvements required in governance. Changes in the committee governance structure since the 30 September 2019 Annual Report & Financial Statements include.

- A new Executive Risk Committee has been created, reporting directly to the Board Risk Committee. Chaired by the CRO, this committee has taken over the Risk and Compliance elements of the previous Risk, Compliance and Operations committee and now reports into the Board Risk Committee as well as the Executive Committee. An outline of the Executive Committee responsibilities are set out on page 33.
- Assets & Liability Committee. This committee now reports into the Board Risk Committee as well as the Executive Committee. An outline of the Asset and Liabilities Committee responsibilities are set out on page 55.
- The Marketing and New Products Approval Committee has been disbanded with its responsibilities now being met directly by the Executive Committee for new products and the Retail Pricing Committee, (see below), for pricing.

At a level beneath the Executive Committee, the Asset and Liability Committee and the Executive Risk committees, the following changes have been made:

- The Change Board oversees the prioritisation, delivery, progress, risks and issues associated with change across the Group.
- The Operations & IT committee incorporates the operational elements of the previous Risk Compliance & Operations committee and the activities of the previously separate IT committee. This committee has a wider remit and meets more frequently than its predecessor committees.
- The Retail Pricing Committee, formerly the Liquidity and Pricing Committee with additional responsibility for retail asset pricing and reviewing marketing activity, meets more frequently, and continues to report into the Asset and Liability committee.
- The Retail Credit Committee (previously the Credit Committee) now reports into the Executive Risk Committee not the Executive Committee and will be chaired by the CRO pending appointment of a new Head of Credit Risk role. This committee has responsibility for monitoring loan portfolio performance and reviewing retail lending policy, as well as approving higher value loans.
- A new Operational Risk Committee reports into the Executive Risk Committee.
- The Model Governance committee is a new committee, which reports into the Executive Risk Committee.

In addition to the above committees, a Recovery and Resolution Committee will continue to meet on an ad hoc basis.

Board balance and independence

The Group Board and Bank Board consist of four independent non-executive directors, two non-executive directors and two executive directors in Garry Stran and Caroline Richardson. The Board is chaired by Tim Franklin, an independent non-executive director. The profiles of the members of the Board are provided on pages 26 to 27. The tenure of each of the four independent non-executive directors is less than nine years, which is in accordance with the Code.

The Boards comprise members with diverse professional backgrounds, skills, extensive experience and knowledge in the areas of banking, finance, risk, marketing, 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. 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, colleagues, customers, suppliers and other communities in which the Group conducts its business are well represented and considered.

The Board Audit Committee monitors the effectiveness of the Group's financial reporting systems, internal control and the integrity of the Group's external and internal audit process. The Board has outsourced its internal audit activities to Grant Thornton, UK LLP ('Grant Thornton'). The Audit Committee is responsible for agreeing and overseeing the internal audit plan.

The Board Risk Committee provides oversight of risk management across the Group.

The Nomination Committee reviews the structure and size of the Board. The committee considered the appropriateness of the Boards' composition during the year and concluded that it has the appropriate mix of skills and experience to fulfil its responsibilities. Subsequent to the year end a decision has been made to appoint a Senior Independent Director ('SID') to increase the resources of the Board and improve governance through fulfilment of the SID functions recommended by the Corporate Code.

The Remuneration Committee appraises the performance and remuneration of the executive directors and other senior executives.

The Boards of PCF Group plc and PCF Bank Limited are collectively responsible for the success of the Group and the Bank.

Roles and responsibilities

The Board is responsible for corporate governance, leadership, developing strategy, promoting an appropriate culture and the overall management of risk. The Board sets the strategic aims, reviews management performance and ensures that the necessary financial and human resources are in place to meet objectives.

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.

Corporate Governance Report (cont'd)
Corporate Governance Structure

- Assessing, monitoring and promoting a sound corporate culture within the organisation including setting the Group's values and standards and ensuring that its obligations to all stakeholders are understood and met.
- Identifying principal risks and ensuring the implementation of appropriate systems to manage and monitor identified risks effectively.
- Reviewing the efficacy of internal control and of management information, including systems for compliance with applicable laws, regulations, rules, directives, and guidelines.
- Approval of RMF, insurance, and mitigation.
- Ensuring that appropriate systems are in place to promote whistleblowing and protect confidentiality of whistleblowers.
- Ensuring effective communication with the shareholders and other stakeholders.
- Ensuring that all candidates appointed to the senior management positions are of sufficient calibre and that there are programmes in place to enable orderly succession of senior management.
- Reviewing and approving acquisitions and disposals of undertakings and major investments.

The Board monitors the Group's risk management and internal control systems, including financial, operational and compliance controls, through the Audit and Risk Committees, whose chairs provide oral reports, minutes and updates to the Board. The Audit and Risk Committees review the effectiveness of the controls through the Second and Third Lines of Defence (as set out in the Risk Management Report). Further details of the work of the Audit and Risk Committees can be found on pages 40 to 45.

Whilst the Board delegated the role of assessing principal risks of the Group and PCF Bank to the Board Audit and Risk Committee (split out into the Board Audit Committee and Risk Committee during the financial year), during the financial year the Head of Risk and Compliance submitted a Risk, Compliance & Financial Crime Report to the Board at each scheduled Board meeting to bring to it attention matters of note for it to assess and action as well as update on progress on the strategic action planner to ensure the Board tracked relevant matters were being actioned.

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

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 required to be reviewed at least once a year.

Roles and responsibilities of the Chairman and Chief Executive

The Code recommends that there should be 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 challenge and deliberation by the Board members to make best use of their collective wisdom and to promote consensus building.

The business affairs of the Group are governed by the Group's delegated authorities and its policy and procedures manuals.

The division of authority is regularly reviewed to ensure that management's efficiency and performance remain optimal.

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. In May 2021 Garry Stran replaced Scott Maybury on an interim basis. The Chief Executive is responsible for the day-to-day management and executive leadership of the business. Other responsibilities include the progress and development of objectives for the Group, managing the Group's risk exposure, implementing the decisions of the Board and ensuring effective communication with all stakeholders and regulatory bodies. The Chief Executive 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.

Any director wishing to do so may take independent professional advice at the expense of the Company. All directors can consult with the Company Secretary, who is responsible for ensuring that Board procedures are followed.

The directors also have direct access to the fully outsourced Internal Audit function services provided by Grant Thornton in addition to other members of the senior management team. There is an agreed audit plan and the Internal Audit function reports directly to Board Audit Committee.

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

Corporate Governance Report (cont'd)

Corporate Governance Structure

Attendance at meetings

The attendance of the directors at scheduled Board and the principal committee meetings that took place during the year is shown below. In addition to the scheduled Board meetings, a further 12 meetings were held following the introduction of 'lockdown' restrictions in March 2020 to ensure that the Board had clear oversight of the issues facing the business, its colleagues, customers and operations and was able to respond quickly to fast changing events. Some directors also attended committee meetings as invitees during the year, which is not reflected in the table.

	Board (Scheduled)	Board (ad hoc Covid-19) related	Audit & Risk Committee (up to 15 May 2020)	Board Audit Committee (15 May 2020 onwards)	Board Risk Committee (15 May 2020 onwards)	Nominations Committee	Remuneration Committee
Number of meetings attended/(eligible)	11	12	8	1	1	3	4
Tim Franklin [2]	11 (11)	12 (12)	1 (1)	1 (1)	–	3(3)	4 (4)
Scott Maybury [1] [3] [4]	11 (11)	12 (12)	8 (8)	1 (1)	1 (1)	–	4 (4)
David Morgan	11 (11)	12 (12)	8 (8)	–	1 (1)	3(3)	4 (4)
Mark Brown	11 (11)	12 (12)	–	1 (1)	–	3(3)	–
Christine Higgins	11 (11)	12 (12)	8 (8)	1 (1)	1 (1)	3(3)	4 (4)
Marian Martin	11 (11)	12 (12)	8 (8)	1 (1)	1 (1)	3(3)	4 (4)
David Titmuss	11 (11)	12 (12)	–	–	1 (1)	3(3)	4 (4)
Robert Murray [4]	11 (11)	11 (12)	–	–	1 (1)	–	–
David Bull [1] [4] [5]	5 (5)	1 (1)	5 (5)	–	–	–	–

During the year the Audit & Risk Committee split into two separate committees – a Board Audit Committee and a Board Risk Committee. The final meeting of the Audit & Risk Committee was on 15 May 2020.

(1) Attended as standing attendee for Audit & Risk Committee and/or Board Audit Committee meetings.

(2) Attended as a guest for Audit & Risk Committee and Board Audit Committee meetings.

(3) Attended as a guest for Remuneration Committee meetings.

(4) Attended as a standing invitee for Board Risk Committee.

(5) Attended Board meetings as a director to 16 March 2020 and continued attending Board, Audit & Risk Committee and its successor committees Board Audit Committee and Board Risk Committee to 30 September 2020 as an invitee. Attendance in the above table is shown only for the period whilst a director of PCF Group plc.

Appointments to the Board

The Nomination Committee ('NomCo') consists of two non-executive directors and four independent non-executive directors and is chaired by Tim Franklin. NomCo makes independent recommendations for appointments to the Board. In making these recommendations, NomCo assesses the suitability of candidates, considering the required mix of skills, knowledge, expertise and experience, professionalism, integrity, gender diversity and other qualities, before recommending them to the Board for appointment. NomCo will take steps to ensure that diversity in candidates is sought for appointment to the Board.

Appointment and re-appointment

The Board complies with the provision of the Code which requires that all directors should stand for re-appointment annually, subject to continued satisfactory performance.

No person other than a director retiring at the Company's annual general meeting shall be eligible for appointment or re-appointment as a director at any general meeting unless she/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.

Training and development of directors

Professional development

Post Balance Sheet date, specific training sessions were held covering compliance, regulation and corporate governance issues. Topics covered included Financial Crime, the AIM Rules, the Corporate Governance Code and IFRS 9. The Board also held a session on culture, diversity and inclusion at the Annual Strategy Day. 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. It 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 can 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 28. 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 to the Board on a regular basis.

Reports of certain of the Board's committees are set out later in this 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 and CFO on the performance and results of the Group, strategic developments and the legal and regulatory affairs of the Group and the Bank. In addition, the Board receives regular updates from the ExCo. The Chief Risk Officer has a standing invitation to attend all scheduled Board meetings.

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 enough 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 its day-to-day management responsibilities 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. ExCo's primary responsibility is to ensure the implementation of strategies and culture approved by the Board, provide leadership to the senior management team and ensure appropriate 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.

In addition to Garry Stran (interim Chief Executive Officer) and Caroline Richardson (Chief Financial Officer) at 22 December 2021, the other members of ExCo are as follows:

Andrew Barber[1]
Chief Technology Officer
Andrew joined PCF Group in June 2002 and is responsible for developing and managing the IT and cyber strategy within the Group. Andrew oversees the management of systems, operational resilience and third-party vendor management. As a PRINCE2 Registered Practitioner, Andrew is instrumental in ensuring IT change is managed successfully within the Group. Andrew is a member of the Smaller Banks Operations & IT Forum ('SBOITF') and a founding member of the Specialist Bank Security Forum ('SBSF'). Andrew is a professional member of BCS, The Chartered Institute for IT.

Simon Baum[2]
Chief Risk Officer
Simon is responsible for the Risk and Compliance function for the Group. Simon has spent 35 years specialising in risk management within financial services, holding several senior positions at Experian, PricewaterhouseCoopers LLP, Alliance & Leicester and Santander, both in the UK and overseas. Simon brings significant experience of best practice from risk functions within Financial Service enterprises, risk and control improvements and experience of Board Risk Committees.

Jim Coleman[1]
Chief Capital Officer
Jim joined PCF in October 2016 as Head of Treasury to oversee the establishment of a treasury function in preparation for bank mobilisation in 2017. Since mobilisation, he has been responsible for funding, liquidity and asset & liability management and funds transfer pricing and in 2020 he took on additional responsibility for the management of the Group's capital. 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.

Stuart Marshall[3]
Chief Operating Officer
Stuart is a qualified accountant with over 25 years of experience in financial services. The early part of his career was spent in Barclays working within retail banking and group before moving into global operations in Barclaycard. Subsequently he held senior positions at Kleinwort Benson Group before joining the management team of a start-up bank that took them through to 'Minded to Authorise'. Stuart has held a range of senior executive positions with a breadth of experiences across Operations, IT, Risk and Finance.

Corporate Governance Structure (cont'd)

Catherine Mayo[2]
Chief of Staff
Catherine's role is to oversee the strategic objectives of the Chief Executive Officer, and to both support and hold Group executives to account. Catherine is a Chartered Accountant with over 25 years of experience in financial services, consulting and sales & marketing organisations, including 11 years as a Finance Director in Barclays in Group Finance and Treasury Finance. She has extensive financial services finance and treasury experience, with expertise in developing strong finance functions, executing transactions and leading and executing change.

Jason McCabe[1]
Deputy Chief Risk Officer and Chief Compliance Officer
Jason joined PCF Group in October 2016 and is responsible for compliance oversight and money laundering reporting senior management functions. He has over 15 years' experience in Risk Management & 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.

Duncan McDonald[2]
General Counsel
Duncan is responsible for managing the Group's in-house legal function and supporting the Company Secretary in respect of aspects of the company secretarial functions of the Group. Duncan is a lawyer who has accumulated considerable experience as a corporate commercial lawyer and General Counsel over the years having undertaken a wide range of transactional and general company commercial work for national and international financial sponsors and corporates.

Gavin Scott[1]
Sales and Marketing Director
Gavin co-founded Azule in 2004 where he held the position of Managing Director. Gavin was responsible for growing the business from a small independent brokerage to a company that had a loan portfolio of £16 million and was originating £50 million of asset finance per annum. Gavin was involved in expanding the services of Azule from the UK into Europe to support its major manufacturers, such as Sony and Canon. Azule, which was acquired by PCF in 2018, is a specialist asset finance provider for broadcast/media, live entertainment and audio-visual equipment. Gavin is now responsible for Sales and Marketing activities across the Group, including Consumer Finance, Business Finance, Property Finance and Azule. Gavin has over 20 years of asset finance experience having originally started in sales for a specialist media asset finance company in 1998.

Suzie Yong[1]
Chief People Officer
Suzie joined PCF Group in August 2019 and is responsible for Human Resources. Suzie has over 20 years' HR management experience in both the private and public sectors with her last role as Head of HR in a fintech business where she was responsible for the setting up and management of HR operations globally. Suzie has several years' experience working as an Associate Lecturer and Assessor on Chartered Institute of Personnel and Development ('CIPD') courses at the International Financial Services Centre (Dublin) and is a Chartered Member of the CIPD.

1 Member of the Executive Committee throughout the year to 30 September 2020.
2 Member of the Executive Committee from June 2021.
3 Member of the Executive Committee from 9 August 2021.

Where appropriate, alternates attend when members are absent.

Nomination Committee Report

Dear Shareholder,

I present my report to you as Chairman of the Nomination Committee for the year ended 30 September 2020. This report is dated 22 December 2021. Given the passage of time since the year end, it is brought up to date for recent events and matters relevant to the Group's current operating model where appropriate.

Introduction

The Nomination Committee ('NomCo') has delegated responsibility from the Board for reviewing the structure, size and composition of the Board on a regular basis.

Membership of Nomco is limited to non-executive directors and I am the Chairman. The CEO is invited to meetings as an attendee on an ad hoc basis for agenda points linked to consideration of succession plans and other matters where his input is valuable to the committee.

Role and activities of the NomCo

The role of NomCo is:

- To review the structure, size and composition of the Board.
- To lead the process for appointments to the Board and senior management.
- To ensure plans are in place for orderly succession to the Board and senior management positions.
- To oversee the development of a diverse pipeline for succession.

Key activities in the year

The committee's activities during the year included a review of the composition of the Board from a corporate governance and regulatory perspective. In addition, we carried out an analysis and review of succession planning.

The effectiveness of the Board was reviewed during the year this review was a self-assessment which was externally facilitated by Independent Audit Limited, using their online self-assessment service Thinking Board. The primary purpose of the review was to direct the Board's attention to areas where there might be opportunities to improve its performance. As part of their review, Independent Audit Limited also attended a Board meeting during the year.

During the year, the committee commenced the process of recruiting a new Chief Financial Officer ('CFO') to replace David Bull, who resigned as a director of the Company on 16 March 2020 and left the Company's employment on 30 September 2020. We engaged an external executive search firm to source appropriate candidates. We recommended to the Board to appoint an interim CFO until the appointment of the new CFO, Caroline Richardson, on 15 March 2021.

Board training is held on a regular basis to provide Board members with professional development and to enable updates on regulatory, financial and governance developments. The Board calls upon external organisations where specialist input is required. Heads of Department are called upon to facilitate training where the specialist skills are available in house. This has been especially useful in the areas of compliance, Internal Liquidity Adequacy Assessment Process ('ILAAP') and Internal Capital Adequacy Assessment Process ('ICAAP') training and regulatory reporting developments and human resources training.

This year the Nomco met three times. Meeting agendas have included items on succession planning, diversity and inclusion, colleague relations, board training and effectiveness.

Following on from the suspension of PCF Group plc shares on AIM in May 2021, Nomco played an active part in the restructuring of the Executive and Senior Management team in the business. We recommended to the Board to appoint Garry Stran as interim CEO on 21 May 2021 and, as mentioned above, Caroline Richardson as CFO on 15 March 2021. Nomco has also engaged an external search firm for the appointment of a Senior Independent Director.

Diversity and inclusion

Diversity and inclusion continue to be a focus of the committee. Nomco considers that the Board is diverse, drawing on the experience, knowledge and skills of directors from a range of backgrounds, but will continue to seek opportunities to further improve the diversity of the Board in the future. At 30 September 2020, two of the Company's eight directors were women and this has now increased to three of eight directors.

In line with the UK Corporate Governance Code 2018, Nomco discloses that the gender balance in the Executive Committee at 30 September 2020 was 90% male and 10% female and in management positions was 63.5% male and 36.5% female.

This report was approved by the Nomination Committee on 22 December 2021.

Tim Franklin
Chairman of the Nomination Committee

22 December 2021

Remuneration Committee Report

Dear Shareholder,

I present my report to you as Chairman of the Remuneration Committee for the year ended 30 September 2020. This report is dated 22 December 2021. Given the passage of time since the year end, it is brought up to date for recent events and matters relevant to the Group's current operating model where appropriate.

Introduction

The Remuneration Committee ('RemCo') has delegated responsibility from the Board for reviewing the performance of the executive directors and the remuneration of the directors and other senior executives.

Membership of RemCo is limited to non-executive directors and is chaired by me. Where appropriate, RemCo consults external advisers on remuneration and regulatory issues to align with the strategic aims of the Group and regulatory compliance requirements. Remco did not consult with such external advisers during the year ended 30 September 2020 but has a benchmarking exercise planned for the future with the Chief People Officer. During the year the committee undertook a desktop benchmarking review of the remuneration of three executive directors by considering publicly available information on the salaries and benefits applicable to such roles in similar organisations.

Approach to remuneration

The approach taken by the Group in respect of remunerating colleagues 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 aim to support the recruitment and retention of colleagues, align with risk appetite and the long-term interests of the Group.

Fundamentally, our approach to remuneration aims to promote and reward the right behaviours to ensure that the interests of our customers and stakeholder value are at the forefront of everything we do. The level of expertise and experience of the executive team also requires the committee to benchmark remuneration and rewards to a peer group of similar companies.

Due to the size of our business, the Group applies proportionally to the Remuneration 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 regulatory guidance, the Group classifies those colleagues identified under the regime as either Code or Other Certified staff. Code staff are comprised of executive and non-executive directors and Senior Managers covered by the Senior Managers Regime. By application of supervisory statement 2/17 Remuneration, the Group additionally identifies a number of Other Certified staff with certain managerial responsibilities which bring them within the scope of the regime.

Remuneration policy

The Group's remuneration policy is applicable to all its colleagues.

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, cooperation, customer focus, risk awareness), comply with regulation, support a controlled environment, deliver good customer outcomes, 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:

- The recognition that the Group operates in a competitive environment for experienced and valued executives.
- Interests of our colleagues 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.
- Colleagues are not to be rewarded for taking risks that are unwarranted.
- Principles of 'malus' and 'clawback' will be implemented where relevant.

In addition, our remuneration policy is consistent with the principles and provisions of the 2018 UK Corporate Governance Code in terms of:

- Clarity – this report provides open and transparent disclosure of our remuneration policy and remuneration received by the directors.
- Simplicity and alignment to culture – our remuneration policy and arrangements are straightforward and aligned to the Group's culture and values.
- Predictability – incentive schemes contain maximum opportunity levels with outcomes varying dependent on the level of performance achieved against specific objectives.
- Proportionality and risk – variable remuneration arrangements are designed to provide a fair and proportionate link between Group performance and reward, with 'malus' and clawback provisions in place.

Remuneration Committee Report (cont'd)

As a Level 3 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 colleague may be eligible to receive include:

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

Share-based payments and director interests in shares

In 2018, the Company introduced a share-based long-term incentive plan for senior executives and other key colleagues. The plan has performance criteria attached regarding Group performance and shareholder return. Share options under the plan are only settled on achievement of the criteria. No changes or additions in the long-term incentive scheme were made during the year.

Details of the interests in the Company's shares of the directors, including their connected persons and share options granted to previous executive directors are detailed in the Directors' Report on pages 48 to 52. No options were granted nor exercised during the year. None of the executive directors received share based remuneration in the financial year.

Other directors' interests in the Group are disclosed in note 31 to the financial statements.

Key activities

The committee's activities during the year included the review and determination of salary increases and bonuses for both the executive directors and all Group colleagues. In so far as it being available, the committee gathered information regarding remuneration decisions made by other banks and financial services companies during the COVID-19 pandemic.

Given the effects of COVID-19 on the certainty of the Group's financial performance, as part of the annual pay review, Remco concluded that there should be no discretional payments made under the Company's annual bonus arrangements. A small number of adhoc recognition payments were approved by Remco in January 2021 for efforts in relation to the pandemic, totalling £38,000.

The former Chief Executive Officer apprised the committee on the efforts made by colleagues who were required to work from home, with a special emphasis on their wellbeing.

In terms of executive director changes during the year, the committee considered and approved the terms David Bull settlement package during the year when he resigned as a director on 16 March 2020 and left the Company's employment on 30 September 2020.

Information on the demographics of our colleagues were supplied to the committee, with a particular focus on pay by gender. We are confident that positive progress is being made in further developing a culture which is fair to and respects customers, appropriately manages risk, appreciates and rewards colleagues and gives equal opportunities to all.

Remco met four times during the year to 30 September 2020.

Since 30 September 2020, the committee has met to consider the total remuneration of the two newly appointed executive directors as well as other key executive appointments and changes in the Senior Management team.

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 colleagues. The Company has a workplace pension scheme with Standard Life, with a Company contribution rate based on 7% of basic salary.

The directors' contribution rate is based on 10% of basic salary. These are outside the workplace scheme and contributions are paid to a scheme of their choice or as a cash equivalent where annual or lifetime pension allowances have been reached.

The Company's contribution to the pension schemes of the directors and other colleagues are not aligned in accordance with the provisions of the 2018 UK Corporate Governance Code. Remco will review this matter during the financial year 2022 (with a view to developing a plan to reduce such contributions so that they align with those of the majority of the work force for new senior Executive hires).

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 then 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 2020, but also to their individual performance, based on a number of personal objectives. As a result of the financial performance of the Group in the year to 30 September 2020, no annual bonuses were paid to the executive directors.

Table of directors' remuneration

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

	Salary and fee £'000	Bonus £'000	Benefits in kind £'000	Pension £'000	Long-term incentive £'000	Other £'000	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Executive directors								
S D Maybury [1, 2]	289	–	2	–	–	–	291	476
R J Murray [3]	190	–	2	15	–	–	207	285
D R Bull [4, 5]	191	–	2	19	–	202	414	296
Non-executive directors								
M F Brown	43	–	–	–	–	–	43	43
T A Franklin	95	–	–	–	–	–	95	95
C A Higgins	57	–	–	–	–	–	57	57
D J Morgan	43	–	–	–	–	–	43	43
D Titmuss	52	–	–	–	–	–	52	52
M Martin	43	–	–	–	–	–	43	11
	1,003	–	6	34	–	202	1,245	1,358

1 Pension was received in cash.

2 Retired and resigned from the business on 21 May 2021.

3 Part of the pension received in cash.

4 Part of the pension was received in cash.

5 David Bull resigned as a director on 16 March 2020 and left the Company's employment on 30 September 2020. David Bull was treated as a good leaver on leaving the Company and the 'other' amount represents a payment for compensation for loss of office, including £87k as a payment in lieu of up to six months' notice, £85k as an incentive award measured against specific predetermined performance criteria and £30k as an ex-gratia payment. Share options previously granted were not cancelled on departure from the Group (see page 48).

Other matters

In light of recent events and the delays in the 2020 financial statements:

- The Group has authorised the commencement of recovery action (where it is commercially sensible and legally feasible to instigate such action) to recover previously paid remuneration (and consequential losses) from individuals in the context of certain findings of the various investigations undertaken by the Group.
- Remco will review the output of the completed investigation set out in the Audit and Risk Committee report and ensure its remuneration structure effectively deters such conduct and promotes the long-term success of the Company.

Non-executive directors

Non-executive directors are engaged under letters of appointment and are required to stand for reappointment at each annual general meeting, subject to continued satisfactory performance. Non-executive directors participate in decisions concerning their own fees together with the recommendation of the executive directors, considering comparisons with peer group companies, their overall experience and knowledge and the time commitment required for them to undertake their duties and if the non-executive director has undertaken any additional duties during the year. The non-executive directors do not receive variable remuneration.

Remuneration disclosures

Information on the Group's Remuneration Code is set out in the Pillar 3 disclosures and will be published on our website *www.pcf.bank*

This report was approved by the Remuneration Committee on 22 December 2021.

David Titmuss

Chairman of the Remuneration Committee

22 December 2021

Audit & Risk Committee Report

This report is dated 22 December 2021. Given the passage of time since the year end, it is brought up to date for recent events and matters relevant to the Group's current operating model where appropriate.

This report covers the work of the following committees for the year ended 30 September 2020

- The Audit and Risk Committee ('ARC') which held its final meeting on 15 May 2020.
- The Board Audit Committee, which held its first meeting on 10 September 2020.

A separate report for the activities of the Board Risk Committee ('BRC'), which held its first meeting on 24 September 2020, is presented later.

Committee members of the Audit & Risk Committee and subsequently Board Audit Committee

Christine Higgins *Independent non-executive director (Chair)*
David Morgan[1] *Non-executive director (Member until 10 September 2020)*
Marian Martin *Independent Non-executive director (Member from 10 January 2020)*
Anthony Nelson *Advisor (resigned 29 November 2019)*
Mark Brown *Non-executive director (Member from 10 September 2020)*

[1] David Morgan continued as a member of BRC from 10 September 2020.

Dear Shareholder,

I present my report to you on the work of ARC until 15 May 2020 and on the work of BAC since then. This report covers the regular work of the Committee during 2020 and following recent events, work in relation to the delayed completion of the Annual Report & Financial Statements 2020.

Responsibilities of the Audit & Risk Committee and Board Audit Committee

- Monitor the integrity of the Group's financial statements by debating and challenging critical estimates and accounting judgements and overseeing the external audit.
- Advise the Board on the Group's overall risk appetite, tolerance and strategy[1].
- Oversee the internal audit plan and effectiveness of the fully outsourced internal audit function provided by Grant Thornton.
- Monitor the external auditor's independence and objectivity and assess the effectiveness of the external audit process.
- Assess and monitor the activities and effectiveness of the Risk and Compliance function[1].
- Oversee whistleblowing arrangements. The Chair of ARC (now Chair of Board Audit Committee) is the Whistleblowing Champion and an independent point of escalation in accordance with the Group's Whistleblowing Policy.
- Review procedures in place for detecting fraud and financial crime and preventing bribery and money laundering[1].
- Review and approve assumptions and stress scenarios in the planning stage of the ICAAP and ILAAP, including substantive changes to the previous assessment[1].

[1] As a result of the separation of the Audit & Risk committee, these responsibilities passed over to Board Risk Committee on its establishment.

Composition of the Audit & Risk Committee

The ARC was made up of three non-executive directors, two of whom are independent and all of whom have recent and relevant financial services experience and extensive experience of corporate financial matters in the banking and financial services industry. The Board is satisfied that the Committee members have the skills and competence required to fulfil the Committee's duties and responsibilities set out within its Terms of Reference.

Standing invitees to ARC (and subsequently the Board Audit Committee) included the Chief Executive, the Finance Director/Chief Financial Officer, the Chief Risk Officer or the Deputy Chief Risk Officer and Chief Compliance Officer, and representatives of the outsourced internal audit function and the external auditor.

During the year, the ARC split into two separate committees reflecting best practice – a Board Audit Committee ('BAC') and a Board Risk Committee. The Chairs of each committee are members of the other Committee, and each is comprised of three non-executive directors. The new Terms of Reference for BAC were approved by ARC in its May 2020 meeting.

Meetings and areas of focus

ARC met eight times during the year. BAC met once in the year. An oral report was made to the Board following each meeting and the approved minutes were subsequently provided.

The ARC/BAC met privately before each meeting and at least once a year met privately with the external auditor, the internal auditor and the CFO, in turn.

BAC has also met 16 times since the year end including scheduled meetings and additional meetings to address matters related to finalisation of the Annual Report & Financial Statements 2020 and to lead a tender for new auditors. The matters considered are set out more fully throughout this report.

Given recent events and the delayed finalisation of the Annual Report & Financial Statements, I first set out our work in relation to this followed by the other areas of ARC/BAC focus relating to the Annual Report & Financial Statements 2020.

Completion of the Annual Report & Financial Statements 2020

Completion

The most significant issues for the BAC relating to the 2020 financial year have been those that came to light post year end and which resulted in the suspension of trading of the Group's shares and the assessment and quantification of the impact of these on the Ernst & Young LLP ('EY') audit and completion of the Annual Report & Financial Statements 2020.

Finalisation of the Annual Report & Financial Statements 2020 and audit has taken significantly longer than expected and this reflects a number of factors including, as they arose:

- The disruption of the pandemic increased the uncertainties within key accounting judgements such as expected credit losses and goodwill impairment. Additionally, with both Group and EY colleagues working from home the Annual Report & Financial Statements process was more complicated and took longer than in previous years.
- Challenges for the Group in providing sufficient appropriate audit evidence to the auditors because of an absence of, or poor, underlying documentation. This work was also hindered by virtually all of the Finance team being completely new to the Group in financial year 2021 and with the Finance Director having left the Group in September 2020.
- On 11 March 2021 the Group announced that during the process of finalising the 2020 audit a number of adjustments to its unaudited 2020 preliminary results (previously declared in December 2020) were required of up to £750,000. The principal adjustments related to the charging to the profit and loss of previously capitalised costs for software projects, a reduction in an interest receivable balance from the employee benefit trust and adjustments to accruals for interest due on stage 3 loans, offset by lower colleague incentive rewards.
- Later in March 2021, when reviewing information required to address EY audit enquiries for the 2020 audit, our new CFO, Caroline Richardson, became aware of potential errors and misstatements. This was promptly reported to the Audit Committee and Board.
- In April 2021, the Board engaged PwC to undertake an initial independent forensic investigation of the concerns raised (as reported in the Regulatory News Service ('RNS') dated 28 June 2021) and as a result of the findings of this review, the RNS highlighted:
    - That these errors and misstatements resulted in the failure to properly report 1) under the Prudential Regulation Authority's Large Exposure reporting framework between December 2018 and June 2019; and 2) an overstatement of the Common Equity Tier 1 Ratio and Total Capital Ratio in the Group's 30 September 2019 regulatory reporting. These two issues had no impact on the consolidated Group financial statements and the reported capital positions for the financial year ending 30 September 2019 previously published.
    - The review enabled the Board and Executive team to identify a number of deficiencies and failures in PCF Bank's financial control and reporting function, including members of the historical Finance team, under instruction, manually adjusting certain accounting entries for both financial and regulatory reporting purposes which appeared to the Board to have been a deliberate effort to facilitate specific results.
    - That the Board believed there may have been possible collusion by some members of the historical Finance team in making these adjustments, and that other contributory factors to the control failures were under resourcing, an inadequate level of skill and experience within the historical Finance team, technological limitations and a poor culture in the Finance team resulting in a lack of, and a reluctance to, challenge its leadership.
- At the end of June 2021, following Board's consideration of the results from the initial PwC independent forensic investigation, further work was commissioned to explore a number of the initial findings in more depth and to highlight other potential areas of concern or misstatement in related areas.
- The Finance team, overseen by the new CFO, undertook a detailed review to explore areas of concern and potential misstatement, in order to provide comfort that the Annual Report & Financial Statements 2020 were free from material misstatement. The detailed steps of the work undertaken are set out below in the section on the Further Finance Review.
- On 10 September 2021 the Group announced that the adjustments to its 2020 preliminary results would exceed the £750,000 announced on 11 March 2021 and by way of a further announcement issued on 21 October 2021 the Group outlined the revised total adjustment to the preliminary results for the year ended 30 September 2020 would be approximately £7 million. The principal adjustments being a revision to the impairment methodology for defaulted receivables as detailed in that announcement.

All in all, there have been structural control, resourcing and reporting weaknesses in the Group's Finance function contributing to the extended delay in finalising the 2020 Financial statements.

The Further Finance Review – end July to November 2021

- The further review period started in early July 2021, concluded in November 2021 and was undertaken by the Group's CFO and the Finance Team.
- The further Finance review work which ran from July to November, involved analysing accounting records, determining the underlying reasons for previous entries made, assessing the appropriate accounting treatment and the appropriate accounting periods, undertaking profit and loss impact analysis, full balance sheet reconciliations and looking back to assess if any of these items resulted in any material impact on the internal management accounts, the Annual Report & Financial Statements and Interim Financial Statements for the two years ending 30 September 2019 and 30 September 2020.

This detailed work was very time consuming and resulted in further significant delay in the finalisation of the Annual Report & Financial Statements.

- In addition to supporting the work of internal and external investigations, given the deficiencies and failures in PCF Bank's financial control and reporting function identified by management, the Finance team was required to provide a further substantial amount of additional audit evidence and analysis to support the statutory audit and entries in the Group's accounting records.
- In analysing the results of this further Finance review, consideration was given to the nature of and materiality of certain findings as well as any adjustments required to be implemented as a result, both on a qualitative and quantitative assessment basis. The results of this review work have provided:
  - Further examples of misstatements. These were most prevalent in internal management reporting but several instances of which persisted in external reporting though not to a material extent at Group level.
  - Multiple errors that may not lead to a misstatement.
- The required adjustments in relation to the various errors or issues identified from the further Finance review have been reflected in these financial statements to ensure they are free from material misstatement. The results of this review work have been scrutinised by the CFO, and carefully overseen by, BAC.

This further review has also reaffirmed that there continues to be no evidence of monies having left the Group inappropriately as a result of any of these practices and behaviours. However:

- The Group has authorised the commencement of recovery action (where it is commercially sensible and legally feasible to instigate such action) to recover previously paid remuneration (and consequential losses) from individuals in the context of certain findings of the various investigations undertaken by the Group.
- There will be costs associated with the investigation and remediation which will be reflected in the 2021 financial statements and significantly increased audit fees which are reflected in these 2020 financial statements.

The Committee's Recommendation

As a result of this work and its oversight, together with consideration of the significant accounting issues and judgements as described below, the BAC recommended the Group Annual Report & Financial Statements for the financial year to 30 September 2020 to the Board, who subsequently approved the Annual Report & Financial Statements. In order to form this recommendation, the BAC considered the additional audit work undertaken by EY prior to the decision taken to cease providing audit evidence (see Auditor opinion below), the PwC investigation, the detailed further Finance review work overseen by the CFO, the consequent analysis and conclusions reached on the findings, and the papers and analysis prepared by the CFO and Finance team being a material risk of misstatement report for the current and prior financial year, a Going Concern assessment, an assessment of post balance sheet events and a fair, balanced and understandable assessment of the same.

In addition, BAC:

- Reviewed the content of the Annual Report & Financial Statements for the year ended 30 September 2020 for clarity and completeness of disclosure.
- Concluded that the Annual Report & Financial Statements as a whole were fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

Auditor opinion

The time required to perform the independent forensic investigations and further Finance review set out above has delayed the finalisation of the Annual Report & Financial Statements and the audit. Given the nature and extent of the findings identified by Management, the final stages of the audit were very delayed and would involve a very considerable amount of extended testing and auditor information requests. These requests then placing ongoing significant demands on the Finance team. Also, given turnover in the finance team and the past poor record keeping, it wasn't clear that the Group would be able to provide the level of detailed information needed by EY for an unmodified audit opinion. Lastly the additional assurance work would further the extended time period to finalise the Annual Report & Financial Statements 2020 and would further increase audit costs.

In the circumstances, management recommended to the Audit Committee and the Board that it was in the best interests of the Group to proceed with the audit work so far as was necessary for a disclaimer of opinion on the financial statements for the year. This recommendation meant; 1) The finance function would no longer provide the substantial amount of additional audit evidence requested and 2) It was solely for the Board to reach a view on whether the Group Annual Report & Financial Statements were free from material misstatement, in order to prevent further additional delays in presenting these financial statements to stakeholders. The Audit Committee supported this pragmatic recommendation.

Significant Accounting Issues and Judgements

In reviewing the Group's Annual Report & Financial Statements 2020, the BAC considered significant accounting issues and judgements as follows:

- Risk of fraud in the recognition of revenue through the Effective Interest Rate ('EIR') methodology. This risk is consistent with last year. However, it is potentially affected by COVID-19 and material changes in the expected lives of products as a result of changes in customer behaviour. The Committee discussed and considered the key assumptions used in the EIR methodology, including the impact of COVID-19 forbearance and payment deferral measures.

- Impairment of loans and advances to customers in accordance with the IFRS 9 expected credit loss ('ECL') model (fraud risk). The identification of this risk is consistent with last year. However, this year it is significantly affected by the impact of COVID-19 on the potential creditworthiness of customers. The Committee discussed the key assumptions used in the IFRS 9 models and the assumptions and rationale that supported additional provisions through overlays and post-model adjustments. The Committee also considered the application of IFRS 9 in relation to regulatory guidance and took account of the extensive Government support measures and the specific circumstances of our customers. The Committee concluded on a number of overlays and Post Model Adjustments (PMAs). In addition, as part of the extensive work led by the CFO as referenced in the above section, it became apparent that additional provisions for expected credit loss were required for defaulted loans where the agreements had been terminated and assets recovered with a residual outstanding balances. The Committee agreed the impairment methodology for these residual balances with a resulting increase in provisions being the significant part of the £7m adjustment announced on 21 October 2021. Further details of loan and advances to customers and the IFRS 9 provision are set out in notes 1.5.3 in Accounting Policies and also in notes 28.5 and 29.3.
- Impairment of Goodwill in relation to Azule. This is a new risk for 2020 arising as a result of the impact of COVID-19 on the future expected cash flows relating to the Azule business. The Committee considered a number of possible future growth scenarios for the business but due to the impact of COVID-19 on the near-term prospects for the business supported the decision to impair the carrying value of the acquired goodwill by £1.75m. In 2019 there had been financial statement risks relating to the purchase price allocation and disclosure of the acquisition of Azule which are non-recurring.
- COVID-19 considerations have arisen across all areas of the Committee's work.
- Accounting for leases under IFRS16. This was a new accounting standard for this year.
- Going Concern – Due to the events giving rise to the delay in the 2020 ARA (set out above), the current suspension of trading in the Group's shares on AIM and residual pandemic impacts, there was a detailed consideration of the going concern assumption. Refer to the Directors' Report for further details and the summary in note 1.2 Basis of preparation to the financial statements.
    - BAC assessed the appropriateness of the going concern assumption considering planned performance including future remediation costs, funding, liquidity, market risks, as well as other business and emerging risks.
    - BAC also assessed the medium-term plan against a number of sensitivities and a severe but plausible downside scenario. Even under the severe but plausible scenario it is was demonstrated that the Group would continue to operate and meet regulatory requirements for at least the next twelve months.
    - The Committee concluded that based on the planned performance, assessments of key risks to the business, and the exercise to confirm that there was no material misstatement in the Group Annual Report & Financial Statements (set out in detail above) that the going concern basis of accounting was appropriate.
    - The Group has made a statutory loss before tax of £(4.8) million in the year. The Board approved a medium-term plan in which the Group returns to profitability, but this is dependent on building scale to support an increased cost base. Remediation costs are expected to be incurred for at least the next twelve months. This growth requires capital to be raised, which given the delay to the Annual Report & Financial Statements 2020, the disclaimer of auditor opinion and the temporary suspension of trading in the Group's shares, means there are risks associated with our ability to raise capital, fund planned future balance sheet growth and the understandable increase in regulatory focus these events have brought. Therefore, the Board Audit Committee concluded that it was appropriate to disclose a material uncertainty in relation to Going Concern in these Financial Statements.

The regular work of the ARC/BAC during the year included the following:

Internal audit

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

The Board has outsourced its internal audit function to Grant Thornton. The ARC/BAC is responsible for agreeing and overseeing the internal audit plan. Grant Thornton completed six internal audits during the year and their overall assessment was that, based on their internal audit work over the twelve months to 18 November 2020, one report was rated Needs Improvement, one report was rated Some Improvement Required, two reports were rated Satisfactory and two reports were Unrated, in relation to the work performed, Grant Thornton stated that, 'the governance and risk and control framework is operating effectively to support PCF Group in adhering to its agreed risk appetite'. This view was based on the work performed in the preceding twelve months.

The annual internal audit plan was developed in conjunction with the Second Line of Defence compliance monitoring programme and was approved by ARC. The areas for audit are linked to strategic objectives, key risks and the core areas of regulatory oversight.

Grant Thornton the outsourced internal auditors have observed the response from the areas they reviewed during the year to 18 November 2020 and through interaction with management have reported that management had been engaged in the audits performed and responded positively to recommendations made.

The Chair of ARC/BAC had private discussions with Grant Thornton during the year and the Committee met with internal audit at least once during the year, without management present.

Audit & Risk Committee Report (cont'd)

The Committee had satisfied itself as to the effectiveness of the outsourced internal audit function during the year through the review of the audit strategy and annual audit plan, discussion of internal audit reports and private meetings with Grant Thornton. However, in view of the control weaknesses identified since the year end the Committee have increased the budget for and the extent of internal audit engagement in the business.

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 delegated to ARC (now Board Audit Committee) the responsibility for reviewing and monitoring the effectiveness of the Group's systems of risk management, regulatory compliance and internal control.

ARC considered a number of reports from the Head of Risk and Compliance at its meetings, covering a range of business, thematic and regulatory areas, in line with the compliance monitoring programme. Recommendations from the reviews and implementation plans were agreed. The Committee received presentations from the Head of Treasury and the Head of Credit Control on the key risks in their areas.

ARC also oversaw the development of further strategic metrics during the year, approved relevant policies and recommended risk framework documents to the Board, in line with the Committee timetable.

ARC considered emerging risks and management's plans for avoiding and/or mitigating these risks. This year COVID-19 and its impact on the business of PCF dominated the discussion on emerging risks and additional internal audit work was undertaken in the areas of Cyber and Information Security to assess the move to 'Working from Home'.

A revised Compliance Manual and Data Protection Framework was reviewed by the Committee during the year and recommended to the Board for approval.

Further consideration of recent events and the implications for the Group's RMF is included in the Board Risk Committee report.

In reviewing the adequacy of internal controls, the Committee received and discussed internal and external reports during the year from internal audit, external audit and Risk and Compliance.

The discovery, during 2021, of accounting errors and misstatements, clearly demonstrates that a number of key financial controls and processes had not been operating effectively. See Completion of the Annual Report & Financial Statements 2020 section of this report.

Significant improvements have been made in many areas during 2021, in particular the recruitment of a very experienced CFO who has rebuilt the Finance team and a comprehensive finance remediation project, led by an experienced change professional, overseen by BAC.

BAC is overseeing the review of the FPPP work undertaken by the Group.

The BAC will continue to review and oversee the recommended internal control, process and reporting improvements identified.

Until the creation of the Board Risk Committee, which took over this responsibility, ARC reviewed and updated the principal risks schedule.

External Audit

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

EY was appointed as the Group's auditor in 1994. The audit partner for this year is Gary Adams. This is Gary's second year as audit partner.

ARC discussed EY's Management Letter relating to year ended 30 September 2019 and EY's recommendations. These will form part of the remediation activities.

ARC discussed and approved EY's audit plan for the year ended 30 September 2020 including their initial risk evaluation, scope and the materiality, as well as the results of the audit. The audit and the events since 30 September 2020 have highlighted significant improvements required in the systems and controls of the Group.

The ARC/BAC Chair had discussions with EY during the year and the BAC also met EY without management present, which provided an opportunity for issues to be discussed directly.

During the year, ARC discussed with EY the review procedures they have in place to ensure audit quality. There was also a discussion of EY's firm level results of their Financial Reporting Council ('FRC') 2020 Audit Quality Inspection, the impact of the findings on the audit plan and any matters relevant to the execution of the Group's audit.

ARC has reviewed the independence and objectivity of EY considering the auditor's report to the Committee on actions they take to comply with requirements for independence and compliance with the policy for the provision of non-audit services.

The level of audit fees charged by the Group's auditor is set out in note 9 to the financial statements and given the additional work required are significantly higher this year. There was no non-audit work carried out by EY during the year.

ARC/BAC is responsible for evaluating the effectiveness of the external auditor on an annual basis, considering fees and the engagement letter, a review of the external audit plan, the objectivity and effectiveness of the audit and the quality of formal and informal communications with ARC Originally ARC/BAC had intended to complete the formal effectiveness review on finalisation of the 2020 audit. However, given the delays, the audit opinion disclaimer and the indicated resignation of the auditor, BAC concluded that a formal review of the effectiveness of the external auditor would not be a worthwhile exercise and it would undertake a lessons learned exercise. Following the appointment of a new external auditor, BAC will undertake an appropriate formal assessment of the change in auditor and the first years' audit.

Auditor appointment

EY has been PCF Group external auditors since 1994 with the audit last being retendered in 2006.

On 2 March 2021, EY advised the Board that they intended to resign as auditor, following the issuance of their audit report on the financial statements for the year ending 30 September 2020. Board Audit Committee has retendered the external audit in 2021 with a new external auditor MHA Macintyre Hudson to be appointed after EY's resignation, and their appointment to be confirmed at the subsequent General Meeting of the Company. BAC will oversee the transition of the external audit to MHA Macintyre Hudson for the year ended 30 September 2021.

Whistleblowing

ARC/BAC has reviewed the effectiveness of whistleblowing arrangements in place within the Group and adherence to the relevant regulatory requirements. During the year the Committee received a Compliance report that provided assurance on these matters.

However, given events leading to delay in the Annual Report & Financial Statements 2020 we will revisit this effectiveness assessment and are reinvigorating communications and colleague engagement around the importance of whistleblowing and speaking up.

Committee effectiveness

BAC undertook an annual review of its own effectiveness during 2020 through a questionnaire sent to BAC invitees and the conclusions were that the Committee was operating effectively. This will be reassessed given recent events and discussed by the Committee and a time frame agreed for any recommendations raised.

This report was approved by the Audit Committee on 22 December 2021.

Christine Higgins
Chair of Board Audit Committee

22 December 2021

Board Risk Committee Report

Committee members

Marian Martin *Independent Non-executive director (Chair)*

Christine Higgins *Independent Non-executive director*

David Titmuss *Independent Non-executive director*

David Morgan *Non-executive director*

Dear Shareholder,

I present my first report to you as Chair of the Board Risk Committee ('BRC' or 'the Committee'). During the year the Audit & Risk Committee ('ARC') split into a separate Board Audit Committee ('BAC') and the BRC. The inaugural meeting of the BRC was held on 24 September 2020. This report is dated 22 December 2021. Given the passage of time since the year end, it is brought up to date for relevant recent events and matters. These will be presented in more detail in my report for the year ending September 2021.

The BRC's principal roles and responsibilities are to support the Board in establishing risk appetite and in its oversight of risk management across the Group. The identification, management and mitigation of risk is fundamental to the success of the Group. The following sections set out the Committee's key responsibilities and the principal areas of risk confirmed in the inaugural meeting. This report also sets out upon which we have focused during the year to 30 September 2020 (the inaugural meeting), and in the subsequent period to the date of finalisation of the Annual Report & Financial Statements 2020.

The Committee supports the Board in setting the tone and culture that promotes effective risk management across the Group.

Responsibilities of the BRC

- Review and advise the Board on the Group's overall risk appetite, tolerance & strategy.
- Review and advise the Board on the adequacy of the Group's RMF.
- Review and advise the Board on the Group's compliance with prudential requirements.
- Advise the Board on the risk aspects of proposed changes to strategy and strategic transactions.
- Safeguard the independence of and oversee the performance of the Group's Risk Function including the sufficiency of resources.
- Monitor and review the effectiveness of the Group's risk management and risk related internal control systems.
- Oversee adherence to the Group's risk principles, policies and standards.
- To review exceptions and breaches to Board approved policies, including lending outside of Credit Policy.
- Oversee the risks associated with the Group's complex and material financial models.
- Review procedures in place for detecting fraud and financial crime and preventing bribery and money laundering.
- Review and approve assumptions and stress scenarios in the planning stage of the ICAAP and ILAAP.

Composition and Governance

BRC consists of four non-executive directors, of which three are independent, and all of whom have recent and relevant financial services experience, and extensive experience of corporate risk matters in the banking and financial services industry. The Board is satisfied that the Committee members have the skills and competence required to fulfil the Committee's duties and responsibilities set out within its Terms of Reference. Standing invitees to the inaugural Board Risk Committee were the Chief Executive, the Managing Director, the Chief Risk Officer and the Head of Treasury. This has since been expanded to include the Deputy Chief Risk Officer and Chief Compliance Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief Capital Officer (previously the Head of Treasury), and the Chief Technology Officer.

The Chairs of BRC and BAC are each a member of the other Committee. The Executive Risk Committee ('ERC') and the ALCO now reports independently to the BRC (from January 2021). The ERC is a new second line committee replacing the historical Risk Compliance Operations Committee ('RCO'). During the financial period under review, RCO and ALCO reported directly to the Executive Committee.

The Chief Risk Officer is accountable to the BRC and has a dotted line of responsibility into the Chair of BRC.

Meetings and areas of focus

The BRC met once during the reporting period with full attendance by all its members and standing invitees. The inaugural meeting focused on:

- Macroeconomic and forward-looking overview, the treasury report and the risk report.
- Deep dive review into credit asset values and collateral.
- Review of the ICAAP report from Internal Audit.
- Setting the forward-looking planner for policy reviews over the next 15 months.
- Approval of Annual Money Laundering Report.
- Approval of the Financial Crime Framework.
- Approval of the Product Governance Policy.

Since the 30 September 2020 year end, the BRC has held six regular meetings, with four additional ad hoc meetings in March and May 2021 to review the Internal Liquidity Adequacy Assessment Process ('ILAAP'). These meetings considered matters including, but not limited to:

- Review of capital, liquidity and market risk appetite statements and thresholds.
- The priorities for the risk management team, outlined further below.
- The review and approval of Group risk policies on an annual cycle.
- Consideration of compliance monitoring and Internal Audit reports relevant to the RMF.
- The Internal Audit of IT and cyber resilience.
- Ransomware preparedness.
- An overview of the management of climate related financial risks.

- Credit performance of the portfolio, forbearance and arrears monitoring.
- IFRS 9 independent model validation.
- An independent model validation of the new CFD application scorecard.
- An external review of the ILAAP, funding plan and associated risks, all Treasury risk policies and the liquidity contingency plan.

Additionally, the Committee has specifically monitored the risks both arising from the delay in finalising the 2020 ARA and subsequent suspension of PCF Group plc shares and the Group's emerging risks as set out in the Strategic Report. The Committee acknowledges that the Group needs to focus its attention on improving its corporate governance and remediating its RMF, therefore BRC commissioned an external review of the RMF. The recommendations arising from this review are included in the Group's remediation plans.

Looking ahead

2020 was a challenging year, particularly due to the impacts of the COVID-19 pandemic, which endured into 2021. The Committee continued to dedicate much of its time to ensure that the impacts of the pandemic upon the Group's credit portfolios and operations were and remain understood and managed. The full work of the committee during 2021 will be described in more detail in the 2021 Board Risk Committee Report. The Committee also monitors the short to medium term plans for the improvement of risk management across the Group, including:

- Continued development of the RMF, reflecting the recommendations of the external review and including the climate risk framework.
- Enhancement of the Group's stress testing and credit analytics capability.
- The redevelopment of the Group's IFRS 9 and credit risk models.
- Refinement and advancement of the Group's overarching operational resilience framework.
- Evolution of the Group's risk culture framework as set out in the Strategic Report.
- Further refinement of the conduct risk reporting framework.
- Risk reviews of principal and emerging risks including a review of risk appetite and tolerances for each principal risk.
- Providing input into the Remuneration Committee to ensure (i) that there is a link between culture, risk and compensation; and (ii) that risk behaviours and the management of operational risk incidents over the course of the financial year are appropriately reflected in decisions taken about performance and reward.
- A review of resources within the second line risk management team and the associated recruitment plan to bring the experience and capability of the team to an appropriate standard.
- A review of target risk architecture and data infrastructure to improve the oversight of the Group's key risk exposures, in particular credit risk.
- Oversight of the progress of the key remediation activities and priorities of the Chief Risk Officer including:
  - Appropriately resourcing of the second-line Risk Management function.
  - RMF improvements.
  - IFRS 9 model support and redevelopment, including improved stress-testing capabilities.
  - The redevelopment of key risk metrics and monitoring thereof for the Group.

Marian Martin
Chair of the Board Risk Committee

22 December 2021

Directors' Report

The directors present their report and audited consolidated financial statements for PCF Group plc for the year ended 30 September 2020.

Principal activities

The Group's principal activities are the purchase, hire, financing and sale of vehicles, equipment and property, the provision of related fee-based services and the provision of retail savings products.

Business review, Strategic review, results and dividends

The review of the business of the Group, operations, principal risks and outlook are contained in the Strategic Report section on pages 3 to 22.

The consolidated results for the financial year are set out in the Consolidated Income Statement on page 68.

The directors do not recommend the payment of a dividend in respect of the year ended 30 September 2020 (year ended 30 September 2019 – final dividend of 0.4p per share).

Share capital

PCF Group plc is a public limited company incorporated in England and Wales and its shares are quoted on the AIM market of the London Stock Exchange, however, on 19 May 2021, trading in the Group's shares was temporarily suspended on AIM and remains suspended at the date of this report. The Company has in issue one class of ordinary shares of 5 pence each all ranking pari passu. All of the issued ordinary shares of the Company have equal voting rights with one vote per share. Details of changes in the Group's share capital are set out in note 27 of the Annual Report & Financial Statements.

It should be noted that during the financial year there was a recorded issue of new shares. Pursuant to its Scrip Dividend Scheme, the Company received elections to receive new ordinary shares in lieu of cash in respect of the final dividend for 2019. Accordingly, 43,499 new Ordinary Shares were issued in satisfaction of such elections at an equivalent price of 18.1p per share.

Directors and their interests

The directors of the Company during the financial 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 2020 are listed below.

	At 30 September 2020 No. of ordinary shares of 5p each	At 30 September 2019 No. of ordinary shares of 5p each
Scott Maybury	1,717,653	1,717,653
Robert Murray	998,340	998,340
David Bull*	400,000	230,568
David Morgan	500,000	500,000
Tim Franklin	125,783	125,783
Mark Brown	200,000	200,000
Christine Higgins	33,204	33,204
David Titmuss	50,000	50,000
Marian Martin	37,303	14,771

*David Bull resigned as a director on 16 March 2020 and ceased to be an employee of the Company on 30 September 2020. However, he retained his share options on his departure.

The following directors also held options in the Company's share option plans as listed below.

	At 30 September 2020 No. of ordinary shares of 5p each	At 30 September 2019 No. of ordinary shares of 5p each
Scott Maybury	2,547,082	2,547,082
Robert Murray	1,680,465	1,680,465
David Bull*	1,310,465	1,310,465

*David Bull resigned as a director on 16 March 2020 and ceased to be an employee of the Company on 30 September 2020.

On 8 March 2021 Robert Murray exercised the following options over 750,000 ordinary shares of 5 pence each in the Company:

- 250,000 ordinary shares granted on 3 December 2013 at an exercise price of 8.5 pence per share for a consideration of £21,250.
- 250,000 ordinary shares granted on 10 June 2014 at an exercise price of 9.625 pence per share for a consideration of £24,062.50.
- 250,000 ordinary shares granted on 22 June 2015 at an exercise price of 18.5 pence per share for a consideration of £46,250, but using the Cashless Exercise Facility in accordance with the terms of the Company's Share Option Scheme.

Directors' compensation

Details of the remuneration of the directors and other benefits are provided in the Remuneration Committee Report on pages 36 to 39 and in note 8 to the financial statements.

Directors' Report (cont'd)

Directors' indemnification
The Company's Articles of Association permit it to indemnify directors in accordance with the Companies Act. The Company granted contractual indemnities to each of the current directors of the Company in July 2021 to cover against liabilities which they may sustain or incur in the proper performance of their duties. These indemnities are available for inspection at the Company's registered office.

Substantial shareholdings
At 30 September 2020, the Company had been notified of the following interests of 3% or more in its issued ordinary share capital.

	Percentage
Somers Limited	54.32%
Bermuda Commercial Bank Limited[1]	8.40%
Hof Hoorneman Bankiers	7.89%
Hargreaves Lansdown Asset Management	4.44%

[1] A wholly owned subsidiary of Somers Limited at 30 September 2020. Subsequent to the year end the shares held by this entity were transferred to Somers Limited and this entity is no longer a subsidiary of Somers Limited.

Corporate governance statement
The Corporate Governance Report set out on pages 24 to 47 provides a review of the Group's corporate governance arrangements.

The various Board committee reports and the section 172 statement set out on page 20 and pages 28 to 47, information that would otherwise need to be included in the Directors' Report (in particular but not limited to the Stakeholder Engagement Report and the Sustainability Report).

Political donations
The Group made no political donations during the year to 30 September 2020 (year to 30 September 2019 – nil).

Financial risk management objectives and policies
Information about financial risk management systems in relation to financial reporting can be found in the Risk Management Report on pages 53 to 64.

Financial instruments
The financial risk management objectives and policies in relation to the use of financial instruments can be found in the Risk Management Report on pages 53 to 64.

Going Concern Statement
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. In particular this going concern statement should be read in conjunction with the Emerging risks and uncertainties section of the Strategic Report which sets out those risks and mitigations.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial statements and updated in the Strategic Report and Risk Management Report. The Group's policies and processes for managing its Risks are described in the Strategic Report and the Risk Management Report.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next twelve months. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report & Financial Statements.

The directors have assessed the appropriateness of the going concern assumption taking into account of all matters above and a detailed review of the Group's medium-term plan which includes increased remediation costs alongside a consideration of capital, funding and liquidity requirements. This consideration also included other business and emerging risks.

The Group made a £(4.8) million statutory loss before tax in the year. The Board has approved a medium-term plan in which the Group returns to profitability, but this is dependent on building scale to support an increased cost base. Remediation costs are expected to be incurred for at least the next twelve months. The growth in the medium-term plan requires capital to be raised. However, given the delay to the Annual Report & Financial Statements 2020, the disclaimer of auditor opinion and the temporary suspension of trading in the Group's shares, there are risks associated with our ability to raise capital and fund the planned future balance sheet growth. This indicates that the Group's ability to operate as a going concern is subject to material uncertainties.

Group performance, and the return to profitability in the medium-term plan, is underpinned by a number of key inputs and assumptions which cover:

- The raising of external capital.
- The funding of new business through retail deposits and other wholesale funding.
- New business origination levels.
- Net interest margin on new business originations.
- The expected date of completion of the Group's remediation activities and the impact on the Group's expenses.
- The level of impairment losses on financial assets.
- Capital requirements, both from a regulatory and internal management perspective.
- Dividends, which have been assumed at zero in the medium-term plan.

As with any medium-term planning process, there is a risk that these assumptions do not materialise. As part of the review of the medium-term plan, the Board was presented with a severe but plausible downside in which the Group is unable to raise external capital, and a number of sensitivities to the medium-term plan in which the Group's net interest margin, impairment losses and business volumes were subject to materially adverse performance. Even under the severe but plausible scenario it was demonstrated that the Group would continue to operate and meet current regulatory requirements for at least the next twelve months, albeit at the expense of balance sheet growth.

The Board has concluded based on the items below that the going concern basis of accounting was deemed appropriate (refer to note 1.2 Basis of preparation).

- Planned performance, including a medium-term plan which returns the Group to profitability.
- The assessment of downside risk to the medium-term plan.

Assessment of principal risks

The Board is responsible for monitoring the nature and extent of the principal risks it faces as well as determining the level of appetite it is willing to take in order to achieve its strategic objectives. The principal risks the Group actively monitors and manages are described in the Strategic Report pages 16 to 19 and the Risk Management Report. In line with the requirements of the 2018 UK Corporate Governance Code (the 'Code'), the directors have performed an assessment of the principal and emerging risks facing the Group, including those that would threaten its business model and impact the Group's performance, capital or liquidity.

Risk management and internal controls

As described in the Corporate Governance Report on pages 24 to 34, the Group's risk management and internal control systems are monitored at Board level. A review of the Group's RMF has been undertaken overseen by Board Risk Committee.

The Group's prospects are assessed primarily through a strategic plan. This process for the production of the strategic plan included a full review of current performance by the CFO and the key assumptions in the plan being proposed by the CFO and reviewed by the interim CEO and the Executive Committee. After review by the CFO, interim CEO and Executive Committee the plan and key assumptions were presented to the Board and approved by the Board. In view of the extended time taken to complete the Annual Report & Financial Statements 2020 the latest Strategic Plan was signed off by the Board in October 2021.

Subsequent events disclosure

Since 30 September 2020 year end there have been the events detailed in the Chairman's Statement and more particularly in the Audit and Risk Committee Report under the heading Completion of the Annual Report & Financial Statements. For further details please refer to note 32 Non-adjusting events after the balance sheet date on page 120.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report & Financial Statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and parent Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IAS'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these 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;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirement IAS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company financial position and financial performance;
- in respect of the Group and parent Company financial statements, state whether IAS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and the Group will not continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report, Corporate Governance Report, Sustainability Report and Risk Management Report that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

The directors confirm, to the best of their knowledge:

- that the consolidated financial statements, prepared in accordance with IAS give a true and fair view of the assets, liabilities, financial position and profit of the parent Company and undertakings included in the consolidation taken as a whole;
- that the Annual Report & Financial Statements, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- that they consider the Annual Report & Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position. performance, business model and strategy.

Disclosure of information to the auditors

As explained in the section on Auditor Opinion in the Audit & Risk Committee Report, in order to prevent further additional delays in presenting these financial statements to the Group's stakeholders, and given that it was not clear that the Group would be able to provide the level of detailed information needed by the auditor for an unmodified audit opinion, the Audit Committee and the Board approved the approach that it was in the best interests of the Group to proceed with such audit work and provision of information to the auditor so far as was necessary for the Auditor to issue a disclaimer of opinion and therefore to provide only such information to it as the Group considered necessary and appropriate as a result. This was with the knowledge of the auditor.

Following this decision in July 2021, and notwithstanding this new approach to the provision of audit information, and that a disclaimer of audit opinion would be issued, the Group continued to keep the auditor updated on its ongoing investigations, as well as wider business developments of relevance.

Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and, within the context of the disclaimer of opinion referred to above, to establish that the auditor is aware of such information as that director considers necessary and appropriate in the circumstances described. 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 disclaimer of opinion, of which the auditor is unaware.

Resignation of Ernst & Young LLP and the appointment of new auditors

After the completion of the Annual Report & Financial Statements 2020 Ernst & Young LLP will resign as auditor and pursuant to section 489 (3) (c) of the Companies Act 2006 the directors will appoint MHA MacIntyre Hudson to replace them pending confirmation of that appointment at the General Meeting at which the report and audited financial statements for the year ended 30 September 2020 will be presented by way of a resolution to be taken to that meeting.

Accounts General Meeting

As this Annual Report & Financial Statements were not ready at the time of the holding of the Group's Annual General Meeting on 26 March 2021 it is necessary for the Group to convene a shareholder general meeting at which to lay Annual Report & Financial Statements 2020. A separate letter from the Chairman summarising the business of that General Meeting and the Notice convening that General Meeting will be sent to the members with this Annual Report.

The Directors' Report was approved by the Board on 22 December 2021.

On behalf of the Board

G G Stran
Interim Chief Executive

22 December 2021

Risk Management Report
for the year ended 30 September 2020

Introduction
The report relates to the year ended 30 September 2020. This report is dated 22 December 2021. Given the passage of time since the year end, this report is brought up to date for recent events and matters relevant to the Group's current operating model where appropriate and where material, changes since then have been highlighted.

The Group's management of risk is based on the identification of risks faced by the Group; an assessment of each of these, determining which merit designation as principal risks and; establishing a RMF to create the control environment which will support the safe delivery of the Group's strategic objectives and business plan.

The Board is responsible for ensuring that the RMF is proportionate, relevant and operating effectively. Whilst the RMF has been in place throughout the year, it has recently been externally reviewed and a programme of work is underway to enhance and fully embed the RMF across the Group.

Risks are initially identified and designated as Principal based upon their inherent impact (i.e. prior to mitigants and controls). The level of risk post management and mitigation is reflected in residual risk exposures. It is these residual risk exposures upon which risk appetite is set.

Along with the setting of risk appetite by the Board, the control and management of risk includes the provision of risk exposure limits, the creation of procedures and policy to ensure risk management techniques are consistently applied and adhered to, and governance and oversight through risk committees and teams who are independent from those with direct responsibility for managing the risks. While the framework has remained consistent throughout the period, the level of control, governance and oversight has been significantly enhanced during 2021.

The Group applies the 'Three Lines of Defence' approach which is an industry standard, and which identifies those with responsibility for managing the risk (the First Line), those with responsibility for providing independent oversight of that management (the Second Line), and those with responsibility for providing independent assurance over both First and Second Line activities (the Third Line).

Principal risks
The eight principal risks to which the Group's business model is inherently exposed to are set out below. More information is included in the following sections of this report. Post 2020 the Group has identified that Climate Change risk warrants inclusion as a principal risk.

Information on the Group's 'emerging risks and uncertainties' are provided in the Strategic Report.

Risk categories and statement
Strategic and business risk
Definition – The risk that the Group is unable to achieve its corporate and strategic objectives.

Statement – In order to maintain stakeholder confidence and market expectations, the Board seeks to operate the business in a way that optimises long term returns, within approved risk appetite.

Credit risk
Definition – The risk of a borrower or wholesale counterparty failing to meet its obligations in accordance with agreed terms leading to a financial loss on that borrower or counterparty's account.

Statement – The Group aims to minimise the impact on profitability from defaults through its diversification of lending operations, a prudent underwriting policy, and a considerate case management process when customers are in difficulty.

Capital risk
Definition – The risk that the Group has insufficient capital or contingency to maintain its required regulatory or internally set minimum capital ratios and buffers or sustain its long-term lending operations.

Statement – The Group seeks to maintain an appropriate level of capital above its total capital requirements plus capital buffers and monitor this against the business plan as part of its Internal Capital Adequacy Assessment Process ('ICAAP').

Liquidity and funding risk
Definition – The risk that the Group is unable to fund new business originations or meet cash flow or collateral obligations as they fall due, without adversely affecting its deposit franchise, daily operations or financial health.

Statement – The Group seeks to maintain a diversified funding strategy with close relationships to its wholesale counterparties and be an active participant in the retail deposit market. This is supported with prudent levels of high-quality liquid assets; in excess of that needed to withstand a severe but plausible stress. Liquidity requirements and buffers are monitored against the overall business plan as part of its the Group's Internal Liquidity Adequacy Assessment Process ('ILAAP').

Market risk
Definition – The risk of losses or reduced value arising from on and off-balance sheet exposures when impacted by adverse movements in market prices and rates.

Statement – A chief mitigant of the Group's market risk is its predominance of fixed rate and term exposures across both asset and liability sides of the balance sheet, along with regular monitoring of its interest rate gaps and risk metrics.

Operational risk
Definition – The risk of loss resulting from inadequate or failed internal 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. The Group will mitigate and limit the impact of business decisions on its cyber risk exposure.

Regulatory risk
Definition – 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 actively monitors new and emerging regulations through horizon scanning intended to both forewarn of change and provide guidance on interpretation and implementation. The activities of the Group are complemented with 3rd party legal support, and regular dialogue with its regulators.

Conduct risk
Definition – The risk of customer detriment or a reduction in earnings value, through financial or reputational loss from an inappropriate or poor customer outcome from business conduct.

Statement – The Group restricts its activities to areas of established expertise and ensures the culture of the organisation is focused on delivering a fair outcome for customers. This is supported by a programme of assurance reviews centred on the customer journey and product lifecycle.

Controlling and managing risks

RMF
The Group recognises the importance of embedding a framework within the organisation that applies proportionate controls to managing risks on a continuous basis. The Group's approach to managing risk within the business is governed by the Board approved Risk Appetite Statement ('RAS') and the Group's RMF.

The Group is currently enhancing its RMF to ensure an appropriate articulation of individual and collective accountabilities for risk management, risk oversight and risk assurance that supports the discharge of responsibilities to customers, shareholders and regulators. The RMF seeks to establish a common risk language to facilitate the collection, analysis and aggregation of risk data for risk reporting and management information.

At the operational level, the RMF is the responsibility of each business function to adhere to and manage all Group mandated risk management processes and standards. The business provides periodic feedback to the Group's Risk functions on the adequacy of risk management processes and standards in relation to their function.

The framework is periodically updated to reflect changes in the business and the external environment. As identified, the Group is currently going through a process of further enhancing its RMF in 2021, which was the subject of an external review that concluded in June 2021. A roadmap to enhance and embed the control framework referred to in the previous sections of this Annual Report & Financial Statements 2020 is being developed and resourced to meet the identified roles and responsibilities across the three lines of defence.

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

Board Risk Strategy and Appetite

Business Lines and Central Functions	Risk Functions	Internal Audit Function
First Line of Defence ('1LoD') **Operational Control by Business Functions** • Identify, assess, control and mitigate risks within risk appetite. • Develop and implement internal procedures and controls. • Clear definition of roles and responsibilities. • Escalate issues to management and control functions. • Focus on achieving fair customer outcomes.	**Second Line of Defence ('2LoD')** **Independent Risk Management & Compliance** • Develop robust frameworks and policies to manage risk. • Facilitate and oversee implementation of effective risk management practices by business owners. • Co-ordinate the Group's approach to setting and reporting on risk appetite. • Advisory and oversight. Perform oversight and challenge on 1LoD.	**Third Line of Defence ('3LoD')** **Internal Audit** • Internal Audit provides independent assurance on the effectiveness of 1LoD, 2LoD and the risk governance framework.

- Business lines, as the 'First Line of Defence', have the primary responsibility for risk decisions, identifying, measuring, monitoring and controlling risks within Board approved risk appetite. They are required to establish effective governance and control frameworks for their business areas that are compliant with Group policy requirements. This includes the need to develop and maintain appropriate risk management skills and processes to enable them to operate within the Group's risk appetite.
- The 'Second Line of Defence' encompasses the Risk and Compliance function, which is independent of other functions, reporting into the Chief Risk Officer ('CRO'), and which undertakes compliance monitoring and thematic reviews. The second line provides independent oversight and advice to the business with assessments going up to Board Risk Committee ('BRC'). It is the aim of the Risk and Compliance function to coordinate 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 'Third Line of Defence' is provided through an externally sourced Internal Audit function. The Third Line provides independent assurance to senior management and the Board, principally through Board Audit Committee ('BAC') on the effectiveness of risk management policies, processes and practices in all areas. The work of Internal Audit is undertaken as part of an agreed audit programme with activities determined by risk based prioritisation.

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

Throughout the year to 30 September 2020, the risk appetite statements and metrics were reported to the Audit & Risk Committee ('ARC') (now BAC and BRC) and the Board by the Chief Risk Officer and Chief Compliance Officer. The CRO is responsible for assessing the impact on the Group's risk appetite from changes in circumstance (internal or external) that warrant a change to the RAS, and recommending any such changes to BRC and the Board ahead of the scheduled annual review. During the 2019/20 financial year, the Board undertook a review of the Group's key risks on 24 April 2020, with a focus on COVID-19 related risks and the associated impact on strategic and business objectives.

The Board sets the risk appetite and culture and cascades this into day-to-day operations through policies, qualitative statements, risk appetite metrics, limits, Board and committee review, monitoring, assurance, recruitment, and training.

Governance and oversight

Governance is maintained through delegation of authority from the Board, down to Board sub-committees and lower-level management and risk committees. The committee-based structure has been enhanced to ensure that risk appetite, policies, procedures, controls and reporting are all fully in line with regulations, law, good corporate governance standards and industry best practice.

The interaction of the executive and non-executive governance structures requires a culture of transparency and openness. Further development of the RMF and subsequent embedding continues to be a priority for the Group and, along with a refocus towards a risk-centric culture, is seen as the foundation for effective risk management going forward.

The structure of committees is set out in the Corporate Governance Structure section of the Corporate Governance Report on page 28 to 34. The role of key executive led committees is given below.

Executive Committee ('ExCo')

The Board has delegated responsibility for the day-to-day management of the Group to the Executive Management team, led by the Chief Executive Officer, through the Executive Committee. ExCo's primary responsibility is to lead, oversee and direct the activities of the Group, and to ensure the implementation of strategies approved by the Board, provide leadership to the Management team and ensure appropriate deployment of the Group's resources, including capital and liquidity.

Assets & Liabilities Committee ('ALCO')

The ALCO is responsible for ensuring the effective operation of the RMF within the Bank to enable management of Treasury including capital management, market risk (interest rate and basis risk), liquidity and funding risk, wholesale credit risk and funds transfer pricing.

It monitors and ensures compliance with the approved Treasury Policies including the Liquidity and Funding Risk Policy, Market Risk Policy, Wholesale Credit Risk Policy, Funds Transfer Pricing Policy and associated risk appetite. This extends to oversight over the Internal Capital Adequacy Assessment (ICAAP), the Internal Liquidity Adequacy Assessment (ILAAP) and the Recovery Plan. The ALCO also sets the operational procedures and processes associated with these policies.

Executive Risk Committee ('ERC')

The ERC is responsible for development, implementation, monitoring and effectiveness of the Group's RMF.

This committee commenced duties in April 2021.

The role of the Nominations Committee, Remuneration Committee, Board Risk Committee and Board Audit Committee are described within the Nominations Committee Report, Remuneration Committee Report, Board Risk Committee Report and the Audit & Risk Committee Report respectively.

Principal risk categories

Strategic and business risk

Strategic and business risk is the risk that the Group is unable to achieve its corporate and strategic objectives.

Management of strategic and business risk

The Board seeks to operate the business in such a way as to ensure the delivery and sustainability of optimal returns, while meeting the needs of its stakeholders and operating within its approved risk appetite.

To achieve this, the Group does not intend to undertake any strategic actions within its business model that would put at risk its vision of being a successful, specialist lender in its chosen target markets, being backed by its savings franchise. The Group monitors, reviews and challenges its performance against this strategy using established risk appetite and performance indicators; with regular monitoring of the business and macro-economic assumptions underlying its business, capital and liquidity plans. The Group seeks to comply with its stated risk appetite by not putting 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.

To help ensure that product design and delivery meets the Group's strategic and business objectives, the Group has an embedded Product Governance policy which states the product, market and risk assessments needed for each new product. This is reviewed annually by the Board.

The current view of strategic and business risks along with activities to address identified risks and issues are included within the earlier Strategic Report to these Annual Report & Financial Statements.

Credit risk

Credit risk is the risk of a borrower or wholesale counterparty failing to meet its obligations in accordance with agreed terms leading to a financial loss on that borrower or counterparty's account.

Management of credit risk

The successful management of credit risk is central to the Group's business. The Group therefore regularly reviews its lending criteria as well as its credit exposure to all customers. However, default risk may arise from events which are outside the Group's control, primarily customer behaviour changes due to factors such as loss of employment, family circumstances, illness, business failure, adverse economic conditions or fraud. In order to ensure that arrears are minimised, emphasis is placed on retaining a diversified portfolio, using prudent underwriting methods.

As a key mitigant to losses arising from credit risk, the majority of the Group's lending is secured and amortised over the life of the assets.

The Group aims to minimise the impact on profitability from defaults through a prudent underwriting policy and case management process when customers are in difficulty. The Group's risk and underwriting philosophy incorporates:

- The customer's ability to afford their monthly payments, their credit rating and their probability of default.
- The collateral value of the asset being financed, or the security provided to support a finance agreement; all assets financed have strong collateral characteristics and a readily available and liquid market for resale.
- A wide spread of risk with no unduly high exposure to individual customers.

On a portfolio basis, credit risk arising from the build up of concentrations is limited due to the relatively low value of each customer's debt, to the Group's large and diverse customer base, and to set and monitor limits and exposures to different lending channels, different classes of lending, different classes of risk.

Analysis of maximum exposure to credit risk

The Group has an established credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions for the entire Group. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. 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.

The table below presents the Group's maximum exposure to credit risk, before taking account of any collateral and credit risk mitigation, arising from its on balance sheet financial instruments. For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

Group balance sheet	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Financial assets		
Cash and balances at central banks		
Cash and demand deposits	**24,936**	7,371
Loans and advances to customers (net of provisions)		
Consumer lending	**164,933**	128,854
Business lending	**180,143**	176,680
Azule lending	**22,089**	20,021
Bridging finance	**60,132**	12,948
Debt instruments at fair value	**9,095**	19,638
Other assets	**1,264**	4,932
	462,592	370,444
Off Balance Sheet		
Undrawn facilities	**17,270**	1,760

In its normal course of business, the Group engages external agents to recover funds from repossessed assets in its retail portfolio, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers.

Forbearance and COVID-19 related payment deferrals

Forbearance occurs when a customer is experiencing difficulty in meeting their financial commitments and a concession is granted by temporarily changing the terms of the financial arrangement which would not otherwise have been considered. The unprecedented COVID-19 global pandemic led to significant numbers of customers seeking COVID-19 related payment deferrals within the Group's lending portfolio. As a result, the Group introduced a range of additional measures to support its customers during this difficult period.

Additional support for customers impacted by COVID-19

The Group recognised that the impact of COVID-19 was a significant concern for our customers, and we offered help and support through the introduction of several additional concession tools. Concessions granted to customers are varied across the Group's lending portfolio and in line with regulatory guidance.

The concessions include the creation of COVID-19 related payment deferrals, which are a form of 'breathing space' without payment followed by a payment plan, for customers of CFD, BFD and Azule. This period of flexibility ranged from 3 to 9 months depending on underlying mitigating factors and is reviewed and approved by the Group's Customer Operations Department.

There were no negative impacts on the customer's credit file as a result of these measures.

The cure periods of these forborne exposures are subject to judgement and careful consideration. The approach varies depending on the relevant division and ranges from instant resumption of payments when the period of concession ends (subject to confirmation of no adverse performance) to a six month 'grace' period applicable in relevant circumstances where payments are either initially deferred or part payment accepted.

Analysis of forbearance and COVID-19 related payment deferrals

At 30 September 2020, the gross carrying amount of exposures with forbearance measures was £40.4 million (2019 – £nil). As set out in note 1.5.3, a COVID-19 related concession does not in itself constitute a significant increase in credit risk. The full forbearance analysis is shown in note 29.3.2.

IFRS 9 treatment of credit risk

Under IFRS 9 the Group calculates impairment provisions on loans and advances to customers on an expected credit loss ('ECL') basis. ECL provisions are based on an assessment of probability of default, loss given default and exposure at default in a range of forward-looking scenarios.

IFRS 9 requires the Group to categorise customer loans into one of three stages at the balance sheet date. Assets that are 'performing' are shown in stage 1; assets where there has been a significant increase in credit risk ('SICR') since initial recognition or 'deteriorating' assets are in stage 2; and accounts which are credit impaired or in 'default' are in stage 3.

Impairment allowance for loans and advances to customers

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies set out in note 1.5 to the financial statements.

- The Group's definition and assessment of default (note 29.3.4).
- An explanation of the Group's internal grading system (note 29.3.5).
- How the Group defines, calculates and monitors the probability of default, exposure at default and loss given default (notes 29.3.5, 29.3.6 and 29.3.7 respectively).
- When the Group considers there has been a significant increase in credit risk of an exposure (note 29.3.8).
- The Group's policy of segmenting financial assets where ECL is assessed on a collective basis (note 29.3.8).

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year end stage classification. The amounts presented show both gross loans and advances to customers and net balance after impairment allowances.

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2020				
Loans and advances to customers	349,711	76,671	19,547	445,929
Allowance for impairment losses	(3,179)	(3,300)	(12,153)	(18,632)
Net total	346,532	73,371	7,394	427,297

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2019				
Loans and advances to customers	307,294	22,424	15,625	345,343
Allowance for impairment losses	(1,576)	(1,458)	(3,806)	(6,840)
Net total	305,718	20,966	11,819	338,503

Further analysis of impairment allowance for loans and advances to customers is contained in note 28.5 to the financial statements.

The Group's internal rating and PD estimation process
The Group operates an internal credit grading model and Probability of Default estimation process. The Probability of Default ('PD') is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.

The Group assesses its customers at origination and rates them on an internal AAA to D grade scale using an internal credit classification model. Collateral is also considered when grouping credit grades together. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These information sources are used to determine the original probability of defaults (PDs) for each segment. PDs are then adjusted for IFRS 9 expected credit loss ('ECL') calculations to incorporate forward-looking information and the IFRS 9 stage classification of the exposure.

Corporate lending (Business Finance Division, Bridging Finance and Azule)
Corporate lending comprises hire purchase, lease or bridging loans. The borrowers are assessed by the internal credit risk team The credit risk assessment is based on a credit scoring model that considers historical, current and forward-looking information which includes:

- Historical financial information.
- Publicly available information on the clients from external parties.
- Other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques vary based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

Consumer lending
Consumer lending comprises hire purchase or conditional sale agreements. These products are rated by an automated scorecard tool, primarily driven by credit reference agency data. Additional checks on affordability are made using credit reference agency data and bank statements.

The Group's internal credit rating grades

The tables below identify the internal ratings used by the Group with the highest quality grades considered to be grades 4 and above.

Business Finance, Bridging and Azule

Internal rating grade	Internal Rating Description	Internal PD range
1	AAA & AA, LTV <=80%	1.37-2.15%
2	AAA & AA, LTV > 80%	2.58-4.29%
3	A & B+, LTV <=80%	2.70-4.23%
4	A & B+, LTV > 80%	5.05-8.35%
5	B & B-, LTV <=80%	3.72-7.18%
6	B & B-, LTV > 80%	8.37-13.29%
7	C & D	9.14-16.35%

Consumer Finance

Internal rating grade	Internal Rating Description	Internal PD range
1	AAA & AA, LTV <=80%	2.57-3.58%
2	AAA & AA, LTV > 80%	4.18-5.06%
3	A & B+, LTV <=80%	5.06-6.98%
4	A & B+, LTV > 80%	8.09-9.75%
5	B & B-, LTV <=80%	7.02-9.95%
6	B & B-, LTV > 80%	12.01-15.20%
7	C & D, LTV <=80%	9.26-13.06%
8	C & D, LTV > 80%	17.19-22.88%

Capital risk

Capital risk is risk that the Group has insufficient capital or contingency to maintain its required regulatory or internally set minimum capital ratios and buffers or sustain its long-term lending operations.

Management of capital risk

The Group aims to maintain a sufficient level of capital above its regulatory requirements in order to meet both unexpected losses as they arise and maintain the trust and confidence of investors, shareholders, regulators and customers. Regulatory requirements are set on a risk basis covering total capital requirements, regulatory buffers, plus a management overlay.

The 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 Group assesses its capital position and risks through an annual Internal Capital Adequacy Assessment Process (ICAAP) in line with prudential requirements; and through more regular monthly reporting as part of its standard recovery plan early warning indicator set. The ICAAP considers the key capital risks and the amount of capital it should retain to cover these risks. These requirements are assessed against the current position and throughout its five year business plan.

Stress testing is a major part of the ICAAP and ensures the Group is resilient to a range of stresses including the ability to meet requirements under a severe but plausible stress.

The Group applies the Standardised approach for calculating its credit risk and capital management. In the UK, banks are required to meet minimum capital requirements as prescribed by CRD IV for Pillar 1, namely a CET1 capital requirement of 4.5% of RWAs, a Tier 1 capital requirement of 6% of RWAs and a Total capital requirement of 8% of RWAs.

Risk Weighted Assets

The Group does not operate a trading book and has no Market Risk pillar 1 risk weighted asset exposure ('RWA'). Its RWAs are therefore driven predominantly by Credit risk with a component of additional Operational risk and a credit valuation adjustment (reflecting changes in the value of derivatives which arise from the credit risk of the derivative counterparty).

Risk Weighted Asset exposure

	2020 £'000	2019 £'000
Central Government & central banks	4,525	2,760
Institutions	395	453
Corporates	17,828	21,772
Retail	213,480	219,559
Other items	85,313	30,386
Total credit risk	321,541	274,930
Operational risk	40,433	29,833
Credit valuation adjustment	19	90
Total Risk Weighted Assets	361,993	304,853

Risk based capital

A Pillar 2 capital requirement reflects wider risks within the Group's ICAAP assessment and any capital add-ons arising from the supervisory review of those assessments. In addition, a PRA buffer may be applied to reflect both the outcome of stress testing, and where the PRA views that controls need to be strengthened.

In addition to these requirements CRD IV requires lenders to hold supplementary capital buffers. At 30 September 2020, these included a Capital Conservation buffer (CCoB) of 2.5%, a Systemic Risk buffer (SRB) of 0%, and a Counter-Cyclical buffer (CCyB) of 0% (reduced from 1% in March 2020).

Capital resource and key ratios

	2020 £'000	2019 £'000
Total CET1 capital	54,725	54,884
Total Tier 1 capital	54,725	54,884
Total Capital	60,751	54,884
CET1 capital ratio	15.1%	18.0%
Tier 1 capital ratio	15.1%	18.0%
Total capital ratio	16.8%	18.0%

Following the publication of the response to consultation CP14/21 on the UK Leverage Framework (PS 21/21), PCF will not have sufficient retail deposits or non-UK exposure to be classified as an 'LREQ' firm and therefore is not in scope for a formal leverage ratio requirement under the UK CRR. However, in line with the expectations identified in the regulation, the Group continues to monitor its leverage ratio as though the minimum requirement of 3.25% plus buffers was applicable.

Leverage Ratios (%)

	2020	2019
Leverage Ratio – using a transitional definition of Tier 1 capital	11.5%	14.8%

Liquidity and funding risk

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 its deposit franchise, daily operations or financial health.

Management of liquidity & funding risk (unaudited)
At all times, the Group maintains sufficient high quality liquid resources to ensure that there is no significant risk from being unable to meet its liabilities as they fall due during a severe but plausible stress. The Group maintains a diversified funding strategy with close relationships with its banking counterparties and being an active participant in the retail deposit taking market, seeking to align the tenor of its funding to the average effective life of its loan portfolio. The current ability of the Group to access wholesale debt facilities is discussed further in the Emerging risks and uncertainties section of the Strategic Report.

The Group assesses its liquidity position through both an internal set of measures which assess adherence to the Overall Liquidity Adequacy Rule ('OLAR') and through the regulatory defined Liquidity Contingency Ratio (LCR). The Group maintains the entirety of its Liquid Asset Buffer ('LAB') in the form of high-quality liquid assets ('HQLA'). The amount of these, at all times, has been significantly in excess of the 100% LCR minimum requirement. Within both the LCR and OLAR assessments, the Group sets an intra-day limit to ensure that sufficient funds are held over and above daily requirements to account for volatility in intra-day cash flows.

In order to ensure that levels and concentrations of funding do not lead to future liquidity risks, the Group monitors the stability of its funding exposures through a regulatory defined Net Stable Funding Ratio ('NSFR'), which is in excess of 100%.

Measure (%)

	2020	2019
LCR %	673%	715%
NSFR %	145%	129%

Liquidity Resources
The Group maintains a portfolio of highly marketable and diverse assets that may be liquidated quickly in the event of an unforeseen interruption in cash flow, the liquidity of which is regularly tested. The Group also has central bank facilities and 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.

Liquidity resources

	2020 £'000	2019 £'000
Cash and balances with the Bank of England	23,039	5,277
UK Government securities and other qualifying securities	9,095	10,800
Sub-total High Quality Liquid Assets (HQLA)	32,134	16,077
Cash at Bank	1,897	2,094
Contingent central bank facilities	18,667	20,080
Total	52,698	38,251

Contractual maturity profile of financial assets and liabilities

The table below analyses the carrying value of financial assets and financial liabilities based on the remaining contractual life to the maturity date. In practice, the contractual maturity will differ to actual repayments; 'on demand' customer deposits will be repaid later than the earliest date on which repayment can be requested, and loans may be repaid ahead of their contractual maturity.

Undiscounted contractual cash flows

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
30 September 2020						
Undiscounted financial assets	41,614	15,318	50,089	352,514	102,367	561,902
Undiscounted financial liabilities	10,662	21,529	152,962	218,828	17,190	421,171
Net contractual liquidity gap	30,952	(6,211)	(102,873)	133,686	85,177	140,731
30 September 2019						
Undiscounted financial assets	20,863	33,817	92,260	268,006	24,593	439,539
Undiscounted financial liabilities	–	21,615	126,394	156,928	20,621	325,558
Net contractual liquidity gap	20,863	12,202	(34,134)	111,078	3,972	113,981

Asset Encumbrance

Some of the Group's assets are used to support collateral requirements for secured funding, central bank operations or third-party repurchase transactions. The assets used in this way are referred to as encumbered. Encumbrance provides cheaper and more stable funding, but it also creates the risk that some creditors may be unable to benefit from the liquidation of encumbered assets in the unlikely event that the Group was to become insolvent. While these risks are remote, limits on encumbrance are set by the Board and encumbrance levels are managed within these limits.

Below is a summary of the Group's encumbered and unencumbered assets that would be available to obtain additional funding as securities. For this purpose, encumbered assets are assets which have been pledged as collateral (e.g. which are required to be separately disclosed under IFRS 7). Unencumbered assets are the remaining assets that the Group owns.

Analysis of encumbered and unencumbered assets

	Encumbered		Unencumbered		
	Pledged as collateral £'000	Other £'000	Available as collateral £'000	Other £'000	Total £'000
30 September 2020	103,182	–	287,049	46,161	436,392
30 September 2019	75,629	–	228,944	53,568	358,141

Refer to note 29.1(c) for further information of encumbered and unencumbered assets by asset type.

Market risk

Market risk is the risk of losses or reduced value arising from on and off-balance sheet exposures when impacted by adverse movements in market prices and rates. Market risk predominantly results from interest rate exposures within the Group's banking book, with some additional risk arising from foreign exchange movements and credit effects. Interest rate risk in the banking book (IRRBB) is the risk that the Group will be adversely affected by changes in the absolute level of interest rates; the spread between two rates; the shape of the yield curve; or in any other interest rate relationship. The Group is exposed to foreign exchange risk and euro interest rate risk through euro denominated lending by Azule Finance Limited, the Irish company, which is included in the Group's risk appetite and internal reporting, although this risk is not considered material (total assets were less than €1,000,000 throughout the year).

Management of market risk

The Group seeks to limit the adverse impact on net interest margin ('NIM') and where necessary the Group will fix the cost of borrowing using interest rate swaps to achieve that goal.

Appetite for interest rate generated market risk is calibrated against limiting the effect of a 2% rate shock to approximately 1% of the value of own funds (Tier 1 + Tier 2 capital); significantly below the regulatory requirement to be below 20% of own funds. It is assessed by calculating changes in Economic Value ('EV') through a standardised 2% rate shock (EV 200bp).

Market risk is managed on a Group consolidated basis. There is a risk that the Group may experience volatility in its profit and loss should it not be able to freely adjust its interest rate swap positions as facilities are currently withdrawn though Management anticipate following, the Annual Report & Financial Statements 2020 finalisation and the Group's shares are no longer suspended from trading our bankers will, on review, reinstate these facilities. Management monitors the interest rate gap risk closely and, where required, seeks to hedge asset exposures naturally with appropriate tenor retail deposits.

The Group will not carry out proprietary trading nor operate a trading book.

The Group has limited appetite for foreign exchange risk and where assets are bought or sold in foreign currency (e.g., broking transactions), these are limited to short-term exposures.

Reprice risk

The Group is exposed to interest rate risk arising from when the Group's assets and liabilities re-price on different dates such that the Group is negatively impacted. This type of risk is managed by natural offsets across the balance sheet and through the use of swaps and other derivatives. The Group assessed its interest rate risk in the banking book ('IRRBB') primarily through Earnings at Risk plus a series of economic value ('EV') measures which included a +/–200 basis points parallel yield curve shift. The Group has since developed its regulatory measures to incorporate the full suite of Supervisory Outlier Tests using economic value of equity ('EVE') and Net Interest Income (NII) measures.

Shock applied

	2020 £'000	2019 £'000
Impact on present value of assets and liabilities at year end from a parallel change in the yield curve		
+200 basis points shift	358	74
–200 basis points shift	(503)	(147)

Basis risk

The Group is exposed to the risk that the impact of relative changes in interest rates for balance sheet exposures that have similar tenors but are priced using different interest rate indices. However, the Group has limited basis risk as its balance sheet is predominantly fixed; limiting the exposure to differing rate bases.

Interbank Offered Rate (IBOR) reform means that interest rate benchmarks such as LIBOR are expected to cease at the end of 2021. The movement away from using LIBOR was undertaken by the Group's Treasury team with oversight from ALCO. All the Group's swaps are entered into at the SONIA rate, the Bank of England's preferred risk-free alternative rate to LIBOR. The sole exception to this policy is the revolving credit facility provided by Leumi ABL Limited, which when drawn accrues at overnight LIBOR plus a fixed spread. Leumi has advised that it intends to rebase the facility to SONIA by the end of 2021 in line with the LIBOR transition. As of the date of signing the Annual Report and Financial Statements there is currently no outstanding balance on this facility.

Option risk

The Group is exposed to the risk that an embedded option is incorporated into a product or derivative, and where the use of the option may change the interest rate exposure. For example, the ability to prepay a car loan before the end of the loan's term is a product option which can create risk to the Group in a falling rate environment. The risk predominately arises from the early termination of fixed rate loans or deposits. However, the contractual terms of PCF's loans and deposits significantly limit the propensity for option risk.

Refinance risk

The Group is exposed to the risk that at the maturity of an asset or liability, which may be otherwise perfectly hedged, the rate received or paid on the replacement asset or liability reduces the overall Net Interest Margin. This risk is managed by limiting the concentration of maturities across the two sides of the balance sheet.

Foreign currency risk

The Group operates primarily in sterling markets, but it has a small book of euro denominated assets held by Azule Limited. The total currency exposure to euro denominated assets is managed within Board limits.

Foreign Exchange exposure to an immediate +/–15% change in the value of sterling

	£'000
30 September 2020	(12)
30 September 2019	13

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk but excludes strategic and reputational risk.

Management of operational risk

The Group seeks to maintain an internal control environment to both mitigate operational risk, which is inherent to its business activities, and to minimise the financial impact of operational risk arising from IT disruption, human error, a breakdown of procedures, non-compliance with policy and internal or external fraud. Additionally, the Group will mitigate and limit the impact of business decisions on its cyber risk exposure. Activities against the most relevant operational risk sub-categories are given below.

Operational resilience, information security and information technology

The Group continues to review its IT system architecture to ensure systems remain resilient and that the confidentiality, integrity and availability of critical systems and information assets are protected against cyber attacks. This includes continuing to enhance the resilience of systems based on emerging best practice and seeking advice from external IT advisors where necessary.

This overarching operational resilience framework is supported by processes and policies for business continuity and disaster recovery planning, crisis communication, cyber incident response & resilience and supplier outsourcing assurance, which are currently all Board approved documents.

Change management

The Group has further developed its project governance structure and delivery framework with respect to IT and change management. This seeks to ensure that appropriate controls are in place with the aim of avoiding serious disruption or processing inefficiencies to the business during or after the implementation of change.

Third party outsourcing

The Group has a minimal amount of outsourced functions, including postal services and payroll.

The Group continues to implement a robust Supplier and Outsourcing Assurance Framework and undertakes ongoing due diligence on third parties. This includes a risk assessment which requires due diligence on their IT security, physical and logical access to information held on the Group's assets or liabilities, the commercial risks associated with a service provider, and the processes that will be used to monitor and oversee performance and ongoing delivery of the service.

People

The Group seeks to attract, retain and engage high quality employees which was of particular significance over the pandemic and as we work through remediation activities, and is covered in more detail within the Strategic Report. It has continued to make significant investments in people in order to secure and grow expertise across its Finance, Treasury and Risk functions; supporting the remediation initiatives that have taken place since then. Over the period the Group has rolled out and enhanced its operational risk training and compliance awareness sessions to employees.

Internal control environment

As identified in the emerging risks and uncertainties section of the Strategic Report, the Group is making significant investments in its RMF, controls, and processes supporting regulatory and financial returns and disclosures. The framework that had been in operation had not kept pace with growth and expectations of a new bank, exacerbated by the poor culture and lack of expertise at that time. The associated remediation programme to address these issues is progressing with full embedding expected to complete in 2023.

Regulatory risk

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.

Management of regulatory risk

A significant mitigant to regulatory risks is to be aware of when regulatory change is being considered and implemented. To control the risks around this, the Group undertakes a process termed Horizon Scanning a process of extracting new requirements by searching web sites, correspondence (formal letters and regular regulatory releases), accessing 3rd party training and updates, and face to face meetings.

Horizon scanning is conducted by the second line and is in the process of being formally split between the Compliance team with responsibility for horizon scanning on Conduct matters and regulation identified by the Financial Conduct Authority (FCA), and the Financial Risk Management team with responsibilities covering the Bank of England's regulatory bodies (the Prudential Regulatory Authority and the Resolution Directorate). That change has since been completed.

Aligned with a revised approach to risk culture, the Board and Executive team wish to ensure communication to all stakeholders including the regulator is as transparent as possible; an approach the Group believes will foster stronger relationships and ultimately limit the regulatory risks faced by PCF.

Following the commencement of remediation activity, the Group has access to external legal and regulatory specialist support along with a growing level of in-house expertise to advise the business on an appropriate course of action. This is aided through an engagement with industry bodies, such as UK Finance and The Finance and Leasing Association.

Group policies and procedures set out the principals and key controls that are to be applied across the business and which are aligned to the Group's risk policies. These are reassessed in the context of revisions to the regulation by the business units with oversight of implementation and compliance provided by the second line Risk & Compliance function; which can take the form of thematic reviews or gap analysis against the regulations.

Risk Management Report (cont'd)

Conduct risk

Conduct risk is the risk of customer detriment 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.

Management of conduct risk

The Group has no appetite for customer harm or conduct risk events through inappropriate product design, corporate culture, or operational processes. The Group therefore restricts its activities to areas of established expertise and seeks to create a culture that delivers a fair outcome for customers.

The Group has identified customer-focused policies and procedures including Responsible Lending, Treating Customers Fairly ('TCF') and Vulnerable Customers; reflecting the customer outcomes the Board intends to achieve through product design, governance and distribution.

The Group continues to perform outcomes testing and assurance checks on fair outcomes for customers, including monitoring and analysing key information, training on vulnerable customers and complaints handling, and independent assurance from Second and Third line.

Customer needs are considered within business and product level planning and strategy; articulated through the product governance framework. The framework seeks to ensure that products continue to offer fair value and meet the needs of the relevant target market throughout their life cycle.

The Group is enhancing its recruitment, training and focus on management of colleague performance with clear customer accountabilities and customer centric feedback to be built into performance appraisals.

The Group seeks to learn from past mistakes on customer complaints using techniques such as root cause analysis. Complaints are viewed as a valuable source of management information and in recognition of that, despite an intolerance for conduct risk failures, mistakes do happen and, when they do, they must be rectified, fully understood, and the learning taken from them. The programme of assurance reviews undertaken has centred on conduct risk clusters, and has included product design and governance, periodic product reviews, culture measurement, marketing and promotion, the treatment of vulnerable customers, and complaint handling.

Independent Auditor's Report

to the members of PCF Group plc

Disclaimer of opinion

We were engaged to audit the financial statements of PCF Group PLC (the 'Company') and its subsidiaries (together with the Company, the 'Group') for the year ended 30 September 2020, which comprise the items set out in the table below.

Group

- Consolidated income statement for the year ended 30 September 2020;
- Consolidated balance sheet as at 30 September 2020;
- Consolidated statement of comprehensive income for the year ended 30 September 2020;
- Consolidated statement of changes in equity for the year ended 30 September 2020;
- Consolidated statement of cash flows for the year ended 30 September 2020; and
- Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies.

Company

- Balance sheet as at 30 September 2020;
- Statement of changes in equity for the year ended 30 September 2020;
- Statement of cash flows for the year ended 30 September 2020; and
- Related notes 1 to 34 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006.

We do not express an opinion on the accompanying financial statements of PCF Group PLC.

Due to the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

As set out in the section 'Completion of the Annual Report and Financial Statements 2020' of the Audit & Risk Committee Report on pages 41 to 42 of the Annual Report, as a result of enquiries raised by us during our audit of the financial statements, the Group's new Chief Financial Officer identified certain accounting errors and misstatements that led to the Company engaging a third-party accounting firm to undertake an independent forensic investigation into those errors and misstatements. Following this, the Group Chief Financial Officer and Finance Function undertook its own further analysis and reconciliation procedures.

The independent forensic investigation identified certain manual adjustments made by the Group for internal management, financial and regulatory reporting purposes. We concluded that certain of these matters were indicators of fraud.

Given the potential wider consequences of this on our audit, we sought to extend our procedures and presented a plan to the Audit Committee in July 2021. We were unable to complete our audit for the following reasons:

- Management was unable to provide sufficient and appropriate audit evidence in response to our extended testing requests.
- The Board of Directors resolved in July 2021 that management should only continue to provide us with the information necessary for us to issue a disclaimer of opinion on these financial statements.

For the same reasons as set out above, we were also unable to complete audit procedures over reclassifications as described in note 1.9 to the financial statements.

An overview of the scope of our audit

Tailoring the scope

All audit work was planned to be performed by the Group audit team, however as set out in the basis for disclaimer section of our opinion, we were unable to complete our audit work.

The Group has six reporting components. We planned to perform an audit of the complete financial information of four reporting components ('full scope components') which represent the principal business units within the Group. These components were PCF Group PLC, PCF Bank Limited, Azule Limited and PCF Credit Limited.

Of the remaining two components we planned to perform other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

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.

In planning our audit, we determined materiality for the Group to be £250k (2019: £400k), which was 5% of projected profit before tax for the financial year, based on management accounts for the first six months to 31 March 2020.

Profit before tax was considered the most appropriate basis for determining our materiality as it is a key performance indicator for shareholders in assessing the financial performance of the Group.

In planning our audit, we determined materiality for the Company to be £350k (2019: £350k), which was based on 1% (2019 – 1%) of net assets. The basis reflects the nature of the entity being primarily a holding company.

Independent Auditor's Report (cont'd)

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 50% (2019 – 50%) of our planning materiality, namely £125k (2019 – £200k). We have set performance materiality at this percentage due to the extent of audit adjustments identified during the prior year audit.

Audit work over the Company's subsidiaries for the purpose of obtaining audit coverage over significant financial statement accounts was planned to be undertaken based on a percentage of total performance materiality. The planned performance materiality set for each component was 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 planned range of performance materiality allocated to components was £25k to £125k (2019 – £40k to £150k).

Opinions on other matters prescribed by the Companies Act 2006

Due to the significance of the matter described in the basis for disclaimer of opinion section of our report, we have been unable to form an opinion, whether 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

Due to the significance of the matter described in the basis for disclaimer of opinion section of our report, we have been unable to form an opinion as to whether there are material misstatements in the strategic report or the directors' report.

Arising from the limitation of our work referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and,
- we were unable to determine whether adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; and,
- we were unable to determine whether the Company financial statements are not in agreement with the accounting records and returns; and,
- we were unable to determine whether certain disclosures of directors' remuneration specified by law are not made.

Corporate Governance Statement

We planned to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the entity's voluntary compliance with the provisions of the UK Corporate Governance Code.

Due to the significance of the matter described in the basis for disclaimer of opinion section of our report, we have been unable to form a conclusion as to whether each of the following elements of the Corporate Governance Statement are materially consistent with the financial statements or our knowledge obtained during the audit

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities;
- Directors' statement on fair, balanced and understandable;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems;
- The section describing the work of the audit committee; and
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 51, 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 responsibility is to conduct an audit of the Group and Company’s financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor’s report. However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. We are independent of the 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

Gary Adams (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

22 December 2021

Consolidated Income Statement
for the year ended 30 September 2020

	Note	Year ended 30 September 2020 £'000	Year ended 30 September 2019* £'000
Interest income calculated using the effective interest method	3	**42,237**	34,499
Interest expense calculated using the effective interest method	4	**(15,953)**	(12,884)
Net interest income		**26,284**	21,615
Fees and commission income*		**2,122**	2,896
Fees and commission expense		**(1,602)**	(1,154)
Net fees and commission income	5	**520**	1,742
Net loss on financial instruments classified at fair value through profit or loss		**(55)**	(63)
Net operating income		**26,749**	23,294
Impairment losses on financial assets*	6	**14,431**	3,256
Personnel expenses	7	**8,296**	7,640
Other operating expenses	9	**5,268**	3,827
Depreciation of office equipment, motor vehicles and right-of-use assets	16	**1,206**	137
Amortisation of intangible assets	17	**552**	416
Impairment loss on software	17	**51**	–
Impairment losses on goodwill	17	**1,750**	–
Total operating expenses		**31,554**	15,276
(Loss)/Profit before tax		**(4,805)**	8,018
Income tax credit/(charge)	10	**547**	(1,624)
(Loss)/Profit after tax		**(4,258)**	6,394
Earnings per 5p ordinary share – basic and diluted	11	**(1.7p)**	2.7p

* Comparatives for the recoverable amount of fees charged on credit impaired accounts have been re-presented from Impairment losses on financial assets to Fees and commission income to make the Income statement more relevant following a review of the disclosures and accounting policies applied (please see note 1.9).

Consolidated Statement of Comprehensive Income
for the year ended 30 September 2020

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
(Loss)/Profit after taxation	**(4,258)**	6,394
Other comprehensive income that will be reclassified to the income statement		
Fair value gain/(loss) on FVOCI financial instruments (note 1.5.3)	**53**	(10)
Deferred tax income	**(7)**	2
Total items that will be reclassified to the income statement	**46**	(8)
Total comprehensive income, net of tax	**(4,212)**	6,386

The accounting policies and notes on pages 72 to 120 form part of, and should be read in conjunction with, these financial statements. All activities in the current and prior year relate to continuing operations.

Consolidated Balance Sheet

at 30 September 2020

	Note	Group 30 September 2020 £'000	Group 30 September 2019 £'000	Company 30 September 2020 £'000	Company 30 September 2019 £'000
Assets					
Cash and balances at central banks	12	**24,936**	7,371	**278**	123
Debt instruments at FVOCI	13	**9,095**	19,638	**-**	–
Loans and advances to customers	14	**427,297**	338,503	**-**	–
Due from Group companies	19	**-**	–	**8,759**	6,927
Investment in subsidiary undertakings	15	**-**	–	**32,000**	32,000
Office equipment, motor vehicles and right-of-use assets	16	**3,144**	579	**1,582**	–
Goodwill and other intangible assets	17	**4,327**	5,941	**-**	–
Deferred tax assets	18	**1,810**	1,105	**117**	135
Current tax assets		**-**	–	**116**	–
Other assets	20	**2,051**	4,932	**770**	896
Total assets		**472,660**	378,069	**43,622**	40,081
Liabilities					
Due to customers	22	**341,784**	267,070	**-**	–
Due to banks	21	**62,620**	44,412	**-**	–
Due to Group companies	19	**-**	–	**5,242**	3,239
Derivative financial instruments	28	**80**	63	**-**	–
Lease liabilities	25	**1,604**	–	**1,525**	–
Current tax liabilities		**125**	1,521	**-**	–
Other liabilities	26	**5,446**	6,248	**2,226**	1,692
Subordinated liabilities	24	**7,126**	–	**-**	–
Total liabilities		**418,785**	319,314	**8,993**	4,931
Equity					
Issued capital	27	**12,512**	12,510	**12,512**	12,510
Share premium	27	**17,625**	17,619	**17,625**	17,619
Other reserves	27	**53**	7	**-**	–
Own shares	27	**(147)**	(355)	**(147)**	(355)
Retained earnings		**23,832**	28,974	**4,639**	5,376
Total equity		**53,875**	58,755	**34,629**	35,150
Total liabilities and equity		**472,660**	378,069	**43,622**	40,081

The Company reported a profit for the financial year ended 30 September 2020 of £147,000 (year ended 30 September 2019 – profit of £445,000).

The financial statements were approved and authorised for issue by the Board on 22 December 2021.

On behalf of the Board

G G Stran
Director

C Richardson
Director

The accounting policies and notes on pages 72 to 120 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 2020

Group	Attributable to equity holders of the Group					
	Non-distributable				Distributable	
	Issued capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 October 2019	12,510	17,619	(355)	7	28,974	58,755
Loss for the year	–	–	–	–	(4,258)	(4,258)
Issuance of new shares/scrip dividend	2	6	–	–	(8)	–
Reclassification to	–	–	208	–	–	208
Fair value gain on FVOCI financial instruments	–	–	–	46	–	46
Share-based payments	–	–	–	–	117	117
Cash dividends	–	–	–	–	(993)	(993)
Balance at 30 September 2020	12,512	17,625	(147)	53	23,832	53,875
Balance at 1 October 2018	10,611	8,527	(355)	15	23,753	42,551
Impact on transition to IFRS 9	–	–	–	–	(502)	(502)
Re-presented balance at 1 October	10,611	8,527	(355)	15	23,251	42,049
Profit for the year	–	–	–	–	6,394	6,394
Issuance of new shares	1,899	9,092	–	–	–	10,991
Fair value loss on FVOCI financial instruments	–	–	–	(8)	–	(8)
Share-based payments	–	–	–	–	79	79
Cash dividends	–	–	–	–	(750)	(750)
Balance at 30 September 2019	12,510	17,619	(355)	7	28,974	58,755

Company	Attributable to equity holders of the Company				
	Non-distributable			Distributable	
	Issued capital £'000	Share premium £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
Balance at 1 October 2019	12,510	17,619	(355)	5,376	35,150
Profit for the year	–	–	–	147	147
Issuance of new shares/scrip dividend	2	6	–	(8)	–
Reclassification to cash	–	–	208	–	208
Share-based payments	–	–	–	117	117
Cash dividends	–	–	–	(993)	(993)
Balance at 30 September 2020	12,512	17,625	(147)	4,639	34,629
Balance at 1 October 2018	10,611	8,527	(355)	5,602	24,385
Profit for the year	–	–	–	445	445
Issuance of new shares	1,899	9,092	–	–	10,991
Share-based payments	–	–	–	79	79
Cash dividends	–	–	–	(750)	(750)
Balance at 30 September 2019	12,510	17,619	(355)	5,376	35,150

The accounting policies and notes on pages 72 to 120 form part of, and should be read in conjunction with, these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 September 2020

	Note	Group 30 September 2020 £'000	Group 30 September 2019 £'000	Company 30 September 2020 £'000	Company 30 September 2019 £'000
Operating activities					
(Loss)/Profit before tax		**(4,805)**	8,018	**206**	558
Other non-cash items included in profit/(loss) before tax					
Depreciation of office equipment, motor vehicles and right-of-use assets	16	**1,206**	137	**724**	–
Gain on sale of motor vehicles	16	**(22)**	–	**–**	–
Amortisation of other intangible assets	17	**552**	416	**–**	–
Impairment loss on goodwill	17	**1,750**	–	**–**	–
Interest on lease liabilities	25	**55**	–	**50**	–
Accrued finance costs	23	**138**	–	–	–
Impairment loss on software		**51**	–	**–**	–
Share-based payments		**117**	79	**117**	79
Net change in FVOCI Financial Instruments		–	(8)	–	–
Impairment Losses on financial assets[1]		**14,431**	3,256	–	–
Income tax paid		**(1,554)**	(633)	**(41)**	(113)
Adjustment for change in operating assets					
Net change in loans and advances[1]	14	**(103,225)**	(107,429)	**–**	–
Net change in Group company lending	19	**–**	–	**(1,832)**	(4,067)
Net change in other assets	20	**2,796**	(2,231)	**45**	(18)
Change in operating liabilities					
Net change in derivative financial instruments	28	**17**	63	**–**	–
Net change in amounts due to customers	22	**74,714**	75,931	**–**	–
Net change in Group company borrowing	19	**–**	–	**1,887**	3,239
Net change in other liabilities	26	**(993)**	(1,492)	**362**	141
Net cash (used in)/from operating activities		**(14,772)**	(23,893)	**1,518**	(129)
Investing activities					
Cash paid for investment in subsidiary		**–**	(2,283)	**–**	(10,000)
Net sale of debt instruments at FVOCI	13	**10,589**	20,264	**–**	–
Purchase of office equipment and motor vehicles	16	**(1,344)**	(384)	**–**	–
Reclassification from own shares to cash		**208**	–	**208**	–
Proceeds from the sale of motor vehicles	16	**25**	–	**–**	–
Purchase of intangible assets	17	**(739)**	(900)	**–**	–
Net cash flows from/(used in) investing activities		**8,739**	**16,697**	**208**	(10,000)
Financing activities					
Proceeds from subordinated borrowings	23	**7,000**	–	**–**	–
Proceeds from share issue during the year	27	**–**	10,991	**–**	10,991
Net proceeds/repayments from borrowings	22	**18,196**	(17,012)	**–**	–
Repayment of capital element of leases	25	**(605)**	–	**(578)**	–
Dividends paid to equity holders		**(993)**	(750)	**(993)**	(750)
Net cash flows from/(used in) financing activities		**23,598**	(6,771)	**(1,571)**	10,241
Net increase/(decrease) in cash and cash equivalents		**17,565**	(13,967)	**155**	112
Cash and cash equivalents brought forward		**7,371**	21,338	**123**	11
Cash and cash equivalents carried forward		**24,936**	7,371	**278**	123

[1] Comparatives for the recoverable amount of fees charged on credit impaired accounts have been re-presented from Allowance for Impairment losses to Loans and advances to make the Loans and advances to customers note more relevant following a review of the disclosure and accounting policies applied (please see note 1.9).

Notes to the Financial Statements

for the year ended 30 September 2020

1 Basis of preparation and significant accounting policies

1.1 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 wholly owned subsidiary, PCF Bank Limited (the 'Bank'), is a specialist bank, offering retail savings products for individuals and lending products for consumers and businesses to finance motor vehicles, plant, bridge finance, equipment and property.

1.2 Basis of preparation

The consolidated financial statements of the Group and the separate financial statements of the Company have been prepared on a historical cost basis, except for debt financial instruments measured at fair value through other comprehensive income ('FVOCI'), and derivatives measured at fair value through profit or loss ('FVTPL'), are presented in the Group's and the Company's functional currency Pound Sterling (£) and all values are rounded to the nearest thousand (£'000), except where otherwise indicated.

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 at Group level, £147,000 (30 September 2019 – £445,000) was attributable to the Company.

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. In particular this going concern statement should be read in conjunction with the Emerging risks and uncertainties section of the Strategic Report which sets out those risks and mitigations.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial statements and updated in the Strategic Report and Risk Management Report. The Group's policies and processes for managing its Risks are described in the Strategic Report and the Risk Management Report.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next twelve months. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report & Financial Statements.

The directors have assessed the appropriateness of the going concern assumption taking into account of all matters above and a detailed review of the Group's medium-term plan which includes increased remediation costs alongside a consideration of capital, funding and liquidity requirements. This consideration also included other business and emerging risks.

The Group made a £(4.8) million statutory loss before tax in the year. The Board has approved a medium-term plan in which the Group returns to profitability, but this is dependent on building scale to support an increased cost base. Remediation costs are expected to be incurred for at least the next twelve months. The growth in the medium-term plan requires capital to be raised. However, given the delay to the Annual Report & Financial Statements 2020, the disclaimer of auditor opinion and the temporary suspension of trading in the Group's shares, there are risks associated with our ability to raise capital and fund the planned future balance sheet growth.

Group performance, and the return to profitability in the medium-term plan, is underpinned by a number of key inputs and assumptions which cover:

- The raising of external capital.
- The funding of new business through retail deposits and other wholesale funding.
- New business origination levels.
- Net interest margin on new business originations.
- The expected date of completion of the Group's remediation activities and the impact on the Group's expenses.
- The level of impairment losses on financial assets.
- Capital requirements, both from a regulatory and internal management perspective.
- Dividends, which have been assumed at zero in the medium-term plan.

This indicates that the Group's ability to operate as a going concern is subject to material uncertainties. As with any medium-term planning process, there is a risk that these assumptions do not materialise. As part of the review of the medium-term plan, the Board was presented with a severe but plausible downside in which the Group is unable to raise external capital, and a number of sensitivities to the medium-term plan in which the Group's net interest margin, impairment losses and business volumes were subject to materially adverse performance. Even under the severe but plausible scenario it was demonstrated that the Group would continue to operate and meet current regulatory requirements for at least the next twelve months, albeit at the expense of balance sheet growth.

The Board has concluded based on the items below that the going concern basis of accounting was deemed appropriate:

- Planned performance, including a medium-term plan which returns the Group to profitability.
- The assessment of downside risk to the medium-term plan.

1.3 Statement of compliance

The Consolidated financial statements of the Group and the separate financial statements of the Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

1.4 Basis of consolidation

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. Details of the subsidiaries are given in note 15.

1.5 Summary of significant accounting policies

1.5.1 New standards, interpretations and amendments adopted by the Group

From 1 October 2019, a number of new and revised standards issued by the International Accounting Standards Board, and endorsed for use in the EU, came into effect for the Group. New and revised standards adopted in the year that are deemed significant to the Group are outlined below. A number of other new standards are also effective from 1 October 2019, but they do not have a material effect on the Group's financial statements.

1.5.2 Changes in accounting policies and disclosures

The accounting policies applied by the Group do not differ from those in the 2019 Annual Report, except for the following:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 October 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 October 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has lease contracts for premises and equipment. Before the adoption of IFRS 16, the Group, as lessee, classified each of its leases at the inception date as either a finance lease or an operating lease. Refer to note 1.6.5 for the accounting policy prior to 1 October 2019. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to note 1.6.5 for the accounting policy beginning 1 October 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of the incremental borrowing rate at the date of initial application. In some leases, the

right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Group also applied the available practical expedients wherein it:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease terms that ends within twelve months of the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Impact on the financial statements

Based on the above, at 1 October 2019, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments.

- Right-of-use assets of £2.4m were recognised and presented in the statement of financial position within 'Office equipment, motor vehicles and right-of-use assets'.
- Lease liabilities of £2.2 million were recognised.

The weighted average incremental borrowing rate applied to lease liabilities at transition date was 2.77%. At 30 September 2019, IAS 17 operating lease commitments as disclosed in note 30 of the Annual Report & Financial Statements 2019 amounted to £3.1 million. The difference between this and total lease liabilities recognised at 1 October 2019 on transition of £2.2 million relates to termination options reasonably certain to be exercised of £0.8 million and the impact of discounting of £0.1 million.

1.5.3 Financial instruments – initial recognition and subsequent measurement

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 that the Group becomes a party to the contractual provisions of the instrument). This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to customers when funds are received by the Group.

Initial measurement of financial assets and liabilities

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs which are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss. Trade receivables are measured at the transaction price.

Measurement of financial assets and financial liabilities

The Group classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost.
- Fair value through other comprehensive income ('FVOCI').

Financial liabilities are measured at amortised cost, and derivatives at FVTPL (see below).

Financial assets and liabilities

Balances at central banks, loans and advances to customers, other assets at amortised cost

The Group measures balances at central banks, loans and advances to customers and other assets at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined as follows:

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Solely Payments of Principal and Interest ('SPPI') test

As a second step of its classification process, the Group assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. The Group's loan assets of hire purchase and conditional sales agreements are repaid by instalments of principal and interest with an administration fee. These meet the SPPI test.

'Principal', for the purpose of this test, is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset, for example, if there are repayments of principal or amortisation of the premium/discount.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Derivative financial instruments recorded at fair value through profit or loss

The Group uses derivative financial instruments in the form of interest rate swaps to manage its exposure to interest rate risk. In accordance with its treasury policy, the Group does not hold or issue derivatives for proprietary trading.

Derivatives are entered into only for the purposes of matching or eliminating the risk from potential movements in interest rates in the Group's assets and liabilities. The Group uses the International Swaps and Derivatives Association Master Agreement to document these transactions in conjunction with a Credit Support Annex.

The derivatives are not designated as part of an accounting hedge relationship. As such, all gains and losses arising from changes in fair value are recognised in net gains/losses on financial instruments at fair value through profit or loss in the Income Statement. To calculate fair values, the Group typically applies discounted cash flow models using yield curves that are based on observable market data. For collateralised and non-collateralised positions, the Group uses discount curves based on overnight indexed swap rates.

Derivatives are classified as financial assets where their fair value is positive and as financial liabilities where their fair value is negative. Where there is the legal right and intention to settle on a net basis, then the derivative is classified as a net asset or net liability, as appropriate.

Credit risk derived from derivative transactions is mitigated by entering into master netting agreements and holding collateral. Such collateral is subject to the standard industry Credit Support Annex and is paid or received on a regular basis. At 30 September 2020, net cash collateral posted is £nil (2019 – £nil).

Debt instruments at FVOCI

FVOCI debt instruments are measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income ('OCI'). Interest income and foreign exchange gains and losses are recognised in profit or loss. When a debt instrument measured at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to the Income Statement.

The Expected Credit Loss ('ECL') for debt instruments measured at FVOCI does not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the income statement upon derecognition of the assets.

Due to banks and due to customers

After initial measurement, amounts due to banks and due to customers are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds and costs that are an integral part of the Effective Interest Rate ('EIR') as defined in note 1.6.1.

Other borrowed funds

After initial measurement, other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on funds and costs that are an integral part of the EIR.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortised cost, exchange differences are recognised in profit or loss in the 'other income' line item.
- For debt instruments measured at FVOCI, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other income' line item.

Derecognition of financial assets and liabilities

Financial assets

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets, is derecognised where:

- The rights to receive cash flows from the asset have expired.
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. 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 derecognition of the original liability and the recognition of a new liability.

Impairment of financial assets

The Group is required to recognise Expected Credit Losses ('ECL') based on unbiased forward-looking information for all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contract.

The Group uses the three-stage model for determination of expected credit losses (i) For loans where the credit risk has not increased significantly since initial recognition, a provision is recognised for the expected 12 month credit losses expected to be incurred; (ii) For loans where there is deemed to be a significant increase in credit risk, a provision for the expected lifetime credit loss is recognised across the segment (as defined below); and (iii) For loans that are in Stage 3, the Group undertakes a specific impairment assessment.

For loans classified as Stage 1 or 2, an assessment is performed on a portfolio wide basis for impairment, with the key judgements and estimates being:

- The determination of significant increase in credit risk.
- The probability of an account falling into arrears and subsequently defaulting.
- Loss Given Default ('LGD').
- Forward-looking information.

In addition to the above, the Group undertakes a review of the recoverability of the exposure for loans that are in Stage 3.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's original EIR.

For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and

For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis or on a collective basis for portfolios of loans that share similar economic risk characteristics.

Significant increase in credit risk ('SICR')

The Group applies a series of criteria to determine if an account has demonstrated a SICR and should therefore be moved to Stage 2.

- Quantitative criteria – This considers the increase in an exposure's remaining lifetime Probability of Default ('PD') at the reporting date compared to the expected residual lifetime PD when the exposure was originated. The Group segments its credit portfolios into PD bands and has determined a relevant threshold for each PD band, where a movement in excess of this threshold is considered to be significant. These thresholds have been determined separately for each portfolio based on historical evidence of delinquency.
- Backstop criteria – IFRS 9 includes a rebuttable presumption that 30 days past due is an indicator of a SICR. The Group considers 30 days past due to be an appropriate backstop measure and does not rebut this presumption.

Due to the impact and uncertainty introduced on the external environment by COVID-19, it has been necessary to consider whether a SICR has occurred for certain loans, in particular where a COVID-19 payment concession or loan extension has been granted. The granting of such a concession or an extension has not in itself been considered an indication of a SICR (transfer to Stage 2) in line with regulatory guidance but nevertheless it has been considered to calculate additional Post Model Adjustments ('PMA') for such exposures within the Business Finance Division ('BFD') and Azule. For exposures within the Consumer Finance Division ('CFD'), these have been assessed based on their status immediately prior to requesting forbearance and, if up to date, the forbearance has not been considered a SICR. In all cases these exposures have remained in Stage 1 unless in arrears, in which case the exposure has been moved to Stage 2.

Definition of default, credit-impaired assets, cures, write-offs and interest income recognition

The definition of default for the purpose of determining ECLs has been aligned to the CRR article 178[1] definition of default to maintain a consistent approach with IFRS 9. When exposures are identified as credit impaired, such interest income is calculated on the carrying value, net of the impaired allowance.

The Group applies a series of quantitative and qualitative criteria to determine if an account meets the definition of default and should therefore be moved to Stage 3. These criteria include:

- When the borrower is more than 90 days past due on any material credit obligation to the Group.
- Significant financial difficulty of the issuer or the borrower.
- A breach of contract, such as default or past due event.
- It is becoming probable that the borrower will enter bankruptcy or liquidation, other forms of insolvency or financial reorganisation.

Loans remain on the balance sheet, net of associated provisions, until they are deemed to have no reasonable expectation of recovery. Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continuing attempts to recover are no longer likely to be successful. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the income statement.

The impairment model does not allow an exposure to be cured (i.e. once a loan goes into default, it stays in default). A PMA has been included for all loans that are in Stage 3 that have resumed repayment for 6 months and are current.

1 CRR Article 178 definition of default considers indicators that the debtor is unlikely to pay, includes exposures in forbearance and is no later than when the exposure is more than 90 days past due.

Forward-looking information

Expected credit losses ('ECL')

ECLs are unbiased, probability-weighted estimates of credit losses determined by evaluating a range of possible outcomes. They are measured in a manner that reflects the time value of money and uses reasonable and supportable information that is both available, without undue cost or effort at the reporting date, and about past events, current conditions, or forecasts of future economic conditions. Measurement of ECLs depends on the 'stage' of the financial asset, based on changes in credit risk occurring since initial recognition, as described overleaf.

- Stage 1 – When a financial asset is first recognised, it is assigned to Stage 1. If there is no SICR from initial recognition, the financial asset remains in Stage 1. Stage 1 also includes financial assets where the credit risk has improved, and the financial asset has been reclassified back from Stage 2. For financial assets in Stage 1, a 12 month ECL is recognised.
- Stage 2 – When a financial asset shows a SICR from initial recognition, it is moved to Stage 2. For financial assets in Stage 2, a lifetime ECL is recognised.
- Stage 3 – When there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit-impaired, it is moved to Stage 3. For financial assets in Stage 3, a lifetime ECL is recognised.
- Lifetime ECL is defined as the ECL that results from all possible default events over the expected behavioural life of a financial instrument.
- 12 month ECL is defined as the portion of lifetime ECL that will result if a default occurs in the twelve months after the reporting date, weighted by the probability of that default occurring.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets.
- For loan commitments and financial guarantee contracts, as a provision.
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from that on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

For debt instruments measured at FVOCI, the loss allowance is recognised in the statement of Comprehensive Income.

Economic scenarios

The Group considers three forward-looking economic indicators for each business line as follows:

	Consumer finance	Business finance & Azule	Bridging finance
Unemployment rate	✓	✓	✓
Used Car Price Index	✓		
Consumer Prices Index (CPI)	✓	✓	
UK Gross Domestic Product (GDP) growth		✓	✓
Nationwide House Price Index (HPI)			✓

The scenarios for UK economic growth, inflation, residential property prices, unemployment and used car prices are obtained from a reputable economic research consultancy firm and reviewed and agreed by the Board.

The consultancy firm combines historical forecast errors with their quantitative assessment of the current risks facing the economy to produce robust forward-looking distributions. The method of weighting the economic scenarios has been approved by the Board and is based on the framework provided by the consultancy firm as detailed below. The weightings applied are based on a scenario weighting of 40% base, 30% upside and 30% downside.

	Upside	Base	Downside
5-year average			
GDP (year on year change)	3.26%	2.66%	1.42%
CPI (year on year change)	1.97%	1.68%	1.01%
Unemployment (5-year average)	3.63%	4.06%	6.69%
HPI (year on year change)	4.02%	1.58%	-3.13%
Used Car Price Index (year on year change)	-1.57%	-1.61%	-1.62%
Peak Values			
GDP	9.17%	5.05%	2.77%
CPI	3.57%	1.95%	2.13%
Unemployment Rate	4.89%	6.50%	8.42%
HPI	9.91%	5.60%	6.22%
Used Car Price Index	0.32%	0.80%	1.68%

Sensitivity analysis

The calculation of the Group's impairment provision is sensitive to changes in the chosen weightings. The effect on the closing modelled provision of each portfolio as a result of applying 100% weightings to each of the chosen scenarios shown below.

	Upside £'000	Base £'000	Downside £'000
30 September 2020			
Business Finance Division	(123)	(91)	555
Consumer Finance Division	(636)	(27)	834
Bridging Finance	(27)	(2)	30
Azule Finance	(7)	(5)	32

Model calculation

The definitions of the ECL calculations are outlined below and the key elements are, as follows:

- PD – The Probability of Default ('PD') is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default ('EAD') is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments in full, continued repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD – The Loss Given Default ('LGD') is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

ECLs are calculated by multiplying three main components, being the PD, LGD and the EAD, discounted at the original Effective Interest Rate ('EIR').

Management adjustments are made to modelled output to account for situations where known or expected risk factors and information have not been considered in the modelling process. In particular, where segments of the portfolio have little or no historical information to compute either PD or LGD, ECLs are extrapolated from a related segment. This is particularly relevant for our highest credit grade business across all divisions and, in particular, Bridging finance.

Overlays and post model adjustments ('PMA')

Against the background of the COVID-19 pandemic, the Group has assessed the modelled output and, where known or expected risk factors and information have not been considered fully in the modelling process, the Group applies an overlay or a post model adjustment ('PMA').

The COVID-19 related additional provisions are summarised as follows:

- A small number of provisions have been applied to large client agreements in default (Stage 3). These overlays are based on known information about the specific cases, such as the depressed value of the assets and whether a charging order is in place, with a recovery rate estimated on the shortfall. These specific overlays contributed to an additional £1.4 million to the total ECL (2019 – £nil).
- The COVID-19 pandemic and subsequent national lockdown, with its adverse effect on asset values, necessitated an overlay for recovery rates. An additional overlay was calculated for this risk. The overlay accounted for an additional £0.2 million increase on the total ECL (2019 – £nil).
- It is perceived that the likelihood of default may have increased for those customers who have applied for COVID-19 specific forbearance within CFD. Therefore, the Group applied an additional provision for the Consumer Finance loans that are in forbearance. The overlay accounted for an additional £0.1 million to the total ECL (2019 – £nil).
- Due to the high level of COVID-19 forbearance experienced in the coach, bus and minibus portfolio within BFD, a further overlay was considered appropriate. The gross carrying amount of this portfolio in forbearance at year end was £6.1 million (September 2019 – £nil). A comprehensive review of the portfolio was undertaken and an additional provision was made against the large exposures deemed most at risk of entering Stage 3 or going into arrears. The overlay accounted for an additional £0.4 million in the total ECL (2019 – £nil).
- COVID-19 has had an adverse impact on the film and TV market which Azule serves. The lifting of the initial restrictions meant that the film and TV sector could return to work, but the government continued the ban on mass gathering events such as concerts, festivals, conferences and exhibitions. This has

resulted in those who service live events being forced to remain closed, therefore requiring additional support from the government through furlough, CBILS and BBLs and then also support from their creditors such as asset finance providers extending forbearance. Management deemed it necessary to provide an additional overlay to cover the risks associated with agreements in forbearance in the Azule book. The overlay accounted for an additional £0.4 million in the total ECL (2019 – £nil).

- An overlay is in place for customers who are entering their third round of forbearance, as in some cases they may not have made full payments to the Group for nine months. Management perceives there to be additional risk associated with these customers and therefore, an additional provision has been applied to these agreements. The overlay accounts for an additional £0.1 million in the total ECL (2019 – £nil).

Other PMAs

- A PMA was implemented to take additional provisions on defaulted loans, where the agreements had been terminated and assets recovered with residual outstanding balances, resulting from revisions to recovery expectations against those exposures. The overlay accounts for an additional £6 million in the total ECL (2019 – £nil).
- The ECL model applied to the Group uses three economic scenarios in the impairment calculations. Management deemed it necessary to replace the downside scenario with a severe downside scenario in the calculations. The overlay contributed an additional £0.1 million in the total ECL (2019 – £nil).
- The ECL model does not allow an exposure to be cured (moved from Stage 3 to Stage 2) unless the loan has returned to full payment and has been making such payments for at least the last six months. The Group has included an overlay to account for these cured agreements which has resulted in the provision reducing by £0.2 million (2019 – £nil).
- A PMA has been implemented to address the regrading of credit grades. The Group has carried out a regrade of the Business Finance and Consumer Finance portfolios to address the possible deterioration in the quality of the loan book. The overlay accounts for an additional £0.3 million in the total ECL (2019 – £nil).

The total of the overlays and PMAs is a net increase to the impairment provision of £8.8 million (2019 – £0.03 million).

Expected life

Lifetime ECLs must be measured over the expected life. This is restricted to the maximum contractual life and considers expected prepayment and extension.

Discounting

ECLs are discounted at the EIR at initial recognition or an approximation thereof and consistent with income recognition. Lease receivables are discounted at the rate implicit in the lease.

When estimating the ECLs, the model considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered.

The model assesses Stage 1 on a 12 month ECL and Stage 2 on a lifetime ECL basis. For Stage 3, where loans are in default but are not in a formal recovery process, the model above is followed and assesses ECL on a lifetime basis.

For those loans in formal recovery, the Group assesses the ECL by estimating future cash receipts over the expected period before the outstanding balance is expected to be written off, discounted at the EIR at initial recognition or an approximation thereof.

1.6 Significant accounting policies

With the exception of changes to the Group's accounting policies resulting from new and revised accounting standards (note 1.5.1), the Group has consistently applied the following accounting policies to all periods presented in the financial statements.

1.6.1 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.

Effective Interest Rate ('EIR') method

The Group's EIR methodology 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 potentially different interest rates charged at various stages and 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 lifecycle of the instruments, as well as expected changes to the Bank of England Base Rate and other fee income/expense that are integral parts of the instrument.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as FVOCI, 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. The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, Stage 1 and stage 2 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. For Stage 3 the interest income is based on amortised cost less the impairment charge, multiplied by the EIR.

1.6.2 Dividend income

Dividend income is recognised when the Group's or Company's right to receive the payment is established, which is generally when the shareholders approve the dividend.

1.6.3 Fee and commission income

The Group earns fee and commission income from a range of services which 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.
- Fees earned from late payment charges and recharge of costs incurred from the recovery of assets under hire purchase and finance lease agreements.

1.6.4 Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated at FVTPL and non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes.

1.6.5 Leasing

Policy applicable before 1 October 2019

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.

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.

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.

Policy applicable after 1 October 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of- use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within note 16 'Office equipment, motor vehicles and right-of-use assets' and are subject to impairment in line with the Group's policy as described in note 1.6.10 'Impairment of non-financial assets'.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease 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 period in which they are earned.

Finance leases

A finance lease is a lease or hire purchase contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are recognised as loans at an amount equal to the gross investment in the lease, which comprises the lease payments receivable and any unguaranteed residual value, discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

1.6.6 Cash and cash equivalents

Cash and cash equivalents as referred to in the Consolidated Statement of Cash Flows 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.

1.6.7 Office equipment, motor vehicles and right-of-use assets

Office equipment, motor vehicles and right-of-use assets 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 office equipment and motor vehicles to their residual values over their estimated useful life as follows:

Office equipment, fixtures and fittings	–	Between 3 to 10 years
Motor vehicles	–	4 years

Office equipment, motor vehicles and right-of-use assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition 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 derecognised. Right-of-use assets are presented together with office equipment in the Balance Sheet – refer to note 16. Right-of-use assets are depreciated on a straight-line basis over the lease term.

1.6.8 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 an operation, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

1.6.9 Intangible assets

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

Internally developed intangible assets including subsequent expenditure on them, are capitalised as assets only when the Group is able to demonstrate that the following conditions have been met. If these conditions are not met, expenditure is recognised in administrative expenses in the income statement as incurred.

- Expenditure can be reliably measured.
- The product or process is technically and commercially feasible.
- Future economic benefits are probable.
- The Group has the intention and ability to complete development and subsequently use or sell the asset.

The cost of externally acquired computer software includes the original purchase price of the asset and any directly attributable costs of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Capitalised computer software and intangible assets are subsequently measured at cost less accumulated amortisation and any accumulated impairment losses.

Computer software is amortised on a straight-line basis over its estimated useful life of between three and ten years. Amortisation is recognised in administrative expenses in the income statement. The amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

All intangible assets are reviewed for indicators of impairment at each reporting date. If such an indication exists, the asset's recoverable amount, being the greater of value in use and fair value less costs to sell, is estimated and compared to the carrying amount. If the carrying amount of the asset exceeds the recoverable amount an impairment loss is recognised in administrative expenses in the income statement.

1.6.10 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 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 other than for goodwill and other intangible assets. Disclosures of the assumptions used to test for impairment are given in note 1.7.3.

1.6.11 Share-based payment transactions

The Company operates two equity-settled share option plans for its employees. The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in note 8. 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 period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the income statement for a period represents the movement in cumulative expense recognised at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

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.

1.6.12 Pension benefits

The Group operates a defined contribution pension plan. The contributions payable to a defined contribution plan is 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.

1.6.13 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.

1.6.14 Taxes

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. Calculations of tax are disclosed in note 10.

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 are recognised for all taxable temporary 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.
- 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 debt instruments at fair value through Other Comprehensive Income ('OCI') and foreign exchange differences.

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.

1.6.15 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 1.6.10.

1.6.16 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.

1.6.17 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.

1.6.18 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.

1.6.19 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.

1.6.20 Write-offs

Financial assets are written off either partially or in their entirety only when the Group has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the income statement.

1.6.21 Forborne and modified loans

The Group considers a loan to be forborne when such concessions or modifications to it are provided as a result of the borrower's present or expected financial difficulties and the Group would not have otherwise agreed to them. Indicators of financial difficulties include temporary changes to a customer's circumstances, defaults on covenants or significant concerns raised by the Credit Risk Department.

Forbearance includes a variety of concessions including payment plans, reduced monthly payments, COVID-19 related payment deferrals of three to nine months and extensions to the term of the agreement. In all instances, the objectives are to treat customers fairly, to ensure that the forbearance is sustainable and affordable and to ensure that the forbearance complies with regulatory rules and guidance.

During the financial year, the Group received unprecedented levels of forbearance requests from customers as a result of the impact of the COVID-19 pandemic. Forbearance is usually considered to be a potential indicator of a significant increase in credit risk. However, due to the impact and complexity of COVID-19, it has been necessary to enhance the approach in determining whether this has indeed occurred. In particular, a COVID-19 payment concession in line with regulatory guidance has not in itself constituted that a significant increase in credit risk (transfer to Stage 2) has occurred for the majority of the Bank's loans. Instead, a request for COVID-19 forbearance has been considered with the usual indicators of a significant increase in credit risk such as recent customer payment history and whether the customer was up to date with payments at the time of granting the concession.

However, given the continuing nature of the pandemic and the requests for forbearance at the year end an additional overlay has been applied to reflect the increased risk in the Group's portfolio as a result of granting forbearance due to COVID-19. Details of forborne assets are disclosed in note 29.3.2.

If modifications are substantial, the loan is derecognised, as explained in note 1.5.3.

1.6.22 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.

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 IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the income statement, in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 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 reassesses 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 cash-generating units 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 cash-generating unit ('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 in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit 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.

1.7 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 requires the directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are discussed in the notes 1.7.1 to 1.7.4.

1.7.1 Effective interest rate (estimate)

Interest and termination income is recorded using the effective interest rate method. Management must use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. Management reviews the expected lives on a segmental basis, whereby products of a similar nature are grouped into cohorts that exhibit homogenous behavioural attributes. The key assumptions applied by management in the effective interest rate methodology is the behavioural life of the assets. The expected life behaviours are subjected to changes in internal and external factors and may result in adjustments to the carrying amount of loans which must be recognised in the income statement. The effective interest rate behavioural models are based on market trends and experience.

1.7.2 Impairment losses on financial assets (judgement and estimate)

IFRS 9 impairment involves several important areas of judgement, including estimating forward-looking modelled parameters (PD, LGD and EAD), developing a range of unbiased future economic scenarios, estimating expected lives and assessing SICR, based on the Group's experience of managing credit risk.

Within the Group's consumer and business finance portfolios, which comprise large numbers of small, homogenous assets with similar risk characteristics and where credit scoring techniques are generally used, the impairment allowance is calculated using forward-looking modelled parameters, which are typically run at a cohort level.

For assets in Stage 3, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows across a range of recovery options are taken into account. These considerations can be subjective, but the recovery rates are routinely back tested and used as the base case.

The Asset and Liability Committee ('ALCO') considers the recovery rates, weightings and economic factors, and where necessary, recommends changes to the Board for approval.

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement and estimation, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades.
- The Group's criteria for assessing if there has been a significant increase in credit risk and therefore allowances for financial assets should be measured on a Lifetime Expected Credit Loss ('LTECL') basis and an appropriate qualitative assessment.
- Lifetime to default ('LTD') is the number of months that agreements are expected to default after inception.
- Lifetime to write-off ('LTW') is the number of months after default that agreements are expected to be written off.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

The ECL provision is sensitive to judgement and estimations made with regard to the selection and weighting of multiple macroeconomic scenarios. To supplement the models, the Group also applied expert credit risk judgement through post-model adjustments (PMAs). These are designed to account for factors that the models cannot incorporate or where the sensitivity is not as would be expected under what is an unprecedented economic stress scenario. Through this process, the Group applied PMAs of £8.8 million (September 2019 £nil) comprising overlays in relation to the Group's expected payment holiday experience, the evolving macroeconomic dynamics that may not be fully captured in inputs or models and the assumptions on defaulted receivables.

Certain asset classes are less sensitive to specific macroeconomic factors, showing lower relative levels of sensitivity. To ensure appropriate levels of ECL, the relative lack of sensitivity is compensated for through the application of PMAs, further detail of which can be found in note 1.5.3.

The majority of the residual PMAs increases is to address a lack of sensitivity in the modelled outcome.

1.7.3 Impairment testing of investment in subsidiaries and goodwill (judgement and estimate)

The Group assesses, at each reporting date, whether there is an indication that goodwill acquired through acquisitions or investments in subsidiaries 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.

The review of goodwill and investments in subsidiaries for impairment reflects the Board's best estimate of future cash flows of the Group's subsidiaries and goodwill and the rates used to discount these cash flows. Both these variables are subject to judgement and estimation uncertainty as follows:

- The future cash flows are sensitive to projected cash flows based on the forecasts and assumptions regarding the projected periods and the long-term pattern of sustainable cash flows thereafter.
- The rates used to discount future expected cash flows can have a significant effect on their valuations and are based on the price-to-book ratio method which incorporates inputs reflecting a number of variables.

An impairment is recognised if impairment testing finds that the carrying amount of the investment or CGU exceeds its recoverable amount. The recoverable amount of the investment or CGU is calculated based on its value in use, determined by discounting the future cash flows (pre-tax profits) to be generated from its continuing use.

The key assumptions used in the calculation of value-in-use are as follows:

Discount rate
The discount rate is an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amount, timing and risk profile equivalent to those that the entity expects to derive from the asset.

The Group calculates discount rates using the price-to-book ratio method which incorporates target return on equity, growth rate and price-to-book ratio. The discount rate used was 14.88%.

Cash flow period
Five years of cash flows (pre-tax profits) are included in the discounted cash flow model based on the business plan and terminal value.

Terminal value growth rate
A terminal value growth rate is applied into perpetuity to extrapolate cash flows beyond the cash flow period. A terminal value growth rate of 1.0% is estimated by the Board.

1.7.4 Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

The range of IBRs used by the Group are 2.75% to 5.60%.

1.8 Standards issued but not yet effective

Minor amendments to IFRSs effective for the Group from 1 October 2020 have been issued by the International Accounting Standards Board (IASB). These amendments are expected to have no or an immaterial impact on the Group.

1.9 Amendments to prior year comparatives

Amendments to the previously reported 2019 disclosures have been made relating to the treatment of other account charges and income on termination, in respect of defaulted agreements.

Amounts in the profit and loss account have been reclassified with the recognition of other fees and commissions of £1.1 million and a corresponding increase in impairment losses on financial assets for the same amount. These adjustments have no impact on the previously reported profit before or after tax, nor on the net assets of the Group.

2 Segment information

The Group operates in the principal areas of consumer finance for motor vehicles and business finance for vehicles, plant and equipment, specialist funding in the broadcast and media industry and Bridging finance.

For management purposes, the Group has been organised into four operating segments based on products and services:

Consumer finance
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.

Azule finance
Specialist funding and leasing services direct to individuals and businesses in the broadcast and media industry.

Bridging finance
Bridging finance commenced operations in January 2019, for residential, semi-commercial and commercial properties.

The Group's 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.

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 2020 and 30 September 2019.

The following table presents income and profit and certain asset and liability information for the Group's operating segments. All of the operating segments are materially based in the United Kingdom. Non-United Kingdom based operations are not considered material to the Group and therefore no additional geographical information is disclosed.

Segmental allocations were revised for the year ended 30 September 2020. Comparatives for the 30 September 2019, have been re-presented in accordance with IFRS 8, paragraph 29.

Group **Year ended 30 September 2020**	**Consumer Finance £'000**	**Business Finance £'000**	**Azule Finance £'000**	**Bridging Finance £'000**	**Adjustment at Group level £'000**	**Total segments £'000**
Interest income calculated using the effective interest method	17,182	20,015	1,798	3,242	–	42,237
Interest expense calculated using the effective interest method	(6,842)	(8,241)	(238)	(632)	–	(15,953)
Net interest income	10,340	11,774	1,560	2,610	–	26,284
Fee and commission income	233	791	1,094	4	–	2,122
Fee and commission expense	(982)	(584)	(24)	(12)	-	(1,602)
Net fees and commission (expense)/income	(749)	207	1,070	(8)	–	520
Net loss on financial instruments mandatorily at fair value through profit or loss	(21)	(23)	(3)	(8)	–	(55)
Net operating income	9,570	11,958	2,627	2,594	-	26,749
Impairment losses on financial assets	4,930	8,407	620	474	–	14,431
Personnel expenses	2,690	3,001	1,460	1,145	–	8,296
Other operating expenses	2,421	2,531	448	(132)	–	5,268
Depreciation of office equipment, fixtures, fittings and right-of-use-assets	429	470	151	156	–	1,206
Amortisation of intangible assets	213	233	28	78	–	552
Impairment losses on software	20	21	3	7	–	51
Impairment losses on goodwill	–	–	–	–	1,750	1,750
Total operating expenses	10,703	14,663	2,710	1,728	1,750	31,554
Segment profit/(loss) before tax	(1,133)	(2,705)	(83)	866	1,750	(4,805)
Income tax credit/(expense)	277	245	152	(127)	–	547
Profit/(loss) after tax	(856)	(2,460)	69	739	(1,750)	(4,258)
Total Assets	181,209	197,855	27,063	65,386	1,147	472,660
Total Liabilities	160,759	175,694	23,671	58,661	–	418,785

Group (Re-presentation)

Year ended 30 September 2019	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Adjustment at Group level £'000	Total segments £'000
Interest income calculated using the effective interest method	15,498	16,928	1,722	351	–	34,499
Interest expense calculated using the effective interest method	(5,725)	(6,643)	(492)	(24)	–	(12,884)
Net interest income	9,773	10,285	1,230	327	-	21,615
Fee and commission income*	352	1,210	1,334	–	–	2,896
Fee and commission expense	(602)	(532)	(19)	(1)	–	(1,154)
Net fees and commission (expense)/income	(250)	678	1,315	(1)	–	1,742
Net loss on financial instruments mandatorily at fair value through profit or loss	(24)	(33)	(4)	(2)	–	(63)
Net operating income	9,499	10,930	2,541	324	–	23,294
Impairment losses on financial assets*	1,013	2,191	46	6	–	3,256
Personnel expenses	2,369	3,209	1,655	407	–	7,640
Other operating expenses	2,018	1,391	96	322	–	3,827
Depreciation of office equipment, fixtures, fittings and right-of-use-assets	39	54	40	4	–	137
Amortisation of intangible assets	158	218	24	16	–	416
Total operating expenses	5,597	7,063	1,861	755	–	15,276
Segment profit/(loss) before tax	3,902	3,867	680	(431)	–	8,018
Income tax expense	(790)	(783)	(138)	87	–	(1,624)
Profit/(loss) after tax	3,112	3,084	542	(344)	–	6,394
Total Assets	140,923	194,823	25,309	14,117	2,897	378,069
Total Liabilities	118,056	163,121	26,358	11,779	–	319,314

* Segmental allocations for the recoverable amount of fees charged on credit impaired accounts were revised for the year ended 30 September 2020. Comparatives for the 30 September 2019 have been re-presented in accordance with IFRS 8, paragraph 29.

3 Interest income calculated using the effective interest method

Group	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Cash and short-term funds	**51**	67
Loans and advances to customers	**41,985**	33,954
Financial instruments - FVOCI	**201**	478
Total interest and similar income	**42,237**	34,499

Operating lease rental income of £75,000 has not been separately disclosed as it is not considered material and is included within interest income on loans and advances to customers.

4 Interest expense calculated using the effective interest method

Group	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Paid and accrued to banks	**994**	836
Paid and accrued to customers	**6,950**	5,323
Credit related fees and commission	**7,954**	6,725
Interest expense on lease liabilities	**55**	–
Total interest and similar expense	**15,953**	12,884

5 Net fee and commission income

Group	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Fees and commission income		
Secondary lease income	**331**	385
Other fees not forming part of EIR*	**1,481**	2,511
Other fees and commissions	**310**	–
	2,122	2,896
Fees and commission expenses		
Debt recovery and valuation fees	**(344)**	(195)
Credit assessment costs	**(1,258)**	(959)
	(1,602)	(1,154)
Net fee and commission income	**520**	1,742

*Comparatives for the recoverable amount of fees charged on credit impaired accounts have been re-presented from Impairment losses on financial assets to Fees and commission income to make the Net fee and commission note more relevant following a review of the disclosure and accounting policies applied (see note 1.9).

6 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 29.3. The charge during the year was as follows:

Group	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Total £'000
30 September 2020					
Impairment charge for the year on loans and advances to customers	4,930	8,407	620	474	14,431
30 September 2019*					
Impairment charge for the year on loans and advances to customers	1,013	2,191	46	6	3,256

*Comparatives for the recoverable amount of fees charged on credit impaired accounts have been re-presented from Impairment losses on financial assets to Fees and commission income to make the Impairment losses on financial assets note more relevant following a review of the disclosure and accounting policies applied (see note 1.9).

7 Personnel expenses

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

Group	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Salaries and fees	**6,754**	6,054
Social security cost	**925**	773
Pension costs – defined contribution plan	**377**	267
Share-based payments	**–**	132
Other benefits	**240**	414
	8,296	**7,640**

The average monthly number of persons employed by the Group during the year was 128 (year ended 30 September 2019 – 93). The number of employees at 30 September 2020 was 125.

8 Directors' remuneration and staff costs

Group	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Directors' remuneration		
Directors' emoluments	**1,211**	1,293
Payments in respect of personal pension plans	**34**	61
Long-term incentive schemes	**–**	4
	1,245	1,358

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

Table of directors' remuneration

	Salary and fee £'000	Bonus £'000	Benefits in kind £'000	Pension £'000	Long-term incentive £'000	Other £'000	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Executive directors								
S D Maybury*	289	–	2	–	–	–	291	476
R J Murray**	190	–	2	15	–	–	207	285
D R Bull***	191	–	2	19	–	202	414	296
Non-executive directors								
M F Brown	43	–	–	–	–	–	43	43
T A Franklin	95	–	–	–	–	–	95	95
C A Higgins	57	–	–	–	–	–	57	57
D J Morgan	43	–	–	–	–	–	43	43
D Titmuss	52	–	–	–	–	–	52	52
M Martin	43	–	–	–	–	–	43	11
	1,003	–	6	34	–	202	1,245	1,358

* Pension received in cash.

** Part of the pension received in cash.

*** Resigned 16 March 2020 and left the Company's employment on 30 September 2020. Part of the pension was received in cash and the 'other' amount represents a payment for compensation for loss of office, including £87k as a payment in lieu of six months' notice, £85k as an incentive award measured against specific pre-determined performance criteria and £30k as an ex-gratia payment. Share options previously granted were not cancelled on David Bull's departure from the Group (see page 48).

Share-based payments
At 30 September 2020, the Company has two share option plans, as follows:

- Senior executive equity-settled share option plans.
- Company equity-settled share option plans.

Senior executive equity-settled share option plans
The grant price is determined by reference to the average mid-market price of the Company's ordinary shares on 1 November 2018 and 16 January 2019. The options are both conditional on continued employment with a minimum vesting period of three years and a performance criterion of the Group market value on 9 April 2021 reaching a target price. The target price is in three parts, if 42.41p is reached 3,183,443 options are effectively granted, if 49.47p is reached 4,775,264 options are effectively granted and if 56.54p is reached 6,366,886 are effectively granted. 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 nine years (30 September 2019, restated – ten years).

Of the pool, the following options have been granted with reference to notionally reaching the performance criteria of 56.54p. The model, however, values the options on a weighted basis across the three performance targets to ensure all outcomes are considered.

Group	30 September 2020 £'000	Weighted average exercise price (pence)	30 September 2019 £'000	Weighted average exercise price (pence)
Outstanding at the beginning of the year	**5,960**	**34**	–	–
Granted during the year	**–**	**–**	5,960	34
Exercised during the year	**–**	**–**	–	–
Expired during the year	**(1,988)**	**(35)**	–	–
Outstanding at the end of the year	**3,972**	**33**	5,960	34
Exercisable at the end of the year	**–**	**–**	–	–

During the year ended 30 September 2020
No options were granted.

During the year ended 30 September 2019
The fair value was measured at the grant date using the Black-Scholes model. The inputs were as follows:

Grant date	1 November 2018 and 16 January 2019
Share price at grant date	36.5p
Exercise price	Range 32.9p – 36.5p
Shares under option	5,959,783
Vesting period	3 – 10 years
Expected volatility	30%
Expected life	6.5 years
Risk-free rate	0.45%
Expected dividends	nil
Fair value per model at grant date	Range 4.7p to 5.9p

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. The weighted average remaining contractual life is five years (30 September 2019, restated – six years).

Group	30 September 2020 £'000	Weighted average exercise price (pence)	30 September 2020 £'000	Weighted average exercise price (pence)
Outstanding at the beginning of the year	**3,015**	**17**	3,210	17
Granted during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	(195)	(21)
Expired during the year	**300**	**(27)**	–	–
Outstanding at the end of the year	**2,715**	**15**	3,015	17
Exercisable at the end of the year	**2,715**	**15**	2,420	15

The fair value was measured at the grant date using the Black-Scholes Model.

During the year ended 30 September 2020
No options were granted.

During the year ended 30 September 2019
No options were granted.

9 Other operating expenses

Group	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Advertising and marketing	**283**	271
Administrative expenses	**2,156**	1,073
Information technology and systems	**1,054**	995
Professional fees	**1,695**	957
Rental charges payable under operating lease	**3**	433
Expenses relating to banking services and licences	**77**	98
	5,268	3,827

Professional fees include fees payable to the auditor of £860,000 (year ended 30 September 2019 – £304,000), as analysed below.

Group	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Statutory audit of the Company	**43**	39
Statutory audit of the Company's subsidiaries	**817**	235
Half year independent review report	**–**	30
	860	304

Audit fees are allocated in line with the standard management recharge methodology adopted by the Group.

10 Income tax

(a) The components of income tax expense for the year ended 30 September 2020 and its comparatives

Group	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Current tax		
UK Corporation Tax on profit for the year	**(3)**	(1,507)
Adjustments in respect of prior periods	**(149)**	(65)
Total current tax credit/(charge)	**(152)**	(1,572)
Deferred tax		
Origination and reversal of temporary differences	**454**	(98)
Adjustments in respect of prior periods	**104**	36
Change in tax rate	**141**	10
Total deferred tax credit/(charge)	**699**	(52)
Total tax credit/(charge) for the year	**547**	(1,624)

(b) Deferred tax on items recognised directly in equity

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Share-based payments	**136**	131
Deferred tax on share-based payments	**(19)**	(52)
Statement of changes in equity	**117**	79

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

The Corporation Tax main rate is 19% (30 September 2019 – 19%).

The deferred tax asset has been measured at 19% (30 September 2019 – 17%).

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Accounting profit/(loss) before tax	**(4,805)**	8,018
UK Corporation Tax of 19% (year ended 30 September 2019 – 19%)	**913**	(1,523)
Effects of		
Expenses not deductible for taxation purposes	**(453)**	(45)
Non-taxable income	**29**	–
Adjustments in respect of prior years	**(45)**	(29)
Change in tax rate	**141**	15
Unutilised Losses	**(13)**	–
Share based payment	**(25)**	(42)
Income tax expense as reported in the Consolidated Income Statement	**547**	**(1,624)**
Effective tax rate for the year	**11%**	20%

Factors affecting future tax charge

The budget on 3 March 2021 announced that the UK corporation tax rate will increase from 19% to 25% with effect from 1 April 2023. This will increase the Company's future tax charge accordingly. An increase in rate may also increase the deferred tax asset. It is not practicable to schedule the timing of the reversal of the temporary differences giving rise to the deferred tax asset in order to determine the precise impact of the rate change.

11 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 and diluted EPS calculations.

Company	30 September 2020 £'000	30 September 2019 £'000
Net profit/(loss) attributable to ordinary shareholders	**(4,258)**	6,394
	30 September 2020 '000 units	**30 September 2019 '000 units**
Basic average number of shares	**242,171**	234,102
*Basic earnings per 5p ordinary share (pence)	**(1.7)**	2.7

*There were no potential dilutive shares during the year.

12 Cash and balances at central banks

	Group		Company	
	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Cash and demand deposits	**24,936**	7,371	**278**	123
	24,936	7,371	**278**	123

The Group and the Company do not have monies held in trust for clients. The book value of cash and balances at central banks is assessed to its approximate fair value. Fair value approximates to carrying amount as cash and balances at central banks have minimal credit losses and are either short-term in nature or re-price frequently.

13 Debt instruments at FVOCI

Group	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Balance at 1 October 2019	**19,638**	39,902
Net Sale of covered bonds	**(10,589)**	(20,256)
Change in Fair value during the year	**46**	(8)
Covered Bonds	**9,095**	19,638

There were no material impairment losses on debt instruments at FVOCI during the year and at year end.

14 Loans and advances to customers

Group	Year ended 30 September 2020 £'000	Year ended 30 September 2019* £'000
Consumer lending – gross	**171,854**	131,425
Business lending – gross	**190,462**	180,822
Azule lending – gross	**23,001**	20,142
Bridging lending – gross	**60,612**	12,954
	445,929	345,343
Allowance for impairment losses (see below)	**(18,632)**	(6,840)
	427,297	338,503

Loans and advances to customers include the following receivables.

	Year ended 30 September 2020 £'000	Year ended 30 September 2019* £'000
Less than one year	**76,528**	32,489
Between one and five years	**295,197**	265,869
More than five years	**74,204**	46,985
Impairment allowance	**(18,632)**	(6,840)
	427,297	338,503

Finance lease receivables - Minimum lease payments

The following minimum lease payments are receivable on finance leases.

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Within one year	**5,787**	5,536
After one year but no more than two years	**6,522**	4,449
After two years but no more than three years	**11,332**	10,914
After three years but no more than four years	**15,321**	15,553
After four years but no more than five years	**12,890**	15,211
More than five years	**1,230**	2,455
	53,082	54,118

The following table shows a reconciliation of minimum future lease payments to the gross and net investment in lease payments receivable.

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Minimum future lease payments/gross Investment in leases	**53,082**	54,118
Unearned finance income	**(7,679)**	(8,440)
Net investment in finance leases	**45,403**	45,678

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

Group	Consumer finance £'000	Business finance £'000	Azule finance £'000	Bridging finance £'000	Total £'000
At 1 October 2019**	2,571	4,142	121	6	6,840
Charge for the year (note 6)	4,930	8,407	620	474	14,431
(Recoveries)/write-offs	(580)	(2,230)	171	–	(2,639)
At 30 September 2020	6,921	10,319	912	480	18,632
Made up of					
Individual impairment	776	1,642	767	180	3,365
Collective model provisions including overlays and PMAs	6,145	8,677	145	300	15,267
Total impairment	6,921	10,319	912	480	18,632

Group (Re-presented)**	Consumer finance £'000	Business finance £'000	Azule finance £'000	Bridging finance £'000	Total £'000
At 1 October 2018	2,286	2,084	–	–	4,370
Adoption of IFRS 9 (see note 1.5.3)	91	513	–	–	604
	2,377	2,597	–	–	4,974
Charge for the year (note 6)	1,013	2,191	46	6	3,256
(Recoveries)/write-offs*	(819)	(646)	75	–	(1,390)
At 30 September 2019	2,571	4,142	121	6	6,840
Made up of					
Individual impairment	724	1,163	–	–	1,887
Collective impairment*	1,847	2,979	121	6	4,953
Total impairment	2,571	4,142	121	6	6,840

* Comparatives for the recoverable amount of fees charged on credit impaired accounts have been re-presented from Allowance for Impairment losses to Loans and advances to make the Loans and advances to customers note more relevant following a review of the disclosure and accounting policies applied (please see note 1.9).

** Segmental allocations were revised for the year ended 30 September 2020. Comparatives for the 30 September 2019 have been re-presented in accordance with IFRS 8, paragraph 29.

15 Investment in subsidiary undertakings

Company

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 30 September 2020.

Company Name	Registration number
PCF Credit Limited	01775045
Azule Limited	03151043

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings. The Company does not have any joint ventures or associates. Significant subsidiaries of the Company were as follows:

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Name of company	Incorporated	Nature of business	Percentage of equity interest 30 September 2020	Percentage of equity interest 30 September 2019
PCF Bank Limited	UK	Banking, hire purchase, leasing & Bridging finance	100	100
PCF Credit Limited	UK	Leasing & hire purchase	100*	100*
PCF Equipment Leasing Limited	UK	Leasing & hire purchase	0	100*
PCF Financial Leasing Limited	UK	Leasing & hire purchase	0	100*
Azule Limited	UK	Leasing & hire purchase	100*	100*
Azule Finance Limited	Ireland	Leasing & hire purchase	100*	100*
Azule Finance GmbH	Germany	Leasing & hire purchase	100*	100*

*Held by a subsidiary of the Company.

PCF Equipment Leasing Limited and PCF Financial Leasing Limited were both dissolved on 26 November 2019.

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

The registered office of Azule Finance Limited is Suite 104, 4/5 Burton Hall Road, Sandyford. Dublin 18.

The registered office of Azule Finance GMBH is Kirchtruderinger Straße 17, 81829 München, Germany.

All companies have an Accounting Reference Date of 30 September.

The amount paid by the Group during the year ended 30 September 2019 relating to the acquisition of Azule Limited included amounts in respect of deferred consideration. The deferred consideration paid was subject to the achievement of certain performance criteria relating to the level of new business originations and bad debt provisions following acquisition, and the amount paid was reduced if these criteria were not met.

Company	30 September 2020 £'000	30 September 2020 £'000
Cost and net book value		
At beginning of the year	**32,000**	22,000
Issuance of new shares at 5p par value during the year	**-**	10,000
At 30 September	**32,000**	32,000

The Company has an investment in PCF Bank Limited (the 'Bank'). The net asset value of the Bank at 30 September 2020 was £52,341,000 (30 September 2019 – £54,938,000). 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 no investment in the Bank during the year (30 September 2019 – £10,000,000).

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

16 Office equipment, motor vehicles and right-of-use assets

Group	Assets held under operating leases £'000	Office equipment £'000	Motor vehicles £'000	Right-of-use assets: Land and buildings £'000	Right-of-use assets: Office equipment £'000	Right-of-use assets: Total right-of-use assets £'000	Total £'000
Cost							
At 30 September 2019	–	835	90	–	–	–	925
Effect of the adoption of IFRS 16	–	–	–	2,408	23	2,431	2,431
At 1 October 2019	–	835	90	2,408	23	2,431	3,356
Additions during the year	655	730	–	–	–	–	1,385
Disposals during the year	–	(194)	(90)	–	–	–	(284)
At 30 September 2020	655	1,371	–	2,408	23	2,431	4,457
Accumulated depreciation							
At 30 September 2019	–	320	26	–	–	–	346
Effect of the adoption of IFRS 16	–	–	–	–	–	–	–
At 1 October 2019	–	444	26	–	–	–	470
Depreciation during the year	60	346	26	764	10	774	1,206
Disposals during the year	–	(187)	(52)	–	–	–	(239)
At 30 September 2020	60	479	–	764	10	774	1,313
Net book value	595	892	–	1,644	13	1,657	3,144

Group	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 October 2018	470	–	470
Additions during the year	381	3	384
Acquisitions through business combinations	21	87	108
Disposals during the year	(37)	–	(37)
At 30 September 2019	835	90	925
Accumulated depreciation			
At 1 October 2018	246	–	246
Depreciation during the year	111	26	137
Disposals during the year	(37)	–	(37)
At 30 September 2019	320	26	346
Net book value	515	64	579

The majority of the office equipment is computer hardware, office furniture and fixtures.

Company	Right-of-use assets Land and buildings £'000	Office equipment £'000	Total £'000
Cost			
At 30 September 2019	–	–	–
Effect of the adoption of IFRS 16	2,283	23	2,306
At 1 October 2019	2,283	23	2,306
Additions during the year	–	–	–
Disposals during the year	–	–	–
At 30 September 2020	2,283	23	2,306
Accumulated depreciation			
At 30 September 2019	–	–	–
Effect of the adoption of IFRS 16	–	–	–
At 1 October 2019	–	–	–
Depreciation during the year	714	10	724
Disposals during the year	–	–	–
At 30 September 2020	714	10	724
Net book value	1,569	13	1,582

Future minimum lease rentals receivable under non-cancellable operating leases

Group	30 September 2020 £'000	30 September 2019 £'000
One year or within one year	**214**	–
One to two years	**182**	–
Two to three years	**151**	–
Three to four years	**72**	–
	619	–

17 Goodwill and other intangible assets

Goodwill relates partly to the Group's Consumer Finance Division which arises from the acquisition of a subsidiary company, TMV Finance Limited ('TMV'), acquired in November 2000, and the remainder for the acquisition of Azule Limited on 5 November 2018.

Subsequently, a 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 TMV 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 performance of the CFD division is sufficient to cover the carrying amount against its recoverable amount, and there is no indication of impairment.

The rationale for the Azule acquisition was to diversify as it offers revenue synergies in a niche class of business-critical assets with strong collateral characteristics and lending to better quality credit grade customers.

In performing the annual impairment test, the Group assesses the economic performance of each acquisition to assess whether the value of future discounted cashflows are in excess of what was paid for the acquisition 'over and above' the fair value of the assets and liabilities acquired. To assess this, the Board approved profitability forecast has been used and discounted back to present value.

Both the CGU's acquired are expected to continue to perform for the foreseeable future. However, the forecast covers a five year period, and there is requirement to capture expected growth and cashflows beyond these dates. To complete this there is a Terminal valuation that is required to be performed to assess whether to see if goodwill has been impaired or not. Terminal value often comprises a large percentage of the total assessed value.

TMV CGU

The recoverable amount of the TMV CGU at 30 September 2020 has been determined based on a value in use ('VIU') calculation using cash flow projections from financial budgets approved by the Board covering a five-year period, and a terminal valuation based on the last year of the forecast period. The projected cash flows have been updated to reflect the increased business over this current year which is aligned with recent demand and future expected growth in its products and services. The pre-tax discount rate applied to cash flow projections is 14.88% per annum over a five-year period and, for the period beyond, a terminal growth rate of 1% is used, being the expected long-term average growth rate for the Group within the economies in which it operates. It has been concluded that the value in use exceeds the carrying value in use. In conclusion there is no obvious impairment loss existing at balance sheet date and the current goodwill remains appropriate for the carrying value for the TMV acquisition.

Azule CGU

The recoverable amount of the Azule CGU at 30 September 2020 has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period, and a terminal valuation based on the last year of the forecast. The projected cash flows have been updated to reflect the decreased business in this current year which is aligned with recent demand impacted by COVID-19 and reduced future expected growth in its products and services. The pre-tax discount rate applied to cash flow projections is 14.88% per annum over a five year period and, for the period beyond, a terminal growth rate of 1% per annum is used, being the expected long-term average growth rate for the Group. It has been concluded that the value in use less the carrying value resulted in an impairment £1,750,000 (30 September 2019 – £nil), which has been taken immediately to the income statement.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of value in use for both TMV and Azule is most sensitive to the following assumptions:

- Terminal value
- Terminal growth rate
- Discount rates
- Free cash flow for the next forecasted year

Terminal value (using the perpetuity method) – discounting is necessary because the time value of money creates a discrepancy between the current and future values of a given sum of money. In business valuation, free cash flow or dividends can be forecast for a discrete period of time, but the performance of ongoing concerns becomes more challenging to estimate as the projections stretch further into the future. Moreover, it is difficult to determine the precise time when a company may cease operations.

To overcome these limitations, investors can assume that cash flows will grow at a stable rate forever, starting at some point in the future. This represents the terminal value.

Terminal value is calculated by dividing the last cash flow forecast by the difference between the discount rate and terminal growth rate. The terminal value calculation estimates the value of the company after the forecast period.

Terminal growth rate – The terminal growth rate is the constant rate that a company is expected to continue to grow at. This growth rate starts at the end of the last forecasted cash flow period in a discounted cash flow model and goes into perpetuity.

Discount rates – Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ('WACC').

Free cash flows for the next five forecasted years – Both businesses acquired are expected to continue to grow over the next five years.

Goodwill

Group	**Year ended 30 September 2020 £'000**	**Year ended 30 September 2019 £'000**
TMV Finance Limited acquisition	**397**	397
Azule Limited acquisition	**750**	2,500
	1,147	2,897

Group	**Year ended 30 September 2020 £'000**	**Year ended 30 September 2019 £'000**
Cost and net book value		
At 1 October	**2,897**	397
Additions	**–**	2,500
Impairment	**(1,750)**	–
At 30 September	**1,147**	2,897

Other intangible assets

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

Group	**Year ended 30 September 2020 £'000**	**Year ended 30 September 2019 £'000**
Cost		
At 1 October	**6,149**	5,249
Additions during the year	**487**	900
Write-off - impairment loss on software	**(88)**	–
Software in development	**252**	–
At 30 September	**6,800**	6,149
Accumulated depreciation		
At 1 October	**3,105**	2,689
Amortisation during the year	**552**	416
Write-off - impairment loss on software	**(37)**	-
At 30 September	**3,620**	3,105
Net book value at 30 September	**3,180**	3,044

Group	**Year ended 30 September 2020 £'000**	**Year ended 30 September 2019 £'000**
Net book value of combined goodwill and other intangible assets	**4,327**	5,941

18 Deferred tax assets

	Group		Company	
	30 September 2020 £'000	30 September 2019 £'000	30 September 2020 £'000	30 September 2019 £'000
Accelerated capital allowances	**-**	(17)	**-**	–
Decelerated capital allowances	**1,248**	904	**60**	65
Provisions	**507**	–	**34**	–
IFRS 9 COAP[1] adjustments	**41**	–	**-**	–
Share based payments	**23**	–	**23**	–
Corporate Bonds	**(9)**	–	**-**	–
Other temporary differences	**-**	218	**-**	70
	1,810	1,105	**117**	135
At 1 October	**1,105**	1,185	**135**	196
Recognised in income statement	**595**	(152)	**1**	(8)
Adjustment in respect of prior year timing difference	**104**	36	**-**	(1)
Adjustments to opening reserves - IFRS 9	**-**	103	**-**	–
On acquisition	**-**	(17)	**-**	–
Recognised in other comprehensive income	**(7)**	2	**-**	–
Recognised in equity	**(19)**	(52)	**(19)**	(52)
Other adjustments	**32**	–	**-**	–
At 30 September	**1,810**	1,105	**117**	135

[1] COAP – Change of Accounting Practice.

The standard rate of Corporation Tax is 19% (30 September 2019 – 19%).

The deferred tax asset has been measured at 19% (30 September 2019 –17%).

19 Due from related companies

The following outstanding balances are due from and to Group companies.

	Company	
	30 September 2020 £'000	30 September 2019 £'000
Due from Group companies	**8,759**	6,927
Due to Group companies	**5,242**	3,239

These balances are unsecured, interest free and repayable on demand.

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. Due from Group companies is entirely allocated to Stage 1 and based on materiality considerations, no provision has been recorded.

20 Other assets

	Group		Company	
	30 September 2020 £'000	30 September 2019 £'000	30 September 2020 £'000	30 September 2019 £'000
Prepayments	**787**	807	**758**	771
Other receivables	**1,264**	4,125	**12**	125
	2,051	4,932	**770**	896

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 other receivables closely approximates to the carrying amount.

21 Due to banks

Group	30 September 2020 £'000	30 September 2019 £'000
Current		
Secured loans and borrowings	**208**	16,644
Non-current		
Secured loans and borrowings	**62,412**	27,768
	62,620	44,412

Bank overdrafts
The Group had no bank overdraft facility at 30 September 2020 (30 September 2019 – £nil).

Interest bearing facilities
£208k block discounting facilities to Azule Limited
These facilities when drawn as loans have fixed interest rates and maturity dates of up to five years. The facilities are secured by assigned receivables of Azule Limited. At 30 September 2019, similar facilities of £6.0 million were outstanding to Azule Limited and £4.4 million were outstanding to PCF Credit Limited, with the latter having been fully repaid during the year.

£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.

£37.4 million term loan facility granted to PCF Bank by the Bank of England under the Term Funding Scheme with additional incentives for SMEs
This facility has a rate linked to the Bank of England's Base Rate and has a maturity between June 2024 and September 2024.

The loan is secured by a charge over specified loans and receivables and the guarantee of the Company.

£30.0 million revolving credit facility granted to PCF Bank by Leumi ABL Limited
This facility when drawn as a loan has a variable rate linked to overnight LIBOR plus a margin and a maturity date of up to five years. The facility is secured by a charge over specified loans and receivables and the guarantee of the Company. At 30 September 2020, this facility was undrawn and the facility will terminate by 31 December 2021.

£25.0 million repo facility granted to PCF Bank by NatWest Markets plc
This facility when drawn as loans has fixed interest rates and maturity dates of up to 1 year. The facilities are secured by bonds owned by the Company. At 30 September 2020, this facility was undrawn.

22 Due to customers

Group	30 September 2020 £'000	30 September 2019 £'000
Retail customers		
Notice account	**79,634**	32,835
Term deposit	**262,150**	234,235
	341,784	267,070

Included in amounts due to customers is accrued interest amounting to £2,102,000 (30 September 2019 – £1,681,000) and £855,000 (30 September 2019 – £220,000) for term deposits and notice accounts respectively.

23 Financing activity

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

Group	Note	1 October 2019 £'000	Azule acquisition £'000	Funding cash flows £'000	Interest cash flows £'000	30 September 2020 £'000
Due to banks	21	44,412	–	18,196	12	62,620
Subordinated liabilities	24	–	–	7,000	126	7,126
		44,412	–	25,196	138	69,746

	Note	1 October 2018 £'000	Azule acquisition £'000	Funding cash flows £'000	Interest cash flows £'000	30 September 2019 £'000
Due to banks	21	48,881	12,543	(17,025)	13	44,412
		48,881	12,543	(17,025)	13	44,412

24 Other borrowed funds

	30 September 2020 £'000	30 September 2019 £'000
Subordinated debt	**7,126**	–
	7,126	–

£7.0 million subordinated notes issued by PCF Bank Limited

At 30 September 2020 PCF Bank Limited had a £15 million subordinated note facility from British Business Investments Limited (30 September 2019 – £15 million). The notes may be issued once per quarter in tranches of between £1 million and £5 million, and each tranche has a fixed coupon of 8% per annum, a final maturity 10 years from the date of issue and is callable by the issuer 5 years from the date of issue. These notes meet the conditions for tier 2 capital and at 30 September 2020 £7 million of notes had been issued (30 September 2019 – £nil).

25 Lease Liabilities

Group	30 September 2020 £'000	30 September 2019 £'000
At 1 October – effect of adoption of IFRS 16	**2,154**	–
Accretion of interest	**55**	–
Payments	**(605)**	–
At 30 September	**1,604**	–

Company	30 September 2020 £'000	30 September 2019 £'000
At 1 October – effect of adoption of IFRS 16	**2,053**	–
Accretion of interest	**50**	–
Payments	**(578)**	–
At 30 September	**1,525**	–

The year ended 30 September 2020 is the year of adoption of IFRS 16.

26 Other liabilities

	Group		Company	
	30 September 2020 £'000	30 September 2019 £'000	30 September 2020 £'000	30 September 2019 £'000
Other payables	**3,979**	228	**1,382**	412
Accruals	**1,467**	6,020	**844**	1,280
	5,446	6,248	**2,226**	1,692

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

27 Issued capital and reserves

	30 September 2020 '000 units	30 September 2019 '000 units	30 September 2020 £'000	30 September 2019 £'000
Ordinary shares issued and fully paid				
At 1 October	**250,197**	212,230	**12,510**	10,611
Issuance of new shares during the year	**–**	36,028	**–**	1,802
Issue of shares for part payment of Azule Limited	**–**	1,923	**–**	96
Dividend reinvestment	**43**	16	**2**	1
At 30 September	**250,240**	250,197	**12,512**	12,510

Share premium	30 September 2020 £'000	30 September 2019 £'000
At 1 October	**17,619**	8,527
Issuance of new shares during the year	**6**	9,092
At 30 September	**17,625**	17,619

	Number of shares	Issue price	Change in share capital at 5p per share £'000	Change in share premium £'000
9 April 2020				
Dividend reinvestment	43,499	5.0p	2	6

Other reserves

	30 September 2020 £'000	30 September 2019 £'000
Fair value gain/(loss) for financial instruments FVOCI (note 1.5.3)		
Fair value movements in debt instruments at FVOCI	**53**	7
At 30 September	**53**	7

Own shares (Employee Share Option Plans)

Own shares represent 768,377 (30 September 2019 – 751,764) 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 2020 was £141,381 (30 September 2019 – £263,117).

	30 September 2020 £'000	30 September 2019 £'000
Own Shares		
At 1 October	**(355)**	(355)
Reclassification to cash	**208**	–
At 30 September	**(147)**	(355)

At 30 September 2019, all assets held within the Employee Benefits Trust were reported as Own Shares. At 30 September 2020, additional supporting details have been provided to reclassify this balance between Own Shares and Cash.

Dividend

No dividend is payable to shareholders in respect of the year ended 30 September 2020 (year ended 30 September 2019 – 0.4 pence per share and £1,000,787 payable).

28 Financial instruments

The Group uses financial instruments to invest its liquid asset buffer (Treasury Bills, multilateral development bank bonds, covered bonds) to raise wholesale funding (Bank of England Term Funding Scheme, revolving credit facility, block discounting facilities, subordinated debt facilities) and to manage interest rate risks (interest rate swaps). 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 1.5.3.

28.1 Valuation techniques

Debt instruments at FVOCI

Covered bond debt securities are financial instruments issued by banks or building societies and collateralised against a pool of assets that, in case of failure of the issuer, can cover claims at any point in time. They are subject to specific legislation to protect bondholders.

These debt 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 this instance, the Group classifies those securities as Level 2.

Derivative financial instruments

Fair values of derivatives are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows.

28.2 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 between market participants at the measurement date.

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 28.4.

28.3 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 maintain 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 Treasury function, which reports to the Chief Financial Officer.

28.4 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	FVTPL £'000	FVOCI £'000	Total £'000
30 September 2020				
Cash and balances at central banks	24,936	–	–	24,936
Loans and advances to customers	427,297	–	–	427,297
Debt instruments at FVOCI	–	–	9,095	9,095
Other assets	1,264	–	–	1,264
Total financial assets	453,497	–	9,095	462,592
Due to banks	62,620	–	–	62,620
Due to customers	341,784	–	–	341,784
Derivative financial instruments	–	80	–	80
Subordinated liabilities	7,126	–	–	7,126
Other liabilities	3,979	–	–	3,979
Total financial liabilities	415,509	80	–	415,589

Group	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
30 September 2019				
Cash and balances at central banks	7,371	–	–	7,371
Loans and advances to customers	338,503	–	–	338,503
Debt instruments at FVOCI	–	–	19,638	19,638
Total financial assets	345,874	–	19,638	365,512
Due to banks	44,412	–	–	44,412
Due to customers	267,070	–	–	267,070
Derivative financial instruments	–	63	–	63
Total financial liabilities	311,482	63	–	311,545

Company	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
30 September 2020				
Cash and balances at central banks	278	–	–	278
Due from Group companies	8,759	–	–	8,759
Other assets	12	–	–	12
Total financial assets	9,049	–	–	9,049
Due to Group companies	5,242	–	–	5,242
Other liabilities	1,382	–	–	1,382
Total financial liabilities	6,624	–	–	6,624

Company	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
30 September 2019				
Cash and balances at central banks	123	–	–	123
Due from Group companies	6,927	–	–	6,927
Total financial assets	7,050	–	–	7,050
Due to Group companies	3,239	–	–	3,239
Total financial liabilities	3,239	–	–	3,239

The Group holds certain financial assets at fair value grouped into Levels 1 to 3 of the fair value hierarchy, as explained below.

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 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 unobservable 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 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	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments held at amortised cost 30 September 2020					
Cash and balances at central banks	24,936	24,936	–	–	24,936
Loans and advances to customers	427,297	–	–	427,297	485,880
	452,233	24,936	–	427,297	510,816
Due to banks	62,620	62,620	–	–	62,620
Subordinated Liabilities	7,126	–	–	7,126	8,289
Due to customers	341,784	–	–	341,784	341,784
	411,530	62,620	–	348,910	412,693

Group	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments held at amortised cost 30 September 2019					
Cash and balances at central banks	7,371	7,371	–	–	7,371
Loans and advances to customers	338,503	–	–	338,503	376,343
	345,874	7,371	–	338,503	383,714
Due to banks	44,412	44,412	–	–	44,412
Due to customers	267,070	–	–	267,070	267,070
	311,482	44,412	–	267,070	311,482

For due to banks and due to customers, carrying value is assessed to approximate fair value.

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments at fair value through other comprehensive income ('FVOCI') 30 September 2020				
Quoted debt instruments	9,095	–	–	9,095

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments at fair value through other comprehensive income ('FVOCI') 30 September 2019				
Quoted debt instruments	19,638	–	–	19,638

Group	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000	Notional £'000
Derivative financial instruments					
30 September 2020					
Derivative financial assets	–	–	–	–	–
Derivative financial liabilities	–	(80)	–	(80)	15,770
30 September 2019					
Derivative financial assets	–	–	–	–	–
Derivative financial liabilities	–	(63)	–	(63)	10,000

As part of its asset and liability management, the Group uses derivatives for economic hedging purposes in order to reduce its exposure to market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions, as well as hedging of aggregate financial position exposures. The Group does not apply hedge accounting.

Derivative financial instruments

Fair values of derivatives are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows.

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

	Carrying value assets £'000	Carrying value liabilities £'000	Notional amount £'000
At 30 September 2020			
Derivatives in economic relationships			
Interest rate swaps	–	80	15,770
Total derivative financial instruments	–	80	15,770

	Carrying value assets £'000	Carrying value liabilities £'000	Notional amount £'000
At 30 September 2019			
Derivatives in economic relationships			
Interest rate swaps	–	(63)	10,000
Total derivative financial instruments	–	(63)	10,000

28.5 Impairment allowance for loans and advances to customers

The table below shows the credit quality and the gross carrying amount based on the Group's internal credit rating system and year end stage classification. The amounts presented how both gross loans and advances to customers and net balance after impairment allowances.

Group	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2020				
Gross carrying amounts				
Performing				
High grade	276,241	60,360	896	337,497
Standard grade	40,436	7,110	–	47,546
Sub-standard grade	33,034	7,273	–	40,307
Non-performing				
Individually impaired	–	643	2,458	3,101
Collectively impaired	–	1,285	16,193	17,478
Gross total	349,711	76,671	19,547	445,929
Allowance for impairment losses	(3,179)	(3,300)	(12,153)	(18,632)
Net total	346,532	73,371	7,394	427,297
Undrawn commitments	17,270	–	–	17,270

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2019 (Re-presented)*				
Gross carrying amounts				
Performing				
High grade	90,161	–	286	90,447
Standard grade	179,162	15,603	214	194,979
Sub-standard grade	37,430	4,190	29	41,649
Non-performing				
Individually impaired	–	–	4,945	4,945
Collectively impaired	541	2,632	10,150	14,130
Gross total	307,294	22,425	15,624	345,343
Allowance for impairment losses	(1,576)	(1,458)	(3,806)	(6,840)
Net total	305,718	20,967	11,818	338,503
Undrawn commitments	1,760	–	–	1,760

An analysis of changes in the gross carrying amount of loans and advances and the corresponding ECLs is as follows:

Gross carrying amounts	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2019*	307,294	22,424	15,625	345,343
New assets originated or purchased	219,793	–	–	219,793
Assets derecognised or matured, and remeasurements	(86,819)	(19,889)	(9,860)	(116,568)
Transfers to Stage 1	4,266	(4,265)	(1)	–
Transfers to Stage 2	(85,441)	85,441	–	–
Transfers to Stage 3	(9,382)	(7,040)	16,422	–
Amounts written off	–	–	(2,639)	(2,639)
At 30 September 2020	349,711	76,671	19,547	445,929

Gross carrying amounts (Re-presented)	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2018	195,580	18,550	10,183	224,313
New assets originated or purchased	238,564	105	45	238,714
Assets derecognised or matured, and remeasurements*	(106,857)	(7,814)	(1,447)	(116,118)
Transfers to Stage 1	2,294	(2,294)	–	–
Transfers to Stage 2	(16,706)	16,706	–	–
Transfers to Stage 3	(5,581)	(2,829)	8,410	–
Amounts written off	–	–	(1,566)	(1,566)
At 30 September 2019	307,294	22,424	15,625	345,343

*Comparatives for the recoverable amount of fees charged on credit impaired accounts have been re-presented from Allowance for Impairment losses to Loans and advances to make the Loans and advances to customers note more relevant following a review of the disclosure and accounting policies applied (please see note 1.9).

ECL allowance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2019*	1,576	1,458	3,806	6,840
New assets originated or purchased	2,276	–	–	2,276
Assets derecognised or matured, and remeasurements	566	23	5,966	6,555
Impact on ECL of transfers	(158)	1,714	4,044	5,600
Transfers to Stage 1	224	(224)	–	–
Transfers to Stage 2	(883)	883	–	–
Transfers to Stage 3	(422)	(554)	976	–
Amounts written off	–	–	(2,639)	(2,639)
At 30 September 2020	3,179	3,300	12,153	18,632

ECL allowance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2018	757	765	3,452	4,974
New assets originated or purchased	1,223	7	13	1,243
Assets derecognised or matured, and remeasurements*	(339)	(72)	(1,088)	(1,499)
Transfers to Stage 1	136	(136)	–	–
Transfers to Stage 2	(64)	64	–	–
Transfers to Stage 3	(25)	(221)	246	–
ECL transfers	(112)	1,051	2,749	3,688
Amounts written off	–	–	–	–
At 30 September 2019	1,576	1,458	3,806	6,840

*Comparatives for the recoverable amount of fees charged on credit impaired accounts have been re-presented from Allowance for Impairment losses to Loans and advances to make the Loans and advances to customers note more relevant following a review of the disclosure and accounting policies applied (please see note 1.9).

ECL transfers are movements to or from other stages.

The ECL on cash and balances at central bank, debt instruments at FVOCI, due from related companies, undrawn facilities and other assets have been assessed as zero due to having no material credit risk exposure.

29 Financial risk management

The Group is based, and its operations are predominantly, in the United Kingdom, although Azule does operate as a finance broker in the EU. Whilst risk is inherent in the Group's activities, it is managed through an integrated RMF, 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, credit risk and operational risk.

29.1 Liquidity risk

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. 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 seeks to manage its liquidity by matching the maturity of loans and advances with the maturity of deposits from customers. Any shortfalls are managed by the treasury department of the Group to ensure the liquidity risk strategy is executed.

The Group maintains a portfolio of highly marketable and diverse assets that may be liquidated quickly in the event of an unforeseen interruption in cash flow, the liquidity of which is regularly tested. The Group also has central bank facilities and 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 deposits from customers 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 2020 £'000	30 September 2019 £'000
Year end	**1.4**	1.3
Average	**1.3**	1.2

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 ratio of core customer notice and savings accounts, together with term funding with a remaining term to maturity in excess of one year.

(b) **Undiscounted contractual cash flows**

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 2020						
Financial assets						
Cash and balances at central banks	24,936	–	–	–	–	24,936
Loans and advances to customers	16,678	14,054	50,089	343,419	102,367	526,607
Debt instruments at FVOCI	–	–	–	9,114	–	9,114
Other assets	–	1,264	–	–	–	1,264
Total undiscounted financial assets	41,614	15,318	50,089	352,533	102,367	561,921
Financial liabilities						
Due to banks	24	23	105	62,476	–	62,628
Due to customers	10,638	17,362	152,363	155,166	17,190	352,719
Derivative financial instrument	–	12	36	32	–	80
Lease liabilities	–	153	458	1,154	–	1,765
Other liabilities	–	3,979	–	–	–	3,979
Total undiscounted financial liabilities	10,662	21,529	152,962	218,828	17,190	421,171
Surplus/(shortfall)	30,952	(6,211)	(102,873)	133,505	85,177	140,750

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 2019						
Financial assets						
Cash and balances at central banks	7,371	–	–	–	–	7,371
Loans and advances to customers	13,492	29,692	92,009	247,504	24,593	407,290
Debt instruments at FVOCI	–	–	251	20,502	–	20,753
Other assets	–	4,932	–	–	–	4,932
Total undiscounted financial assets	20,863	34,624	92,260	268,006	24,593	440,346
Financial liabilities						
Due to banks	–	11,607	5,535	28,043	–	45,185
Due to customers	–	9,780	120,859	128,885	20,621	280,145
Other liabilities	–	7,769	–	–	–	7,769
Total undiscounted financial liabilities	–	29,156	126,394	156,928	20,621	333,099
Surplus/(shortfall)	20,863	5,468	(34,134)	111,078	3,972	107,247

Company	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 2020						
Financial assets						
Cash and balances at central banks	278	–	–	–	–	278
Due from Group companies	8,759	–	–	–	–	8,759
Other assets	12	–	–	–	–	12
Total undiscounted financial assets	9,049	–	–	–	–	9,049
Financial liabilities						
Lease liabilities	–	145	435	1,154	–	1,733
Due to Group companies	5,242	–	–	–	–	5,242
Other liabilities	1,382	–	–	–	–	1,382
Total undiscounted financial liabilities	6,624	145	434	1,154	–	8,357
Surplus/(shortfall)	2,425	(145)	(434)	(1,154)	–	692

Company	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 2019						
Financial assets						
Cash and balances at central banks	123	–	–	–	–	123
Due from Group companies	6,927	–	–	–	–	6,927
Other assets	896	–	–	–	–	896
Total undiscounted financial assets	7,946	–	–	–	–	7,946
Financial liabilities						
Due to Group companies	3,239	–	–	–	–	3,239
Other liabilities	1,692	–	–	–	–	1,692
Total undiscounted financial liabilities	4,931	–	–	–	–	4,931
Surplus	3,015	–	–	–	–	3,015

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 2020, the Group had total wholesale and retail funding of £411.5 million (30 September 2019 – £311.5 million) that supported net loans and advances of £427.3 million (30 September 2019 – £338.5 million). Moreover, at 30 September 2020 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.

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

Below is the analysis of the Group's encumbered and unencumbered assets that would be available to obtain additional funding as collateral. For this purpose, encumbered assets are assets which have been pledged as collateral (e.g. which are required to be separately disclosed under IFRS 7). Unencumbered assets are the remaining assets that the Group owns.

	Encumbered		Unencumbered		
Group	Pledged as collateral £'000	Other £'000	Available as collateral £'000	Other £'000	Total £'000
Debt financial instruments at FVOCI	–	–	–	9,095	9,095
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	82,765	–	213,023	29,830	325,618
Unsecured loans	9	–	733	45	778
Finance leases of equipment, plant and vehicles	20,417	–	13,161	7,191	40,769
Bridging loans	–	–	60,132	–	60,132
Total	103,182	–	287,049	46,161	436,392

	Encumbered		Unencumbered		
Group	Pledged as collateral £'000	Other £'000	Available as collateral £'000	Other £'000	Total £'000
Debt financial instruments at FVOCI	9,083	–	10,555	–	19,638
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	48,437	–	186,899	43,012	278,348
Unsecured loans	572	–	621	129	1,322
Finance leases of equipment, plant and vehicles	17,537	–	18,564	10,427	46,528
Bridging loans	–	–	12,305	–	12,305
Total	75,629	–	228,944	53,568	358,141

29.2 Market risk - Interest rate risk

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.

The Group lends on an instalment credit basis for up to ten years and holds a portfolio of variable rate liquid assets. It funds itself from a combination of fixed rate retail deposits from 1 year to 7 years, variable rate Term Funding Scheme ('TFS' and 'TFSME') funding, variable rate retail notice accounts and fixed rate wholesale funding. Interest rate sensitivity is managed using interest rate swaps as required.

Based on the exposure to interest rate risk, an increase in the Sterling Overnight Index Average rate ('SONIA') by 0.5 percentage point for the whole financial year would have an unfavourable effect on profits of £145,746 (30 September 2019 – favourable £21,024) and an unfavourable impact on capital of £(118,054) (30 September 2019 – favourable £17,029).

29.3 Credit risk

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.

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, including regular collateral revisions for the entire Group. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. 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.

Analysis of maximum exposure to credit risk

The table below presents the Group's maximum exposure to credit risk, before taking account of any collateral and credit risk mitigation, arising from its on balance sheet financial instruments. For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	Group		Company	
	30 September 2020 £'000	30 September 2019 £'000	30 September 2020 £'000	30 September 2019 £'000
Financial assets				
Cash and balances at central banks				
Cash and demand deposits	**24,936**	7,371	**278**	123
Loans and advances to customers[(1)]				
Consumer lending (net)	**164,933**	128,854	**-**	–
Business lending (net)	**180,143**	176,680	**-**	–
Azule lending	**22,089**	20,021	**-**	–
Bridging finance	**60,132**	12,948	**-**	–
Due from Related companies	**-**	–	**8,759**	6,927
Debt instruments at FVOCI	**9,095**	19,638	**-**	–
Other assets[(1)]	**1,264**	4,932	**12**	896
	469,592	370,444	**9,049**	7,946
Off-Balance Sheet				
Undrawn facilities	**17,270**	1,760	–	–

(1) Segmental allocations were revised for the year ended 30 September 2020. Comparatives for the 30 September 2019 have been re-presented in accordance with IFRS 8, paragraph 29.

In its normal course of business, the Group engages external agents to recover funds from repossessed assets in its retail portfolio, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers.

29.3.1 Forborne and modified loans

As mentioned in note 1.6.21, forbearance occurs when a customer is experiencing difficulty in meeting their financial commitments and a concession is granted by providing them a temporary payment plan based on their ability to meet the contractual obligations. The unprecedented COVID-19 global pandemic has led to a significant increase in customers seeking COVID-19 related payment deferrals within the Group's lending portfolio. The Group has introduced a range of additional forbearance measures to support its customers during this difficult period.

Additional support for customers impacted by COVID-19

We recognise that the impact of COVID-19 is a concern for our customers, and we have offered them help and support in these challenging times by introducing several additional concession tools. Concessions granted to customers are varied across the Group's lending portfolio and in line with regulatory guidance.

The concessions included the creation of payment deferrals (COVID-19 Deferral Plans provided six months of assistance with all payment holidays ending by 31 July 2021 in line with the guidance issued by the Financial Conduct Authority), which are a form of 'breathing space' without payment followed by a payment plan, for customers of the Consumer Finance Division ('CFD'), the Business Finance Division ('BFD') and Azule. This period of flexibility was dependent on underlying mitigating factors and is reviewed and approved by the Group's Collections Department.

There will be no negative impact on the customer's credit file as a result of these measures. However, should additional assistance be required after the six months of assistance and if full payments were not being maintained, a true reflection of the customer repayment history would once again start being recorded with the credit refence agencies as the agreement would move into arrears under a payment plan as with any non-COVID-19 related support.

The cure period of these forborne exposures are subject to expert judgement and careful consideration. The approach varies depending on the relevant division and ranges from instant resumption of payments when the period of concession ends (subject to confirmation of no adverse performance) to a six month 'grace' period applicable in relevant circumstances where payments are either initially deferred or part payment accepted.

Forbearance analysis

At 30 September 2020, the gross carrying amount of exposures with forbearance measures was £40.4 million (30 September 2019 – £nil). This relates to 1,711 agreements in forbearance which are COVID-19 related, with temporary modifications to terms and conditions. At 30 September 2020, there are no loans that have had a refinancing or permanent modification to terms and conditions. As set out in note 1.5.3, a COVID-19 related concession does not in itself constitute a significant increase in credit risk. See the table below for forbearance analysis.

29.3.2 Forborne and modified loans

The following tables provide a summary of the Group's forborne assets. Accounting policies for forbearance are described in note 1.6.21.

		Gross carrying amount of forborne loans				
Group	**Gross Carrying Amount £'000**	**Stage 1 Performing forborne loans £'000**	**Stage 2 Performing forborne loans £'000**	**Stage 2 Performing forborne loans £'000**	**Total forborne loans £'000**	**Forbearance ratio**
30 September 2020						
Due from banks	–	–	–	–	–	–
Loans and advances to customers						
CFD	171,854	4,512	1,664	68	6,244	3.63%
BFD	190,462	11,290	13,634	197	25,121	13.19%
Azule	23,001	6,662	2,223	166	9,051	39.35%
Bridging	60,612	–	–	–	–	0.00%
Total loans and advances to customers	445,929	22,464	17,521	431	40,416	9.06%

	ECLs on forborne loans						
	Stage 1 Individual £'000	Stage 1 Collective £'000	Stage 2 Individual £'000	Stage 2 Collective £'000	Stage 3 Individual £'000	Stage 3 Collective £'000	Total £'000
30 September 2020							
Due from banks	–	–	–	–	–	–	–
Loans and advances to customers							
CFD	62	14	117	–	16	–	209
BFD	151	66	392	407	–	47	1,063
Azule	278	22	103	–	–	36	439
Bridging	–	–	–	–	–	–	-
Total loans and advances to customers	491	102	612	407	16	83	1,711

The Group had no forborne loans in the prior year.

29.3.3 Impairment assessment

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

- The Group's definition and assessment of default (note 29.3.4).
- An explanation of the Group's internal grading system (note 29.3.5).
- How the Group defines, calculates and monitors the probability of default (PD), exposure at default (EAD), and loss given default (LGD) (notes 29.3.5, 29.3.6 and 29.3.7 respectively).
- When the Group considers there has been a significant increase in credit risk of an exposure (note 29.3.8).
- The Group's policy of segmenting financial assets where ECL is assessed on a collective basis (note: 29.3.8).

29.3.4 Definition of default

As per note 1.5.3, the definition of default for the purpose of determining ECLs has been aligned to the CRR article 178 definition of default to maintain a consistent approach with IFRS 9. When exposures are identified as credit impaired, such interest income is calculated on the carrying value, net of the impaired allowance.

The Group applies a series of quantitative and qualitative criteria to determine if an account meets the definition of default and should therefore be moved to Stage 3. These criteria include:

- When the borrower is more than 90 days past due on any material credit obligation to the Group.
- Significant financial difficulty of the issuer or the borrower.
- A breach of contract, such as default or past due event.
- It is becoming probable that the borrower will enter bankruptcy or liquidation, other forms of insolvency or financial reorganisation.

29.3.5 The Group's internal rating and PD estimation process

The Group operates an internal credit grading model and Probability of Default estimation process. The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.

The Group assesses its customers and rates them from AAA to D using an internal credit classification model. Collateral is also considered when grouping credit grades together. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These information sources are first used to determine the original probability of defaults for each segment. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward-looking information and the IFRS 9 Stage classification of the exposure.

Corporate lending (Business Finance Division)
Corporate lending comprises hire purchase, lease or bridging loans. The borrowers are assessed by credit risk employees of the Group. The credit risk assessment is based on a credit scoring model that considers various historical, current and forward-looking information such as:

- Historical financial information.
- Publicly available information on the clients from external parties.
- Other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques vary based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

Consumer lending (Consumer Finance Division)
Consumer lending comprises of hire purchase or conditional sale agreements. These products are rated by an automated scorecard tool, primarily driven by credit reference agency data. Additional checks on affordability are made using credit reference agency data and bank statements.

The Group's internal credit rating grades

Business Finance, Bridging and Azule

Internal rating grade	Internal Rating Description	Internal PD range
1	AAA & AA, LTV <=80%	1.37-2.15%
2	AAA & AA, LTV > 80%	2.58-4.29%
3	A & B+, LTV <=80%	2.70-4.23%
4	A & B+, LTV > 80%	5.05-8.35%
5	B & B-, LTV <=80%	3.72-7.18%
6	B & B-, LTV > 80%	8.37-13.29%
7	C & D	9.14-16.35%

Consumer Finance

Internal rating grade	Internal Rating Description	Internal PD range
1	AAA & AA, LTV <=80%	2.57-3.58%
2	AAA & AA, LTV > 80%	4.18-5.06%
3	A & B+, LTV <=80%	5.06-6.98%
4	A & B+, LTV > 80%	8.09-9.75%
5	B & B-, LTV <=80%	7.02-9.95%
6	B & B-, LTV > 80%	12.01-15.20%
7	C & D, LTV <=80%	9.26-13.06%
8	C & D, LTV > 80%	17.19-22.88%

29.3.6 Exposure at default ('EAD')

The exposure at default represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within twelve months for the calculation of the 12 month ECL. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments. The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding to the multiple macroeconomic scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

29.3.7 Loss given default ('LGD')

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates consider the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. The Group segments are made up of small homogeneous portfolios, based on the internal credit rating. The applied data is based on historically collected loss data as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each segment of each division. When assessing forward-looking information, the expectation is based on multiple scenarios. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries.

29.3.8 Significant increase in credit risk ('SICR')

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or Lifetime ECL, the Group assesses whether there has been a significant increase in SICR since initial recognition. A SICR is if a single loan is over 30 days in arrears or it is not in default but has had a significant increase in PD, in which case the loan will move from Stage 1 to Stage 2. This parameter (i.e. the level deemed significant) is set at the multiple of the lifetime PD at origination at which a group of accounts are in stage 2. The movement of these agreements changes the provisions from what the ECL is in the next twelve months, to a lifetime ECL.

The Group considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has increased by a factor of 1.6 for CFD and 1.7 for BFD and Azule finance. Bridging finance does not have a SICR threshold due to its short-term nature.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer to the watch list, or the account becoming forborne as indicated in note 29.3.1. In certain cases, the Group may also consider that events explained in note 29.3.4 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Sensitivity analysis

Changes to the overall SICR thresholds can also impact staging, driving accounts into higher stages with the resultant impact on the ECL allowance.

	30 September 2020 £'000	30 September 2019 £'000
Increase in SICR by 20 basis points in the Business Finance portfolio	**(10)**	(2)
Increase in SICR by 20 basis points in the Consumer Finance portfolio	**(26)**	(101)
Increase in SICR by 20 basis points in the Azule Finance portfolio	**(1)**	(1)
Decrease in SICR by 20 basis points in the Business Finance portfolio	**10**	3
Decrease in SICR by 20 basis points in the Consumer Finance portfolio	**131**	20
Decrease in SICR by 20 basis points in the Azule Finance portfolio	**1**	1

30 Commitments, contingent liabilities, and contingent assets

At 30 September 2020, the Group had undrawn commitments to lend to customers of £17.27 million (2019 – £1.76 million).

The Group's subsidiary, PCF Bank Limited, 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 1 at year end. From time to time the Group and the Bank receives legal claims relating to its business activities. The total value of claims at 30 September 2020, assessed to have a greater than remote likelihood of economic outflow is £135k. PCF Bank is robustly defending such matters.

The Group has begun to seek recovery of remuneration related payments and other consequential losses suffered in relation to the events that led to the delay of this Annual Report & Financial Statements and our shares being suspended from trading on AIM. The amount of any recoveries cannot currently be quantified.

31 Related parties

The non-executive directors held a total of £167,932 in savings accounts in the Group at 30 September 2020 (30 September 2019 – £186,756). Directors' remuneration is disclosed in note 8.

In addition, there were other material related party transactions related to management fee recharges of £120,000 and £13,680,000 to PCF Credit Limited and PCF Bank Limited respectively by PCF Group plc for the year ended 30 September 2020.

Key management personnel of the Group are the Board Directors.

Further details of balances with other Group companies are given in note 19 Due from related companies.

32 Non-adjusting events after the balance sheet date

As the COVID-19 pandemic evolves, the UK Government is implementing additional measures to address the resulting public health issues and the economic impact. The Group continues to monitor the COVID-19 pandemic situation and will take further action as necessary in response to economic disruption. There may be further adverse effects on revenue and impairments depending on severity and duration of nationwide lockdowns.

Along with COVID-19 economic impacts, there remains the continued uncertainty of the implications for the UK economy by reason of leaving the EU. Although a trade deal was agreed on 24 December 2020, the Group continues to monitor Brexit and the potential economic impact on credit risk.

On 30 September 2021 the Group sold £12.4 million of gross credit impaired loans (£1.7 million net of ECL impairments) for £2.8 million realising a profit on disposal of £1.1million.

33 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 Prudential Regulation Authority ('PRA'). The Group calculates the capital resources and requirements using the Basel 3 framework, as implemented in the European Union through the Capital Requirements Regulation ('CRR') and the Capital Requirements Directive ('CRD') IV, as amended by the CRR II and CRD V. Following the end of the Brexit transitional period, the EU rules (including binding technical standards) have been on-shored and now form part of the domestic law in the UK virtue of the European Union (Withdrawal) Act 2018. The Group has complied in full with all of 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 complies with externally imposed capital requirements and maintains strong credit ratings and appropriate capital ratios in order to support its business and to maximise shareholder value. The Group has a number of measures which it takes to manage capital position. Further details of this are provided in the Chief Executive's Statement.

The 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 a periodic 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 an appropriate 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. The Group continues to maintain capital adequacy ratios above minimum regulatory requirements.

Further details regarding the Group's regulatory reporting processes, and the issues and misstatements relating to those processes, are set out within the Audit & Risk Committee Report on page 41.

34 Ultimate Parent

The Group's ultimate parent is Somers Limited, a Bermuda exempted company incorporated with limited liability, whose shares are traded on the Bermuda Stock Exchange.

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
Azule Finance 01753 580 500 Bridging Finance 020 3848 7802

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 Street, London EC2N 1ER.