PCF BANK

PCF Group plc

Annual Report &
Financial Statements

2021

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

Simon Moore *Independent non-executive Chair*[1] *(appointed 9 January 2022)*
Mark Brown *Non-executive*
Christine Higgins *Independent non-executive*
David Morgan *Non-executive*
Caroline Richardson *Chief Financial Officer*[2] *(appointed 5 October 2021)*
Mark Sismey-Durrant *Independent non-executive and Senior Independent Director*[1] *(appointed 9 January 2022)*
Garry Stran *Chief Executive Officer*[2] *(appointed 5 October 2021)*
David Titmuss *Independent non-executive*

Directors who held office during the year and resigned during or after the year end
Tim Franklin *Independent non-executive Chair (resigned 31 January 2022)*
Marian Martin *Independent non-executive (resigned 23 December 2021)*
Scott Maybury *Chief Executive Officer (resigned 21 May 2021)*
Robert Murray *Managing Director (resigned 26 March 2021)*

Company Secretary

Robert Murray *(resigned 31 March 2021)*
LDC Nominee Secretary Limited *(appointed 31 March 2021 and resigned 31 March 2022)*
Jonathan Dolbear *(appointed 1 April 2022)*

Registered Office

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

Registered Number

02863246

Auditors

MHA MacIntyre Hudson LLP *(appointed 23 December 2021)*
2 London Wall Place
Barbican
London EC2Y 5AU

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

[1] Regulatory approval received April 2022.

[2] Regulatory approvals for Chief Executive Officer and Chief Financial Officer roles received September 2021 and July 2021 respectively. With effect from 5 May 2022, Garry Stran was appointed Chief Executive Officer, having previously held the office as interim.

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 and the 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 at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.

Strategic Report

Business and financial highlights for the 12 months to 30 September 2021

Business and financial performance significantly impacted by remediation of legacy governance and control issues (Legacy issues[3])

- Statutory loss before tax of £(3.1) million (2020: loss of £5.1 million).[4]
- Adjusted profit before tax[5] of £0.7 million (2020: loss of £3.3 million).[4]
- Net operating income increased by 1% to £26.8 million (2020: £26.5 million).[4]
- Net interest margin[5] reduced to 6.6% (2020: 6.8%)[4] reflecting the focus on higher quality lending.
- Net loans and advances decreased by 15% to £364 million (2020: £427 million)[4], although average gross loan balances increased by 4%, which reduced the impact on net interest income.
- Staff and operating expenses increased 56% to £21.2 million (2020: £13.6 million), due to increased headcount and professional services costs, which included £3.6 million of expenses related to the remediation of legacy issues.
- Cost: income ratio[5] increased to 85.8% (2020: 58.1%).
- Credit impairment charges reduced to £6.7 million (2020: £14.4 million) mainly due to the non-recurrence of a £6 million provision increase on defaulted receivables in 2020, and also reflecting lower COVID-19 related provisions and a smaller overall loan portfolio.
- New loan origination totalled £187 million (2020: £272 million) and net loans and advances to customers reduced to £364 million (2020: £427 million)[4]. Included within new loan origination is Azule Limited brokered lending[6] of £30 million (2020: £26 million).
- Retail deposits of £327 million remained stable in the period (2020: £342 million).[4]
- Statutory return on average equity[5] of (6.1)% (2020: (11.4)%).[4]
- Adjusted return on average equity[5] of 0.7% (2020: (8.2)%).[4]
- Loss per share of (1.2) pence (2020: (2.6) pence).[4]

Balance sheet strength underpinned by prudent capital and liquidity management

- Common equity tier 1 ratio[8] of 15.6% (2020: 14.7%).[4]
- Total capital ratio[8] of 17.5% (2020: 16.4%).[4]
- Leverage ratio[7, 8] of 11.1% (2020: 11.1%).[4]
- Liquidity coverage ratio of 904% (2020: 673%).
- Net stable funding ratio of 159% (2020: 145%).

[3] Refer to the 2020 Annual Report and Financial Statements for more detail of ‘legacy issues’. Also, refer to ‘Remediation Activities’ section on page 10 for a brief overview.

[4] The prior period balances have been restated or re-presented for the financial year. Refer to Note 1.7 for further details.

[5] Refer to section non-IFRS performance measures on page 17 for further details of the definition of this non-IFRS performance measure.

[6] Azule brokered lending is not included on our balance sheet, but generates commission income in our profit and loss statement.

[7] Leverage ratio – using a transitional definition of Tier 1 capital.

[8] Ratios are disclosed on a transition arrangement basis. Refer to page 61 for regulatory capital and leverage ratios presented on a fully loaded basis.

Strategic Report (cont'd)

Chair's Statement

for the year ended 30 September 2021

Overview

My first statement as Chair comes as the UK and the world emerge from the extraordinary times brought about by the COVID-19 pandemic, which has impacted all our lives.

Though the 2021 financial year was a difficult one for the PCF Group, with significant events and subsequent change taking place in the business, I am pleased to report that since the end of this reporting period, amidst a challenging social and economic backdrop, the Group has achieved major milestones in its recovery programme.

The Group's financial performance reflects the challenges that were faced. While losses fell substantially when compared with 2020, we generated a loss before tax of £(3.1) million, which reflects an increase in expenses incurred from the Group's focus on delivering its remediation activities and the impact of a lower net interest margin.

The loan book reduced by 15% as a result of prudent management of origination levels to ensure the Group maintained an appropriate level of capital, above the regulatory requirement, throughout the period.

Implementation of corporate governance, control and cultural change

In the Annual Report & Financial Statements 2020, the circumstances that led to the suspension of trading in the PCF Group's shares in May 2021 were set out in detail. I am now pleased to report the following developments.

During the financial year a significant amount of time was spent remediating legacy governance and control issues. These control improvements have continued, with good progress on the financial control framework, and the completion of the core finance remediation activities.

We have continued to develop the Group's Risk Management Framework (RMF) and control environment, reflecting the recommendations of the external review of the RMF during the year. Since the year end this has included the hiring of colleagues to fill key Second Line of defence roles, enhancement of the Group's stress-testing and credit analytics capabilities, and redevelopment of the Group's IFRS 9 and credit risk models. Further detail on this work is set out in the Board Risk Committee report on pages 47 to 48.

During the reporting year, PCF Group appointed Garry Stran as the interim Chief Executive Officer and Caroline Richardson as Chief Financial Officer, both critical appointments to ensure the Group has a suitably experienced management team. These were followed by new hires in the key roles of Chief Risk Officer, Chief Operating Officer, General Counsel, and Chief of Staff.

Culture

Culture is at the heart of PCF Group's change; we believe in doing the right thing, in the right way for our customers, colleagues, owners and all other stakeholders. This is a bank where ideas are actively sought and welcomed from everyone. Every member of the team can bring fresh thinking and new observations, which may be used to enhance the changes in control and governance within the Group that are well underway. To be effective now and into the future, our change will be underpinned by a robust and positive culture.

In September 2021, the Board approved a new mission, purpose and values for the Group, which outline 'our risk culture', an approach that makes risk everyone's responsibility. These were developed by the new Executive Team in consultation with the Culture Working Group, which comprises colleagues from across the business.

Taking on board the findings from the legacy issues, the Board instigated a cultural change programme, focusing on understanding personal responsibility for risk, active listening and speaking up. 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.

We are a simple business and our new purpose and mission reflect this:

Our purpose

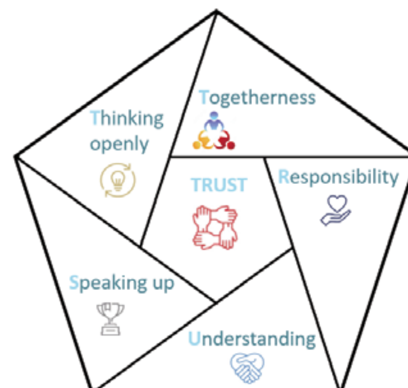
To create value for our stakeholders in a sustainable way.

Our mission

To be the go-to provider in our chosen markets and segments, offering great value products and outstanding service, while acting with integrity and sustainability in everything we do.

Our values

Our T.R.U.S.T. values reflect the standards we expect of all our colleagues and are fully incorporated into our reinvigorated performance management process.



Our risk culture statement

Everyone at PCF manages risk and takes decisions in the best interests of our stakeholders. We proactively raise awareness and take personal responsibility for managing risk, speaking up, and doing the right thing.

Strategic Report (cont'd)
Chair's Statement
for the year ended 30 September 2021

Summary
It is in learning the lessons of the past, together, that we will ensure our success in the future. We have a resilient and able group of colleagues who have worked tirelessly over these difficult times to ensure the future success of PCF. It is through them that our new culture is being embedded, the progress of which is monitored at every Board meeting.

Balance sheet strength and financial performance
We provide a detailed analysis of the financial performance of the Group on pages 12 to 13. In addition, I wanted to take a moment to share some of my own key observations.

The cost of implementing the remediation programme and change across the Bank has had a significant impact on profitability and loan growth for the 2021 financial year. This has meant recruiting experienced staff into our control and finance functions, and using the services of external specialists to support the remediation programme.

Additionally, the Group has prudently managed its loan origination levels to ensure it maintained sufficient levels of capital and liquidity throughout the period. It is during times of heightened risk that suitable levels of capital and liquidity are particularly important for protecting the overall financial health of the Group. To this end, the total capital ratio at 30 September 2021 was 17.5% and the liquidity coverage ratio was 904%.

As a result of the management of loan origination levels, the net loan book reduced to £364 million (2020: £427 million). Furthermore, the Group's net interest margin has seen a reduction, particularly as a result of a high concentration of new loans in our top four credit grades.

These factors have contributed to an overall statutory loss before tax of £(3.1) million.

Events since 30 September 2021
To strengthen the Board further, in addition to my appointment, PCF Group has also appointed Mark Sismey-Durrant to the role of senior independent director. A search is underway for the replacement of Marian Martin, Chair of Board Risk Committee, who resigned from the Board on 23 December 2021.

The progress made on the finance remediation resulted in a comprehensive reworking of the Financial Position and Prospects Procedures (FPPP), publication of our March 2021 interim financial statements and the lifting of the share trading suspension, which was announced on 25 January 2022. Regrettably, the historically overdue reporting has caused an unavoidable delay in the publication of this Annual Report & Financial Statements 2021, which has led to the shares being suspended from trading on Alternative Investment Market (AIM) again on 1 April 2022. We anticipate that this suspension will be removed upon the publication of this Annual Report & Financial Statements 2021. Following all the work we have done during the year in strengthening our control environment and finance department, we will resume to a more normal reporting cycle in conformity with our listed reporting requirements.

At the same date of publishing this report we have also issued a RNS and the context to this is: The combined impact of: (i) the significant remediation costs increasing our cost base; (ii) the reduced margin of our loan book as a result of COVID-19 related decisions to restrict business to higher quality lending (with the resulting lower yield impacting on net interest margin); and (iii) the capital required to support a growing balance sheet, has resulted in projected regulatory capital constraints which in turn limits the volume of new lending we can originate. Limiting our lending volumes is not a satisfactory position and prevents us from generating sufficient profits to grow capital organically. As a result of all of these factors we have updated our short-term plan, which has led to revisions on certain key accounting judgments[9] and additional losses, that have further impacted our full year loss and capital position. Therefore, we have decided to accelerate an element of our capital raising, by requesting a further investment in the Company from our majority shareholder Somers Limited of circa £4 million[10] over the next two months; at the same time, we are investigating our strategic opportunities including business combinations, with the Group having received an approach and entered into discussions with one party on these matters, as set out in the aforementioned RNS. This decision was taken, at a time when our shares were suspended from trading on AIM, acting in the best interests of all of our stakeholders and with the anticipation of the AIM suspension being lifted on the publication of this report.

9 See Board Audit Committee report for further details of changes in key accounting judgements relating to impairment of intangible assets impacting on our results for 2021 and 2020.

10 An open offer to allow all shareholders to participate is expected to follow in due course.

Strategic vision
In the months since I joined the Group in January 2022, I have worked closely with the Executive Team to define the Group's strategic vision. In my role as Chair, I will ensure that the Board sets an appropriate strategy which the Executive Team will deliver in a way that is consistent with the values and culture of the Bank, and the interests of all stakeholders. This work will consider all strategic opportunities as set out above.

The work required to complete the key restorative actions has been the primary focus of the Board and Executive Team, consuming a significant amount of their time. We are now able to look forward once again.

With a number of key milestones achieved and strong progress made against our remediation and enhancement objectives, the Board and Executive Team can once again begin to focus on driving increased levels of automation and exploring product development to diversify and develop our franchise, alongside reviewing strategic opportunities as set out above. Together we are supporting a strategy centred around an enhanced, more robust Risk Management Framework underpinned by a data-driven, automated and digitalised approach to delivering products and services to our customers.

Achieving these strategic objectives will allow us to maximise the value we create, by adopting a modern approach to leveraging the Group's core competencies of originating and servicing loans, whether as part of a standalone group or part of a business combination should we follow that route.

You can read more about the Group's strategic priorities in the Chief Executive Officer's review on pages 8 to 11.

Whilst challenges remain, PCF Group has achieved many things over its 28-year history, and this period marks the beginning of a new chapter, one in which I am delighted to be involved.

I am confident that we have the right team in place, and I look forward to working with my colleagues at all levels within PCF Group, and with our stakeholders, to create a modern, dynamic and differentiated business that can leverage its historical expertise and experience through a robust platform for growth..

Simon Moore
Chair

31 May 2022

PCF GROUP

Chief Executive Officer's review
for the year ended 30 September 2021

My statement for this financial year comes only five months after we shared our Annual Report & Financial Statements 2020. Our journey towards a return to a normal reporting timeline continues with the publication of our March 2022 Interim Results scheduled for June 2022. Whilst only five months have passed, there has been considerable geopolitical change across the world feeding into the macroeconomic backdrop which impacts on our business. Overshadowing this, has been the human cost of recent events which brings a sense of perspective to all that we do.

Once again, I apologise on behalf of the Board for the legacy issues and the impact of this on shareholders. I would like to convey my thanks to customers and shareholders for their continued patience, and to my colleagues at PCF Group along with our external partners for their continued support.

The 12 months to September 2021 proved a difficult and challenging period for both people and businesses in the UK due to the continuing social and economic impacts of the COVID-19 pandemic. As we emerge from this time of uncertainty into another, there will be new challenges for our customers. Inflation has risen substantially above the government's long-term goal and the geopolitical situation compounds this situation. As a result, there will almost certainly be further increases in interest rates as the Bank of England attempts to bring inflation under control. Against this backdrop, we will continue to support our customers, some of whom may experience payment difficulties, whilst continuing to offer good value products.

In his statement on pages 5 to 7, our new Chair, Simon Moore, discussed the improvements to the Group's governance and culture, and I will further expand on our strategic vision and priorities below. Before that, I would like to share some key points about our financial performance for the year.

Summary of the Group's performance

The Group's financial performance for the period reflected the challenges of both the external environment and the significant events and change that occurred within the Group. At a headline level, the Group generated a statutory loss before tax of £(3.1) million.

This loss was driven by a 56% increase in staff and operating expenses as a result of our remediation activity in respect of legacy issues and the need to invest in the operating model of the business which drove increased staffing and professional services costs.

Following a reassessment of goodwill, the Group recognised an additional £1.1 million impairment, writing off the balance to nil. This was partially offset by £0.9 million profit on the sale of credit-impaired loans.

Furthermore, the Group's net interest income was 1% higher than prior year, as increased average loan balances broadly offset the reduction in net interest margin. The net interest margin reduced to 6.6% (2020: 6.8%), primarily as a result of the decision at the outset of the COVID-19 pandemic to originate lending in our top four credit grades. This change was designed to protect the Group from the potential effects of the economic downturn on arrears and defaults. This has proven successful, however it has had a detrimental impact on margin due to the lower rates associated with these assets, and the run-off of pre-pandemic higher yielding loans.

The Group has since reverted to a more balanced risk profile for new business to allow us to extract higher margins, which we expect to result in an improvement in overall net interest margin over time. Moreover, we expect that we will have further opportunities to increase margin compared to the Group's historical experience, as our improved pricing for risk capability is complemented by the enhancements made to our arrears management processes.

Whilst the average gross loan book over the course of 2021 was 4% up on the 2020 average, we saw a material reduction over the second half of the year as we prudently managed loan originations to ensure we maintained an appropriate level of capital. Net loans and advances to customers fell to £364 million (2020: £427 million) as a result.

The credit impairment charge for the year reduced to £6.7 million, mainly due to the non-recurrence of a £6 million provision increase on defaulted receivables in 2020, but also lower COVID-19 related provisions and the overall reduction in the Group's loan portfolio.

On an adjusted basis[11], the profit before tax for the year was £0.7 million, compared with a loss of £(3.3) million in 2020 reflecting the above factors.

On a statutory basis, the loss before tax for the year was £(3.1) million, compared with a loss of £(5.1) million in 2020.

As a result of our approach to capital management and loan originations, our total capital ratio remained consistently in excess of regulatory requirements and on 30 September 2021 was 17.5% (2020: 16.4%). As we move through the 2022 financial year, capital will be impacted by elevated operating expenses, and the effect on the Group's net interest margin, reflecting the decision to focus on higher quality lending at the start of the COVID-19 pandemic, and the run-off of pre-pandemic higher yielding loans. Our prudent management of origination levels and capital has continued, and we expect new originations in 2022 to be broadly similar to 2021, though we expect the second half of the year to be stronger than the first half as we deploy capital released through redemptions and focus on establishing momentum in our new business opportunities.

The continuation of losses is unsatisfactory; however, it is also unavoidable as we seek to establish a firm foundation for future growth. I reiterate that we are committed to doing everything possible to position the Group to exploit the undoubted opportunities that exist in our chosen markets to deliver strong and sustainable returns for shareholders. To achieve this aim, it has been imperative to invest in the business for the future whilst at the same time addressing our legacy issues.

Further details of the performance by business segment and our regulatory capital position is set out below in the 'Review of the Group's Performance' section.

[11] See Review of the Group's Performance for details of adjustments.

Strategic Report (cont'd)
Chief Executive Officer's review
for the year ended 30 September 2021

Remediation activities
I updated shareholders earlier in the year of the actions we have taken to improve our core finance processes which resulted in a comprehensive refresh to the Group's FPPP memorandum, a major milestone in the Group's recovery programme. The further control improvements undertaken in Finance together with a reassessment of the carrying value of intangible assets have resulted in restatements which are set out in detail in Note 1.7. It is disappointing that we still have legacy adjustments from prior periods though also reassuring, with the embedding of our Risk Management, and development of the Financial Control Frameworks, additional resourcing, and with our new auditors in place, that we can now have firmer finance foundations for the future.

We have also commenced an extensive cultural improvement programme to ensure our colleagues feel comfortable and empowered to speak up and challenge decisions should they have concerns. In many ways this reluctance to challenge was a key driver of many of the issues that we have faced, and the significant effort put into cultural change is intended to ensure that there is never a repeat of these events.

In addition, longer-term transformation and enhancement programmes have been mobilised. These will embed the enhanced comprehensive Risk Management Framework across the Group, delivering further finance transformation that is focused on controls and more effective utilisation of data. They will also include a continuation of the investment in our IT system, to develop a modern digital operating system that works on the principle of data driven strategies delivered through automated processes and decision making.

Progress against 2021 strategic objectives
In my statement in the Annual Report & Financial Statements 2020, I outlined that our 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.

Progress against our strategic initiatives has been impacted by the amount of management time and focus that has been directed to the legacy issues and their remediation. Nevertheless, we have remained focused on managing the quality of our lending and have continued to invest in our IT infrastructure.

I am very encouraged that we have continued to make progress against many of the initiatives that we launched in 2020, in particular the work to improve the levels of automation and self-service. In the period up to the publication of this report, our successes include:

- Completion of an automated collections process and a customer self-service platform on the Bank's website, and an increased proportion of automated affordability assessments.
- Revised strategies for the management of our accounts in arrears including the introduction of a strategy for the sale of non-performing loans, thus enabling certainty in respect of loss rates and the effective use of capital and operating resources.
- Investment in further developing complaint systems and processes with a focus on root cause analysis to drive improvements and further enhance the customer's experience.
- Achieving Platinum in the 'Feefo' Trusted Service Awards, for our services to savings customers.
- Introduction of data science into the business through the establishment of operational data teams.
- Enabled insights to develop and execute against our aim to be a totally data-driven business in respect of decision making.
- Commencement of diversification of our Azule subsidiary into general brokerage to leverage their skill set and market position whilst not detracting from their specialist positioning in the Broadcast and Media sector.
- Enhanced performance management and appraisal processes for our colleagues, supporting the change in culture to one of transparency, speaking up, and taking responsibility for risk management at a personal level. This is the first step on our journey to transition to a group of colleagues operating as a high performing collective where personal responsibility, empowerment and accountability is embedded in everything we do.

These successes are an encouraging start on our journey towards achieving our strategic vision.

Journey to 'remarkable' – the Group's strategic vision
Internally, we have been using the term 'repair to remarkable' to define our strategic journey. With good progress made on the key remediation activities, and the improvements to culture, governance and controls and technology, more of our time and effort is now focused on the transformation and enhancements required to become 'remarkable'.

I define 'remarkable' as a business which has the following characteristics:

- A great place for great people to work.
- A brand that is trusted as a good corporate citizen, operating in a compliant and sustainable manner that does the right things and a culture which reflects this.
- Has a zero marginal cost operating model.
- Is a data-driven business with customers at the heart of it.
- Has human interventions in processes only where it demonstrably adds value.
- Has strong product and market diversification.
- Has certainty over recurring revenues.
- Is financially and morally sound.

We are striving to create a business that has all these characteristics. To achieve this, our major focus areas for 2022 are:

- A continued focus on strong and prudent capital management that will be flexible to adapt to a range of outcomes.
- To support a growing business, we will look to execute capital raising or other strategic opportunities as outlined in the Chair's Statement, all in the best interests of our stakeholders.
- Completion of our remediation and key enhancement activities by the end of 2023.
- Continually improving customer proposition focused on speed of decisioning, 'no fuss' processes and excellent service.

- Continued investment in the IT infrastructure, including a significant focus on data engineering and implementing further opportunities for the use of cloud data.
- Embedding of our new culture in the business and in all stages of our colleague's development within the Group.
- Further development of our new performance management system for colleagues supporting our revised risk culture and a clear alignment of performance to remuneration.
- The development of our strategy to create a diversified range of distribution channels and new products.

I look forward to sharing a progress update on these initiatives in future reporting periods.

Outlook

Forward-looking guidance in respect of the 2022 financial year:

- Remediation related costs in 2022 are expected to be at a similar level to 2021.
- The Group is actively exploring capital raise and strategic opportunities (as set out in the Chair's Statement) that will allow us to accelerate our lending aspirations, though we will continue to carefully manage origination levels in the near-term as part of our capital management strategy.
- New origination levels are expected to be higher in the second half of the year compared with the first half, and broadly similar for 2022 compared with 2021.
- The Group's margin will continue to see compression in the near-term as a result of the concentration of new lending in the top four credit grades during the COVID-19 pandemic. As we return to a normal risk appetite, margin will improve.
- The combination of these factors will give rise to a loss for the year which is anticipated to be significantly in excess of the loss for period ending 30 September 2021.

In driving the business forward, it is important to acknowledge the following challenges: Whilst we have made substantial progress in our remediation journey, the scope of the remediation required to meet the standards of a regulated business is significant in terms of time, cost and effort. In limiting the volume of new lending due to capital constraints (as explained in the Chair's Statement), we also limit our ability to generate operating income and profits to provide the growth capital necessary to increase the size of our balance sheet to exploit economies of scale. The Board and management remain confident of the Group's potential to leverage its core strengths in origination and servicing of loans to generate value for shareholders but subject to the ability to generate or obtain capital to support growth.

It has been a challenging year, but the quality of my colleagues and their dedication to dealing with the challenges we have faced has been inspirational. Against the most difficult of backdrops, they have been magnificent, and I look forward to delivering the next phase in our strategic journey with them.

G G Stran
Chief Executive Officer

31 May 2022

Strategic Report (cont'd)
Review of the Group's performance

	Year ended 30 September 2021 £'000	Year ended 30 September 2020* £'000	Change %
Net interest income	26,253	25,990	1
Net fee and commission income	119	520	-
Gain/(loss) on derivative	378	(55)	-
Net operating income	26,750	26,455	1
Staff and operating expenses	(21,189)	(13,564)	(56)
Depreciation and amortisation	(1,707)	(1,758)	(3)
Net profit on derecognition of financial assets[12]	939	–	-
Impairment on goodwill	(1,147)	(1,750)	-
Impairment on software and office equipment	(68)	(51)	-
Total operating expenses excluding credit impairment charges	(23,172)	(17,123)	(35)
Credit impairment charge	(6,677)	(14,431)	54
Statutory loss before tax	(3,099)	(5,099)	39
Income tax credit/(charge)	38	(1,198)	103
Statutory loss after tax	(3,061)	(6,297)	51
Memo			
Deduct profit on derecognition of financial assets	(939)	–	-
Add back remediation related expenses	3,608	–	-
Add back impairment on goodwill	1,147	1,750	-
Adjusted profit/(loss) before tax	717	(3,349)	-

The Group manages its operational performance through a number of financial key performance indicators. These are stated below with the comparative key performance indicators for 2020 adjusted to reflect the prior period restatement.

Key metrics	2021	2020*	Change
Net loans and advances to customers	363,992	427,003	(15)
Customer deposits	327,166	342,046	(4)
Net Interest Margin (NIM)[13] (%)	6.6	6.8	(0.2) ppt
Cost: income ratio[13] (%)	85.8	58.1	(27.7) ppt
Impairment charge as % of average gross loans[13] (%)	1.6	3.7	2.1 ppt
Statutory return on equity[13] (%)	(6.1)	(11.4)	5.3 ppt
Loss per share (pence)	(1.2)	(2.6)	1.4 pence

* The restatement of prior period errors are set out in Note 1.7 to the accounts.
[12] Derecognition of financial assets refers to the sale of credit-impaired loans.
[13] Refer to section Non-IFRS performance measures on page 17 for further details of the definition of this non-IFRS performance measures.

In the 12 months to 30 September 2021, the Group reported a statutory loss before tax of £(3.1) million which reflects a challenging period both in terms of the external operating environment and the significant events and change that have taken place within the Group.

Net operating income of £26.8 million was 1% higher than for the same period in 2020, which in the context of the challenging external environment and our capital management actions, is a good performance. Whilst net loans and advances to customers reduced by 15% from September 2020, over the course of the year, average gross loans were 4% higher than for the same period in 2020. This higher average loan balance supported net interest income, despite net interest margin compression, reducing by 30 bps to 6.6%.

Since the onset of the COVID-19 pandemic, we have taken an active decision to concentrate the majority of our new lending to our top four credit grades. At the same time, the higher yielding existing portfolio has continued to mature and these effects have weighed on the net interest margin. This trend is expected to continue into the 2022 financial year, and we will be taking action to mitigate this compression as we again become comfortable with writing more business outside of the top four credit grades and as we look to optimise our cost of funding and liquidity.

Staff and operating expenses of £21.2 million were 56% higher than in 2020. We have previously announced that expenses in the 2021 financial year would be higher and impacted by the cost of remediating legacy issues. These have been complex issues that have required significant time and effort and we have increased the number of colleagues in key areas to support this, notably within Finance. We have also required expert support from external advisors, including legal, consultancy and audit firms. The cost of this activity for the year was £3.6 million.

Excluding remediation related expenses, staff and operating expenses were £17.6 million, 30% higher than last year. In building firmer foundations, we have made a broader improvement in the overall size and quality of our core back-office functions including Risk and Compliance, Finance and Treasury and IT which contributed to an increase in headcount of 28 by 30 September 2021 compared with 12 months earlier. This will also support the future growth of the business. Elsewhere, we saw increases in non-remediation related professional services fees and marketing spend.

The Group recognised £1.1 million additional impairment on goodwill, and a profit of £0.9 million on the sale of credit-impaired loans (reported as 'derecognition of financial assets'). These financial assets relate to the £12 million of defaulted receivables that were disposed of in September 2021.

Credit impairment charges for the year were £6.7 million, a 54% reduction on the prior period. The significant reduction compared with the prior period reflects lower COVID-19 related provisions, a reduction in new lending leading to a smaller overall size of the Group's loan portfolio, and the non-recurrence of specific provisions that were taken in the 2020 financial year, including £6 million for defaulted receivables. Credit impairment charges as a percentage of average loans for the period was 1.6% and our Expected Credit Loss (ECL) provision coverage ratio as at 30 September 2021 was 3.3% (2020: 4.2%).

The Group's statutory loss before tax of £(3.1) million represents a return on equity for the period of (6.1)% and an earnings per share of (1.2) pence.

On an adjusted basis, adjusting for the profit on derecognition of financial assets, impairment on goodwill, and remediation related expenses, the Group generated a profit before tax of £0.7 million (2020: loss of (£3.1) million).

In the period, demand for borrowing in certain segments remained supressed. Businesses were able to access preferential funding rates through the Government support schemes, such as the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS).

Furthermore, in the context of the uncertain external environment and the amount of change within the Group, the decision was taken to manage new business origination levels to ensure a good level of capital throughout.

Net loans and advances to customers decreased 15% to £364 million, with the majority of the reduction in the second half of the year. In the first half of the year, new business origination (excluding Azule brokered business) totalled £104 million (2020: £138 million) whilst in the second half of the year new business origination totalled just £53 million (2020: £108 million). This represents a full year reduction of 36% compared with the £247 million of total new business origination in 2020.

However, over the 12 month period, gross loans averaged £411 million, which was 4% higher than over the previous 12 month period. Note 15 provides a breakdown of gross loans by segment, and a reconciliation to net loans and advances.

The value of loans in forbearance at 30 September 2021 was less than 1%, down from 9% a year earlier.

The Group's savings book remained resilient over the year, reducing just 4% to £327 million. This reduction has been managed to reflect our reduced requirement for funding given the reduction in the size of the loan book. Our deposit to loan ratio increased to 90% (2020: 80%), as the loan book reduced by 15%.

Restatement of prior period financial statements

The Group has restated prior period financial statements for two areas. Firstly, in respect of Interest Income (relating to the financial year ending 30 September 2020) and secondly in respect of deferred tax assets (relating to the financial year 2020). The details of the adjustments made are set out in Note 1.7 to the financial statements. In addition, the Group re-presented a small number of 2020 Balance sheet items, and these representations have no impact on the previously reported profit before or after tax, nor on the net assets of the Group for the year ended 30 September 2020, again with further details set out in Note 1.7.

Capital, funding and liquidity management

	2021 £'000	2020 Restated* £'000	Change %
Liquidity coverage ratio (%)	904	673	–
Net stable funding ratio (%)	159	145	–
Common Equity Tier 1 capital	50,111	52,677	(5)
Subordinated Tier 2 capital	6,136	6,065	1
Total regulatory capital	56,247	58,742	(4)
Counterparty and credit risk Risk Weighted Assets (RWA)	273,282	316,848	(14)
Operational risk RWA	47,812	40,433	18
Credit valuation adjustment RWA	109	19	–
Total RWA	321,203	357,300	(10)
Common Equity Tier 1 ratio (%)[14]	15.6	14.7	–
Common Equity Tier 1 ratio (%) - fully loaded	14.4	13.5	–
Total capital ratio (%)[14]	17.5	16.4	–
Total capital ratio (fully loaded)	16.5	15.3	–
Leverage ratio (%)[14]	11.1	11.1	–
Leverage ratio (%) (fully loaded)	10.2	10.1	–

[14] The CET1, Tier 1 and total capital ratios are calculated applying the IFRS 9 transitional arrangements (including the changes introduced by the 'quick fix' regulation adopted in June 2020.

*The restatement of prior period errors are set out in Note 1.7 to the accounts.

As a result of the restatements set out in Note 1.7 there has been a reduction in the 2020 Total Capital ratio has reduced from 16.8% to 16.4% and a reduction in RWAs of £4.7 million as at 30 September 2020. These restated regulatory capital numbers are presented throughout this Annual Report & Financial Statements. More information on regulatory capital and RWAs is contained within the Risk Management Report.

The Group maintains a diversified funding model which includes retail deposits, access to a subordinated debt facility (Tier 2), and drawings from the Bank of England's Term Funding Schemes. At 30 September 2021, the Group had a total of £59.6 million drawn through the Term Funding Schemes (2020: £62.4 million).

Retail deposits continue to be an important, stable, form of funding for the Group. Deposits of £327 million on 30 September 2021 were 4% lower than 12 months ago. This strong deposit book and relatively stable balance has allowed us to maintain a Liquidity Coverage Ratio (LCR) in excess of our regulatory requirement. The LCR increased to 904%.

The Group's cost of funding decreased to 1.3% (2020: 1.7%).

Total regulatory capital reduced to £56.2 million in the period, largely as a result of the loss after tax in the 2020 financial year causing a reduction in retained earnings. However, Risk Weighted Assets (RWA) reduced by 10%, reflecting the reduction in net loans and advances partly offset by an increase in the operational Risk Weighted Assets. As a result, the Group's total capital ratio increased to 17.5% (2020: 16.4%).

Prudent capital management continues to be a top priority. The Group has managed capital through the pandemic and through the 2021 financial year, including through taking a more selective approach to credit and new business volumes.

More detail regarding regulatory capital ratios is set out in the Risk Management Report on pages 54 to 56, and further details can be found in the Group's Pillar 3 disclosure which is available on our website.

Segmental business review

Business Finance Division (BFD)

The Business Finance Division provides hire purchase and finance lease agreements to sole traders, partnerships, and limited companies to help them acquire vehicles, plant and equipment. Lending is typically for up to five years with longer terms of up to ten years for specialist niche assets.

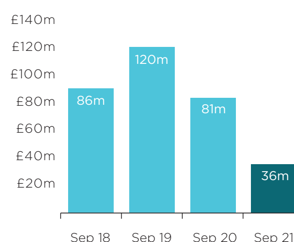
Vehicle and asset finance are commonly used sources of finance for businesses, providing significant cash flow benefits for those using them. The market in the UK is both mature and vast, with the Group having a share of less than 1%. (2020: less than 1%).

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

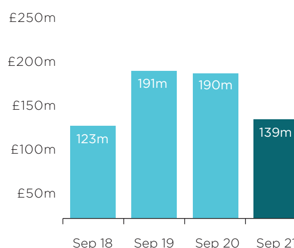
In 2021, lending in the business asset finance sector grew by 14% compared with 2020. However, this was still 12% lower than the levels seen in 2019. Areas of strong growth in 2021 included plant, machinery and business equipment.

The division's performance for the year was impacted by the continued lower level of demand than we typically expect to see; and our own decision to manage new business volumes and credit quality over the period. The government's CBILS and BBLS schemes, which allowed drawings until 31 March 2021, offered a preferable form of finance for many eligible small businesses. New business origination in BFD for 2021 was £36 million, down from £81 million in 2020. The total gross loan book reduced to £139 million (2020: £190 million).

BFD - new business volumes



BFD - gross portfolio



The new business written into our top four credit grades was 92% (2020: 78%) compared with 79% for the portfolio overall, which had a negative impact on margin.

Net operating income for the division reduced to £8.1 million (2020: £12 million). The impairment charge reduced to £5 million (2020: £8.4 million).

Consumer Finance Division (CFD)

The Consumer Finance Division 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.

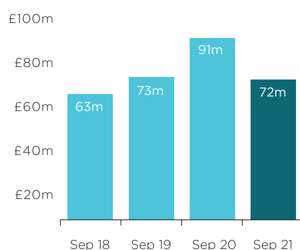
As with BFD, this division predominantly uses broker intermediaries as its route to market, with transactions being processed through the Group's internet-based proposal system.

During the 2020 financial year, PCF Group 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 provides instant credit and affordability assessments in line with our responsible lending guidelines.

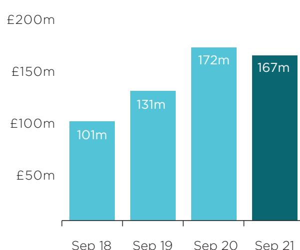
In 2021 the car market was robust, with volumes approximately 9% higher than in 2020, although this remained below the pre-pandemic 2019 levels by 14%. Used cars held their value remarkably well, supported by the global supply chain crisis that reduced the availability of new cars within the UK.

Whilst PCF Bank's proposition remained attractive and the market robust, new business volumes were scaled back to support the Bank's capital management strategy, as discussed herein. As a result, new business origination for the year was £72 million, 20% lower than last year. The total gross loan book reduced to £167 million (2020: £172 million).

CFD - new business volumes



CFD - gross portfolio



100% of new business was written in our top four credit grades (2020: 94%), compared with 91% for the portfolio overall, which has had a negative impact on margin.

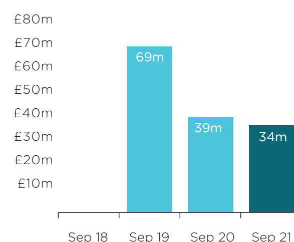
Net operating income for the division increased to £10.6 million (2020: £9.6 million). The impairment charge reduced to £1.2 million (2020: £4.9 million).

Azule Limited (Azule)

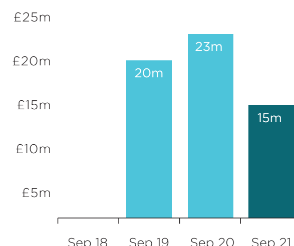
In 2018 the Group acquired Azule, a broadcast and media lending and broking specialist. Azule provides direct to end-user asset finance origination to the niche markets in the UK and across Europe, which include broadcast and media, sound, lighting, and audio-visual. It finances assets such as cameras, 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.

During the year, performance continued to be affected by social restrictions, limited live events, subdued activity in the film industry, supply chain issues and our proactive management of new business volumes. Total origination of £34 million was lower than the £39 million in 2020, and we expect this will continue into the first half of the 2022 financial year. The gross loan book on 30 September 2021 reduced to £15 million (2020: £23 million).

Azule - new business volumes



Azule - gross portfolio



Net operating income for the division reduced to £2.6 million (2020: £2.3 million). The impairment charge increased to £0.6 million (2020: £0.6 million).

Bridging Finance

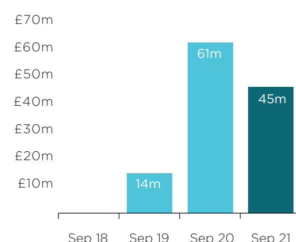
The Bridging Finance division launched its first product in early 2019. It provides unregulated bridging finance facilities to experienced property investment businesses, ranging from sole traders to partnerships and limited companies, secured on residential and commercial real estate in England and 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%.

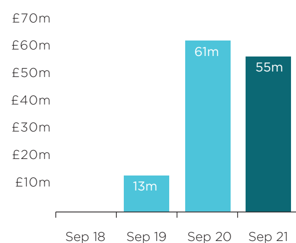
At the end of September 2021, the bridging market exceeded £5 billion for the first time, an increase of 11% on the same period last year.

We are pleased with the continued success of our product offering, and we expect it to be a driver of future growth. New business origination for the year was £45 million (2020: £61 million), and while volumes will remain low in the first half of 2022, we expect the full 2022 financial year to be higher than this year.

Bridging Finance - new business volumes



Bridging Finance - gross portfolio



Strategic Report (cont'd)

Net operating income for the division increased to £5.5 million (2020: £2.6 million). There was a small net impairment credit for the year of £0.2 million (2020: £0.5 million impairment charge).

Savings

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

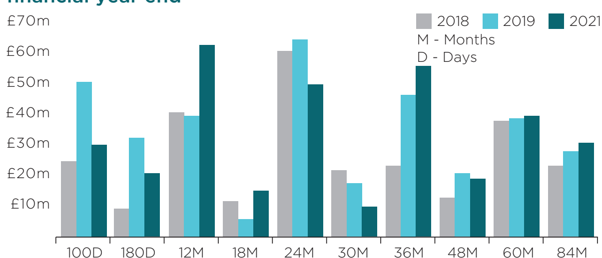
- Customers looking to maximise their return whilst preserving capital, and who are willing to commit to leave their money with the Bank for an agreed term, are offered competitive fixed rate deposit products with fixed terms of between 12 and 84 months.
- Savers also have the option of competitive variable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

The Bank offers online and telephone support to savings customers, enabling them to service their accounts in the way they prefer. The online application process is quick and simple, typically taking less than 15 minutes to complete an application and open an account.

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

Savings balances reduced by 4% in the year to £327 million, an appropriate outcome given the reduction in the size of the loan book. However, the deposit portfolio remains resilient and will continue to be the primary funding source for loan growth in the future. At 30 September 2021, the Bank had over 8,100 savings customers with an average balance of more than £40,000.

Outstanding balances across savings product terms at financial year end



Non-IFRS performance measures

The Group's management believes that the non-IFRS performance measures included in this Annual Report & Financial Statements provide valuable information to the readers of the Financial Statements as they enable the reader to identify a more consistent basis for comparing the businesses' performance between financial periods, and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well.

Non-IFRS performance measures glossary

Net interest margin

Definition: Net interest income divided by average customer assets. The components of the calculation are summarised below.

2021

Net interest income £'000	Average[15] customer assets £'000	Net interest margin %
26,253	395,498	6.6%

2020 Restated*

Net interest income £'000	Average[16] customer assets £'000	Net interest margin %
25,990	382,606	6.8%

Cost Income ratio

Definition: Total operating expenses (excluding impairment on goodwill, and profit on derecognition of financial assets) divided by Net operating income.

2021

Operating expenses £'000	Net operating income £'000	Cost income ratio %
22,964	26,750	85.8%

2020 Restated*

Operating expenses £'000	Net operating income £'000	Cost income ratio %
15.373	26,455	58.1%

Statutory return on average equity

Definition: Statutory loss after tax divided by average equity.

2021

Statutory loss after tax £'000	Average[15] equity £'000	Statutory return on average equity %
(3,061)	50,345	(6.1)%

2020 Restated*

Statutory loss after tax £'000	Average[16] equity £'000	Statutory return on average equity %
(6,297)	55,291	(11.4)%

Adjusted profit/(loss) before tax

Definition: This represents management's view of underlying performance. See table below for items excluded from statutory profit to arrive at 'Adjusted profit/(loss) before tax'.

	2021 £'000	2020 £'000
Adjustments		
Deduct: Profit on derecognition of financial assets	(939)	–
Add back: Remediation related expenses	3,608	–
Add back: Impairment on goodwill	1,147	1,750
Total	3,816	1,750

2021

Statutory loss after tax £'000	Adjustments (See above) £'000	Statutory Adjustments before tax £'000
(3,099)	3,816	717

2020 Restated*

Statutory loss after tax £'000	Adjustments (See above) £'000	Statutory Adjustments before tax £'000
(5,099)	1,750	(3,349)

Impairment charge as a % of average gross loans

Definition: Credit impairment charge divided by average gross loans.

2021

Impairment charge £'000	Average[15] gross loans £'000	Impairment charge as % of average gross loans %
6,677	410,999	1.6%

2020 Restated*

Impairment charge £'000	Average[16] gross loans £'000	Impairment charge as % of average gross loans %
14,431	395,342	3.7%

Adjusted return on average equity

Definition: Adjusted loss after tax (equivalent to average loss before tax above, with adjustments tax effected) divided by average equity.

2021

Adjusted profit after tax £'000	Average[15] equity £'000	Adjusted return on average equity %
333	50,345	0.7%

2020 Restated*

Adjusted profit after tax £'000	Average[16] equity £'000	Adjusted return on average equity %
(4,547)	55,291	(8.2)%

[15] Average of balances from 30 September 2021 and 30 September 2020.

[16] Average of balances from 30 September 2020 and 30 September 2019.

*The restatement of prior period errors are set out in Note 1.7 to the accounts.

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.

As previously disclosed, significant remediation work has been, and continues to be, undertaken to improve the effectiveness of the Group's risk management and to put a strong culture of risk awareness, listening and speaking up at the heart of PCF and its Risk Management Framework (RMF). Strong culture and 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 that the business is prepared to tolerate in pursuit of its business objectives.

Through its culture programme, 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. We intend that our colleague performance management and reward practices have a key 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, demonstrating our values, and maintaining a safe and secure business.

Risk within the Group is managed using a 'Three Lines of Defence' model, separating risk management (First Line) from risk oversight (Second Line) and internal audit (Third Line). Controls and expertise are being further, strengthened across the two internal lines of defence (First & Second), with additional Third Line assurance provided by an externally sourced internal audit function. The Corporate Governance structure, described on pages 25 to 29, includes the Board and Executive committees being Board Audit Committee (BAC), Board Risk Committee (BRC), the Executive Committee, Financial Reporting & Control Committee, Assets & Liabilities Committee (ALCO) and Executive Risk Committee.

RMF project

Following an external review of the Group's RMF, activities to strengthen the framework are underway, including but not limited to, formalisation and documentation of the framework and policies, simplification of risk metrics and measurement taxonomy and the introduction of principal risk subclasses.

Risk strategy

The Group has defined its risk management objectives and strategy and is developing a culture of risk awareness. Its risk strategy is intended to support a sustainable and resilient business through a proportionate approach to risk management, which is there to ensure that risks taken are suitably compensated for; that the needs of all stakeholders are considered; and that the total amount of risk under management is appropriate for a firm of PCF's size, capabilities, resources, and long-term aspirations. Ongoing activities that continue to support the strategy include:

- Strengthening the RMF and control environment through enhanced governance, which includes the embedding of a new risk committee structure, additional experienced risk hires and an enhanced risk and compliance team structure.
- Ensuring the Group's risk profile, including principal and emerging risks are fully identified, owned, managed, with a proportionate risk appetite set for each.
- Ensuring there is an appropriate return for risks taken within product pricing.
- Enhancement of the Group's stress-testing and credit analytics capabilities.
- Reviewing remuneration practices to ensure these are congruent with the Group's risk culture and RMF.
- 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 nine principal risks that could impact the delivery of its strategic objectives, each with a Board approved risk appetite, and the RMF identifies ownership, responsibilities, management approaches, mitigants and controls. These risks are defined and considered within the Risk Management Report on pages 54 to 66.

Emerging risks and uncertainties

Outside of these principal risks, 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 risk where the residual risk has materially increased.

COVID-19 pandemic and geopolitical uncertainty

Uncertainties remain from the longer-term impacts of the COVID-19 pandemic and may affect many of the key risks faced by the Group.

As COVID-19 direct financial support measures have unwound, the impact on credit arrears and losses has been limited, with the majority of customers who had requested COVID-19 related payment deferrals having returned to full servicing of their loans. Requests for assistance continued to fall as we moved through 2021, and due to a change of process adopted to manage customer forbearance, arrears have continued to trend back to levels reported pre-pandemic. The Group continues to monitor this.

The pandemic has had an unprecedented impact on the world economy, more recently exacerbated by the events currently taking place in Ukraine. As the global economy emerges from the pandemic with inevitable upturn in economic activity, demand for energy has increased at a time of uncertain supply, with a consequential marked increase in energy costs, leading to levels of inflation not seen in the UK for over thirty years. This has led the Bank of England to increase interest rates from record lows to the highest level seen in the last ten years, with Oxford Economics (OE) forecasting that the Monetary Policy Committee of the Bank of England will increase Bank Rate to 1.25% by the end of 2022.

Although PCF loans are generally fixed rate, the impact on households and businesses of rising food, energy costs, general inflation and interest rates may be reflected in affordability pressure. We are closely monitoring the potential impact of this on loan repayments.

While there is uncertainty in these macroeconomic risks, headwinds may restrict market prospects for the Group and increase the risk of loan impairments, higher prices and inflation expectations, and a disappointing recovery in labour market participation, which in turn leads to a downturn in domestic demand.

Implications of the delayed finalisation of the Annual Report & Financial Statements and share trading suspension

For the reasons set out below, on 1 April 2022 the Group's shares were further suspended from trading on AIM. The publication of the delayed Annual Report & Financial Statements for 2020 and Interim Results to 31 March 2021, along with the update of the Group's FPPP memorandum, allowed the Group's shares to be readmitted to trading on AIM on 25 January 2022. Despite an accelerated process being put into place for these accounts, the knock-on effect of these delays has meant that it was not possible to complete the financial accounts and the required audit processes prior to 31 March 2022.

The Board and management have kept in close contact with the Group's regulators as the Annual Report & Financial Statements 2021 has been finalised and have worked closely with the Group's NOMAD, to enable compliance with AIM regulation requirements. However, whilst the Board expects the publication of this Annual Report & Financial Statements to lead to the lifting of the suspension of trading in the Group's shares, if the Group's NOMAD and AIM are not satisfied then the London Stock Exchange could cancel the admission of the Group's shares on AIM.

Group performance and access to financial facilities

During this period of remediation the Group's cost base has increased significantly and continues at raised levels, 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 available to provide an appropriate level of accountability, control and oversight.

The remediation required in the Group's internal controls has dependencies on both systems and people and will take time to develop and embed fully. 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 remains the risk that whilst manual processes 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.

As at 30 September 2021, and currently, capital and liquidity metrics remain above regulatory requirements. However, options to access capital and financial markets have been limited, reducing the Group's ability both to raise growth capital and preventing it from transacting interest rate swaps. There is a risk that the Group may experience volatility in its profit and loss and its capital and liquidity metrics should it not be able to manage its interest rate risk exposure in its balance sheet through natural hedging. Management believes that, following the Annual Report & Financial Statements 2021 finalisation and the lifting of the suspension in trading of the Group's shares, the Group's bankers will begin the process to reinstate access to hedging these facilities. Management monitors the interest rate gap risk closely and, where required, seeks to hedge asset exposures naturally with appropriate tenor and rate retail deposits where achievable.

The Bank has a term loan facility from the Bank of England under the Term Funding Scheme with additional incentives for SMEs (TFSME) and a subordinated note facility from British Business Investments Limited (BBI). The Group and the Bank are required under the terms of the facilities to file their Annual Report & Financial Statements 2021 with BBI within 180 days of the 30 September 2021, although BBI has agreed to a deferral until the end of May 2022 subject to no new issuance under the facility in the meantime. The Group and the Bank had a £30 million revolving credit facility granted by Leumi ABL Limited (Leumi) which was not able to be drawn down due to the late filings on the Annual Report & Financial Statements. This Leumi facility was undrawn as at 30 September 2021 (2020: Undrawn) and was terminated on 21 December 2021.

Uncertainties on planning assumptions and going concern

The Group has continued to manage regulatory capital and the level of surplus regulatory capital it holds by managing new business volumes, with loans and advances to customers reducing. However, as we return to growth, it will be constrained by losses which will result in a reduced level of retained profits and therefore regulatory capital which will restrict the pace of growth.

Given the uncertainties we face, the current short-term plan for the Group covers the period to the end of 2023 and the strategic plan extends to a 5 year time horizon from the year end. The strategic plan includes costs associated with remediation and change activity and over the medium term, with the new capital raised the strategic plan shows a return to profitability and controlled growth that the Board believe can enable the Group to generate shareholder value and capitalise on the significant growth opportunities in its core operating markets and beyond.

The Group's performance and return to profitability in the strategic plan is underpinned by a number of key matters and assumptions which cover:

- The raising of external capital.
- The expected date of completion of the Group's remediation activities and the resultant impact on the Group's cost base.
- The level of impairment losses on financial assets.
- Our ability to meet regulatory requirements at all times.
- There being no additional regulatory threshold impacting on our ability to meet our regulatory capital or liquidity requirements.
- The support of our shareholders notably our majority (64%) shareholder Somers Limited for any capital raising or other strategic alternatives.
- The funding of new lending originations through retail deposits and other wholesale funding.
- Lending origination levels.
- Net interest margin on new originations.
- The payment of dividends, which have been assumed at zero in the medium-term plan.
- The lifting of the current suspension of trading in the Group's shares on AIM on publication of this report.

These assumptions are obviously very similar to those reported in the Annual Report & Financial Statements 2020 however a proportion of the additional capital requirements assumed in the plan are required now. If capital cannot be raised there is a risk our regulatory ratios fall below the required levels, and this might impact our continued operations.

As with any plan, there is a risk that certain of these assumptions will not be borne out with time. The most significant of these assumptions is the raising of external capital and the costs to complete remediation. There is a risk that these assumptions cannot be achieved in line with the plan, and this in turn gives rise to a material uncertainty in respect of going concern in these financial statements and is summarised in Note 1.2 Basis of Preparation to the financial statements.

Regulatory risk and legislative change

The Board and management continue to communicate openly and regularly with both the Prudential Regulation (PRA) and the Financial Conduct Authorities (FCA). The legacy 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 oversight, which in turn may lead to regulatory action and/or increased levels of regulatory requirements.

The UK regulatory landscape continues to move at pace with significant policy initiatives including operational resilience, financial impacts from climate change, and implementation of the UK Capital Requirements Regulation (CRR). 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, Regulatory Reporting and Legal teams to help position itself appropriately to address these issues. It is also engaging with regulators and industry trade bodies, such as the Finance and Leasing Association, on these and other significant industry issues arising.

As set out above in the 'Uncertainty on Planning assumptions and the impact on going concern' section, there are various assumptions and risks to the strategic plan and notably the plan assumes a capital raise. Should the planned capital raise not proceed or not be successful, the Group regulatory ratios would, over time, fall below those required by our regulator and this could impact our continued operation. Therefore, we have decided to accelerate an element of our capital raising, by requesting a capital injection from our majority shareholder Somers Limited. Somers Limited has agreed to inject circa £4 million of capital over the next two months, and an open offer to allow all shareholders to participate is expected to follow in due course. At the same time, we are also investigating other strategic opportunities as outlined in the Chair's Statement.

People risk

People risk can arise in many forms and continues to be the subject of close management attention.

The Group recognises the impact COVID-19 has had on colleagues, and has adopted a hybrid working policy, which will support colleagues who wish to continue to work from home for part of the working week. This is part of the Group's approach to remaining an attractive choice for employment.

The continued delay to publishing external financial results, a second share trading suspension and recent announcements, could lead to unease amongst colleagues, and higher levels of unplanned attrition. The recruitment market is competitive for financial services control function skillsets and together this could impact availability to attract and retain the right colleagues. The Executive Management Team continues its strategy of regular and open communication with all colleagues, and monitors risk associated with its people. To mitigate the risk the Executive Management Team seeks to reduce key person dependencies, by improving colleague skills and resources through development opportunities and improved succession planning.

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.

The Group has identified its important business services, including its dependency on third-party suppliers and the outsourcing of services, set impact tolerances for the maximum tolerable disruption and carried out mapping and testing to a level of sophistication necessary to enable it to comply with the requirements set out in the FCA's policy statement PS21/3 which describes how firms approach their operational resilience. The Group has also identified potential vulnerabilities in its operational resilience and takes and plans actions to address them. The Group has also established an Operational Resilience Framework with Internal Audit completing an independent review of its design in December 2021.

Cyberattacks continue to be a threat globally, exacerbated by current geopolitical events, and are inherent across all industries. The Group has maintained its investment in its Cyber Control Environment, including Cyber protection, benchmarking using the Cyber Essentials Framework and continues to focus on the 'Defend, Deter, Develop' themes as recommended by the National Cyber Security Centre.

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 has developed a 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. 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.

Stakeholder Engagement Report

Benchmark interest rate reforms

The Bank of England set out a timeline to achieve the transition from London Interbank Offered Rate (LIBOR) by no later than the end of 2021. At 30 September 2021 the sole exception to this was the revolving credit facility provided by Leumi ABL Limited, which when drawn accrued at overnight LIBOR plus a fixed spread. This facility was terminated by the Group and Bank on 21 December 2021.

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.

We consider our key stakeholders to be our members, our employees, our customers, our suppliers, our regulators and our community and environment. We have a governance structure which takes account of our range of stakeholders and appropriate governance standards. Our Code of Conduct sets out the high standards we expect our employees to effect in our business. Set out below are examples of how the Board engages with and has regard to the interests of these key stakeholders.

Members (shareholders and investors)

- We remain committed to communicating with members openly and transparently. Due to the legacy governance and control issues leading to the delayed completion of our Annual Report & Financial Statements 2020. 2021 and the suspensions from trading in our shares, our ability to update investors has, at times, been significantly constrained by our legal, regulatory and market obligations.
- Our Annual General Meeting on 26 March 2021, during a COVID-19 lockdown, provided the option for shareholders to attend virtually by video stream. However, this took place before the publication of our 2020 Annual Report & Financial Statements; these were published on 23 December 2021 with Interim Results 2021 published on 25 January 2022. We held a question-and-answer session via the Investor Meet Company platform on 27 January 2022 which we believe, was well received and management appreciated the opportunity for direct discussion with our shareholders and investors after a prolonged share suspension and restriction on our ability to hold such a meeting. On 15 February 2022 an update on the publishing of the 2021 Accounts, Interims and trading update was provided.
- We regret that delays to delivering the Annual Report & Financial Statements 2021 has led to a further suspension of trading in the Group's shares on AIM in April 2022. The provision of these accounts, combined with Interim 2022 results puts the Group on track to deliver its ongoing market commitments on a timely basis and to rebuild confidence with its members.
- As the new Finance Team establishes itself and control and governance improvements are embedded across the business, the Board expects the quality and timeliness of reporting to our members will further improve.

Employees

- Our employees (colleagues) are important to us. We seek to ensure that we attract, develop and retain talent, encouraging employees to gain professional qualifications.
- As well as developing internal talent we have hired new talent with new colleagues, contractors and advisors augmenting the existing team to implement the organisational changes set out by the Chief Executive Officer in his report.
- Regular all-colleague updates continue and hybrid working is now embedded throughout the organisation. The wellbeing and mental health of our workforce remains a focus with support from our HR team, including biweekly coffee and chat sessions and access to a confidential Employee Assistance 24/7 helpline.
- Our cultural change programme continues at pace delivering real change across the business with an empowered group of Culture Champions driving longer-term culture as a key business priority.
- A key longer-term initiative is to embed a high-performance culture across the business through fostering an environment of coaching, learning and innovation.
- We completed an anonymous company-wide survey in August 2021 with a response rate of 83.3%. The survey has been repeated since the year end in March 2022 with strong engagement (response rate 80%) and feedback showing improvement in all but one measure, work-life balance, with 67.4% of colleagues rating it above 6, on a scale of 1-10 (10 being extremely good), down from 76.5%.
- Our Diversity & Inclusion (D&I) group continue to drive initiatives across the Group working in partnership with the HR team. The Diversity and Inclusion survey after the year end in December 2021 received a response rate of 91%. A D&I plan is being developed in 2022 following on from this survey and the D&I group has engaged with the Executive Committee on the results.

Strategic Report (cont'd)

Customers

- Our customers are at the heart of our business, and we aim to treat them fairly, professionally and respectfully and of course in accordance with regulatory rules and guidance.
- We provide our savings customers with a high level of service, as evidenced by 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 have responded to our customer's requests for financial assistance during the COVID-19 pandemic effectively and efficiently.
- We continue to develop online self-serve capability across Savings and Lending improving customer service, responsiveness, and efficiency.
- We have increased our operational oversight, enhanced our complaints management capability and used route cause analysis to improve what we do, focusing on meeting customer demand at the first point of contact.
- We have maintained good customer service levels and remained open to new lending throughout the year, albeit focusing on our highest credit grades, given the market wide impact of 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 bureaux.
- 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.
- We have continued to enhance our intermediary oversight developing our broker scorecards and completing an enhanced level of due diligence across the broker network.

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 our regulators 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.
- Following on from the share suspension, legacy issues and the implementation of our new culture, we have had periodic discussions on culture with our regulators.

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.
- We have employed young people on apprenticeship schemes and continue to explore these avenues to support our communities.

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

G G Stran
Chief Executive Officer

31 May 2022

Sustainability Report

PCF Group recognises the major threat that climate change poses to global social and economic development. We are committed to reducing our carbon footprint and broader environmental impact, whilst also adapting our strategy and managing the climate change risks associated with our portfolio.

PCF Group developed and approved a Climate Risk Management Framework to ensure that the risks associated with climate change are considered across our organisation, including at the most senior levels of our business. The framework embeds a governance approach to climate change credit risk management, with appropriate oversight by the Board, senior management, and roles and responsibilities across the Group. The Board has ultimate oversight of climate-related matters and received training with regards to the implications of climate change risk on the Group.

PCF Group included climate change risk as one of the principal risks in its enterprise-wide Risk Management Framework. Whilst PCF Group has a low direct carbon footprint from its own operations, its main exposure to climate risk is technology transition risk through its lending activities in the vehicle finance business. The Group's property finance business exposure to climate change risk is low and many of the effects arising from physical risks such as from extreme acute and chronic weather-related events will be longer-term in nature, with an inherent level of uncertainty. We undertook a climate risk identification exercise and an initial measurement of PCF Group's exposures to climate change risks, leveraging data published by the UK Government on vehicle fuel and carbon emissions, property energy performance and flood risk.

The key climate change risk to our vehicle finance business is transition risk, measured through the engine types and the carbon intensity of the vehicles in our portfolio. PCF Group collects data on motor vehicle engine types and our assessment shows that 97% of the vehicles in the portfolio have diesel or petrol engines, which is broadly in line with the proportion of diesel and petrol engines in the UK overall motor fleet. We mapped carbon intensity data for our car finance portfolio, which showed that the carbon intensity of our car finance portfolio is slightly higher than the UK average. PCF Group is refining its credit assessment approach to ensure appropriate consideration of climate transition risks as part of our loan origination process. 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 contributing to the management of climate change and towards 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.

Our bridging loans property portfolio is exposed to climate change physical risks such as flood risk, although this is partially mitigated by the fact that our property exposures are mainly bridging loans with an average term of 12–18 months. Our analysis shows that only 1% of the properties in our portfolio are at a high risk of flooding.

From a property transition risk perspective, the Group undertook a mapping of the residential and commercial properties in its bridging loans portfolio to the Energy Performance Certificate Register. The results show that 32% of the properties in PCF's portfolio that were mapped to the register have energy ratings of C or above; and 8% of the properties have F or G energy ratings.

PCF also undertook climate scenario analysis for its vehicle finance portfolio based on the Bank of England's Biennial Exploratory Scenario Exercise on the Financial Risks from Climate Change. The scenarios were assessed on a qualitative basis, driving conclusions and informing actions with regards to particular areas of risk, for example risks from different depreciation profiles and residual values for vehicles with different engine types.

PCF takes its responsibility towards the environment seriously and recognises the important part it has to play in supporting the transition to a low carbon economy. 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 the 2021 financial year, 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 in the process of introducing electric vehicle company cars for our sales employees.

While the Group is not required to report on climate change risk and exposures under the Task Force on Climate-related Financial Disclosures (TCFD) framework until its 2022 year end, it will sign up as a TCFD supporter. Future Annual Report and Account disclosures will be progressively aligned with the TCFD strategic framework for the 2022 and 2023 financial accounting periods with expected alignment in the 2024 accounting period. As a UK company, the Group will adopt the Department for Business, Energy and Industrial Strategy (BEIS) mandatory climate-related financial disclosures in its 2023 Annual Report and Accounts.

The table below provides the Group's emissions that have been estimated in line with the Greenhouse Gas Protocol Standard, using the Environmental Reporting Guidance published by the UK Government. In the 2021 financial year we have seen a reduction in our carbon emissions driven by optimised office space.

	2021		2020	
UK	tCO2e	kWh	tCO2e	kWh
Scope 1 Fuel for office heating	2	8,618	3	14,037
Scope 2 Emissions from the purchase of electricity for own use	26	121,111	32	138,837
Total Scope 1 and Scope 2 emissions	**28**	**129,729**	**35**	**152,874**
Emission intensity Scope 1 and Scope 2 in tCO2e/Net operating income in £m	1.0		1.3	

All our emissions are UK based.

Corporate Governance Report
Chair's Introduction

Dear Shareholder,

As the Chair of PCF Group plc (the Group or Company), I present our Corporate Governance Report for the year ended 30 September 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.

Considering the events and issues that came to the attention of the Board after the 2020 year end and which have been the subject of the independent investigations, more effective corporate governance and oversight continues to be a priority of the Board. The Board has brought in a substantially new Executive Management Team for the business. The Board has taken steps to improve the Group's financial controls to enable approval of its Financial Position and Prospects Procedures (FPPP) and, as set out in the Strategic Report, there are continuing activities to further improve the Group's governance and control.

We have also continued the culture initiative and training programme to put risk at the centre of all that we do in the Group. 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 (four of whom are considered independent) and two of whom are executive. David Morgan and Mark Brown are not considered independent non-executive directors. David Morgan has been nominated by the Company's majority shareholder Somers Limited.

The process of recruiting a new Chief Financial Officer (CFO) was completed and we appointed Caroline Richardson to the role of CFO on 15 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. Garry Stran, the Chief Operating Officer of the Group, was appointed as interim Chief Executive Officer (CEO) on Scott Maybury's departure. Garry and Caroline were appointed to the Board on 5 October 2021 having confirmed their regulatory approvals.

The current corporate governance structure of the Group and its committees is set out below. Christine Higgins, an independent non-executive director, is Chair of the Board Audit Committee and Mark Sismey-Durrant, also an independent non-executive director the interim Chair of the Board Risk Committee.

In addition to its scheduled eleven meetings during the financial year, the Board met regularly on specific issues including the suspension of trading in the Company's shares, the progress of the independent investigation (reported in the Annual Report & Financial Statements 2020) and to monitor the impact on colleagues, customers, other stakeholders and the financial wellbeing of the Group.

The effectiveness of the Board was reviewed prior to the year end in September 2020, through an externally facilitated self-assessment review by Independent Audit Limited, using their online self-assessment service Thinking Board®. This was considered and discussed by the Board in December 2020.

The legacy governance and control issues have resulted in learnings and improvements including new appointments to the Group, and these learnings will continue to inform the development of the Group and of the Board (both individually and collectively). In late 2021, the Board undertook a search process to identify candidates for the roles of a new Chair as part of planned board succession and a new Senior Independent Director (SID) role. This resulted in the announcement of the appointments of myself and Mark Sismey-Durrant as non-executive directors to the Board with effect from 9 January 2022. I have taken up the role of Chair of the Board and Mark the role of SID.

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

Simon Moore
Chair

31 May 2022

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 2021.

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 except for 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 regularly engages with the Board on colleague matters, and colleague engagement. Given the size of the workforce, an experienced Chief People Officer is considered the most effective means of developing and monitoring colleague engagement.
- Less than half the Board, excluding the Chair, are independent non-executive directors (Code Provision 11) From 1 October 2020 to 21 May 2021, less than half the Board, excluding the Chair, was made up of independent non-executive directors. From 22 May 2021 until 4 October 2021, the Board met Code Provision 11, as at least half the Board was made up of independent non-executive in 2021 and 21 May 2021 respectively. From 5 October 2021, less than half the Board, excluding the Chair, were independent non-executive directors following the appointments of Garry Stran and Caroline Richardson as executive directors on this date. While Mark Sismey-Durant was appointed as a Senior Independent Director on 9 January 2022, the provision will only now be met once the recruitment of the Board Risk Committee Chair is completed following Marian Martin's resignation as an independent non-executive director on 23 December 2021.
- Lack of Senior Independent Director and lack of Chair's appraisal (Code Provision 12) In the absence of a Senior Independent Director (SID) an appraisal of the Chair was not carried out. Mark Sismey-Durrant will be responsible for the Chair's evaluation going forward.
- Evaluation of performance of Board committees, individual directors and auditors (Code Provisions 21, 22 and 25) The effectiveness of the Board was not reviewed during the financial year with the last Board effectiveness review having taken place in September 2020. Effectiveness reviews were not extended to all Committees of the Board. Additionally, whilst an external assessment of the individual director's skills and their training needs was undertaken during the financial year, there was no individual performance evaluation. This was due to the ongoing significant amount of Board time required to finalise the 2020 Annual Report & Financial Statements, published in December 2021, and then to address remediation required to lift the suspension from trading in the Group's shares together with the appointment of a new Chair in January 2022. The new Chair has started to address these matters. Furthermore, due to the change in external auditors and the disclaimer of opinion in the 2020 Annual Report & Financial Statements, no effectiveness review was completed on Ernst & Young LLP's performance. Therefore, the Group was not compliant in all of the aforementioned regards. The governance remediation underway includes appropriate and timely effectiveness and performance reviews of the Board, its committees, directors and auditors.
- 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. Considering the circumstances of the Group's suspension of shares on AIM, and the current review of strategic opportunities (as outlined in the Chair's Statement), a viability assessment has not been prepared and no statement is made in this Annual Report. 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. With the volume of remediation underway, the Company has not yet instigated this change but is considering this matter 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 internal controls systems and risk frameworks set out in the Board Audit and Board Risk Committee reports.

Reviews by the Board

The effectiveness of the Risk Management Framework (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 regarding financial reporting, oversight of external and outsourced internal audit activities, internal controls, compliance, and whistleblowing.

Overall assessment

The Board has taken steps to improve the Group's financial controls, continues to monitor the effectiveness of its RMF and internal controls systems and carefully scrutinised the FPPP. In relation to the scrutiny of the FPPP, this included reviewing and challenging the Finance function's risk assessment and ensuring mitigating actions to the risks identified are appropriately documented and managed, reviewing the controls assessments of third-party advisers. Ultimately as a result of this scrutiny, the Board approved the FPPP.

Board of Directors

Simon Moore

Non-executive Chair,
appointed 9 January 2022

Simon has extensive regulatory and financial services experience in consumer, SME, and corporate banking together with regulatory and general financial services experience from his roles in Cambridge & Counties Bank, Barclays Bank and Chase Manhattan Bank. In addition, he was a member of the management board of the Confederation of British Industry. He is currently Chair of Cambridge & Counties Bank and RCI Bank UK.

Simon has taken up the role of Chair of the Board and the Nomination Committee. He is also a member of the Remuneration Committee.

Mark Sismey-Durrant

Non-executive Senior Independent Director,
appointed 9 January 2022

Mark has over 40 years' experience in banking with a particular focus on specialist challenger banking, having been CEO of three such banks over a period spanning 23 years – Sun Bank plc, Heritable Bank plc and more recently, Hampshire Trust Bank. He is currently also Chair of fintech Cashplus Bank.

Mark is the Senior Independent Director and interim Chair of the Board Risk Committee. He is also a member of the Board Audit Committee, Remuneration Committee and Nomination Committee.

David Morgan

Non-executive director,
appointed 9 July 2012

David has over 40 years' experience in international banking, building his career at Standard Chartered Bank. Since leaving Standard Chartered, 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 Chair of Harlequin FC, the Premiership rugby club.

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

Mark Brown

Non-executive director,
appointed 1 December 2015

Mark was Chair of Stockdale Securities from November 2014 until it was bought by Shore Capital in April 2019 and is now Vice Chair 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 the 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 UK and international asset finance. Over the last 12 years, she has served as non-executive director on boards in the health, housing, charity and finance sectors. Christine is currently a non-executive director at Macquarie Capital Europe Limited and Audit Chair. During the year, she was a Trustee at Refuge and a non-executive director at the Buckinghamshire Building Society and chaired their audit committees.

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

Corporate Governance Report (cont'd)

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 Chair of the Remuneration Committee and a member of the Board Risk Committee and Nomination Committee.

Garry Stran

Executive director,
appointed 5 October 2021

Garry Stran is the Chief Executive Officer (CEO). He 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 and confirmed as the CEO in May 2022. Garry is a financial services professional having had a variety of roles in listed, owner managed, state and private equity-controlled businesses. He has extensive experience across financial services with a focus on credit risk management, operation transformation and M&A. Garry's early career was with Nationwide Building Society where he was a senior executive and a member of the Retail Credit Committee. Since then, he has worked extensively in private equity as both a founder, CEO, non-executive director (NED) and Chair.

Garry was a NED of Computershare Loan Services Limited for six years including chairing the Audit and Compliance Committee for part of that time. He has joined us from a leading fintech lender where he played a key role in supporting their rapid growth plans. Garry is a Member of the Institute of Credit Management and holds the Finance and Leasing Diploma.

Caroline Richardson

Executive director,
appointed 5 October 2021

Caroline Richardson is the Chief Financial Officer (CFO). Caroline has significant experience as a Finance director, previously 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 12 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 and resignation of directors during and after the year ended 30 September 2021

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.

Marian Martin resigned as a director on 23 December 2021.

Simon Moore and Mark Sismey-Durrant were appointed as directors on 9 January 2022.

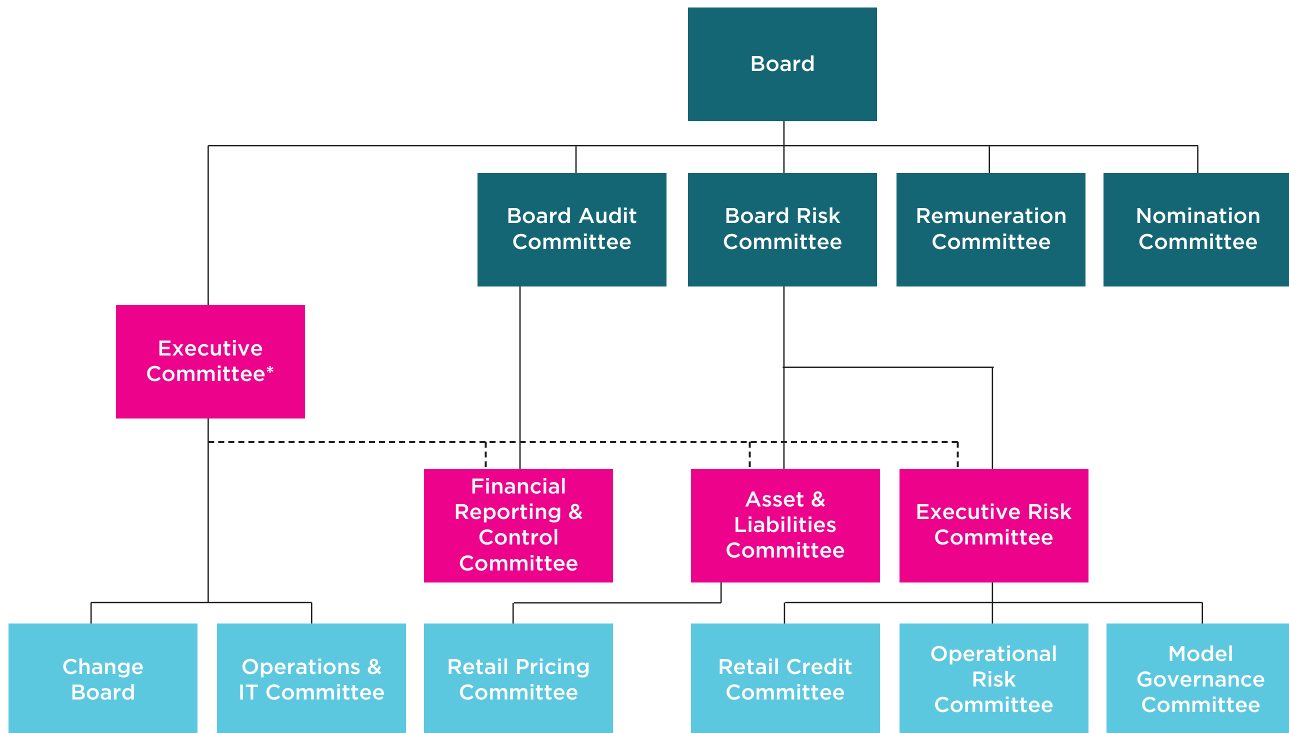
Tim Franklin resigned as a director on 31 January 2022.

Corporate Governance Structure

The Board is principally supported by, and delegates specific powers to, several 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 Recovery Committee, the core membership of which is comprised of senior members of ExCo, meets on an *ad hoc* basis and reports to the Executive Committee.

Membership

- Directors
- Executive Directors and Senior Executives set out on pages 27 to 28 and 34 to 35
- Executive Directors, Senior Executives and nominated Heads of Department

The composition of the Board is usually replicated and operates concurrently at PCF Group plc (the Group) and PCF Bank Limited (the Bank). The Boards met no less than nine times[17] during the 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 Chair and this will be an area of focus for me once the new Board Risk Committee Chair is appointed.

Each of the Executive Committee, Board Audit Committee, Board Risk Committee, Nomination Committee and 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 Strategic Report, improvements in governance are a remediation priority. The Annual Report & Financial Statements 2020 set out the new committee structure and the committee responsibilities being implemented to improve governance. One additional committee has recently been incorporated into the Corporate Governance structure since, namely the Financial Reporting and Control Committee (FRCC), which reports into both the Executive Committee and the Board Audit Committee. An outline of the Executive Committee, FRCC, Assets & Liabilities Committee and Executive Risk Committee (ERC) responsibilities are set out in the Risk Management Report on page 56. Below these four Executive Committees there are management committees with responsibility for specific risks and appropriate oversight. Prior to establishment of all management committees their responsibilities have been undertaken by the parent Executive Committee; with Operational Risk and Model Governance responsibilities to transfer to those respective committees from ERC after publication of this report.

[17] Subsequent to the end of the financial year, PCF Group plc's Board Terms of Reference were amended to allow for meetings no less than four times a year, with the Bank's Board continuing to meet no less than nine times a year.

Corporate Governance Report (cont'd)

Corporate Governance Structure

Board balance and independence

The Group and the Bank Boards consist of four independent non-executive directors, two non-executive directors and two executive directors, Garry Stran and Caroline Richardson. The Board is chaired by Simon Moore, an independent non-executive director and Mark Sismey-Durrant, a Senior Independent Director. The profiles of the members of the Board are provided on pages 27 to 28. 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 systems and the integrity of the Group's external and internal audit processes. The Board has outsourced its internal audit activities to Grant Thornton UK LLP (Grant Thornton). The Board Audit Committee is responsible for agreeing and overseeing the outsourced 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. After the year end, a decision was made to appoint Mark Sismey-Durrant, as a Senior Independent Director (SID) to increase the resources of the Board and improve governance through fulfilment of the SID functions recommended by the Code.

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

The Boards of the Group and the Bank are responsible for the success of the Group and the Bank respectively.

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.
- 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.
- 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 the 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 Board Audit and Risk Committees, whose Chairs provide oral reports, minutes, and updates to the Board. The Board 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 on pages 55 to 56. Further details of the work of the Board Audit and Risk Committees can be found on pages 28 to 42.

Whilst the Board delegated the role of assessing principal risks of the Group and the Bank to the Board Risk Committee, during the financial year the Chief Risk and Compliance Officers submitted Risk and Compliance Reports respectively to the Board at each scheduled Board meeting to highlight matters of note for consideration and action, as well as progress updates on relevant actions and matters.

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 Chair and Chief Executive Officer

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. The roles of Chair and Chief Executive are not exercised by the same individual.

All executive and non-executive directors have unrestricted and timely access to all relevant information necessary for informed decision-making. The Chair 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.

Chair

Tim Franklin served as Chair throughout the year and resigned as a director on 31 January 2022. Simon Moore was appointed on 9 January 2022, as the Chair. The Chair 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 Officer

Scott Maybury served as Chief Executive until his resignation as a director, on 21 May 2021. Garry Stran replaced Scott Maybury initially on an interim basis, and was appointed to the Board on 5 October 2021. 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.

Attendance at meetings

The attendance of the directors at scheduled Board and principal committee meetings that took place during the year is shown below. In addition to the eleven scheduled Board meetings, a further eleven meetings were held 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.

Corporate Governance Report (cont'd)

Corporate Governance Structure

	Board	Board Audit Committee	Board Risk Committee	Nominations Committee	Remuneration Committee
Number of meetings attended/(eligible)	22	13	8	4	8
Tim Franklin	22 (22)	–	–	4 (4)	8 (8)
Scott Maybury[18]	13 (13)	–	–	–	–
David Morgan	19 (22)	–	8 (8)	4 (4)	8 (8)
Mark Brown	21 (22)	13 (13)	–	4 (4)	8 (8)
Christine Higgins	22 (22)	13 (13)	8 (8)	4 (4)	8 (8)
Marian Martin	21 (22)	11 (13)	8 (8)	4 (4)	8 (8)
David Titmuss	22 (22)	–	8 (8)	4 (4)	8 (8)
Robert Murray[19]	11 (11)	–	–	–	–
Garry Stran[20]	–	–	–	–	–
Caroline Richardson[20]	–	–	–	–	–

[18] Resigned 21 May 2021.

[19] Resigned 26 March 2021.

[20] Garry Stran, CEO, and Caroline Richardson, CFO, both attended Board meetings from the dates of their appointments as invitees. The attendance of the CEO and the CFO in the table above reflects their tenure as members of the Board, with both being appointed members of the Board in October 2021, after the end of the financial year.

Appointments to the Board

The Nomination Committee (NomCo) consists of two non-executive directors and four independent non-executive directors and was chaired by Tim Franklin, until his resignation on 31 January 2022. Simon Moore has been appointed as Chair. 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

During the year, specific training sessions were held covering compliance, regulation and corporate governance issues. Topics covered included ILAAP, L-SREP, ICAAP, C-SREP and Horizon Scanning. 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 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. The Company Secretary is also responsible for advising the Board, through the Chair, 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 committees

The Board has established several committees to which responsibility for certain matters has been delegated. The Board Committee structure is shown in the diagram on page 29. 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 the Nomination, Remuneration, Board Audit and Board Risk Committees are set out on pages 36 to 48 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 CEO 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 Executive Committee (ExCo). The CRO and COO have a standing invitation to attend all scheduled Board meetings. Additionally, the CEO and the CFO attended Board meetings as invitees prior to their appointment to the Board in October 2021.

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 the Executive Committee (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 (Chief Executive Officer) and Caroline Richardson (Chief Financial Officer) as at 22 December 2021, the other members of ExCo are as follows:

Andrew Barber[21]
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[22]
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[23]
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. 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[23]
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.

Catherine Mayo[22]
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 at 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[21]
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 eight 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[22]
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[21]
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 all savings and lending divisions. Gavin has over 20 years of asset finance experience having originally started in sales for a specialist media asset finance company in 1998.

Kate Willson[24]
Interim Chief People Officer
Kate has worked with the Group on a consultancy basis since August 2021 and joined the Group as interim Chief People Officer (CPO) in April 2022 on departure of the previous incumbent. Kate has had a 20-year corporate career in the financial services industry, including leadership roles with Nationwide Building Society and Alliance & Leicester (A&L) within Human Resources and Learning & Development functions. At A&L Kate had board level responsibility for introducing a succession planning process and a number of new initiatives to support it such as 'Women in Business'. Since 2004 Kate has completed a wide range of consultancy assignments with large and smaller organisations. Kate has significant experience of organisational change including cultural change, organisational restructures, diversity and inclusion strategy development and employee communications. Kate is a chartered member of the Chartered Institute of Personnel and Development.

21 Member of the Executive Committee throughout the year to 30 September 2021.
22 Member of the Executive Committee from June 2021.
23 Member of the Executive Committee from August 2021.
24 Member of the Executive Committee from April 2022.

Where appropriate, alternates attend when members are absent.

PCF GROUP

Nomination Committee Report

Committee members of the Nomination Committee (NomCo)

Simon Moore
Independent non-executive director (Chair)
(Member from 9 January 2022)

Mark Brown
Non-executive director

Christine Higgins
Independent non-executive director

David Morgan
Non-executive director

Mark Sismey-Durrant
Independent non-executive director
(Member from 9 January 2022)

David Titmuss
Independent non-executive director

Tim Franklin
Independent non-executive director
(Chair/Member until 31 January 2022)

Marian Martin
Independent non-executive director
(Member until 23 December 2021)

Dear Shareholder,

I present my report to you as Chair of the Nomination Committee (NomCo) for the year ended 30 September 2021.

Introduction

The 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. 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 the NomCo is:

- To review the structure, size and composition of the Board.
- To lead the process for appointments to the Board.
- 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.

NomCo assesses the suitability of candidates, considering the required mix of skills, knowledge, experience and diversity, before recommending them to the Board for appointment. NomCo continues to ensure that diversity in candidates is sought for appointments to the Board.

During the year, NomCo completed the process of recruiting a new Chief Financial Officer (CFO). 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. NomCo also recommended the Board to appoint Garry Stran, who had joined the Group as Chief Operating Officer on 1 March 2021, as the new interim Chief Executive Officer, on 21 May 2021. Following the year end, the Committee recommended Garry Stran's appointment as CEO.

Tim Franklin advised NomCo of his intention to retire in early 2022. NomCo engaged Warren Partners to source appropriate candidates for the roles of Board Chair and Senior Independent Director (SID). After an extensive process, NomCo recommended to the Board that it appoint Simon Moore as Board Chair and Mark Sismey-Durrant as SID.

Following Marian Martin's resignation on 23 December 2021, NomCo is engaged in the recruitment of a non-executive director to replace her as a non-executive director and Chair of the Board Risk Committee. Until an appointment is made Mark Sismey-Durrant will act as the interim Chair of the Board Risk Committee.

During the financial year regular board training was held to provide Board members with professional development and to enable updates on regulatory, financial and governance developments. 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.

During the financial year NomCo met four times.

Diversity and inclusion

Diversity and inclusion continue to be a focus of the Committee. NomCo considers that the Board can draw on a diverse range of experience, knowledge, and skills of directors from different backgrounds but will continue to seek opportunities to further improve the wider diversity of the Board in the future. At 30 September 2021, two of the Company's six directors were women and this is now two 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 2021 was (72.7%) male and (27.3%) female and in management positions was (75%) male and (25%) female.

This report was approved by the Nomination Committee on 31 May 2022.

Simon Moore
Chair of the Nomination Committee

31 May 2022

Remuneration Committee Report

Committee members of the Remuneration Committee (RemCo)

David Titmuss
Independent non-executive director (Chair)

Simon Moore
Independent non-executive director
(Member from 9 January 2022)

Mark Brown
Non-executive director

Christine Higgins
Independent non-executive director

David Morgan
Non-executive director

Mark Sismey-Durrant
Independent non-executive director
(Member from 9 January 2022)

Tim Franklin
Independent non-executive director
(Chair/Member until 31 January 2022)

Marian Martin
Independent non-executive director
(Member until 23 December 2021)

Dear Shareholder,

I present my report to you as Chair of the Remuneration Committee for the year ended 30 September 2021.

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. 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. During the year the Committee reviewed the remuneration of the CEO and CFO in advance of their appointment.

Approach to remuneration

The approach taken by the Group in respect of remunerating colleagues emanates from a combination of regulatory guidance in particular, the Dual-Regulated Firms Remuneration Code (SYSC 19D), as appropriate for Level 3 firms, the rules on remuneration published by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) are 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 the Dual-Regulated Firms remuneration principles proportionality rule (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.

By application of supervisory statement 2/17: ‘Remuneration’, and policy statement 28/21: ‘Remuneration: Identification of material risk takers’, the Group classifies those colleagues identified under the regime, as Renumeration Code employees, also known as material risk takers. Renumeration Code employees are comprised of executive and non-executive directors, senior managers, and internally certified employees covered by the Senior Managers 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, co-operation, 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, in applying our remuneration policy the Group also needs to be 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.

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. Since the 2018 scheme no new share-based long-term incentive has been introduced.

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 49 to 53. No options were granted during the financial year. Options exercised during the financial year are detailed in the Directors' Report. None of the executive directors received share-based remuneration in the financial year.

Other directors' interests in the Group are disclosed in Note 32 to the financial statements.

Key activities in the year

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 *ad hoc* recognition payments were approved by Remco in January 2021 for efforts in relation to the pandemic, totalling £38,000.

As detailed above, the Committee considered the initial remuneration packages for the newly appointed COO and CFO, as well as a further remuneration package for Garry Stran upon his assuming the role of interim CEO. RemCo then gave further consideration to the interim CEO and CFO arrangements in June 2021, in particular to the granting of additional fixed payment allowances for the financial year but paid in December 2021 (as further detailed in the table in the Remuneration for the Year section).

RemCo met eight times during the year to 30 September 2021.

Since 30 September 2021, the Committee has met to consider the remuneration of the two newly appointed non-executive directors, reviewed the two executive directors' compensation and new bonus schemes for all employees and the Senior Management Team. Additionally, the Committee agreed the remuneration for the appointment of Garry Stran as CEO in May 2022.

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 Aegon, with a Company contribution rate based on 7% of basic salary.

The directors' and senior executives' contribution rate are based on 10% of basic salary. These are inside 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, senior executives 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 for future appointments of directors' and senior executives' contributions to align with those of the majority of the work force for new senior executive hires).

Remuneration Committee Report (cont'd)

Variable remuneration

The annual performance award is a significant variable component of the overall remuneration and is at the discretion of Remco. In determining the level of award paid to the Chief Executive and Chief Financial Officer, consideration was given not only to the financial performance of the Group (including returns to shareholders and the Group's profitability) in 2021, 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 2021, no annual bonuses were paid to the executive directors.

2021	Fixed			Variable		
	Salary/fee £'000	Pension £'000	Taxable benefits £'000	Bonus £'000	Other £'000	Total £'000
Executive directors						
S D Maybury[25]	215	–	–	–	71	286
R J Murray[26]	108	5	–	–	–	113
D R Bull[27]	–	–	–	–	–	–
Non-executive directors						
M F Brown	43	–	–	–	–	43
T A Franklin[28]	95	–	–	–	–	95
C A Higgins	57	–	–	–	–	57
D J Morgan	43	–	–	–	–	43
D Titmuss	52	–	–	–	–	52
M Martin[29]	59	–	–	–	–	59
Senior executives subsequently appointed as directors after 30 September 2021						
G Stran[30]	139	10	–	–	138	287
C Richardson[31]	124	12	10	–	118	264
Total	935	27	10	–	327	1,299

2020	Fixed			Variable		
	Salary/fee £'000	Pension £'000	Taxable benefits £'000	Bonus £'000	Other £'000	Total £'000
Executive directors						
S D Maybury[25]	289	–	2	–	–	291
R J Murray[26]	190	15	2	–	–	207
D R Bull[27]	191	19	2	–	202	414
Non-executive directors						
M F Brown	43	–	–	–	–	43
T A Franklin[28]	95	–	–	–	–	95
C A Higgins	57	–	–	–	–	57
D J Morgan	43	–	–	–	–	43
D Titmuss	52	–	–	–	–	52
M Martin[29]	43	–	–	–	–	43
Total	1,003	34	6	–	202	1,245

[25] Retired and resigned from the business on 21 May 2021. 'Other' amount represents a payment for loss of office.

[26] Resigned on 31 March 2021. 2021: Part of the pension received in cash. 2020: Part of the pension received in cash.

[27] Resigned as a director on 16 March 2020 and left the Company's employment on 30 September 2020. As at the time of departure from the Group David Bull was treated as a good leaver. 2020: 'Other' amount represents a payment for compensation for loss of office, including £87,000 as a payment in lieu of up to six months' notice, £85,000 as an incentive award measured against specific predetermined performance criteria and £30,000 as an ex-gratia payment. Share options previously granted were not cancelled on departure from the Group.

[28] Resigned on 31 January 2022.

[29] Resigned on 23 December 2021.

[30] Appointed as a director on 5 October 2021. Remuneration from date of appointment as interim Chief Executive Officer on 21 May 2021 (having joined the Group as COO on 5 July 2020). Pension received in cash. 'Other' amount represents a fixed deferred payment relating to the period but paid in December 2021 as part of his interim CEO appointment package.

[31] Appointed as a director on 5 October 2021. Remuneration from date of joining the Group as CFO on 15 March 2021. 'Other' amount comprises a fixed payment relating to the period but paid in December 2021. Benefits included allowances for temporary accommodation in London following her appointment.

Other matters

In light of the delays in the Financial Statements 2020, 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 is overseeing such recovery actions.

Non-executive directors

Non-executive directors are engaged under letters of appointment and are required to stand for re-appointment 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 published on our website *www.pcf.bank*

This report was approved by the Remuneration Committee on 31 May 2022.

David Titmuss
Chair of the Remuneration Committee

31 May 2022

Board Audit Committee Report

Committee members of the Board Audit Committee (BAC)

Christine Higgins
Independent non-executive director (Chair)

Mark Brown
Non-executive director

Mark Sismey-Durrant
Independent non-executive director
(Member from 9 January 2022)

Marian Martin
Independent non-executive director
(Member until 23 December 2021)

Dear Shareholder,

I present my report to you as Chair of the Board Audit Committee for the year ended 30 September 2021 and I have outlined below the key work of the Committee during the year. This year we were pleased to welcome MHA MacIntyre Hudson LLP as our new auditors and, on behalf of the Committee, I would like to thank them for their work and support in this first year.

Responsibilities of the 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.
- 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.
- Monitor and review the effectiveness of the Group's internal control systems.
- Review the Compliance Manual and Data Protection Manual and recommend them to the Board for approval.[32]
- Oversee whistleblowing arrangements. The Chair of BAC is the Whistleblowing Champion and an independent point of escalation in accordance with the Group's Whistleblowing Policy.

[32] The responsibility for compliance oversight, including data privacy, transferred to the Board Risk Committee after the year end.

Composition of the Board Audit Committee

BAC is 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.

Standing invitees to BAC included the Chief Financial Officer, Chief Risk Officer and representatives of the outsourced internal audit function and the external auditor. Since his appointment, the Chair has also attended BAC as a standing invitee.

The Chairs of the BAC and Board Risk Committee are each a member of the other Committee.

Meetings and areas of focus

BAC met thirteen times during the year including four scheduled meetings. An oral report was made to the Board following each meeting and the approved minutes were subsequently provided.

The BAC met privately before the scheduled meetings and at least once a year with the external auditor, the internal auditor, and the CFO, in turn.

During the year, BAC held an additional nine meetings to address matters related to delayed completion of the Financial Statements to 30 September 2020, financial controls and reporting process remediation activities and to lead a tender for a new statutory auditor.

Financial reporting and preparation of the financial statements

The Committee scrutinised the Annual Report & Financial Statements 2021. The Committee considered the Annual Report & Financial Statements 2021 as a whole and was satisfied that the reporting, including the disclosures in the Notes to the accounts, fairly represented the results and business performance for the year. The Committee considered the Annual Report & Financial Statements 2021 against a number of hallmarks of 'fair, balanced and understandable', including whether the overall portrayal of the Group was open and fair, setting out both successes and challenges, and whether language was used that a person with reasonable knowledge of financial sector financial reporting could understand. The Committee also considered whether the reporting was relevant in the context of the Group's strategy and the status of the Group's remediation activities, and whether the impacts of the COVID-19 pandemic and geopolitical events were appropriately recognised.

The Committee discussed and challenged management's analyses, the external auditor's work, and conclusions on the main areas of judgement presented in the Annual Report & Financial Statements 2021 (see details below under 'Significant accounting issues and judgements') as well as management's documented assessment of compliance with the UK Corporate Governance Code 2018 including those exceptions set out on page 26. The Committee was satisfied that internal controls and risk management systems are in place to provide assurance over the preparation of the Annual Report & Financial Statements 2021. Financial information submitted for inclusion in the financial statements was verified by individuals with appropriate knowledge and experience. The Annual Report & Financial Statements 2021 was scrutinised throughout the process by relevant senior stakeholders before being submitted to the Board Audit Committee, who provided debate and challenge, before recommending to the Board for approval. Each main area of focus in relation to the Annual Report & Financial Statements 2021 was discussed with the external auditor during the year and, where appropriate, have been addressed as an area of audit focus in the Auditor's report. The Committee also scrutinised the March 2021 Interim Results and the accounting judgements made in their preparation.

Remediation and improvements in financial controls and reporting processes

The Finance transformation work continues to embed best practice and efficiency control improvements. This transformation work is ongoing and is managed by an experienced change professional who provides regular oversight reports to BAC. Since the year end, BAC has overseen the creation of a new Financial Reporting & Control Committee which has responsibility for oversight of financial and regulatory reporting and the development of the Financial Control Framework. This committee met for the first time in April 2022 and reports into both BAC and the Executive Committee.

Accounting policies and judgements

The Committee reviewed the Group's accounting policies and confirmed they were appropriate to be used in the financial statements. It also considered changes to policies and processes. Judgments considered material for the Annual Report & Financial Statements 2021 reporting are set out within this report.

The Committee noted that there were no new standards, or amendments to standards, relevant to the Group that had become effective for the reporting period as set out in Note 1.5.1.

Non-IFRS performance measures

The Committee has paid particular attention to the non-IFRS performance measures included in the Annual Report & Financial Statements and as detailed on page 17. The Group uses 'adjusted' numbers to report its underlying results as well as for internal reporting purposes. The adjusted numbers strip out the accounting impact of one-off and non-recurring items. The Group experienced goodwill impairment, in both financial year 20 and financial year 21, in financial year 21, the Group also recognised a profit from the sale of credit-impaired loans and incurred significant costs in respect of remediation activities. The Committee has reviewed the Group's analysis for the exclusion of these items when presenting adjusted earnings and confirmed the consistent application and appropriateness of this analysis from year to year. The Committee considered the disclosure of and prominence given to these non-IFRS performance measures to be appropriate to aid an understanding of the Group's results.

Significant accounting issues and judgements

In reviewing the 2021 Financial Statements, the BAC reviewed, discussed and challenged management's assessment of the following significant accounting issues and judgements as follows:

- Impairment of loans and advances to customers in accordance with the IFRS 9 expected credit loss (ECL) model. The impact of COVID-19 during the year continued to affect the potential creditworthiness of customers. The Committee discussed management's assessment of key assumptions used in the IFRS 9 models and the assumptions and rationale that supported additional provisions through overlays and post-model adjustments described in Notes 1.5.2 and 1.6.2. The Committee is satisfied with management's determination of IFRS 9 expected credit loss allowance inclusive of the post model adjustments and IFRS 9 ECL disclosures across Notes 1.5.2, 1.6.2, 6, 15, 29.5 to 29.8 and 30.3.1 to 30.3.7 of the Financial Statements.
- Risk of fraud in the recognition of revenue through the Effective Interest Rate (EIR) methodology. The Committee considered management's assessment of the key assumptions and judgements set out in Note 1.6.1 used in the EIR methodology for determining the recognition of interest income on an EIR basis. The Committee is satisfied with management's assessment of revenue recognised on an EIR basis. The Committee reviewed Managements' analysis of a prior year error in the timing of recognition of interest income calculated using the EIR method identified in relation to a legacy system and agreed that a restatement relating to 2020 should be reflected in the Financial Statements. In this regard the Committee has considered Management's explanation for the historical circumstances that gave rise to this error and will oversee the ongoing control enhancements and development of the Financial Control Framework. Further details of the restatement are set out in Note 1.7.
- Recoverability of Deferred Tax Assets (DTA) and impairment assessment of goodwill.
  - The Committee reviewed a number of papers prepared by management on the carrying value of these deferred tax assets and goodwill which noted that the agreed criteria to recognise deferred tax assets relying on future profitability and goodwill had not been met. The recognition assumptions having been changed from the prior year due to an update in the phasing of the return to profitability in the strategic plan and additionally as the period for recovery considered was reduced to match the period over which going concern was considered (being a 12-18 month period).
  - As a result of this change, deferred tax asset of £2.6 million at the substantively enacted rate of 25% (2020: £1.8 million at 19% rate) has not been recognised: In respect of trading losses of £2.9 million (2020: £nil), with a corresponding deferred tax asset thereon of £0.7 million (2020: nil) and other temporary differences of £7.3 million (2020: £9.5 million), with a deferred tax asset thereon of £1.8 million at the substantively enacted rate of 25% (2020: £1.8 million at 19% rate).
  - Given the disclosure of a material uncertainty in relation to going concern in both the Annual report and financial statements 2020 and 2021, the committee judged that it was appropriate to treat the derecognition of deferred tax assets as a prior year adjustment, and comparatives have been restated accordingly.
  - The resulting deferred tax asset recognised at 30 September 2021 was £nil (2020: £nil) as set out in Note 19 to the financial statements. The carrying value of goodwill at the year end is £nil (2020: £1.2 million) as set out in Note 18.
- Impairment assessment of tangible and intangible assets: At 30 September 2021, the carrying value of the Group's tangible assets was £2.4 million (2020: £3.1 million) as set out in Note 17, and intangible assets was £3.1 million (2020: £3.2 million) as set out in Note 18 to the financial statements. The Committee considered management's impairment assessment of tangible and intangible assets, noting the findings of immaterial impairments identified by

management which were recorded in the financial results. The Committee is satisfied with the conclusion that impairments of both tangible and intangible assets were immaterial, and the presentation of tangible and intangible assets in the financial statements.

- Restatements and representations. The committee reviewed papers on proposed restatements prepared by management. There are two areas of prior period restatement to these financial statements. Firstly, in respect of Interest Income (relating to the EIR methodology applied in the 2020 financial year) and secondly in respect of deferred tax assets. The Committee's assessment of each of these prior period restatements is reflected in the respective sections above with further details set out in Note 1.7 to the financial statements.
- Going Concern: There continues to be a material uncertainty around the Going Concern position of the Group, and this was considered in detail by the Committee. As set out in the emerging risk section of the strategic report, there are various assumptions and risks to the Group's strategic plan (the Plan) and the Plan assumes capital raises. The committee reviewed the assumptions to the Plan and the associated risks to execution of the Plan. The Committee noted that should the capital raise or other strategic opportunities (as outlined in the Chair's Statement) not proceed then the Group regulatory ratios would over time fall below those required by our regulator which could impact our continued operations. The Committee concluded that the Going Concern basis of preparation was appropriate and furthermore, given the lack of certainty in relation to future capital raising or the aforementioned Strategic opportunities being considered by the Board, it was appropriate to disclose a material uncertainty in relation to Going Concern in the Financial Statements 2021 as set out in Note 1.2 of the financial statements. Refer to the Directors' Report on page 51 for further details and Note 1.2 Basis of preparation to the financial statements.
- Recoverability of Parent Company's investment in the Bank subsidiary: The Parent company's carrying value of its investment in PCF Bank Limited at 30 September 2021 was £32.0 million (2020: £32.0 million) as set out in Note 16 while Note 1.6.3 to the financial statements sets out the accounting judgements and assumptions for determining an impairment in a subsidiary. The Committee considered management's assessment of the recoverable amount of the investment in the Bank, being the higher of the Bank's cash-generating unit's fair value less costs of disposal, and its value in use, was greater than the carrying value of the Parent's investment in the Bank; and management's conclusion there is no impairment of the Parent Company's investment in the Bank. The Committee is satisfied that there is no impairment of the Parent's carrying value of its investment in Bank.
- Derecognition of loans and advances to customers on sale of credit-impaired loans: On 30 September 2021, the Group sold a portfolio of credit-impaired loans with a carrying value of £1.7 million, generating a profit on disposal of £0.9 million as set out in Note 7 to the financial statements. The sale of these loans was also disclosed in the Annual Report & Financial Statements 2020 as a post balance sheet event in Note 32. The Committee considered management's assessment that the terms and timing of the sale of the credit-impaired loans met the derecognition criteria of IFRS 9 at 30 September 2021, and that the ECL allowance on the credit-impaired loan portfolio was appropriate both at 30 September 2020 and 2021. The Committee is satisfied that both the accounting and disclosures for the sale of the credit-impaired loan portfolio were in accordance with the requirements of IFRS 9, and the ECL allowance on the remaining credit-impaired loan portfolio was appropriate.

Auditor opinion

The Committee has overseen the transition of the external audit from EY, who had been the Group's external auditor for 27 years, to MHA MacIntyre Hudson LLP (MHA) and their first-year audit of 30 September 2021. As part of the transition arrangements, in accordance with auditing standards, MHA inspected EY's audit files for the year ended 30 September 2020 and undertook additional audit procedures on the opening balance sheet for the year ended 30 September 2021. This additional work included inspecting and testing management's own detailed review work on 30 September 2020 balances which is set out in detail in the Board Audit Committee's report in the Annual Report & Financial Statements 2020.

The Committee is satisfied with the additional review work of the balance sheet undertaken by management for the year ended 30 September 2020, and management's assessment of restatements relating to the recoverability of deferred tax assets in 2020 and the impact of the recognition of revenue through the EIR method back to 2020. However, in light of the disclaimer of opinion for the year ended 30 September 2020, and despite the additional opening balance sheet audit procedures undertaken by MHA, the Committee accepted that MHA must qualify their opinion for the year ended 31 September 2021 with respect to the opening balance sheet.

Internal audit

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

The Board has outsourced its internal audit function to Grant Thornton UK LLP (Grant Thornton). The BAC is responsible for agreeing and overseeing the internal audit plan. Grant Thornton issued eight internal audit reports during the year ending 30 September 2021 (2020: six) and three started during the year and completed after the year end. Four (GDPR Compliance, SCV, Cyber Security and Operational Resilience) were rated 'Satisfactory' (2020: two), three (Collections and recoveries, Anti-Money Laundering and Broker Management) were rated 'Some Improvement Required' (2020: one), three (Regulatory Reporting, Treasury Risk Management and Supplier Management) were rated 'Needs Improvement' (2020: one) and one (Regulatory Reporting PRA110) was rated 'Unsatisfactory' (2020: none).

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

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

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

The Committee has satisfied itself as to the effectiveness of the outsourced internal audit function during the year through the review of the internal audit strategy and annual internal audit plan, and discussion of issued internal audit reports with Grant Thornton.

The internal audit programme for the next twelve months, approved by the BAC in November 2021, will look into the enhancements made. The internal audit budget was significantly increased this year to include part time internal audit resource dedicated to the Group and to provide more internal audit coverage.

Compliance and internal controls systems

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

The Annual Report & Financial statements 2020 set out in detail the investigation of historical accounting errors and misstatements and the legacy governance and control issues identified which resulted in the delayed publication of the Annual Report & Financial Statements 2020 and the suspension from trading in the Group's shares on AIM. As a result of these findings, the Group entered a period of remediation and improvement in its Finance function, including investment in experienced Banking Finance resources together with efficiency and control improvements in its financial and regulatory reporting processes.

Since the 2021 financial year end, further financial control enhancements have been made including the development of a Financial Control Framework (FCF) which will form part of the overall Risk Management Framework. The Committee and the CFO have utilised independent external advisers to support the changes required. The cost of these external advisors plus those utilised on other remediation activities has contributed to elevated professional services fees as set out in the Business Performance review.

The Committee scrutinised the findings arising from an external independent validation of the IFRS 9 ECL model, discussed and challenged management on the ECL modelled outputs, post model adjustments implemented to compensate for model limitations, the control environment, governance and oversight findings and management's plans to redevelop the IFRS 9 ECL model and control environment.

During the period covered by this report and since 30 September 2021, the Committee reviewed, challenged and approved the Group Accounting Policy manual and a series of financial control related policies implemented by management as part of preparing the Annual Report & Financial Statements 2021 including: balance sheet substantiation; manual journal review; and materiality thresholds.

BAC considered several reports from the Chief Compliance Officer 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.

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

COVID-19 and its impact on the business of the Group continued to dominate 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'.

The revised Compliance Manual and Data Protection Manual were reviewed by the BAC during the year and recommended to the Board for approval. The responsibility for the compliance oversight, including data privacy, transferred to the Board Risk Committee after the year end.

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

BAC will continue to review and oversee the implementation of recommended internal control systems, process, and reporting improvements.

New auditor appointment

Ernst & Young LLP (EY) had been the Group's 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. BAC retendered the external audit in 2021 with the new external auditor MacIntyre Hudson LLP (MH) appointed by the Board on BAC's recommendation, after EY's resignation on 23 December 2021. At the General Meeting of PCF Group plc on 4 February 2022, shareholders approved the appointment of MH as the Company's auditors and authorised the Board to determine their remuneration.

BAC has overseen the transition of the external audit to MH for the year ended 30 September 2021.

External audit

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

BAC discussed and approved MH's audit plan for the year ended 30 September 2021 including their initial assessment of risks, risk evaluation, areas of focus, scope and materiality, as well as the results of the audit.

Board Audit Committee Report (cont'd)

BAC has reviewed the independence and objectivity of MH considering the auditor's report to the Committee on actions they take to comply with requirements for independence and compliance with professional and ethical standards.

The level of audit fees charged by the Group's auditor is set out in Note 10 to the financial statements and are significantly lower this year. Since 30 September 2021, MH has provided two permitted engagements of non-audit related work to the Group. This non-audit work was deemed necessary by BAC and is in line with the Financial Reporting Council's Ethical Standard 2019.

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 BAC. BAC concluded that as MH, the new external auditor, had only been appointed on 23 December 2021 BAC will undertake an appropriate formal assessment of the change in auditor and its effectiveness after the first year's audit.

Whistleblowing

BAC has reviewed the effectiveness of whistleblowing arrangements in place within the Group and adherence to the relevant regulatory requirements. During the year, and after the year end in November 2022, the Committee received Compliance reports that provided assurance on operations of these matters.

Committee effectiveness

BAC undertook an annual review of its own effectiveness during 2021 through a questionnaire sent to BAC invitees in 2022 and the conclusions were that the Committee was operating effectively.

This report was approved by the Board Audit Committee on 31 May 2022.

Christine Higgins
Chair of the Board Audit Committee

31 May 2022

Board Risk Committee Report

Committee members of the Board Risk Committee (BRC)

Mark Sismey-Durrant
Independent non-executive director
(Member from 9 January 2022)

Christine Higgins
Independent non-executive director

David Titmuss
Independent non-executive director

David Morgan
Non-executive director

Marian Martin
Independent non-executive director (Chair)
(Member until 23 December 2021)

Dear Shareholder,

I present my first report to you as interim Chair of the Board Risk Committee (BRC) for the year ended 30 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 BRC's key responsibilities and the principal areas of risk that we have focused on during the year to 30 September 2021.

The BRC 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 risk appetite, tolerance and strategy.
- Review and advise the Board on the suitability and effectiveness of the Group's Risk Management Framework (RMF).
- Review and advise the Board on the Group's compliance with prudential and conduct regulatory requirements.
- Safeguard the independence of and oversee the performance of the Group's Risk and Compliance[1] Function including the sufficiency of resources.
- Advise the Board on the risk aspects of proposed changes to strategy and strategic transactions.
- 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 reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Group's and the Bank's financial crime controls.
- Review the Group's ICAAP, ILAAP, and Recovery and Solvent Wind Down Plans, and recommend them to the Board for approval.
- Ensure future risks are anticipated in terms of their potential impact on the business through regular horizon scanning exercises.
- Review the Compliance Manual and Data Protection Framework and recommend them to the Board for approval.[33]

[33] The responsibility for compliance oversight, including data privacy, transferred to the Board Risk Committee after the year end.

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 Board Risk Committee were the Chief Executive, Chief Risk Officer, Deputy Chief Risk Officer and Chief Compliance Officer, Chief Financial Officer, Chief Operating Officer, Chief Capital Officer, and the Chief Technology Officer.

The Chairs of BRC and BAC are each a member of the other Committee.

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

Meetings and areas of focus

BRC has held eight meetings during the year. 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 and Compliance Team, outlined further below.
- The review and approval of the Group's Risk Management Framework (RMF) on an annual cycle.
- 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 and BFD application scorecards.
- An external review of the ILAAP, funding plan and associated risks, all Treasury risk policies and the liquidity contingency plan.
- Evolution of the Group's Risk Culture Framework as set out in the Strategic Report.
- Refinement of the Conduct Risk Reporting Framework.
- A review of resources within the Second Line Risk Management Team and the execution of 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 and Operational Risk.

Board Risk Committee Report (cont'd)

The Committee has carefully monitored the risks both arising from the delay in finalising the Annual Report & Financial Statements 2020 and 2021, together with the subsequent suspensions from trading of PCF Group plc shares as well as the Group's emerging risks as set out in the Strategic Report.

Since the identification of the legacy governance and control issues, the Group has focused its attention on improving its corporate governance and RMF, including implementing the recommendations of an external review thereof.

Looking ahead

The Committee continues to ensure that the impacts of the pandemic upon the Group's credit portfolios and operations are managed. The Committee also continues to monitor the short to medium-term plans for the improvement of risk management across the Group, including:

- Continuing to develop the RMF, reflecting the recommendations of the external review and including the climate risk framework.
- Continuing to enhance the Group's stress-testing and credit analytics capability.
- Continuing to redevelop the Group's IFRS 9 and credit risk models to address control weaknesses in the current model.
- Refinement and advancement of the Group's overarching Operational Resilience Framework.
- 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.
- Oversight of the progress of the key remediation activities and priorities of the Chief Risk Officer including:
  - Appropriately resourcing of the Second Line Risk and Compliance function.
  - RMF improvements.
  - IFRS 9 model support and re-development, including improved stress-testing capabilities.
  - The redevelopment of key risk metrics and monitoring thereof for the Group.

This report was approved by the Board Risk Committee on 31 May 2022.

Mark Sismey-Durrant
Interim Chair of the Board Risk Committee

31 May 2022

Directors' Report

The directors present their report and audited consolidated financial statements for PCF Group plc for the year ended 30 September 2021.

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 73.

The directors do not recommend the payment of a dividend in respect of the year ended 30 September 2021 (year ended 30 September 2020: nil).

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. Between 19 May 2021 and 25 January 2022 and from 1 April 2022, trading in the Group's shares was suspended and remains suspended as 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 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 during the year are set out in Note 27 to the Financial Statements.

On 8 March 2021, Robert Murray exercised options over 750,000 ordinary shares of 5 pence each in the Company as detailed in Note 28.

Directors and their interests

The directors of the Company who served during the financial year and up to the date of signing are listed on page 2.

The directors' interests in the shares of the Company, all of which were beneficial interests, at 30 September 2021 are listed below.

	At 30 September 2021 No. of ordinary shares of 5p each	At 30 September 2020 No. of ordinary shares of 5p each
Scott Maybury[34]	-	1,717,653
Robert Murray[35]	-	998,340
David Morgan	500,000	500,000
Tim Franklin[36]	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]	37,303	37,303

[34] Scott Maybury resigned as a director on 21 May 2021.
[35] Robert Murray resigned as a director on 26 March 2021.
[36] Tim Franklin resigned as a director on 31 January 2022.
[37] Marian Martin resigned as a director on 23 December 2021.

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

	At 30 September 2021 No. of ordinary shares of 5p each	At 30 September 2020 No. of ordinary shares of 5p each
Scott Maybury[38]	–	2,547,082
Robert Murray[39]	–	1,680,465

[38] Scott Maybury resigned as a director on 27 May 2021.
[39] Robert Murray resigned as a director on 26 March 2021.

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 £24,063.
- 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 38 to 41 and in Note 8 to the Financial Statements.

Directors' indemnities

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 to cover against liabilities which they may sustain or incur in the proper performance of their duties. The Company maintains Directors and Officers (D&O) liability insurance for qualifying directors and officers. These indemnities are available for inspection at the Company's registered office.

Substantial shareholdings

At 30 September 2021, the Company had been notified of the following interests of 3% or more in its issued ordinary share capital.

	Percentage
Somers Limited	64.41%
Stichting Value Partners	11.15%
Hargreaves Lansdown Asset Management	4.07%
Beleggingsclub T Stockpaert	4.05%

Corporate governance statement

The Corporate Governance Report set out on pages 25 to 35 provides a review of the Group's corporate governance arrangements.

The various Board Committee reports, and the section 172 statement set out on page 21 and pages 36 to 48, include 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 2021 (2020: 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 54 to 66.

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 54 to 66.

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, the 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.

In undertaking a going concern review the directors have reviewed the short-term financial plan to November 2023 (the Review Period). These financial projections form part of the Group's strategic plan (the Plan) which contains both a base case and downside scenarios which involved stressing various assumptions to the Plan. In all cases, profitability is dependent on capital being raised. However, there are various uncertainties related to capital raising which are noted in the Emerging risks and uncertainties section of the Strategic Report and the associated capital raising risks may be further exacerbated by the current geopolitical situation.

To mitigate the regulatory capital risks and the restriction on business lending, we have decided to accelerate an element of our capital raising, by requesting further investment in the Company from our majority shareholder Somers Limited of circa £4 million over the next two months and at the same time we are also investigating other strategic opportunities as outlined in the Chair's Statement.

Should the Group not be successful in achieving its capital raising nor any other strategic opportunities there is no certainty that it could continue to originate new lending given its projection that over the Review Period regulatory capital ratios are forecast to fall below regulatory capital minimum requirements. Should new lending be suspended this would reduce income and the prospect of the Group being able to generate profits which would further impact on its ability to generate capital organically.

In conclusion the raising or organic generation of capital is not guaranteed, nor are the completion of other strategic opportunities and therefore the directors have concluded that the current lack of certainty, and the associated risks represent a material uncertainty which casts a significant doubt of the Group's ability to continue as a going concern. The Board is confident that it will be able to affect a Capital raise or implement strategic opportunities and therefore holds a reasonable expectation that the Group will have adequate resources, notably adequate regulatory capital, to continue its operations for the period to 31 May 2023 being at least the next twelve months from the date of approval on the annual report and financial statements. On this basis the directors continue to adopt the going concern basis in preparing these accounts.

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 to achieve its strategic objectives. The principal risks the Group actively monitors and manages are described in the Strategic Report pages 18 to 20 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 25 to 35, 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 the Board Risk Committee.

The Group's prospects are assessed primarily through a strategic plan. This process to produce 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 CEO and the Executive Committee. After review by the CFO, 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 Financial Statements 2020, the Strategic Plan was signed off by the Board in October 2021. The Strategic Plan was reforecast, and an updated Strategic Plan approved and adopted by the Board in March 2022.

Subsequent events disclosure

Since 30 September 2021 year end there have been the following events on:

23 December 2021
Publication of Annual Report and Financial Statements for the year ended 30 September 2020.

Appointment of MHA MacIntyre Hudson LLP as the Group's new auditors following the resignation of Ernst & Young LLP.

24 January 2022
Publication of Interim Results for six months to 31 March 2021.

25 January 2022
Restoration of Trading on AIM of PCF Group plc shares.

1 April 2022
Temporary suspension of Trading on AIM of PCF Group plc shares.

31 May 2022
Announcement of acceleration of an element of our planned capital raise and investigation of strategic opportunities (as outlined in the Chair's Statement).

See non-adjusting events after the balance sheet date on page 131 for more details.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report & Financial Statements in accordance with applicable UK 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 the 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 requirements in 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.
- 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

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 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 and General Meeting

On the completion of the Financial Statements 2020, on 23 December 2021 Ernst & Young LLP resigned as auditors and pursuant to section 489 (3) (c) of the Companies Act 2006 the directors appointed MHA MacIntyre Hudson LLP to replace them on 23 December 2021.

At the General Meeting of the Company on 4 February 2022, the Company's members passed three ordinary resolutions:

1. To receive and approve the Report of the Directors and the audited Financial Statements of the Company for the year ended 30 September 2020.
2. To receive and approve the Report of the Directors' Remuneration as set out in the audited Financial Statements for the year ended 30 September 2020.
3. To appoint MHA MacIntyre Hudson LLP as auditors of the Company and to authorise the directors to determine their remuneration.

Annual General Meeting

As the Annual Report & Financial Statements 2021 was not ready at the time of the holding of the Annual General Meeting of the Company on 25 March 2022, it is necessary for the Group to convene a General Meeting at which to lay the Annual Report & Financial Statements 2021. A separate letter from the Chair 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 31 May 2022.

On behalf of the Board

G G Stran
Chief Executive Officer

31 May 2022

Risk Management Report

for the year ended 30 September 2021

Introduction

The report relates to the year ended 30 September 2021. This report is dated 31 May 2022. The report has been brought up to date for recent events and matters relevant to the Group's current operating model where appropriate.

The Group's management of risk is based on the identification of risks faced by the Group; an assessment of each of these, determining those which merit designation as principal risks and establishing a Risk Management Framework (RMF) to create the control environment that supports 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 undergone review and a programme of work exists to enhance and 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 existence 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. This framework has, together with the levels of control, governance and oversight, been significantly enhanced since the year end.

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

Principal risks

The Group has identified nine principal risks to which its business model has an inherent exposure, as set out below. More information is included in the following sections of this report.

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. The Group aims to actively manage its wholesale counterparty risk, whilst maximising its risk-adjusted rate of return, by setting clear limits by asset type, geography and currency denomination.

Capital risk

Definition – The risk that the Group has insufficient contingency to deal with unexpected events; or insufficient capital to either maintain its required regulatory or internally set minimum capital ratios and buffers or sustain its long-term business strategy.

Statement – The Group aims to maintain a sufficient level of capital above its regulatory requirements to absorb variances in losses as they arise and to maintain the ongoing trust and confidence of investors, shareholders, regulators and customers.

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 access to viable alternatives and without adversely affecting its deposit franchise, daily operations or financial health.

Statement – The Group maintains a diversified funding strategy, with close relationships to its wholesale counterparties, and is an active participant in the retail deposit taking market. This is supported with prudent levels of high-quality liquid assets, in excess of that needed to withstand a severe but plausible stress.

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. This includes legal risk but excludes strategic risk.

Statement – The Group actively identifies, assesses and manages the operational risks to which it is exposed in order to minimise the financial impact arising from risks such as IT disruption, lack of operational resilience, cyberattacks, human error, a breakdown of procedures, non-compliance with policy, failure to comply with legal requirements, late or inaccurate financial reporting and internal or external fraud.

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 third 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, or from poor 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.

Climate risk

Definition – The risk of financial or reputational loss resulting from 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).

Statement – The Group seeks to reduce over time its exposures to climate change risks and its carbon footprint, whilst supporting the transition to a net zero carbon economy by 2050.

Controlling and managing risks

Risk Management Framework (RMF)

The Group recognises the importance of embedding a Risk Management Framework (RMF) 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 through its Board approved Risk Appetite Statement (RAS) and the Group's RMF.

The Group has made significant enhancements to its RMF, which was the subject of an external review that concluded in June 2021. These enhancements are designed 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.

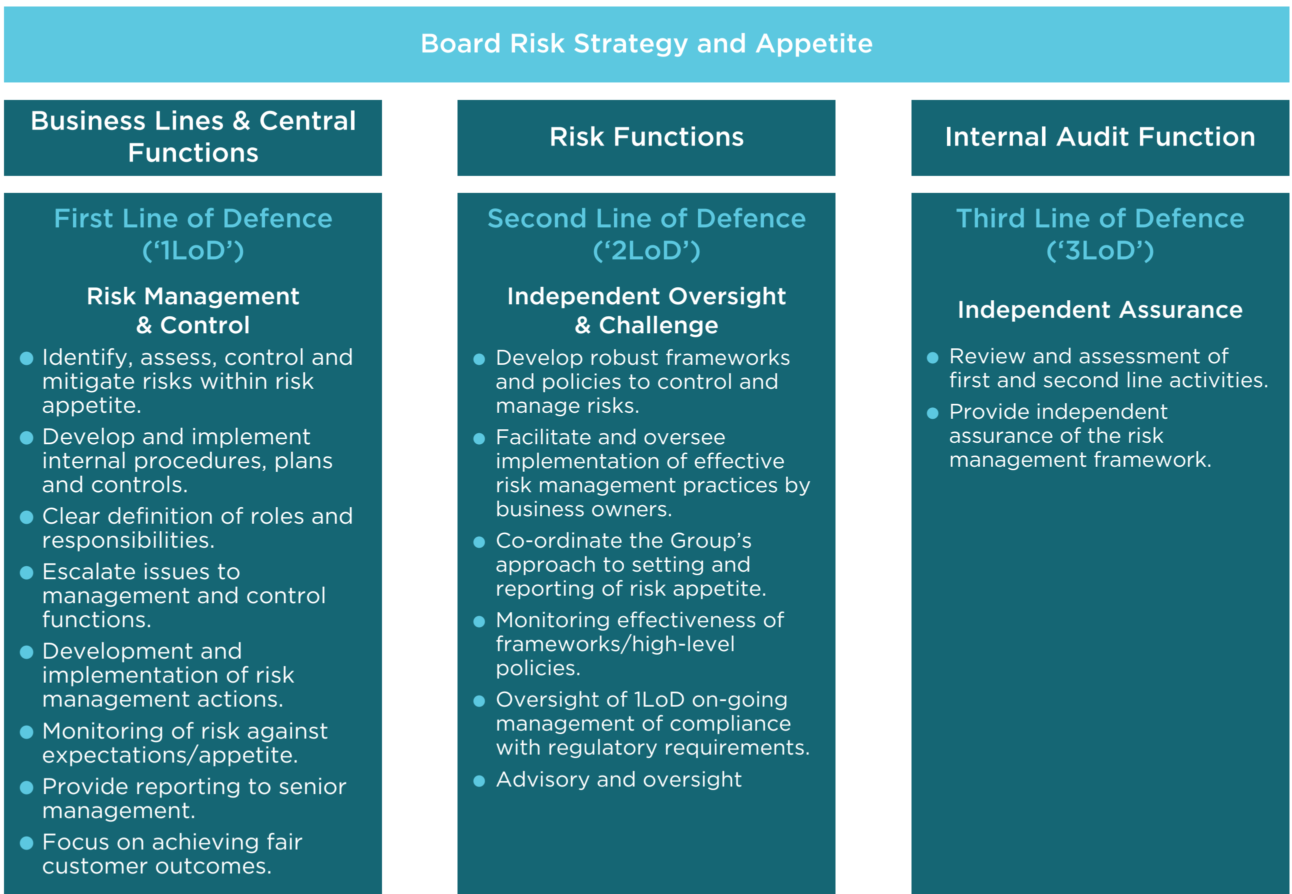
The activities, identified in the roadmap in last year's financial statements, to enhance and embed the control framework have continued over the period of the Annual Report & Financial Statements 2021; and while significant positive changes have been made, embedding those changes will continue in 2022.

At the operational level, it is the responsibility of each business function to adhere to the RMF and manage all Group mandated risk management processes to the standards set therein.

At the end of 2021, PCF Group plc was recognised by the PRA as a Financial Holding Company (FHC). This moves the formal responsibility for meeting the requirements of the Capital Requirements Regulation (CRR) from the Bank to the Group. In reality, the Group continued to approach risk management on a consolidated basis, so the change had limited impact.

Three Lines of Defence

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



- 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 & Compliance function, which is independent of other functions, reporting into the Chief Risk Officer (CRO), and which undertakes compliance monitoring and thematic risk reviews. The Second Line provides independent oversight and advice to the business with assessments going up to the Board Risk Committee (BRC). It is the aim of the Risk & Compliance function to co-ordinate the management and reporting of the Group's risks, ensuring that risk management is fully integrated across the day-to-day activities of the Group.
- 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 the 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 2021, compliance with risk appetite was reported to the Board Risk Committee (BRC) and the Board by the Chief Risk Officer. The CRO is responsible for assessing the impact on the Group's performance to risk appetite from changes in circumstance (internal or external).

The Board sets the risk appetite and culture and cascades this into day-to-day activity through policies, qualitative statements, risk appetite metrics, limits and committee review. Embedding risk appetite and culture is further supported by PCF's approach to recruitment, onboarding 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 is designed to enable risk appetite, policies, procedures, controls and reporting that meet regulations, law and relevant corporate governance standards.The interaction of the executive and non-executive governance structures requires a culture of transparency and openness. A risk-centric culture is seen by the Group as the foundation for effective risk management.

The structure of committees is set out in the Corporate Governance Structure section of the Corporate Governance Report on pages 29 to 35, with the roles of the Nomination Committee, Remuneration Committee, Board Audit Committee and Board Risk Committee, described within their reports.

The key Executive Committees are charged with assessing compliance with the Board approved culture, including risk culture and T.R.U.S.T.[40] values in the activities overseen by that committee. The role of key executive led committees is given below.

[40] T.R.U.S.T. as defined on page 5.

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, 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.

Financial Reporting and Control Committee (FRCC)

The FRCC, which first met in April 2022, is responsible for the oversight of financial and regulatory reporting and the effectiveness and implementation of the Financial Control Framework and is chaired by the Group's Chief Financial Officer.

Assets & Liabilities Committee (ALCO)

ALCO, chaired by the Group's Chief Financial Officer, is responsible for ensuring the effective operation of the RMF within the Bank to enable management of balance sheet risks under the operational control of Treasury including capital risk, market risk (including interest rate and basis risks), liquidity and funding risk, and wholesale credit risk. ALCO is also responsible for oversight of funds transfer pricing, and the Group's structural hedge.

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

Executive Risk Committee (ERC)

The ERC develops risk management strategies for approval by the BRC and Board ensuring the economy, efficiency, and effectiveness of the operations. It also has internal controls over the implementation of the approved risk management policies and procedures. ERC has a dual reporting line to both the ExCo and to the BRC.

The ERC is chaired by the CRO.

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. 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.

Management of strategic and business risk

The Group 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 setting its core strategic and business objectives at a level of risk that is beyond its financial resources and operational capabilities under both normal and stressed conditions.

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 this 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 counterparties account. The Group aims to minimise the impact on profitability from defaults through its diversification of lending products, a prudent underwriting policy, diligent underwriting practices, and a considerate case management process for when customers are in difficulty. The Group aims to actively manage its wholesale counterparty risk, whilst maximising its risk-adjusted rate of return, by setting clear limits by asset type, geography and currency denomination.

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 changing due to factors such as loss of employment, family circumstances, illness, business failure, adverse economic conditions or fraud.

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 with a readily available and liquid market for re-sale.
- 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 the setting and monitoring of limits and exposures across different lending channels, different classes of lending, and 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 using 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 arising from its on-balance sheet financial instruments before taking account of any collateral and credit risk mitigation. For off-balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	Group	
	Year ended 30 September 2021 £'000	Year ended 30 September 2020* £'000
On-balance sheet		
Cash and balances at central banks		
Cash and demand deposits	**56,126**	24,936
Loans and advances to customers		
Consumer lending (net)	**163,641**	164,933
Business lending (net)	**130,860**	180,143
Azule lending (net)	**14,283**	21,795
Bridging finance (net)	**55,208**	60,132
Due from related companies	**–**	–
Debt instruments at FVOCI	**16,155**	9,095
Derivative financial instruments	**209**	-
Other assets	**4,120**	1,264
	440,602	462,298
Off-balance sheet		
Undrawn facilities	**8,958**	17,270

*Restated, refer to Note 1.7 for full details.

Risk Management Report (cont'd)

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. After which, any overpaid funds are returned to the customer. Any residual debts remaining after the sale of repossessed assets are generally then sold to third parties.

Forbearance

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.

Analysis of forbearance and COVID-19 related payment deferrals

At 30 September 2021, the gross carrying amount of exposures with forbearance measures was £3 million (2020: £40.4 million). As set out in Note 1.5.2, a COVID-19 related concession does not in itself constitute a significant increase in credit risk. The full forbearance analysis is shown in Note 30.3.2.

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 1.5.2).
- An explanation of the Group's internal grading system (Note 30.3.4).
- How the Group defines, calculates and monitors the probability of default, exposure at default and loss given default (Notes 30.3.4, 30.3.5 and 30.3.6 respectively).
- When the Group considers there has been a significant increase in credit risk of an exposure (Note 30.3.7).
- The Group's policy of segmenting financial assets where ECL is assessed on a collective basis (Note 30.3.7).

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.

Impairment allowance for loans and advances to customers

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2021				
Loans and advances to customers	335,029	27,693	13,640	376,362
Allowance for impairment losses	(3,407)	(3,005)	(5,958)	(12,370)
Net total	331,622	24,688	7,682	363,992

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2020*				
Loans and advances to customers	349,417	76,671	19,547	445,635
Allowance for impairment losses	(3,179)	(3,300)	(12,153)	(18,632)
Net total	346,238	73,371	7,394	427,003

*Restated, refer to Note 1.7 for full details.

Further analysis of impairment allowance for loans and advances to customers is contained in Note 29.5 to the financial statements.

The Group's internal rating and Probability of Default (PD) estimation process

The Group is on the standardised approach for credit risk but operates an internal credit grading model and Probability of Default estimation process to support its capital assessment and to determine risk grades associated with each lending decision through a scorecard. 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 scale using an internal credit classification model. Collateral type and quality are also considered when grouping credit grades together. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, supplement this with external information that could affect the borrower's behaviour.

As well as using the PD information to support the Group's capital assessment and scorecards, the information is used to provide information on Expected Credit Losses (ECLs). ECLs are used within International Financial Reporting Standards (IFRS 9) to determine the credit stage of borrowers; from which impairments are derived along with the level of required provision. The ongoing redevelopment of the IFRS 9 model is considered necessary in order to enhance the granular focus of credit risk under a more standardised statistical basis and thereby allow the model to better support the Group's ICAAP analysis.

Corporate lending (Business Finance Division, Bridging Finance and Azule)

Corporate lending comprises hire purchase, leases and 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, falling under the category of SME Retail.

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 Division, Bridging Finance Division and Azule

Internal rating grade	Internal rating description	Internal PD range at 30 September 2021	Internal PD range at 30 September 2020
1	AAA & AA, LTV <=80%	0.55%-2.69%	1.37-2.15%
2	AAA & AA, LTV > 80%	1.88%-9.08%	2.58-4.29%
3	A & B+, LTV <=80%	1.10%-5.29%	2.70-4.23%
4	A & B+, LTV > 80%	3.71%-9.32%	5.05-8.35%
5	B & B-, LTV <=80%	2.15%-8.04%	3.72-7.18%
6	B & B-, LTV > 80%	5.74%-13.82%	8.37-13.29%
7	C & D	7.01%-17.25%	9.14-16.35%

Consumer Finance

Internal rating grade	Internal rating description	Internal PD range at 30 September 2021	Internal PD range at 30 September 2020
1	AAA & AA, LTV <=80%	2.02%-3.39%	2.57-3.58%
2	AAA & AA, LTV > 80%	2.57%-4.20%	4.18-5.06%
3	A & B+, LTV <=80%	3.97%-6.62%	5.06-6.98%
4	A & B+, LTV > 80%	5.04%-8.14%	8.09-9.75%
5	B & B-, LTV <=80%	5.66%-9.49%	7.02-9.95%
6	B & B-, LTV > 80%	9.67%-19.00%	12.01-15.20%
7	C & D, LTV <=80%	7.79%-12.90%	9.26-13.06%
8	C & D, LTV > 80%	15.22%-25.58%	17.19-22.88%

Capital risk

Capital risk is the risk that the Group has insufficient contingency to deal with unexpected events; or sufficient capital to either maintain its required regulatory or internally set minimum capital ratios and buffers or sustain its long-term business strategy.

Management of capital risk

The Group aims to maintain a sufficient level of capital above its regulatory requirements to absorb variances in losses as they arise and to maintain the ongoing 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.

PCF Group plc is responsible for ensuring compliance with consolidated prudential requirements on a consolidated basis. In addition, PCF Bank Limited is authorised by the PRA and is required to adhere to the same capital requirements.

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 requirements and the amount of capital needed 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 Group's assessment of its capital position and ensures the Group is resilient to a range of stresses including the ability to continue to meet requirements even 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 the Capital Requirements Directive (CRD) for Pillar 1, namely a CET1 capital requirement of 4.5% of Risk Weighted Asset (RWAs), a Tier 1 capital requirement of 6% of RWAs and a Total capital requirement of 8% of RWAs.

Risk Weighted Assets (RWA)

The Group does not operate a trading book and has no Market Risk Pillar 1 RWAs. Its RWAs are therefore driven predominantly by consumer and business Credit risk, with a component of additional Operational risk. With relatively little swap activity and most liquidity held as cash with the Bank of England, counterparty credit risk is not material.

Risk Weighted Asset exposure

	2021 £'000	2020* £'000
Central Government and central banks	–	–
Institutions	511	395
Corporates	8,122	17,828
Retail	189,202	213,312
Other items	75,447	85,313
Total credit risk	273,282	316,848
Operational risk	47,812	40,433
Credit valuation adjustment	109	19
Total Risk Weighted Assets	321,203	357,300

*Restated, refer to Note 1.7 for full details.

Additional bank specific capital requirements

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 line with CRD IV, UK firms are required to meet a combined buffer requirement, which is in addition to the Pillar 1 and Pillar 2A capital requirements. The combined buffer includes the Capital Conservation Buffer (CCB) and the Countercyclical buffer (CCyB) and must be met with CET1 capital. As at 30 September 2021, CCB was 2.5% with the CCyB set at 0%. The combined buffer requirements relating to global systemically important institutions and the systemic risk buffer do not apply to the Group.

The following table shows a reconciliation between statutory equity and total regulatory capital after deductions on a transition arrangement basis:

	2021 £'000	2020* £'000
Equity		
Issued capital	**12,550**	12,512
Share premium	**17,679**	17,625
Other reserves recognised for CET 1 capital	**9**	60
Investment in own shares	**(147)**	(147)
Retained earnings	**18,771**	21,777
Total equity	**48,862**	51,827
Adjustments to Regulatory Capital		
Goodwill and intangible assets	**(3,075)**	(4,327)
Adjustment for prudent valuation	**(16)**	(9)
IFRS 9 transitional adjustment	**4,340**	5,186
Total deductions	**1,249**	850
Total CET 1 Capital	**50,111**	52,677
Other Capital		
Additional Tier 1 Capital	**–**	–
Subordinated Debt Tier 2 Capital	**6,136**	6,065
Total Regulatory Capital	**56,247**	58,742

*Restated, see Note 1.7 for full details.

Under UK's Leverage Framework (PS 21/21), PCF is below the thresholds for retail deposits or non-UK exposures for the Group to be classified as an 'LREQ' firm and therefore is not in scope of a formal leverage ratio requirement under UK CRR. However, in line with regulatory expectations, the Group continues to monitor its leverage ratio as though the minimum requirement of 3.25% plus buffers is applicable.

The following table shows the key metrics on a transitional arrangement and fully loaded basis for regulatory capital, leverage ratio and liquidity

	2021 £'000	2020* £'000
Available own funds		
Common Equity Tier 1 (CET 1) Capital	**50,111**	52,677
Common Equity Tier 1 (CET 1) Capital as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**45,771**	47,491
Tier 1 Capital	**50,111**	52,677
Tier 1 Capital as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**45,771**	47,491
Total Capital	**56,247**	58,742
Total Capital as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**52,272**	53,771
Risk Weighted Asset		
Total Risk Weighted Assets	**321,203**	357,300
Total Risk Weighted Assets as if IFRS 9 or analogous ECLs transitional arrangement are not applied	**316,863**	352,114
Capital ratios (as a percentage of risk weighted exposure amount)		
Common Equity Tier 1 ratio (%)	**15.6%**	14.7%
Common Equity Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**14.4%**	13.5%
Tier 1 Capital ratio (%)	**15.6%**	14.7%
Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**14.4%**	13.5%
Total Capital ratio (%)	**17.5%**	16.4%
Total Capital ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**16.5%**	15.3%
Leverage ratio		
Total exposure measure	**450,976**	474,005
Leverage ratio (%)	**11.1%**	11.1%
Leverage ratio (%) as if IFRS 9 or analogous ECLs transitional arrangement are not applied	**10.2%**	10.1%

*Restated, see Note 1.7 for full details.

Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is unable to fund new business originations or meet cash flow or collateral obligations as they fall due, without access to viable alternatives and without adversely affecting its deposit franchise, daily operations or financial health. The Group maintains a diversified funding strategy, with close relationships to its wholesale counterparties and is an active participant in the retail deposit taking market. This is supported with prudent levels of high-quality liquid assets, in excess of that needed to withstand a severe but plausible stress.

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 by 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 Coverage 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 has been significantly in excess of the 100% LCR minimum requirement through the year. 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.

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 maintained well in excess of the 100% regulatory limit.

Measure (%)

	2021	2020
LCR %	904%	673%
NSFR %	159%	145%

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 a line 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

	2021 £'000	2020 £'000
Cash and balances with Bank of England	53,886	23,039
UK Government securities and other qualifying securities	16,155	9,095
Sub-total High Quality Liquid Assets (HQLA)	70,041	32,134
Cash at Bank	2,240	1,897
Contingent central bank facilities	13,658	18,667
Total	85,939	52,698

Given the potential for liquidity threats following the events of 2020 and 2021 and the increase in encumbrance due to greater TFSME funding, the Group took the decision to hold additional liquidity in the form of cash reserves with the Bank of England, rather than to preposition additional collateral to support contingent access to central bank facilities in the event of a stress.

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
At 30 September 2021						
Undiscounted financial assets	64,485	30,722	46,567	263,571	110,993	516,338
Undiscounted financial liabilities	8,521	13,583	149,795	216,704	8,238	396,842
Net contractual liquidity gap	55,964	17,139	(103,228)	46,867	102,755	119,497
At 30 September 2020* #						
Undiscounted financial assets*	41,614	15,318	49,727	352,533	102,367	561,559
Undiscounted financial liabilities#	10,662	21,529	152,962	218,828	17,190	421,171
Net contractual liquidity gap	30,952	(6,211)	(103,235)	133,705	85,177	140,388

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 2021, the Group had total wholesale and retail funding of £393.9 million (2020: £411.5 million)[37] that supported net loans and advances of £363.9 million (2020: £427 million). Moreover, at 30 September 2021, the Group had a Net Stable Funding Ratio in excess of the regulatory minimum of 100% (2020: in excess of 100%). Surplus liquidity in periods shown above will be used to cover liquidity shortfalls in subsequent periods.

*Restated, see Note 1.7 for full details.

#Re-presented, see Note 1.7 for full details.

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 those assets which have been pledged as collateral (i.e. 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

	Carrying amount of encumbered assets as collateral £'000	Carrying amount of unencumbered assets as collateral £'000	Total £'000
At 30 September 2021	86,663	293,484	380,147
At 30 September 2020	103,182	332,916	436,098

Refer to Note 30.1(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 interest rates. 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.

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 (net exposure was less than €50,000 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 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 from IRRBB should it not be able to manage its exposures through interest rate swaps as facilities are currently withdrawn.

Risk Management Report (cont'd)

However, Management anticipates that once the Group's shares are no longer suspended from trading our bankers will, on review, begin the process to 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), the currency is bought forward to cover the purchase cost of the asset, thereby hedging any foreign exchange risk.

Reprice risk
The Group is exposed to interest rate risk arising from when the Group's assets and liabilities reprice on different dates such that the Group is negatively impacted. This type of risk is managed by natural offsets across the balance sheet and using swaps and other derivatives. The Group assessed its Interest Rate Risk in the Banking Book (IRRBB) primarily through Net Interest Income (NII) plus Economic Value (EV) measures which includes a +/-200 basis points parallel yield curve shift; the latter reflecting the Group's desire to limit interest rate volatility and smooth earnings. The Group also runs a number of 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

	2021 £'000	2020 £'000
Impact on present value of assets and liabilities at year end from a parallel change in the yield curve		
+200 basis points shift	411	358
–200 basis points shift	(455)	(503)

Basis risk
The Group may be exposed to the impact of relative changes in interest rates from balance sheet exposures with similar tenors, but which 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) reforms saw the cessation of LIBOR at the end of 2021. The Group had no LIBOR exposure at the end of December 2021. All the Group's swaps are entered into at the Sterling Overnight Index Average (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 accrued at overnight LIBOR plus a fixed spread. This facility was undrawn at 30 September 2021 and terminated on 21 December 2021.

Product 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 product 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 Finance Limited and Azule Finance GmbH. 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 2021	(38)
30 September 2020	(12)

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 risk. The Group actively identifies, assesses and manages the operational risks to which it is exposed in order to minimise the financial impact arising from risks such as IT disruption, lack of operational resilience, cyberattacks, human error, a breakdown of procedures, non-compliance with policy, failure to comply with legal requirements, late or inaccurate financial reporting and internal or external fraud.

Management of operational risk

The Group actively identifies, assesses and manages the operational risks to which it is exposed in order to minimise the financial impact arising from risks such as IT disruption, lack of operational resilience, human error, cyberattacks, a breakdown of procedures, non-compliance with policy, failure to comply with legal requirements, late or inaccurate financial reporting and internal or external fraud.

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 and complete embedding is expected to continue into 2023.

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 cyberattacks. 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 and resilience and supplier outsourcing assurance.

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 number 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.

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. 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 third-party legal support and regular dialogue with its regulators.

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 third-party training and updates, and face to face meetings.

Horizon Scanning is conducted by the Second Line and is 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 Regulation Authority and the Resolution Directorate).

Aligned with PCF's transparent approach to risk culture, the Board and executive team seek to ensure communication to all stakeholders including the regulator is as transparent as possible; an approach the Group believes helps foster stronger relationships and ultimately limits the regulatory risks faced by PCF.

Risk Management Report (cont'd)

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.

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 poor business conduct. 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.

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.

As part of its culture change, the Group is enhancing its recruitment, training and colleague performance management. As we embed this, we will work to ensure clear customer accountabilities and customer centric feedback is appropriately incorporated in the performance appraisal process.

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.

Climate change risk

The risk of financial or reputational loss resulting from 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).

Management of climate change risk

The Group seeks to reduce over time its exposures to climate change risks and its carbon footprint, whilst supporting the transition to a net zero carbon economy by 2050.

The Group included climate change risk as one of the principal risks in its enterprise-wide risk management framework and developed and approved a Climate Risk Management Framework to ensure that the risks associated with climate change are considered across our organisation, including at the most senior levels of our business.

The Group identifies the climate change exposures priority items and assesses and quantifies the risks using relevant data and methodologies, including climate change scenario analysis. It has also developed appropriate risk appetite metrics and climate change targets to manage the risks and continues to integrate climate change considerations into the lending strategy and policy.

Independent Auditor’s Report

to the members of PCF Group plc

For the purpose of this report, the terms ‘we’ and ‘our’ denote MHA MacIntyre Hudson in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of PCF Group plc. For the purposes of the table that sets out the key audit matters and how our audit addressed the key audit matters, the terms ‘we’ and ‘our’ refer to MHA MacIntyre Hudson. The ‘Parent Company’ or ‘Company’ is defined as PCF Group plc. The relevant legislation governing the Parent Company is the United Kingdom Companies Act 2006 (‘Companies Act 2006’).

Qualified Opinion

We have audited the financial statements of PCF Group plc and its subsidiaries (together the ‘Group’ or ‘PCF Group’) for the year ended 30 September 2021. The financial statements that we have audited comprise:

- The Consolidated Income Statement for the year then ended.
- Consolidated Statement of Comprehensive Income for the year then ended.
- Consolidated Balance sheet as at 30 September 2021.
- Company Balance sheet as at 30 September 2021.
- Consolidated Statement of Changes in Equity for the year then ended.
- Company Statement of Changes in Equity for the year then ended.
- Consolidated Statement of Cash flows for the year then ended.
- Notes 1 to 35 of the financial statements, including the accounting policies.

The financial reporting framework that has been applied in the preparation of the Parent Company’s and Group’s financial statements is applicable law and International accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, except for the effects of the matter described in the Basis of Qualified Opinion section, the financial statements:

- give a true and fair view of the state of the Group’s and Parent Company’s affairs as at 30 September 2021 and its loss for the year then ended;
- have been properly prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been properly prepared in accordance with the requirements of Companies Act 2006.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for qualified opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. 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 as applied to listed public interest entities, and we have fulfilled our ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

The matter set out below is material to the financial statements, leading to our qualified opinion on the financial statements.

1. Opening balances for the period ended 30 September 2021 – Expected Credit Losses

We performed specific audit procedures on the opening balances in accordance with the requirements of International Auditing Standard 510 Initial Engagements – Opening Balances. In performing these procedures, our objective was limited to those matters that would relate to our audit of the financial statements for the year ended 30 September 2021.

We were not able to perform all the procedures required to obtain sufficient appropriate audit evidence in relation to Expected Credit Losses as at 30 September 2020. As such we are unable to determine whether adjustments might have been necessary in respect of the Expected Credit Losses as at 30 September 2020 and the impact that these might have had on the results for the year ended 30 September 2021.

Material uncertainty relating to going concern

We draw your attention to Note 1.2 to the financial statements and the going concern statement in the Directors’ Report which indicate that management has assessed that there are material risks which have an impact on its medium-term plan. These material risks include increased remediation costs alongside a consideration of capital, funding, and liquidity requirements. This indicates that a material uncertainty exists that may cast significant doubt upon the Company’s ability to continue as a going concern.

Our opinion is not modified in respect of these matters.

In auditing the financial statements, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

PCF Bank Limited is a wholly subsidiary of PCF Group plc, and the main operating entity of the PCF Group. The Directors of the PCF Group have prepared a going concern assessment and a medium-term plan which has a high degree of management judgement. Key to the medium-term plan is the ability of the PCF Group to raise capital and fund future balance sheet growth. The material risks associated with this plan are set out in Note 1.2 to the financial statements. For further details, refer to the Strategic Report on page 19 and Directors’ Report on page 51.

Our evaluation of the Management’s assessment of the PCF Group’s and Parent Company’s ability to continue to adopt the going concern basis of accounting included:

- Using our knowledge of the strategic objectives of the PCF Group, including its material subsidiaries, the financial services industry, the financial services regulatory environment and the general economic environment to identify inherent risks in the business model and how such risks might affect the financial resources or ability to continue operations over the going concern period.

- Understanding and evaluating the current and forecast financial position, regulatory capital adequacy and liquidity, including internal stress tests performed on these.
- Evaluation of the strategic plans of the Group, and the supporting financial forecasts.
- Obtaining and reading correspondence between the Company and its UK regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
- Obtaining and reading reports issued in connection with the remediation activities of the Group.
- Obtaining and reading minutes of meetings of those charged with governance.
- Making enquiries with management to understand the steps taken so far in respect of the planned capital raise.
- Obtaining confirmation from the Directors of Somers Limited in respect of their intention to invest capital in PCF Group plc and inspection of term sheets in place between the PCF Group plc and Somers Limited.
- Making enquiries of the Directors of the Group to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and Parent Company's future financial performance.
- Assessing the sufficiency of the Group's capital and liquidity and evaluating the results of management stress testing, including consideration of principal and emerging risks on liquidity and regulatory capital.
- Testing the mathematical accuracy and appropriateness of the model used to prepare the forecasts
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern and the material uncertainty connected to going concern.

We concur with management, that the Group has adequate capital resources and their conclusion on the use of the going concern basis of accounting as appropriate. We also concur with management that a material uncertainty risk exists in respect of the medium-term plan which has an impact on going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Key Audit Matter

The key audit matter(s) we identified in the current year were:

- Risk of misstatement of expected credit losses on loans and advances to customers.
- Impact of opening balances on the year ended 30 September 2021.

Materiality

Overall materiality for the Group financial statements was £246,000 which was determined based on 0.525% of adjusted net assets.

Performance materiality was set at 60% of materiality.

First year transition

This is the first year we have been appointed as auditor to the Group and Parent Company. We undertook the following transitional procedures:

- Held meetings with senior management to gain an understanding of the Group and Parent Company's operations and strategic objectives.
- We held meetings with the predecessor auditor, including reviewing their audit working papers for the prior financial period to gain an understanding of the Group and Parent Company's processes, their audit risk assessment, and the design of their audit approach for the year ended 30 September 2020.
- Held meetings with and reviewed correspondence between the regulated entities of the Group and their UK regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
- Read the reports issued in connection with the remediation activities of the PCF Group.

The results of these procedures were used to inform our audit planning and risk assessment for our audit for the year ended 30 September 2021.

Due to the disclaimer of opinion issued by the predecessor auditor on the financial statements for the year ended 30 September 2020, we could not obtain sufficient appropriate audit evidence regarding the opening balances from review of the predecessor auditor working papers in respect of their audit for the year ended 30 September 2020. We therefore performed specific audit procedures on the opening balances in accordance with the requirements of International Auditing Standard 510 Initial Engagements – Opening Balances. We considered this to be a key audit matter. See key audit matter number 2 below.

Group audit scope

We identified significant components based on their significance to the Group balance sheet and operations. We performed full scope audit work on the Parent Company and significant components.

The components not covered by our audit scope were subject to analytical procedures to confirm our conclusion that there were no significant risks of material misstatement in the aggregated financial information.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those matters which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit;
- and directing the efforts of the engagement team and, as required for public interest entities, our results from those procedures.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Risk of misstatement of expected credit losses ('ECL') on loans and advances to customers

Key audit matter description

Loans and advances to customers net of ECL: £363,992,000 (2020: £427,003,000). Expected credit losses recognised on loans and advances to customers: £12,370,000 (2020: £18,632,000).

The determination of expected credit loss under IFRS 9 is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation. Management uses a model to determine ECL. The key areas of judgement are:

- Staging – Qualitative and quantitative criteria applied to effectively identify significant increase in credit risk and determination of a default.
- Assumptions in relation to the probability of default (PD), Loss given default (LGD) and Exposure at default (EAD) models for computing ECL. Appropriateness of the data used in relation to these models for computing ECL.
- Management overlays to take into account macroeconomic factors that have an impact in the calculation of the ECL
- Post-model adjustments or overlays to capture matters that are not covered by the IFRS 9 model.

The Group's accounting policy on ECL is set out in Note 1.5.2 of the financial statements.

How the scope of our audit responded to the key audit matter

We performed the following procedures:

Validation of design of controls around the ECL model

- We performed a walkthrough of the design of the Group's processes in relation to provisioning. We noted that the ECL model and the governance processes around it had been significantly revised over the course of the period a result of the overall remediation program being undertaken by the PCF Group. As such we adopted a fully substantive approach.

Model validation

- We tested the design of the ECL model for compliance with IFRS 9 requirements, including ITGCS operating within the Group that are relevant to the determination of ECL.
- Tested the appropriateness of the Group's impairment policy against the requirements of IFRS 9. We have also assessed the appropriateness of the Significant Increase in the Credit Risk (SICR) criteria determined by management in relation to loans and advances to customers.
- Tested the completeness of data input into the IFRS 9 model. This included evaluation of the data quality by agreeing data points used in ECL calculation to relevant source systems.
- We confirmed that the output of the model, specifically any ECL charge or reversal was correctly reflected in the general ledger and ultimately the financial statements.

Test of details

- For sample of exposures, we tested the appropriateness of the staging of the exposure by testing the correct application of SICR criteria. Our work in this regard including validating the payment history of the exposure to ensure that the exposure has been correctly classified as either Stage 1, 2 or 3.
- We tested the process of allocation of customer loan repayments and identification of missed payments. This included testing on a sample basis that receipts are allocated to the correct loan accounts and missed payments are identified on a timely basis and appropriately reported

Use of modelling and credit specialist

- We engaged with and instructed independent modelling and credit risk specialists to test the assumptions, inputs and formulae used in relation to models used for computing ECL provision. This work included evaluation of economic scenarios considered by management and comparing these to other scenarios from a variety of external sources.
- Performed a sensitivity analysis in relation to key management assumptions and judgements to assess the impact of these on the ECL provisions as at year end.
- Tested the appropriateness of the staging of exposures including the determination of the PD, EAD and LGD considered by management in the calculation of ECL.
- Tested post model adjustments and overlays. This included assessing the completeness and appropriateness of these adjustments.

Disclosures

- We have assessed the appropriateness of the disclosures in the financial statements for the year ended 30 September 2021.

Key Observations

We found the approach taken in respect of ECL to be consistent with the requirements of IFRS 9 and that the assumptions and judgements made by management in the application of the ECL model were reasonable and supportable.

2. Opening balances for the year ended 30 September 2021

Key audit matter description

Due to the disclaimer of opinion issued by the predecessor auditor on the financial statements for the year ended 30 September 2020, we could not obtain sufficient appropriate audit evidence regarding the opening balances from the review of the predecessor auditor's working papers in respect of their audit for the year ended 30 September 2020.

We performed specific audit procedures on the opening balances in accordance with the requirements of International Auditing Standard 510 Initial Engagements – Opening Balances. In performing these procedures, our objective was limited to those matters that relate to our audit of the financial statements for the year ended 30 September 2021 and should not be viewed as connected to the audit work completed by the predecessor auditor on the financial statements for the year ended 30 September 2020.

How the scope of our audit responded to the key audit matter

We performed the following procedures:

- Obtained from management the closing trial balance, consolidation workings and related working papers

used to prepare the financial statements for the year ended 30 September 2020. We reconciled these to the published financial statements of the Group and Parent Company for the year ended 30 September 2020.

- Obtained and checked the balance sheet substantiation reconciliations performed by management in respect of the balances as at 30 September 2020.
- Corroborated to third-party evidence on a sample basis for balances held as at 30 September 2020. This included agreeing bank balances to third-party bank statements.
- Reviewed key judgements and estimates, mainly focusing on the judgments made in respect of the determination of the valuation of investment in subsidiary and recognition of the deferred tax asset as at 30 September 2020.
- Made enquiries of management, those charged with governance and obtaining explanations which we deemed to be necessary for completion of our procedures.
- Obtained and read correspondence between the Group and its UK regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
- Obtained and read reports issued in connection with the remediation activities of the PCF Group.

Key Observations
The results of these procedures were used to inform our audit planning and risk assessment for our audit for the year ended 30 September 2021.

The significant findings arising from our work are:

- We were not able to perform all the procedures required to obtain sufficient appropriate audit evidence in relation to Expected Credit Losses as at 30 September 2020.

The impact of these matters is stated in the Basis of Qualified Opinion section of our report. We did not identify any other matters that impacted our audit work for the year ended 30 September 2021.

Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Materiality £246,000
Basis of determining overall materiality

We determined materiality based on 0.525% of adjusted net assets of the Company.

The shares of the Parent Company are currently suspended for trading on the London AIM. We have considered the primary users of the financial statements to be shareholders of the Parent Company, customers of the PCF Bank Limited and the UK regulators (FCA and PRA).

In the period ended 30 September 2021 and subsequent months, the PCF Group has been implementing changes to remediate issues that led to the delay in the publication of the 30 September 2020 financial statements of the PCF Group. This has resulted in operational changes that have an impact on the financial performance of the PCF Group, in view of this we have concluded that the key area of focus of the users of the financial statements would be whether Group has adequate capital resources. We have therefore considered net assets as an approximation of capital resources of Group.

We selected adjusted net assets to exclude those balances that we determined in our professional judgement not to have an impact on our audit sampling.

Performance materiality £147,600
Basis of determining overall performance materiality

We determined performance materiality based on 60% of overall materiality.

Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

In determining performance materiality, we considered the several factors including the following:

- That the current period is the first financial period of our appointment as auditor of the Group and Parent Company.
- Matters that led to the delay in the publication of the 30 September 2020 financial statements.
- Our understanding of the control environment of the Group and Parent Company at this stage.

Error reporting threshold
We agreed to report any corrected or uncorrected adjustments exceeding £12,300 to the Audit Committee as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

The scope of our audit

Our audit was scoped by obtaining an understanding of the Group and Parent Company and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias on significant accounting judgments and accounting estimates by the Directors that may have represented a risk of material misstatement.

We considered the matters that led to the delay in publication of the financial statements for the year ended 30 September 2020, and the remediation activities undertaken by the PCF Group. We noted that the control environment has continued to evolve during the period and subsequent to period end as those charged with governance continue to implement the remediation plan. Therefore, we did not seek to rely on controls and our audit approach was fully substantive.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, 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 the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Corporate governance statement

We have reviewed 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.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 51;
- Directors' explanation as to their assessment of the groups prospects, the period this assessment covers and why the period is appropriate set out on page 51;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 51;
- Directors' statement on fair, balanced and understandable set out on page 52;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 51;
- Section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 45;
- Section describing the work of the audit committee set out on page 42.

Responsibilities of the Directors

As explained more fully in the Directors' responsibilities statement, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Independent Auditor's Report (cont'd)

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory frameworks that the Group and Parent Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the Companies Act 2006, regulations and supervisory requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) and UK tax legislation.
- Reviewing key correspondence with regulatory authorities including the PRA, FCA and HMRC.
- Enquiry of management to identify any instances of non-compliance with laws and regulations.
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.
- Enquiry of management around actual and potential litigation and claims.
- Enquiry of management to identify any instances of known or suspected instances of fraud.
- Discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Reviewing minutes of meetings of those charged with governance.
- Reviewing internal audit reports of the Company,
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular with respect to provisions for impairment of loans and amounts advanced to customers.
- Obtained and read reports issued in connection with the remediation activities of the PCF Group and the Company. We considered the results of these reports in our audit planning and risk assessment. Our audit work was not designed to test the design and implementation of the remediation plan nor its operating effectiveness.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. The engagement team includes audit partners and staff who have extensive experience of working with listed companies and with those in the banking sector, and this experience was relevant to the discussion about where the risk of irregularities, including fraud may arise.

A further description of our responsibilities for the financial statements is located on the FRC's website at: *www.frc.org.uk/auditorsresponisbilities*

Other requirements

We were appointed by the Directors on 23 December 2021 to audit the financial statements of the Group and Parent Company for the year ended 30 September 2021 and subsequent financial periods. The period of total uninterrupted engagement is accordingly one year.

We did not provide any non-audit services which are prohibited by the FRC's Ethical Standard to the Company, and we remain independent of the company in conducting our audit

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.

Rakesh Shaunak FCA, CTA
Senior Statutory Auditor

For and on behalf of MHA MacIntyre Hudson
Statutory Auditor

6th Floor
2 London Wall Place
London
EC2Y 5AU

31 May 2022

Consolidated Income Statement

for the year ended 30 September 2021

	Note	Group Year ended 30 September 2021 £'000	Year ended 30 September 2020 Restated* £'000
Interest income calculated using the effective interest method	3	**40,790**	41,943
Interest expense calculated using the effective interest method	4	**(14,537)**	(15,953)
Net interest income		**26,253**	25,990
Fees and commission income		**1,835**	2,122
Fees and commission expense		**(1,716)**	(1,602)
Net fees and commission income	5	**119**	520
Net gains/(losses) on financial instruments classified at fair value through profit or loss		**378**	(55)
Net operating income		**26,750**	26,455
Impairment losses on financial assets	6	**6,677**	14,431
Net (profit)/loss arising from derecognition of financial assets measured at amortised cost	7	**(939)**	–
Personnel expenses	8	**12,619**	8,296
Other operating expenses	10	**8,570**	5,268
Depreciation of office equipment, motor vehicles and right-of-use assets	17	**1,068**	1,206
Amortisation of intangible assets	18	**639**	552
Impairment loss on software	18	**55**	51
Impairment of office equipment	17	**13**	–
Impairment losses on goodwill	18	**1,147**	1,750
Total operating expenses		**29,849**	31,554
Loss before tax		**(3,099)**	(5,099)
Income tax (charge)/credit	11	**38**	(1,198)
Loss after tax		**(3,061)**	(6,297)
Earnings per 5p ordinary share – basic and diluted	12	**(1.2p)**	(2.6p)

The accounting policies and notes on pages 110 to 181 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.

*The prior period balances have been restated or re-presented for the financial year. Refer to Note 1.7 for further details.

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2021

	Group Year ended Year ended 30 September 2021 £'000	Year ended 30 September 2020 Restated* £'000
Loss after taxation	**(3,061)**	(6,297)
Other comprehensive income/(loss) that will be reclassified to the income statement		
Fair value (losses)/gains on FVOCI financial instruments (Note 14)	**(51)**	53
Deferred tax income/(charge)	**–**	–
Total items that will be reclassified to the income statement	**(51)**	53
Total comprehensive loss, net of tax	**(3,112)**	(6,244)

*The prior period balances have been restated or re-presented for the financial year, Refer to Note 1.7 for further details.

PCF GROUP

Consolidated Balance Sheet

at 30 September 2021

	Note	Group 30 September 2021 £'000	Group 30 September 2020 Restated* £'000	Company 30 September 2021 £'000	Company 30 September 2020 Restated* £'000
Assets					
Cash and balances at central banks	13	**56,126**	24,936	**318**	278
Debt instruments at FVOCI	14	**16,155**	9,095	**-**	–
Loans and advances to customers*	15	**363,992**	427,003	**-**	–
Derivative financial instruments	29	**209**	–	**-**	–
Due from Group companies	20	**-**	–	**8,958**	8,759
Investment in subsidiary undertakings	16	**-**	–	**32,000**	32,000
Office equipment, motor vehicles and right-of-use assets	17	**2,350**	3,144	**1,151**	1,582
Goodwill and other intangible assets	18	**3,075**	4,327	**-**	–
Deferred tax assets*	19	**-**	–	**-**	–
Current tax assets		**1,675**	–	**1,483**	116
Other assets	21	**5,169**	2,051	**1,098**	770
Total assets		**448,751**	470,556	**45,008**	43,505
Liabilities					
Due to customers*	23	**327,166**	342,046	**-**	–
Due to banks	22	**59,630**	62,620	**-**	–
Due to Group companies	20	**-**	–	**5,918**	5,242
Derivative financial instruments	29	**-**	80	**-**	–
Lease liabilities	26	**1,037**	1,604	**983**	1,525
Current tax liabilities		**-**	69	**-**	–
Other liabilities*	27	**4,929**	5,184	**3,211**	2,226
Subordinated liabilities	25	**7,127**	7,126	**-**	–
Total liabilities		**399,889**	418,729	**10,112**	8,993
Equity					
Issued capital	28	**12,550**	12,512	**12,550**	12,512
Share premium	28	**17,679**	17,625	**17,679**	17,625
Other reserves	28	**9**	60	**-**	–
Own shares	28	**(147)**	(147)	**(147)**	(147)
Retained earnings*		**18,771**	21,777	**4,814**	4,522
Total equity		**48,862**	51,827	**34,896**	34,512
Total liabilities and equity		**448,751**	470,556	**45,008**	43,505

*The prior period balances have been restated or re-presented for the financial year. Refer to Note 1.7 for further details.

The Company reported a profit for the financial year ended 30 September 2021 of £237,000 (2020: profit of £46,000).

The financial statements were approved and authorised for issue by the Board on 31 May 2022.

On behalf of the Board

G G Stran
Director

C Richardson
Director

The accounting policies and Notes on pages 77 to 132 form part of, and should be read in conjunction with, these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 September 2021

	Attributable to equity holders of the Company					
	Non-distributable				Distributable	
Group	**Issued capital £'000**	**Share premium £'000**	**Own shares £'000**	**Other reserves £'000**	**Retained earnings £'000**	**Total equity £'000**
Balance at 1 October 2020	12,512	17,625	(147)	53	23,832	53,875
Correction of prior period error	–	–	–	7	(2,055)	(2,048)
At 1 October 2020 (Restated)*	12,512	17,625	(147)	60	21,777	51,827
Loss for the year	–	–	–	–	(3,061)	(3,061)
Issuance of new shares	38	54	–	–	–	92
Reclassification of own shares	–	–	–	–	–	–
Fair value gain on FVOCI financial instruments	–	–	–	(51)	–	(51)
Share-based payments	–	–	–	–	55	55
Balance at 30 September 2021	12,550	17,679	(147)	9	18,771	48,862
Balance at 1 October 2019	12,510	17,619	(355)	7	28,974	58,755
Loss for the year	–	–	–	–	(6,297)	(6,297)
Scrip dividend	2	6	–	–	(8)	–
Reclassification to cash	–	–	208	–	–	208
Fair value gain on FVOCI financial instruments	–	–	–	53	–	53
Share-based payments	–	–	–	–	101	101
Cash dividends	–	–	–	–	(993)	(993)
Balance at 30 September 2020	12,512	17,625	(147)	60	21,777	51,827

*The prior period balances have been restated or re-presented for the financial year. Refer to Note 1.7 for further details.

	Attributable to equity holders of the Company				
	Non-distributable			Distributable	
Company	**Issued capital £'000**	**Share premium £'000**	**Own shares £'000**	**Retained earnings £'000**	**Total equity £'000**
Balance at 1 October 2020	12,512	17,625	(147)	4,639	34,629
Correction of prior period error	–	–	–	(117)	(117)
At 1 October 2020 (Restated)*	12,512	17,625	(147)	4,522	34,512
(Loss)/profit for the year	–	–	–	237	237
Issuance of new shares/scrip dividend	38	54	–	–	92
Reclassification of own shares	–	–	–	–	–
Share-based payments	–	–	–	55	55
Balance at 30 September 2021	12,550	17,679	(147)	4,814	34,896
Balance at 1 October 2019	12,550	17,679	(355)	5,376	35,150
Profit for the year	–	–	–	46	46
Issuance of new shares/scrip dividend	2	6	–	(8)	–
Reclassification to cash	–	–	208	–	208
Share-based payments	–	–	–	101	101
Cash dividends	–	–	–	(993)	(993)
Balance at 30 September 2020	12,512	17,625	(147)	4,522	34,512

*The prior period balances have been restated or re-presented for the financial year. Refer to Note 1.7 for further details.

The accounting policies and Notes on pages 77 to 132 form part of, and should be read in conjunction with, these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 September 2021

	Note	Group 30 September 2021 £'000	Group 30 September 2020 Restated £'000	Company 30 September 2021 £'000	Company 30 September 2020 Restated* £'000
Operating activities					
(Loss)/Profit before tax		**(3,099)**	(5,099)	**422**	206
Other non-cash items included in profit/(loss) before tax					
Depreciation of office equipment, motor vehicles and right-of-use assets	17	**1,068**	1,206	**440**	724
Loss/(gain) on sale of motor vehicles	17	**2**	(22)	**–**	–
Loss on disposal of intangible assets	18	**55**	51	**–**	–
Amortisation of other intangible assets	18	**639**	552	**–**	–
Impairment loss on goodwill	18	**1,147**	1,750	**–**	–
Interest on lease liabilities	26	**28**	55	**26**	50
Accrued finance costs	24	**16**	138	**–**	–
Share-based payments		**55**	101	**55**	101
Impairment of office equipment	17	**13**	–	**–**	–
Impairment losses on financial assets	6	**6,677**	14,431	**–**	–
Reversal of office equipment, fixtures, fittings, and motor vehicle write-off	17	**(9)**	–	**(9)**	–
Income tax paid		**(1,706)**	(1,538)	**(1,552)**	(35)
Adjustment for change in operating assets and liabilities					
Net change in loans and advances	15	**56,334**	(102,931)	**–**	–
Net change in Group company lending	20	**–**	–	**(199)**	(1,832)
Net change in other assets	21	**(3,118)**	2,795	**(328)**	45
Net change in derivative financial instruments	29	**(289)**	17	**–**	–
Net change in amounts due to customers	23	**(14,880)**	74,976	**–**	–
Net change in Group company borrowing	20	**–**	–	**676**	1,887
Net change in other liabilities	27	**(255)**	(1,255)	**985**	362
Net cash flows (used in)/from operating activities		**42,678**	(14,773)	**516**	1,518
Investing activities					
Net sale of debt instruments at FVOCI	14	**(7,111)**	10,589	**–**	–
Purchase of office equipment and motor vehicles	17	**(280)**	(1,385)	**–**	–
Reclassification from own shares to cash		**–**	208	**–**	208
Proceeds from the sale of motor vehicles	17	**–**	67	**–**	–
Purchase of intangible assets	18	**(589)**	(739)	**–**	–
Net cash flows from/(used in) investing activities		**(7,980)**	8,740	**–**	208
Financing activities					
Proceeds from subordinated borrowings	24	**–**	7,000	**–**	–
Proceeds from share issue during the year	28	**92**	–	**92**	–
(Repayment)/net proceeds from borrowings	24	**(3,005)**	18,196	**–**	–
Repayment of capital element of leases	26	**(595)**	(605)	**(568)**	(578)
Dividends paid to equity holders		**–**	(993)	**–**	(993)
Net cash flows (used in)/from financing activities		**(3,508)**	23,598	**(476)**	(1,571)
Net increase in cash and cash equivalents		**31,190**	17,565	**40**	155
Cash and cash equivalents brought forward		**24,936**	7,371	**278**	123
Cash and cash equivalents carried forward		**56,126**	24,936	**318**	278

*The prior period balances have been restated or re-presented for the financial year, Refer to Note 1.7 for further details.

Notes to the Financial Statements

for the year ended 30 September 2021

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 UK 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 the purchase of motor vehicles, plant, bridging 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). They are presented in the Group 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.

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.

In undertaking a Going Concern review the directors have reviewed the short-term financial plan to November 2023 (the Review Period). These financial projections form part of the Group's strategic plan (the Plan) which contains both a base case and downside scenarios which involved stressing various assumptions to the Plan. In all cases, profitability is dependent on capital being raised. However, there are various uncertainties related to capital raising which are noted in the Emerging risks and uncertainties section of the Strategic Report and the associated capital raising risks may be further exacerbated by the current geopolitical situation.

To mitigate the regulatory capital risks and the restriction on business lending, we have decided to accelerate an element of our capital raising, by requesting further investment in the Company from our majority shareholder Somers Limited of circa £4 million over the next two months and at the same time we are also investigating other strategic opportunities as outlined in the Chair's Statement.

Should the Group not be successful in achieving its capital raising nor any other strategic opportunities there is no certainty that it could continue to originate new lending given its projection that over the Review Period regulatory capital ratios are forecast to fall below regulatory capital minimum requirements. Should new lending be suspended this would reduce income and the prospect of the Group being able to generate profits which would further impact on its ability to generate capital organically.

In conclusion the raising or organic generation of capital is not guaranteed, nor are the completion of other strategic opportunities and therefore the directors have concluded that the current lack of certainty, and the associated risks represent a material uncertainty which casts a significant doubt of the Group's ability to continue as a Going Concern. The Board is confident that it will be able to affect a Capital raise or implement strategic opportunities and therefore holds a reasonable expectation that the Group will have adequate resources, notably adequate regulatory capital, to continue its operations for the period to 31 May 2023 being at least the next 12 months from the date of approval on the Annual Report and Financial Statements. On this basis the directors continue to adopt the Going Concern basis in preparing these accounts.

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

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 the Income Statement.

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 more than the aggregate consideration transferred, the Group reassesses whether it has correctly identified all the assets acquired and all 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 the Income Statement.

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 (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment losses relating to goodwill are not reversed in future periods.

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

Contingent liabilities recognised in a business combination

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

Subsidiaries

'Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date on which control commences until the date on which control ceases.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-Controlling Interests (NCI) and other components of equity. Any resulting gain or loss is recognised in the Income Statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

All intra-Group balances, transactions, income, expenses and profits and losses resulting from intra-Group transactions which are recognised in assets or liabilities, are eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.5 Summary of significant accounting policies

1.5.1 New standards, interpretations and amendments adopted by the Group

In the year ended 30 September 2020, the Group adopted IFRS 16 Leases, replacing IAS 17 Leases effective from 1 October 2019.

Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16, along with other minor amendments to IFRSs effective for the Group from 1 October 2021 have been issued by the International Accounting Standards Board (IASB). These amendments are expected to have no or an immaterial impact on the Group.

1.5.2 Financial instruments - initial recognition and subsequent measurement

Date of recognition

Financial assets and liabilities, except for 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.

Financial instruments are initially measured at their fair value and, with the exception of financial assets and financial liabilities, subsequently measured at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to, or subtracted from, this amount. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in the Income Statement. 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; or
- Fair Value Through Other Comprehensive Income (FVOCI); or
- Fair Value Through Profit or Loss (FVTPL).

Financial liabilities are measured at amortised cost, and derivatives at FVTPL (see page 80).

Financial assets and liabilities

Balances at central banks, loans and advances to customers, due from Group companies, other assets at amortised cost

The Group measures balances at central banks, loans and advances to customers, due from Group companies 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 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 below:

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 (e.g. 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 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 Solely Payments of Principal and Interest test. The Group's loan assets of hire purchase and conditional sales agreements are repaid by instalments of principal and interest with a fee upfront. 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 purely 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 (ISDA) Master Agreement to document these transactions in conjunction with a Credit Support Annex (CSA).

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 master netting agreements and holding collateral. Such collateral is subject to the standard industry CSA and is paid or received on a regular basis.

Debt instruments at Fair Value Through Other Comprehensive Income (FVOCI)

The Group applies the category under IFRS 9 of debt instruments measured at Fair Value Through Other Comprehensive Income when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income (OCI). Interest income is recognised in the Income Statement. The calculation of Expected Credit Losses (ECL) for debt instruments at FVOCI is explained below. On derecognition, cumulative gains or losses previously recognised in OCI are re-classified from OCI to the Income Statement.

Due to banks, due to customers and due to Group companies

After initial measurement, amounts due to banks, due to customers and due to Group companies are subsequently measured at amortised cost. Amortised cost is calculated by considering 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 and subordinated liabilities

After initial measurement, other borrowed funds and subordinated liabilities 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.

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

Financial liabilities are never reclassified.

De-recognition 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 when one or more of the following conditions has been met:

- The rights to receive cash flows from the asset have expired.
- The financial asset is written off.
- 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 has either (a) transferred substantially all the risks and rewards of the asset, or (b) 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, cancelled or expired. When 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.

Renegotiation/forbearance

Loans are identified as renegotiated and classified as credit-impaired when the Group modifies the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that has been renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be Purchase of Credit-Impaired (POCI) loans and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of Stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to Stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written-off as a result of the modification of contractual terms would not be reversed.

Loan modifications other than renegotiated loans

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. When a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Group's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information.

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 contracts.

The Group uses the three stage model for determination of ECL.

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 as defined below.

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.
- Forward-looking information.

Significant Increase in Credit Risk (SICR)

The Group applies a series of quantitative, qualitative and backstop criteria to determine if an account has demonstrated a Significant Increase in Credit Risk (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 threshold is considered to be significant. These thresholds have been determined separately for each portfolio, based on historical evidence of delinquency.
- Qualitative criteria – This includes the observation of specific events such as short-term forbearance, payment cancellation, historical arrears or extension to customer terms.
- Backstop criteria – IFRS 9 includes a rebuttable presumption that 30 days past due is an indicator of a significant increase in credit risk. 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 an SICR has occurred for certain loans, 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 an SICR (transfer to Stage 2) in line with regulatory guidance but nevertheless it has been considered to calculate additional Post Model Adjustments (PMAs) 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 ECL has been aligned to the Capital Requirements Regulation (CRR) article 178[41] 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.

When a loan falls into default, a formal process of recovering the loan will commence. The recovery will include a number of actions such as selling the underlying assets and agreeing an arrangement to repay.

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 six months and are current are reclassified to Stage 2.

[41] 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)

An Expected Credit Loss (ECL) is an unbiased, probability-weighted estimate of credit loss determined by evaluating a range of possible outcomes. It is measured in a manner that reflects the time value of money and uses reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement of an ECL depends on the 'Stage' of the financial asset, based on changes in credit risk occurring since initial recognition, as described below:

- Stage 1 – When a financial asset is first recognised, it is assigned to Stage 1. If there is no significant increase in credit risk 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 significant increase in credit risk 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 – Defined as the ECL that results from all possible default events over the expected behavioural life of a financial instrument.
- 12 month ECL – Defined as the portion of lifetime ECL that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

All Stage 3 loans and those Stage 2 loans that are either 30 days past due or subject to an individual recoverability assessment by the Group's Collections Department are classified as non-performing loans.

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 Consolidated Statement of Comprehensive Income.

Model calculation

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

- 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 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.
- 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).

Expected life

A Lifetime ECL 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 on initial recognition or an approximation thereof and consistent with income recognition. Lease receivables are discounted at the rate implicit in the lease.

Expected Credit Losses

An ECL is a probability-weighted estimate of the present value of credit losses. It is measured as the present value of the difference between the cash flow 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 EIR. This is both:

- For undrawn loan commitments, the ECL is 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.
- 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 the ECL on an individual basis or on a collective basis for portfolios of loans that share similar economic risk characteristics including credit risk grading and vintage. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

For those Stage 3 loans in formal recovery, the ECL is determined by whichever of the as following applies:

- For those loans that are considered saleable by the Group to third parties as part of a strategy to manage credit risk, the ECL is based on recent sale prices of formal recovery loans in a similar subcategory that were previously sold by the Group to third parties. Until the date of sale, any subsequent recoveries from the customer are credited to the outstanding loan balance.
- In the absence of recent sale prices, 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.
- For those loans that are not considered saleable, the ECL for formal recovery loans shall be 100% of the remaining loan balance on the basis that the Group does not expect to recover any monies from the customer.

Any subsequent recoveries from the customer are recognised in full in the Income Statement as a credit to impairment losses on financial assets.

Overlays and Post Model Adjustments (PMAs)

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.

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 overlays and PMAs applied 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 £0.3 million to the total ECL (2020: £1.4 million).
- For 2021, the approach for COVID-19 pandemic related PMAs were re-assessed to reflect the economic changes due to the country emerging from the initial impact of the COVID-19 pandemic and the lifting of the national lockdown. As a result, management assessed that the 2020 COVID-19 related PMAs were no longer required and were removed during the year ended 30 September 2021. For those customers granted a COVID-19 deferral holiday during the pandemic and that had not returned to making full payments after their deferral period, a PMA of £(0.1) million was applied to those customers to ensure any uncollateralised exposure was fully provided for. For these customers, the modelled provision was compared to the uncollateralised exposure reduced to prevent over provisioning.
- For the 2020, the approach for COVID-19 pandemic related PMAs was as follows:

- The COVID-19 pandemic and subsequent national lockdown, with its adverse effect on asset values, necessitated an overlay for recovery rates. The 2020 overlay calculated for this risk was £0.2 million.
- It is perceived that the likelihood of default may have increased for those customers who had applied for COVID-19 specific forbearance within CFD. Therefore, the Group applied an additional provision for the Consumer Finance loans that were in forbearance in 2020 of £0.1 million.
- 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 30 September 2020 was £6.1 million. 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. An overlay was calculated for this risk in 2020 of £0.4 million.
- COVID-19 has had an adverse impact on the film and TV market that Azule serves. The lifting of the initial restrictions meant that the film and TV sector could return to work, but during 2020, the Government continued to ban mass gathering events such as concerts, festivals, conferences and exhibitions. This resulted in those who service live events being forced to remain closed, therefore requiring additional support from the Government through furlough, Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) and 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. An overlay was calculated for this risk in 2020 of £0.4 million.
- An overlay was in place for customers who entered their third round of forbearance, as in some cases they may not have made full payments to the Group for nine months. Management perceived there to be an additional risk associated with these customers and therefore an additional provision has been applied to these agreements. An overlay was calculated for this risk in 2020 of £0.1 million.

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 contributed to an additional £0.4m (2020: £6 million).
- The ECL model applied by the Group in 2020 used three economic scenarios in the impairment calculations. Management deemed it necessary to include a severe downside scenario in the calculations. The overlay contributed an additional £0.1 million at 30 September 2020. During the year ended 30 September 2021, the ECL model was enhanced to include additional scenarios thereby removing the need for this PMA at 30 September 2021.
- 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 £(0.1) million (2020: £0.2 million).
- A PMA has been implemented to address the re-grading of credit grades. The Group has carried out a re-grade of the Business Finance and Consumer Finance portfolios to address the possible deterioration in the quality of the loan book. The overlay for this risk at 30 September 2021 was not material (2020: £0.3 million).

The total of the overlays and PMAs is a net increase to the impairment provision of £0.5 million (2020: increase in ECL provisions £8.8 million).

1.5.3 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

Under IFRS 9, interest income is recorded using the Effective Interest Rate (EIR) method for all financial assets measured at amortised cost, and where applicable to interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest-bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset or financial liability) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, or on recognition of a financial liability, as well as fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan or deposit. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR, with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet, with a corresponding increase or decrease in interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

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 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.

1.5.4 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.

1.5.5 Fee and commission income

The Group earns fee and commission income from a range of services it provides to its customers. Fee income, other than that accounted for using the EIR method, is recognised immediately and can be divided into the following two categories:

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

1.5.6 Net income from other financial instruments at Fair Value Through Profit or Loss (FVTPL)

Net income from other financial instruments at Fair Value Through Profit or Loss 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 as at FVTPL and non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes.

1.5.7 Leases

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

Contracts may contain both lease and non-lease components. At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable.
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

- Amounts expected to be payable by the Group under residual value guarantees.
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option.
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group will do the following:

- Where possible, use recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received.
- Use a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing.
- Make adjustment specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) that has a similar payment profile to the lease, then the Group will use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability.
- Any lease payments made at or before the commencement date less any lease incentives received.
- Any initial direct costs.
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The right-of-use assets are presented within Note 17 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 1.5.11 Impairment of non-financial assets.

Short-term leases and leases of low-value assets

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the Income Statement. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

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

Group as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a Finance Lease. If not, then it is an Operating Lease. As part of this assessment, the Group considers certain indicators, such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Operating leases

Rental income arising from a lease is accounted for on a straight-line basis over the lease term, and is included in revenue in the Income Statement 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.

1.5.8 Cash and cash equivalents

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

1.5.9 Office equipment, fixtures, fittings and motor vehicles

Office equipment, fixtures, fittings and motor vehicles 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, fixtures, fittings and motor vehicles to their residual values over their estimated useful lives as follows:

Office equipment, fixtures and fittings – between 3 and 10 years

Motor vehicles – 4 years

Office equipment, fixtures, fittings and motor vehicles 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.

1.5.10 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:

- 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.

If these conditions are not met, expenditure is recognised in administrative expenses in the Income Statement as incurred.

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.

1.5.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU) 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.

Disclosures of the assumptions used to test for impairment are given in Note 1.6.3.

1.5.12 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. 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.

1.5.13 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.

1.5.14 Provisions and contingent liabilities

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.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the likelihood of an outflow of economic resources is remote.

1.5.15 Taxes

Current tax

Current tax assets and liabilities for this current year 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 Income Statement. 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.

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 Fair Value Through Other Comprehensive Income (FVOCI) assets and foreign exchange differences which are charged or credited to other comprehensive income. These exceptions are subsequently reclassified from other comprehensive income to the Income Statement together with the respective deferred loss or gain. The Group also recognises the tax consequences of payments and issuing costs related to financial instruments that are classified as equity, directly in equity.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the recoverable amount of Value Added Tax 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 on the balance sheet.

1.5.16 Own shares

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

1.5.17 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when approved by the Group's shareholders. Dividends for the year that are approved after the reporting date are disclosed as a non-adjusting event after the reporting date.

1.5.18 Short-term benefits

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

1.5.19 Foreign exchange gains and losses

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of the transactions.

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

Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in the Income Statement.

1.5.20 Parent Company investment in subsidiary undertakings

The Parent Company's investments in its subsidiary undertakings are stated at cost less any impairment losses (carrying value).

1.6 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 Notes 1.6.1 to 1.6.4.

1.6.1 Effective interest rate (EIR) (estimate)

This estimation of Effective Interest Rate, by its nature, requires an element of judgement regarding the expected behaviour and life cycle of the instruments, as well as expected changes to the Bank of England base rate and other fee income/expenses that are integral parts of the instrument.

Management uses 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 that must be recognised in the Income Statement. The effective interest rate behavioural models are based on market trends and experience.

1.6.2 Impairment losses on financial assets (judgement and estimate)

IFRS 9 impairment involves several important areas of judgement, including estimating forward-looking modelled parameters, Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), developing a range of unbiased future economic scenarios, estimating expected lives and assessing Significant Increase in Credit Risk (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, that are typically run at a cohort level.

For assets in Stage 3, impairment allowances are calculated on an individual basis, with all relevant considerations that have a bearing on the expected future cash flows across a range of recovery options taken into account. These considerations can be subjective, but the recovery rates are routinely back-tested and used as the base case.

The Assets and Liability Committee (ALCO) considers the recovery rates, weightings and economic factors, and where necessary, recommends changes to the Board for approval. The creation, ongoing measurement or release of ECL post model adjustments and overlays are considered and approved by ALCO.

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 Expected Credit Loss (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 as set out in Note 1.5.2, the Group applied PMAs 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.

The majority of the residual PMAs are to address a lack of sensitivity in the modelled outcome.

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 are 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. This 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 with 2020 comparatives disclosed in brackets. For the year ended 30 September 2020, only three scenarios were used in the ECL model. Following model enhancements during the year ended 30 September 2021, the number of scenarios were increased to five.

	Mild upside	Upside	Base	Downside	Severe downside
Scenario weightings	10% (n/a)	10% (30%)	60% (40%)	10% (30%)	10% (n/a)
5-year average					
GDP (year on year change)	3.57% (n/a)	3.33% (3.26%)	2.84% (2.66%)	1.83% (1.42%)	1.28% (n/a)
CPI (year on year change)	2.39% (n/a)	2.20% (1.97%)	2.09% (1.68%)	1.56% (1.01%)	1.34% (n/a)
Unemployment rate (5-year average)	3.61% (n/a)	2.57% (3.63%)	3.96% (4.06%)	6.12% (6.69%)	6.45% (n/a)
HPI (year on year change)	4.04% (n/a)	4.75% (4.02%)	1.48% (1.58%)	(3.15%) (3.13%)	(5.88%) (n/a)
Used Car Price Index (year on year change)	(5.96%) (n/a)	(5.13%) (1.57%)	(5.92%) (1.61%)	(5.60%) (1.62%)	(5.53%) (n/a)
Peak values					
GDP	10.66% (n/a)	10.11% (9.17%)	7.74% (5.05%)	3.22% (2.77%)	1.71% (n/a)
CPI	4.05% (n/a)	4.10% (3.57%)	3.01% (1.95%)	2.03% (2.13%)	2.19% (n/a)
Unemployment rate	4.70% (n/a)	4.70% (4.89%)	4.71% (6.50%)	6.34% (8.42%)	6.65% (n/a)
HPI	8.37% (n/a)	11.06% (9.91%)	3.77% (5.60%)	4.35% (6.22%)	4.81% (n/a)
Used Car Price Index	(1.94)% (n/a)	(1.92%) (0.32%)	(1.82%) (0.80%)	(1.12%) (1.68%)	(0.94%) (n/a)

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 is shown below. Results reported in brackets represent a reduction in the ECL. Performing sensitivity analysis involves a high degree of estimation uncertainty. On this basis, 100% weighted expected credit loss provisions presented for the upside and downside scenarios should not be taken to represent lower or upper bound of possible and actual expected credit loss outcomes. The modelled impact presented is based on gross loans and advances to customers and it does not incorporate future changes relating to performance, growth or credit risk.

	Upside £'000	Mild upside £'000	Base £'000	Downside £'000	Severe downside £'000
30 September 2021					
Business Finance Division	(1,510)	(1,446)	(71)	1,528	1,845
Consumer Finance Division	(1,417)	(1,353)	(215)	2,034	2,398
Bridging Finance Division	(39)	(25)	(4)	30	56
Azule Division	(416)	(219)	(12)	235	283

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

1.6.3 Impairment testing of investment in subsidiaries and goodwill (judgement and estimate)

The Group assesses at each reporting date if there is an indication that the goodwill, acquired through acquisitions or investments in subsidiaries, may be impaired. When annual impairment testing for an asset is performed, or when an indicator of impairment of an asset arises outside of the annual assessment, 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 in a subsidiary or Cash Generating Units (CGUs) exceeds its recoverable amount. The recoverable amount of an investment in a subsidiary 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 15.17%.

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.

1.6.4 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 (e.g. 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 IBR used by the Group ranges from 2.75% to 5.60%.

1.6.5 Climate risk

The Group makes use of reasonable and supportable information to make accounting judgments and estimates. This includes considering wheeled-assets valuation impacts to estimated credit loss assessments. For the purpose of the 2021 Annual Report and Accounts this did not include information about the observable effects of physical and transition risks of climate change on the current creditworthiness of borrowers for non-wheeled asset valuations, property portfolio valuations and market indicators.

Many of the effects arising from physical risks such as from extreme acute and chronic weather-related events will be longer-term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates for the current period.

1.7 Prior period adjustments

The Group's Financial Statements for prior years have been restated in these Financial Statements to reflect the prior period misstatements including errors and classification changes as detailed below.

Consolidated Statement of financial position extract at 30 September 2020

	30 September 2020 (As originally presented) £'000	Correction of error £'000	Re-presentations £'000	30 September 2020 (Restated balance) £'000
Assets				
Cash and balances at central banks	24,936	–	–	24,936
Debt instruments at FVOCI	9,095	–	–	9,095
Loans and advances	427,297	(294)	–	427,003
Office equipment, fixtures, fittings and motor vehicles	3,144	–	–	3,144
Goodwill and other intangible assets	4,327	–	–	4,327
Deferred tax assets	1,810	(1,810)	–	–
Other assets	2,051	–	–	2,051
Total assets	**472,660**	**(2,104)**	**–**	**470,556**
Liabilities				
Due to banks	62,620	–	–	62,620
Due to customers	341,784	–	262	342,046
Subordinated liabilities	7,126	–	–	7,126
Derivative Financial Liability	80	–	–	80
Lease liabilities	1,604	–	–	1,604
Current tax liabilities	125	(56)	–	69
Other liabilities	5,446	–	(262)	5,184
Total liabilities	**418,785**	**(56)**	**–**	**418,729**
Equity				
Issued capital	12,512	–	–	12,512
Share premium	17,625	–	–	17,625
Own shares	(147)	–	–	(147)
Other reserves	53	7	–	60
Retained earnings	23,832	(2,055)	–	21,777
Total equity	**53,875**	**(2,048)**	**–**	**51,827**
Total liabilities and equity	**472,660**	**(2,104)**	**–**	**470,556**

Consolidated Statement of Cash Flows extract at 30 September 2020

	30 September 2020 (As originally presented) £'000	Correction of error £'000	Re-presentations £'000	30 September 2020 (Restated balance) £'000
Operating activities				
(Loss)/Profit before tax	(4,805)	(294)	–	(5,009)
Other non-cash items included in profit/(loss) before tax				
Depreciation of office equipment, motor vehicles and right-of-use assets	1,206	–	–	1,206
Loss/(gain) on sale of motor vehicles	(22)	–	–	(22)
Loss on disposal of intangible assets	51	–	–	51
Amortisation of other intangible assets	552	–	–	552
Impairment loss on goodwill	1,750	–	–	1,750
Interest on lease liabilities	55	–	–	55
Accrued finance costs	138	–	–	138
Share-based payments	117	(16)	–	101
Impairment of office equipment	–	–	–	–
Impairment losses on financial assets	14,431	–	–	14,431
Reversal of office equipment, fixtures, fittings and motor vehicle write-off	–	–	–	–
Income tax paid	(1,554)	16	–	(1,538)
Adjustment for change in operating Assets and liabilities	–	–	–	–
Net change in loans and advances	(103,225)	294	–	(102,931)
Net change in group company lending	–	–	–	–
Net change in other assets	2,796	(1)	–	2,795
Net change in derivative financial instruments	17	–	–	17
Net change in amounts due to customers	74,714	–	262	74,976
Net change in group company borrowing	–	–	–	–
Net change in other liabilities	(993)	–	(262)	(1,255)
Net cash flows (used in)/from operating activities	**(14,772)**	**(1)**	**–**	**(14,773)**
Investing activities				
Net sale of debt instruments at FVOCI	10,589	–	–	10,589
Purchase of office equipment and motor vehicles	(1,344)	(41)	–	(1,385)
Reclassification from own shares to cash	208	–	–	208
Proceeds from the sale of motor vehicles	25	42	–	67
Purchase of intangible assets	(739)	–	–	(739)
Net cash flows (used in)/from investing activities	**8,739**	**1**	**–**	**8,740**
Financing activities				
Proceeds from subordinated borrowings	7,000	–	–	7,000
Proceeds from share issue during the year	–	–	–	–
(Repayment)/net proceeds from borrowings	18,196	–	–	18,196
Repayment of capital element of leases	(605)	–	–	(605)
Dividends paid to equity holders	(993)	–	–	(993)
Net cash flows (used in)/from financing activities	**23,598**	**–**	**–**	**23,598**
Net increase in cash and cash equivalents	17,565	–	–	17,565
Cash and cash equivalents brought forward	7,371	–	–	7,371
Cash and cash equivalents carried forward	24,936	–	–	24,936

Consolidated income statement extract as at 30 September 2020

	30 September 2020 (As originally presented) £'000	Correction of error £'000	30 September 2020 (Restated balance) £'000
Interest revenue calculated using effective interest method	42,237	(294)	41,943
Interest expense calculated using the effective interest method	(15,953)	-	(15,953)
Net interest income	**26,284**	**(294)**	**25,990**
Fees and commission income	2,122	-	2,122
Fees and commission expense	(1,602)	-	(1,602)
Net fees and commission income	**520**	**-**	**520**
Net loss on financial instruments mandatorily at fair value through profit or loss	(55)	-	(55)
Net operating income	**26,749**	**-**	**26,455**
Impairment losses on financial assets	14,431	-	14,431
Personnel expenses	8,296	-	8,296
Other operating expenses	5,268		5,268
Depreciation of office equipment, motor vehicles and right-of-use assets	1,206	-	1,206
Amortisation of intangible assets	552	-	552
Impairment loss on software	51	-	51
Impairment losses on goodwill	1,750	-	(1,750)
Total operating expenses	**31,554**	**(294)**	**31,554**
Loss before tax	**(4,805)**	**(294)**	**(5,099)**
Income tax (charge)/credit	547	(1,745)	(1,198)
Loss for the period	**(4,258)**	**(2,039)**	**(6,297)**

Restatement and re-presentation explanation

There have been adjustments to prior year financial results in respect of restatements and re-presentations which are set our below.

Restatements

- The 2020 profit and hence the 2020 retained earnings, have been restated for a historical accounting error in relation to timing of recognition of interest income calculated using the effective interest method. This related to the calculation of the Effective Interest Rate on a legacy system acquired with the purchase of Azule in 2018. The error impacted the 2020 profit and loss account with overstated income of £0.3 million (pre-tax) and loans and advances understated by the same amount. After tax the net impact on shareholders' funds is a reduction of £0.2 million. The impact of this error is to reduce the interest income recognised in 2020 and increase the income recognised in 2021. There is no net impact on retained earnings as at 30 September 2021. The error was identified as part of the improvement in Financial Controls, including a deep dive of balances of this legacy system on which no new trades have been booked since May 2021, and which is therefore in run-off.
- Deferred tax asset: Given the disclosure of a material uncertainty in relation to going concern in both the Annual Report and Financial Statements in 2020 and now in 2021, deferred tax assets in respect of future taxable profits have not been recognised in the 2021 Annual Report & Financial Statements. Accordingly, management have judged it appropriate to also derecognise the deferred tax asset of £1.8 million previously recognised in the 2020 Annual Report & Financial Statements and therefore comparatives have been restated accordingly.

Re-presentation

- Amounts in the balance sheet for Due to customers have been reclassified with the recognition of Due to customers of £0.26 million and a corresponding adjustment in other liabilities for the same amount.
- Costs and accumulated depreciation amount for intangible assets, Note 18, have been re-presented according to those intangible assets that were 'in-use' or 'under development' at 30 September 2020 to be consistent with the current year disclosure.
- Amount in the cashflow for the Proceeds from sale of motor vehicles have been reclassified with the recognition of sale of motor vehicles of £0.04 million and a corresponding adjustment in the Purchase of office equipment and motor vehicles.

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

Specialist funding and leasing services direct to individuals and businesses in the broadcast and media industry.

Bridging finance

Bridging finance 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 2021 and 30 September 2020.

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 UK. Non-UK based operations are not considered material to the Group and therefore no additional geographical information is disclosed.

Segment information

Group

Year ended 30 September 2021	Consumer Finance £'000	Business Finance £'000	Azule £'000	Bridging Finance £'000	Adjustment at Group level £'000	Total segments £'000
Interest income calculated using the effective interest method	18,824	13,529	1,791	6,646	–	40,790
Interest expense calculated using the effective interest method	(7,409)	(5,432)	(245)	(1,451)	–	(14,537)
Net interest income	11,415	8,097	1,546	5,195	–	26,253
Fee and commission income	65	509	1,037	224	–	1,835
Fee and commission expense	(1,018)	(644)	(32)	(22)	–	(1,716)
Net fees and commission (expense)/income	(953)	(135)	1,005	202	–	119
Net loss on financial instruments mandatorily at Fair Value Through Profit or Loss	170	136	15	57	–	378
Net operating income	10,632	8,098	2,566	5,454	–	26,750
Impairment losses on financial assets	1,219	5,016	649	(207)	–	6,677
Net profit arising from derecognition of financial assets measured at amortised cost	(520)	(491)	72	–	–	(939)
Personnel expenses	4,898	4,060	1,616	2,045	–	12,619
Other operating expenses	2,487	3,082	2,176	825	–	8,570
Depreciation of office equipment, fixtures, fittings and right-of-use-assets	357	285	306	120	–	1,068
Amortisation of intangible assets	287	230	25	97	–	639
Impairment of office equipment	6	5	1	1	–	13
Impairment losses on software	25	20	2	8	–	55
Impairment losses on goodwill	–	–	–	–	1,147	1,147
Total operating expenses	8,759	12,207	4,847	2,889	1,147	29,849
Segment profit/(loss) before tax	1,873	(4,109)	(2,281)	2,565	(1,147)	(3,099)
Income tax credit/(expense)	–	–	–	–	38	38
Profit/(loss) after tax	1,873	(4,109)	(2,281)	2,565	(1,109)	(3,061)
Total assets	200,911	160,540	19,521	67,779	–	448,751
Total liabilities	179,314	143,283	16,799	60,493	–	399,889

Segment information (cont'd)

Group

Year ended 30 September 2020	Consumer Finance Restated* £'000	Business Finance Restated* £'000	Azule Restated* £'000	Bridging Finance Restated* £'000	Adjustment at Group level Restated* £'000	Total segments Restated* £'000
Interest income calculated using the effective interest method	17,182	20,015	1,504	3,242	–	41,943
Interest expense calculated using the effective interest method	(6,842)	(8,241)	(238)	(632)	–	(15,953)
Net interest income	10,340	11,774	1,266	2,610	–	25,990
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	2,333	2,594	–	26,455
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)	(377)	866	1,750	(5,099)
Income tax credit/(expense)	–	–	–	–	(1,198)	(1,198)
Profit/(loss) after tax	(1,133)	(2,705)	(377)	866	(2,948)	(6,297)
Total assets	180,390	197,134	26,116	65,770	1,147	470,556
Total liabilities	160,842	175,790	23,383	58,714	–	418,729

*The prior period balances have been restated or re-presented for the financial year. Refer to Note 1.7 for further details.

3 Interest income calculated using the effective interest method

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020* £'000
Cash and short-term funds	**20**	51
Loans and advances to customers	**37,257**	36,232
Finance lease interest	**3,410**	5,459
Financial instruments - FVOCI	**103**	201
Total interest and similar income	**40,790**	41,943

*Restated, refer to Note 1.7 for full details.

Operating lease rental income of £130,247 (2020: £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 2021 £'000	Year ended 30 September 2020 £'000
Paid and accrued to banks	**938**	994
Paid and accrued to customers	**5,839**	6,950
Credit related fees and commission	**7,102**	7,035
Interest expense on finance lease	**630**	919
Interest expense on lease liabilities	**28**	55
Total interest and similar expense	**14,537**	15,953

5 Net fee and commission income

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000
Fees and commission income		
Secondary lease income	**414**	331
Other fees not forming part of EIR	**1,216**	1,481
Other fees and commissions	**205**	310
	1,835	2,122
Fees and commission expenses		
Debt recovery and valuation fees	**(149)**	(344)
Credit assessment costs	**(1,567)**	(1,258)
	(1,716)	(1,602)
Net fee and commission income	**119**	520

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 30.3. The charge during the year was as follows:

Group	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Total £'000
At 30 September 2021					
Impairment charge for the year on loans and advances to customers	745	4,570	501	(207)	5,609
Net write-off	497	590	164	–	1,251
Net termination losses/(gains)	(23)	(144)	(16)	–	(183)
Total impairment charge	**1,219**	**5,016**	**649**	**(207)**	**6,677**
At 30 September 2020					
Impairment charge for the year on loans and advances to customers	4,930	8,407	620	474	14,431

7 Net profits arising from derecognition of financial assets measured at amortised cost

During the year ended 30 September 2021, the Group sold certain credit-impaired loans and advances to customers measured at amortised cost (2020: nil). These sales were made because the financial assets no longer met the Group's investment policy due to a deterioration in their credit risk.

The carrying amounts of the financial assets sold and the profit arising from the derecognition at 30 September 2021 are set out below.

Group	Carrying amount of financial assets sold £'000	Profit arising from derecognition £'000
Loans and advances to customers	1,708	939

8 Personnel expenses

Personnel expenses include £0.7 million for staff hired to work specifically on remediation activity, mainly within Finance, risk and legal departments. This is in relation to upgrading Finance and risk control frameworks, enhanced legal support, and statutory reporting updates.

The aggregate payroll costs of the Group, including directors and Chair, were:

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000
Salaries and fees	**10,848**	6,754
Social security cost	**1,020**	925
Pension costs – defined contribution plan	**407**	377
Other benefits	**344**	240
	12,619	8,296

The average monthly number of persons employed by the Group during the year was 131 (2020: 128). The table below summarises the total number of employees by function at 30 September 2021.

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000
Front office	**28**	31
Risk and Compliance	**22**	22
Operations and IT	**47**	37
Finance and Treasury	**33**	21
Human Resources	**7**	4
Executives	**10**	10
	147	125

9 Directors' remuneration and staff costs

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000
Directors' remuneration		
Directors' emoluments	**1,272**	1,211
Payments in respect of personal pension plans	**27**	34
	1,299	1,245

A summary of the total remuneration paid to directors is set out in the Remuneration Committee Report.

Share-based payments

At 30 September 2021, 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 42.41 pence is reached 3,183,443 options are effectively granted, if 49.47 pence is reached 4,775,264 options are effectively granted and if 56.54 pence is reached 6,366,886 options are effectively granted. If options remain unexercised after a period of 10 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 eight years (2020: nine years).

Of the pool, the following options have been granted with reference to notionally reaching the performance criteria of 56.54 pence. The model, however, values the options on a weighted basis across the three performance targets to ensure all outcomes are considered.

Group	30 September 2021 £'000	Weighted average exercise price (pence)	30 September 2020 £'000	Weighted average exercise price (pence)
Outstanding at the beginning of the year	**3,972**	**33**	5,960	34
Granted during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	(1,988)	(35)
Outstanding at the end of the year	**3,972**	**33**	3,972	33
Exercisable at the end of the year	**–**	**–**	–	–

No options were granted during the year ended 30 September 2021 (2020: nil).

The fair value was measured at the grant date using the Black-Scholes model.

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 10 years from the date of the grant, the options expire. The weighted average remaining contractual life is four years (2020: five years).

Group	30 September 2021 £'000	Weighted average exercise price (pence)	30 September 2020 £'000	Weighted average exercise price (pence)
Outstanding at the beginning of the year	**2,715**	**15**	3,015	17
Granted during the year	**–**	**–**	–	–
Exercised during the year	**(750)**	**(12)**	–	–
Expired during the year	**(20)**	**(26)**	(300)	(27)
Outstanding at the end of the year	**1,945**	**27**	2,715	15
Exercisable at the end of the year	**1,945**	**27**	2,715	15

No options were granted during the year ended 30 September 2021 (2020: Nil).

The fair value was measured at the grant date using the Black-Scholes model.

10 Other operating expenses

Other operating expenses include £2.9 million of remediation expenses, primarily legal and consultancy work in relation to non-BAU (Business as usual) activities. This predominantly includes FPPP memorandum update, internal and external investigations into accounting errors and misstatements as part of the completion of the Annual report & Financial Statements 2020, and upgrading risk, governance and culture framework.

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000
Advertising and marketing	**353**	283
Administrative expenses	**2,785**	2,156
Information technology and systems	**1,311**	1,054
Professional fees	**4,005**	1,695
Rental charges payable under operating lease	**–**	3
Expenses relating to banking services and licences	**116**	77
	8,570	5,268

Professional fees include fees payable to the auditor of £282,000 (year ended 30 September 2020: £860,000) as analysed below.

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000
Statutory audit of the Company	**50**	43
Statutory audit of the Company's subsidiaries	**232**	817
	282	860

Audit fees are allocated in line with the standard management recharge methodology adopted by the Group.

11 Income taxes

(a) The components of income tax expense for the year ended 30 September 2021 and its comparatives

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020* £'000
Current tax		
UK Corporation Tax on profit for the year	**81**	53
Overseas	**(2)**	–
Adjustments in respect of prior periods	**(41)**	(149)
Total current tax credit/(charge)	**38**	(96)
Deferred tax		
Reversal previously recognised deferred tax asset	**–**	(1,206)
Adjustments in respect of prior periods	**–**	104
Total deferred tax credit/(charge)	**–**	(1,102)
Total tax credit/(charge) for the year	**38**	(1,198)

(b) Deferred tax on items recognised directly in equity

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020* £'000
Share-based payments	**55**	136
Deferred tax on share-based payments	**–**	(35)
Statement of changes in equity	**55**	101

(c) Factors affecting current tax charge for the year

The Corporation Tax main rate is 19% (2020: 19%).

The deferred tax asset has been measured at 19% (2020: 19%).

	Year ended 30 September 2021 £'000	Year ended 30 September 2020* £'000
Accounting loss before tax	**3,099**	5,099
UK Corporation Tax of 19% (2020: 19%)	**589**	969
Effect of		
Current year movement in recognised deferred tax asset	**(154)**	(454)
Write-down of previously recognised deferred tax asset	**–**	(1,206)
Expenses not deductible for taxation purposes	**(338)**	(453)
Non-taxable income	**–**	29
Adjustments in respect of prior years	**(42)**	(45)
Impact on different overseas tax rate	**1**	–
Unutilised losses	**(1)**	(13)
Share-based payment	**(17)**	(25)
Income tax (expense)/credit as reported in the Consolidated Income Statement	**38**	(1,198)
Effective tax rate for the year	**1%**	23%

*Restated, refer to Note 1.7 for full details.

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.

12 Earnings Per Share (EPS)

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	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000
Net Company profit/(loss) attributable to ordinary shareholders	**(3,061)**	(6,297)

	Year ended 30 September 2021 '000 units	Year ended 30 September 2020 '000 units
Basic weighted average number of shares	**250,335**	242,171
Basic earnings per 5p ordinary share (pence)	**(1.2)**	(2.6)

There were no potential dilutive shares during the year.

13 Cash and balances at central banks

	Group		Company	
	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000
Cash and demand deposits	**56,126**	**24,936**	**318**	**278**

The Group and the Company do not hold monies 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 the carrying amount as cash and balances at central banks have minimal credit losses and are either short-term in nature or re-price frequently.

14 Debt instruments at FVOCI

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000
Balance at 1 October	**9,095**	19,638
Net purchase/(sale) of bonds	**7,111**	(10,596)
Change in fair value during the year	**(51)**	53
Balance at 30 September	**16,155**	9,095

There are no material impairment losses on debt instruments at FVOCI during the year and at year end (2020: £nil).

15 Loans and advances to customers

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020* £'000
Consumer lending – gross	**166,866**	171,854
Business lending – gross	**138,550**	190,462
Azule lending – gross	**15,465**	22,707
Bridging lending – gross	**55,481**	60,612
	376,362	445,635
Allowance for impairment losses (see page 105)	**(12,370)**	(18,632)
	363,992	427,003

*Restated, refer to Note 1.7 for full details.

Loans and advances to customers include the following receivables by maturity:

	Year ended 30 September 2021 £'000	Year ended 30 September 2020* £'000
Less than one year	**72,582**	76,478
Between one and five years	**222,270**	295,002
More than five years	**81,510**	74,155
Impairment allowance	**(12,370)**	(18,632)
	363,992	427,003

*Restated, refer to Note 1.7 for full details.

The Group offer Finance Lease agreements to its customers for hard assets such as motor vehicles, plant and machinery. The Group registers its interest against the VRM, VIN and serial numbers of the underlying assets on Finance Lease agreements to ensure clear title throughout the duration of the rental period. Although the Group does not apply residual value guarantees or buy-back agreements, they do apply restricted LTVs at the point of inception and perform regular in-life valuations on its assets in order to identify any potential asset risks.

Finance lease receivables - Minimum lease payments

The following minimum lease payments are receivable on finance leases.

Group	Year ended 30 September 2021 £'000	Year ended 30 September 2020 Restated* £'000
Within one year	**2,390**	5,783
After one year but no more than two years	**6,286**	6,518
After two years but no more than three years	**9,357**	11,325
After three years but no more than four years	**10,086**	15,311
After four years but no more than five years	**2,196**	12,882
More than five years	**258**	1,229
	30,573	53,048

*Restated, refer to Note 1.7 for full details.

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 2021 £'000	Year ended 30 September 2020* £'000
Minimum future lease payments/gross Investment in leases	**30,573**	53,048
Unearned finance income	**(3,633)**	(7,679)
Net investment in finance leases	**26,940**	45,369

*Restated, refer to Note 1.7 for full details.

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 2020	6,921	10,319	912	480	18,632
Charge for the year (Note 6)	745	4,570	501	(207)	5,609
Release on write-off	(1,415)	(2,753)	(165)	–	(4,333)
Release against sold loans	(3,026)	(4,446)	(66)	-	(7,538)
At 30 September 2021	3,225	7,690	1,182	273	12,370
Made up of					
Individual impairment	1,798	4,166	567	273	6,804
Collective model provisions including overlays and PMAs	1,427	3,524	615	–	5,566
Total impairment	3,225	7,690	1,182	273	12,370

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

16 Investment in subsidiary undertakings

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. Subsidiaries of the Company were as follows:

Name of company	Incorporated	Nature of business	Percentage of equity interest 30 September 2021	Percentage of equity interest 30 September 2020
PCF Bank Limited	UK	Banking, hire purchase, leasing & Bridging finance	100	100
PCF Credit Limited	UK	Leasing & hire purchase	100*	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.

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 c/o Dentons Europe LLP, Markgrafenstrasse 33, 10117 Berlin.

All companies have an Accounting Reference date of 30 September, except for Azule Finance GmbH which is 31 December.

The Company's investment in its immediate subsidiary was as follows:

Company	30 September 2021 £'000	30 September 2020 £'000
At 1 October		
Cost and net book value	**32,000**	32,000
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 2021 was £49.3 million (2020: £52.5 million)*. 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 additional investment in the Bank during the year (2020: Nil).

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.

*Restated, refer to Note 1.7 for full details.

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

Group	Assets held under operating leases £'000	Office equipment £'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 1 October 2020	655	1,371	2,408	23	2,431	4,457
Additions during the year	–	280	–	–	–	280
Disposals during the year	–	(50)	–	–	–	(50)
Impairment	–	(13)	–	–	–	(13)
At 30 September 2021	655	1,588	2,408	23	2,431	4,674
Accumulated depreciation						
At 1 October 2020	60	479	764	10	774	1,313
Depreciation during the year	246	366	451	5	456	1,068
Disposals during the year	–	(48)	–	–	–	(48)
Write back	–	–	(9)	–	(9)	(9)
At 30 September 2021	306	797	1,206	15	1,221	2,324
Net book value	349	791	1,202	8	1,210	2,350

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	–	320	26	–	–	–	346
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

The majority of the office equipment is computer hardware, office furniture and fixtures.

Gain or loss on disposal of office equipment and motor vehicles

	30 September 2021 £'000	30 September 2020 £'000
Cost	**50**	284
Accumulated depreciation	**(48)**	(239)
Net book value of disposed asset	**2**	45
Proceeds from disposal of assets	**–**	(67)
Loss/(gain) on disposal	**2**	(22)

Company	Right-of-use assets Land and buildings £'000	Office equipment £'000	Total £'000
Cost			
At 1 October 2020	2,283	23	2,306
Additions during the year	–	–	–
Disposals during the year	–	–	–
At 30 September 2021	2,283	23	2,306
Accumulated depreciation			
At 1 October 2020	714	10	724
Depreciation during the year	435	5	440
Write back	(9)	–	(9)
At 30 September 2021	1,140	15	1,151
Net book value	1,143	8	1,151
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 2021 £'000	30 September 2020 £'000
One year or within one year	**182**	214
One to two years	**151**	182
Two to three years	**72**	151
Three to four years	**–**	72
	405	619

18 Goodwill and other intangible assets

Goodwill relates partly to the Group's Consumer Finance Division (CFD) 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 (Azule) 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 relationships with broker introductory sources.

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 higher 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 is 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 of the Cash Generating Units (CGUs) 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 goodwill has been impaired or not. Terminal value often comprises a large percentage of the total assessed value.

TMV and Azule Cash Generating Units

The recoverable amount of the TMV and Azule CGU at 30 September 2021 has been determined based on a value in use (VIU) calculation that uses cash flow projections from a recent financial forecast taken to Board extended to a five year period, and a terminal valuation based on the last year of the extended forecast period. The financial forecast and therefore projected cash flows have been updated to reflect the latest view of future performance in light of the current climate, which indicates a more benign demand and future expected growth in its products and services. The pre-tax discount rate applied to cash flow projections is 15.17% 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 now no longer exceeds the carrying value. Based on this assessment outcome, the indication is that the Goodwill should be written off in full and reduced to zero.

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 years

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 a business valuation, free cash flow or dividends can be forecast for a discrete period of time, but the performance of ongoing concerns becomes harder 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 – This is the constant rate at which a company is expected to continue to grow at. The end of the last forecasted cash flow period is when this growth rate starts, in a discounted cash flow model, and it continues into perpetuity.

Discount rates – These 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).

Goodwill

Group	30 September 2021 £'000	30 September 2020 £'000
TMV Finance Limited acquisition	-	397
Azule Limited acquisition	-	750
	-	1,147

Other intangible assets

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

	Software				
Group	In use £'000	Under development £'000	Total intangibles £'000	Goodwill £'000	Total £'000
Cost					
At 1 October 2020	6,548	252	6,800	1,147	7,947
Additions during the year	225	364	589	–	589
Transfers	494	(494)	–	–	–
Disposals	(33)	(24)	(57)	–	(57)
Impairment	(7)	–	(7)	(1,147)	(1,154)
At 30 September 2021	7,227	98	7,325	–	7,325
Accumulated amortisation					
At 1 October 2020	3,620	–	3,620	–	3,620
Amortisation during the year	639	–	639	–	639
Write-off impairment loss on software	(18)	–	(18)	–	(18)
Write-off	9	–	9	–	9
At 30 September 2021	4,250	–	4,250	–	4,250
Net book value at 30 September 2021	2,977	98	3,075	–	3,075

	Software				
Group	In use# £'000	Under# development £'000	Total intangibles £'000	Goodwill £'000	Total £'000
Cost					
At 1 October 2019	6,149	–	6,149	2,897	9,046
Additions during the year	48	691	739	–	739
Transfers	439	(439)	–	–	–
Disposals	(88)	–	(88)	–	(88)
Impairment of goodwill	–	–	–	(1,750)	(1,750)
At 30 September 2020	6,548	252	6,800	1,147	7,947
Accumulated amortisation					
At 1 October 2019	3,105	–	3,105	–	3,105
Amortisation during the year	552	–	552	–	552
Write-off impairment loss on software	(37)	–	(37)	–	(37)
At 30 September 2020	3,620	–	3,620	–	3,620
Net book value at 30 September 2020	2,928	252	3,180	1,147	4,327

#Re-presented, refer to Note 1.7 for full details.

19 Deferred tax assets

	Group		Company	
	30 September 2021 £'000	30 September 2020* £'000	30 September 2021 £'000	30 September 2020* £'000
Losses	**–**	–	**–**	–
Decelerated capital allowances	**–**	–	**–**	–
Provisions	**–**	–	**–**	–
IFRS 9 COAP[42] adjustments	**–**	–	**–**	–
Share-based payments	**–**	–	**–**	–
Other temporary differences	**–**	–	**–**	–
	–	–	**–**	–
At 1 October	**–**	1,105	**–**	135
Recognised in Income Statement	**–**	(1,102)	**–**	(100)
Other adjustments	**–**	32	**–**	–
Recognised in other comprehensive income	**–**	–	**–**	–
Recognised in equity	**–**	(35)	**–**	(35)
Adjustments in respect of prior periods	**–**	–	**–**	–
At 30 September	**–**	–	**–**	**–**

[42] COAP – Change of Accounting Practice.
*Restated, refer to Note 1.7 for full details.

Deferred tax asset of £2.6 million at the substantively enacted rate of 25% (2020: £1.8 million at 19% rate) in total has not been recognised: In respect of trading losses of £2.9 million (2020: £nil), with a corresponding deferred tax asset thereon of £0.7 million (2020: nil) and other temporary differences of £7.3 million (2020: £9.5 million), with a deferred tax asset thereon of £1.8 million at the substantively enacted rate of 25% (2020: £1.8 million at 19% rate).

20 Due from and to Group companies

The following outstanding balances are due from and to Group companies.

	Company	
	30 September 2021 £'000	30 September 2020 £'000
Due from Group companies	**8,958**	8,759
Due to Group companies	**5,918**	5,242

These balances are unsecured, and repayable on demand. The balances are generally interest free, apart from those between the Company and Azule Ltd, upon which interest is charged at 2.41%.

Due from/to Group companies 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, and repayable on demand. The balances are generally interest free, apart from those between the Company and Azule Ltd, upon which interest is charged at 2.41%. Those due from Group companies are entirely allocated to Stage 1 and based on materiality considerations; no provision has been recorded.

21 Other assets

	Group		Company	
	30 September 2021 £'000	30 September 2020 £'000	30 September 2021 £'000	30 September 2020 £'000
Prepayments	**1,049**	787	**1,049**	758
Other receivables	**4,120**	1,264	**49**	12
	5,169	2,051	**1,098**	770

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.

22 Due to banks

Group	30 September 2021 £'000	30 September 2020 £'000
Current		
Secured loans and borrowings	**–**	208
Non-current		
Secured loans and borrowings	**59,630**	62,412
	59,630	62,620

Bank overdrafts
The Group had no bank overdraft facility at 30 September 2021 (30 September 2020: £nil).

Interest bearing facilities
£208,000 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 2021, these facilities were fully repaid (2020: £208,000).

£25 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. At 30 September 2021, this facility had been fully settled and it will not be renewed.

£124.7 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 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. At 30 September 2021, the Group had an outstanding balance of £59.6 million 2020: £62.4 million).

£30 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 London Inter-Bank Offered Rate (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. This facility was undrawn at 30 September 2021 (2020: £nil) and terminated on 21 December 2021.

£25 million repo facility granted to PCF Bank by NatWest Markets plc
This facility has fixed interest rates and maturity dates of up to 1 year. The facility is secured by bonds owned by the Bank. This facility was undrawn at 30 September 2021 (2020: £nil). In September 2021, the facility was suspended and has not been reinstated.

23 Due to customers

Group	30 September 2021 £'000	30 September 2020# £'000
Retail customers		
Notice account	**50,016**	79,634
Term deposit	**277,150**	262,412
	327,166	342,046

Included in amounts due to customers is accrued interest amounting to £1.8 million (2020: £2.1 million) and £300,700 (2020: £855,000) for term deposits and notice accounts respectively.

#Re-presented, refer to Note 1.7 for full details.

24 Financing activities

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

Group	Note	1 October 2020 £'000	Funding cash flows £'000	Interest cash flows £'000	30 September 2021 £'000
Due to banks	22	62,620	(3,005)	15	59,630
Subordinated liabilities	25	7,126	–	1	7,127
		69,746	(3,005)	16	66,757

Group	Note	1 October 2019 £'000	Funding cash flows £'000	Interest cash flows £'000	30 September 2020 £'000
Due to banks	22	44,412	18,196	12	62,620
Subordinated liabilities	25	–	7,000	126	7,126
		44,412	25,196	138	69,746

25 Subordinated liabilities

Group	30 September 2021 £'000	30 September 2020 £'000
Subordinated debt	**7,127**	7,126
	7,127	7,126

£7 million subordinated notes issued by PCF Bank Limited

At 30 September 2021, PCF Bank Limited had a £15 million subordinated note facility from British Business Investments Limited (2020: £15 million). Notes may be issued once per quarter in tranches of between £1 million and £5 million; 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 five years from the date of issue. These notes meet the conditions for Tier 2 capital. During the year, no new notes were issued (2020: £7 million) and at 30 September 2021, £7 million of notes remained issued (2020: £7 million).

26 Lease Liabilities

Group	30 September 2021 £'000	30 September 2020 £'000
At 1 October – effect of adoption of IFRS 16	**1,604**	2,154
Accretion of interest	**28**	55
Payments	**(595)**	(605)
At 30 September	**1,037**	1,604

Company	30 September 2021 £'000	30 September 2020 £'000
At 1 October – effect of adoption of IFRS 16[43]	**1,525**	2,053
Accretion of interest	**26**	50
Payments	**(568)**	(578)
At 30 September	**983**	1,525

[43] The year ended 30 September 2020 is the year of adoption of IFRS 16.

27 Other liabilities

	Group		Company	
	30 September 2021 £'000	30 September 2020# £'000	30 September 2021 £'000	30 September 2020 £'000
Other payables	**1,801**	3,717	**1,616**	1,382
Accruals	**2,948**	1,467	**1,595**	844
Collateral repayable	**180**	–	**–**	–
	4,929	5,184	**3,211**	2,226

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

#Re-presented, refer to Note 1.7 for full details.

28 Issued capital and reserves

Group and Company	30 September 2021 '000 units	30 September 2020 '000 units	30 September 2021 £'000	30 September 2020 £'000
Ordinary shares issued and fully paid				
At 1 October	**250,240**	250,197	**12,512**	12,510
Issuance of new shares during the year	**750**	–	**38**	–
Scrip dividend	**–**	43	**–**	2
At 30 September	**250,990**	250,240	**12,550**	12,512

Called-up share capital comprises 250,990,000 (2020: 250,240,000) ordinary shares of 5p each.

Ordinary shares of 5 pence each ranking pari passu per share as a class to any return of capital, and all ordinary dividends with one vote per share.

Share premium	30 September 2021 £'000	30 September 2020 £'000
At 1 October	**17,625**	17,619
Issuance of new shares during the year	**54**	6
At 30 September	**17,679**	17,625

Date of issue	Number of shares	Issue price	Change in share capital at 5p per share £'000	Change in share premium £'000
9 April 2020				
Scrip dividend	43,499	5.0p	2	6

Group

Other reserves	30 September 2021 £'000	30 September 2020 £'000
Fair value gain/(loss) for financial instruments Fair Value Through Other Comprehensive Income (FVOCI)		
Fair value movements in debt instruments at FVOCI	**9**	60
	9	60

Own shares (Employee Share Option Plans)
Own shares represent 768,377 (2020: 768,377) ordinary shares held by the Company's Employees Benefits Trust 2003 to meet obligations under the Company's Share Option Plans. The shares are stated at cost and their market value at 30 September 2021 was £184,410 (2020: £141,381).

Group and Company	30 September 2021 £'000	30 September 2020 £'000
Own shares		
At 1 October	**(147)**	(355)
Reclassification to cash	**–**	208
At 30 September	**(147)**	(147)

Dividend
No dividend is payable to shareholders at 30 September 2021 (2020: nil).

29 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 1.5.2.

29.1 Valuation techniques

Debt instruments at Fair Value Through Other Comprehensive Income (FVOCI)

Debt securities held by the Group 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.

29.2 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 29.4.

29.3 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 Treasury and Finance Division.

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.

29.4 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
At 30 September 2021				
Cash and balances at central banks	56,126	–	–	56,126
Loans and advances to customers	363,992	–	–	363,992
Debt instruments at FVOCI	–	–	16,155	16,155
Derivative financial instruments	–	209	–	209
Other assets (adjusted for prepayments)	4,120	–	–	4,120
Total financial assets	424,238	209	16,155	440,602
Due to banks	59,630	–	–	59,630
Due to customers	327,166	–	–	327,166
Subordinated liabilities	7,127	–	–	7,127
Other liabilities (adjusted for accruals)	1,981	–	–	1,981
Total financial liabilities	395,904	–	–	395,904

Group	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
At 30 September 2020*				
Cash and balances at central banks	24,936	–	–	24,936
Loans and advances to customers*	427,003	–	–	427,003
Debt instruments at FVOCI	–	–	9,095	9,095
Other assets[44]	1,264	–	–	1,264
Total financial assets	453,203	–	9,095	462,298
Due to banks	62,620	–	–	62,620
Due to customers#	342,046	–	–	342,046
Derivative financial instruments	–	80	–	80
Subordinated liabilities	7,126	–	–	7,126
Other liabilities[44]	3,717	–	–	3,717
Total financial liabilities	415,509	80	–	415,589

[44] Other assets and liabilities exclude prepayments and accruals as they are not financial instruments.

* Restated, refer to Note 1.7 for full details.

Re-presented, refer to Note 1.7 for full details.

Company	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
At 30 September 2021				
Cash and balances at central banks	318	–	–	318
Due from Group companies	8,958	–	–	8,958
Other assets[45]	49	–	–	49
Total financial assets	9,325	–	–	9,325
Due to Group companies	5,918	–	–	5,918
Other liabilities[44]	1,616	–	–	1,616
Total financial liabilities	7,534	–	–	7,534

Company	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
At 30 September 2020				
Cash and balances at central banks	278	–	–	278
Due from Group companies	8,759	–	–	8,759
Other assets[45]	12	–	–	12
Total financial assets	9,049	–	–	9,049
Due to Group companies	5,242	–	–	5,242
Other liabilities[45]	1,382	–	–	1,382
Total financial liabilities	6,624	–	–	6,624

[45] Other assets and liabilities exclude prepayments and accruals because they are not financial instruments.

The Group holds certain financial assets at fair value grouped into Levels 1, 2 and 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 comprises mainly of fixed rate bonds and floating rate notes for which traded prices are readily available.

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

Level 3 – These are valuation techniques where one or more significant inputs are not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates and similar market products. 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					
At 30 September 2021					
Cash and balances at central banks	56,126	56,126	–	–	56,126
Loans and advances to customers	363,992	–	–	363,992	420,378
	420,118	56,126	–	363,992	476,504
Due to banks	59,630	59,630	–	–	59,630
Subordinated liabilities	7,127	–	–	7,127	8,346
Due to customers	327,166	–	–	327,166	327,166
	393,923	59,630	–	334,293	395,142

Group	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments held at amortised cost					
At 30 September 2020*					
Cash and balances at central banks	24,936	24,936	–	–	24,936
Loans and advances to customers*	427,003	–	–	427,003	485,546
	451,939	24,936	–	427,297	510,482
Due to banks	62,620	62,620	–	–	62,620
Subordinated liabilities	7,126	–	–	7,126	8,289
Due to customers#	342,046	–	–	342,046	342,046
	411,792	62,620	–	349,172	412,955

For Due to banks and Due to customers, carrying value is assessed to approximate fair value.

*Restated, refer to Note 1.7 for full details.

#Re-presented, refer to Note 1.7 for full details.

The following table shows an analysis of financial instruments recorded at FVOCI 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 Fair Value Adjusted Through Other Comprehensive Income					
30 September 2021					
Debt financial instruments at FVOCI	16,155	16,155	–	–	16,155
30 September 2020					
Debt financial instruments at FVOCI	9,095	9,095	–	–	9,095

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

Group	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000	Notional £'000
Financial instruments held at Fair Value Through Profit or Loss (derivatives)					
30 September 2021					
Derivative financial assets	–	209	–	209	16,000
Derivative financial liabilities	–	–	–	–	–
30 September 2020					
Derivative financial assets	–	–	–	–	–
Derivative financial liabilities	–	(80)	–	(80)	15,770

As part of its asset and liability management, the Group uses derivatives for economic hedging purposes to reduce its exposure to market risks. This is achieved by economically hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions, as well as economically hedging of aggregate financial position exposures. The Group does not apply hedge accounting.

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 2021			
Derivatives in economic relationships			
Interest rate swaps	209	–	16,000
Total derivative financial instruments	209	–	16,000

	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

29.5 Impairment allowance for loans and advances to customers

The table below shows the credit quality and gross carrying amount 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.

Group	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2021				
Gross carrying amounts				
Performing				
High grade	288,497	17,724	958	307,179
Standard grade	24,504	2,576	–	27,080
Sub-standard grade	22,028	2,729	–	24,757
Non-performing				
Individually impaired	–	1,889	9,961	11,850
Collectively impaired	–	2,775	2,721	5,496
Gross total	335,029	27,693	13,640	376,362
Allowance for impairment losses	(3,407)	(3,005)	(5,958)	(12,370)
Net total	331,622	24,688	7,682	363,992
Undrawn commitments	8,958	–	–	8,958

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2020*				
Gross carrying amounts				
Performing				
High grade	276,009	60,360	896	337,265
Standard grade	40,402	7,110	–	47,512
Sub-standard grade	33,006	7,273	–	40,279
Non-performing				
Individually impaired	–	643	2,458	3,101
Collectively impaired	–	1,285	16,193	17,478
Gross total	349,417	76,671	19,547	445,635
Allowance for impairment losses	(3,179)	(3,300)	(12,153)	(18,632)
Net total	346,238	73,371	7,394	427,003
Undrawn commitments	17,270	–	–	17,270

*Restated, refer to Note 1.7 for full details.

An analysis of changes in the gross carrying amount of loans and advances and the corresponding Expected Credit Losses (ECLs) is as follows:

Group	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2020*	349,417	76,671	19,547	445,635
New assets originated or purchased	159,493	2,066	205	161,764
Assets derecognised or matured, and remeasurements	(182,823)	(27,873)	(1,306)	(212,002)
Transfers to Stage 1	72,726	(72,725)	(1)	–
Transfers to Stage 2	(62,627)	63,311	(684)	–
Transfers to Stage 3	(727)	(13,515)	14,242	–
Amounts written off	(430)	(242)	(6,005)	(6,677)
Debt sale	–	–	(12,358)	(12,358)
At 30 September 2021	335,029	27,693	13,640	376,362

Group	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	(87,113)	(19,889)	(9,860)	(116,862)
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*	349,417	76,671	19,547	445,635

* Comparative loans and advances have been restated, refer to Note 1.7 for full details.

ECL allowance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2020	3,179	3,300	12,153	18,632
New assets originated or purchased	692	12	52	756
Assets derecognised or matured, and remeasurements	2,422	2,861	(430)	4,853
Impact on ECL of transfers				
Transfers to Stage 1	1,365	(1,340)	(25)	–
Transfers to Stage 2	(3,224)	3,379	(155)	–
Transfers to Stage 3	(1,024)	(5,166)	6,190	–
Amounts written off	(3)	(41)	(4,289)	(4,333)
Debt sale	–	–	(7,538)	(7,538)
At 30 September 2021	3,407	3,005	5,958	12,370

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 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.

29.6 Impairment allowance for loans and advances by divisions

Gross carrying amount	Stage 1 £'000	Stage 2 £'000 Not past due	Stage 2 £'000 <30 days	Stage 2 £'000 >=30 days	Stage 2 £'000 Total	Stage 3 £'000	Total £'000
30 September 2021							
Loans and Advances							
CFD	156,140	3,491	464	3,411	7,366	3,360	166,866
BFD	113,345	12,507	310	4,548	17,365	7,840	138,550
Azule	12,321	627	–	1,035	1,662	1,482	15,465
Bridging	53,223	–	–	1,300	1,300	958	55,481
Total	335,029	16,625	774	10,294	27,693	13,640	376,362

Gross carrying amount	Stage 1 £'000	Stage 2 £'000 Not past due	Stage 2 £'000 <30 days	Stage 2 £'000 >=30 days	Stage 2 £'000 Total	Stage 3 £'000	Total £'000
30 September 2020*							
Loans and Advances							
CFD	153,403	7,336	981	3,012	11,329	7,122	171,854
BFD	118,670	53,960	1,818	4,774	60,552	11,240	190,462
Azule	19,738	2,559	–	121	2,680	289	22,707
Bridging	57,606	2,110	–	–	2,110	896	60,612
Total	349,417	65,965	2,799	7,907	76,671	19,547	445,635

*Restated, refer to Note 1.7 for full details.

Impairment provisions	Stage 1 £'000	Stage 2 £'000 Not past due	Stage 2 £'000 <30 days	Stage 2 £'000 >=30 days	Stage 2 £'000 Total	Stage 3 £'000	Total £'000
30 September 2021							
CFD	972	230	38	377	645	1,608	3,225
BFD	1,905	1,076	88	860	2,024	3,761	7,690
Azule	263	95	–	235	330	589	1,182
Bridging	267	–	–	6	6	–	273
Total	3,407	1,401	126	1,478	3,005	5,958	12,370

Impairment provisions	Stage 1 £'000	Stage 2 £'000 Not past due	Stage 2 £'000 <30 days	Stage 2 £'000 >=30 days	Stage 2 £'000 Total	Stage 3 £'000	Total £'000
30 September 2020							
CFD	1,206	469	66	312	847	4,868	6,921
BFD	1,063	1,593	95	557	2,245	7,011	10,319
Azule	621	185	–	12	197	94	912
Bridging	289	11	–	–	11	180	480
Total	3,179	2,258	161	881	3,300	12,153	18,632

Coverage ratio	Stage 1	Stage 2 Not past due	Stage 2 <30 days	Stage 2 >=30 days	Stage 2 Total	Stage 3	Total
30 September 2021							
CFD	0.6%	6.6%	8.2%	11.1%	8.8%	47.9%	1.9%
BFD	1.7%	8.6%	28.4%	18.9%	11.7%	48.0%	5.6%
Azule	2.1%	15.2%	–	22.7%	19.9%	39.7%	7.6%
Bridging	0.5%	–	–	0.5%	0.5%	0.0%	0.5%
Total	1.0%	8.4%	16.3%	14.4%	10.9%	43.7%	3.3%

Coverage ratio	Stage 1	Stage 2 Not past due	Stage 2 <30 days	Stage 2 >=30 days	Stage 2 Total	Stage 3	Total
30 September 2020*							
CFD	0.8%	6.4%	6.7%	10.4%	7.5%	68.4%	4.0%
BFD	0.9%	3.0%	5.2%	11.7%	3.7%	62.4%	5.4%
Azule	3.1%	7.2%	–	9.9%	7.4%	32.5%	4.0%
Bridging	0.5%	0.5%	–	–	0.5%	20.1%	0.8%
Total	0.9%	3.4%	5.8%	11.1%	4.3%	62.2%	4.2%

*Restated, refer to Note 1.7 for full details.

29.7 Stage 3 decomposition

	Gross carrying amount £'000	Stage 3 ECL £'000	Coverage %
30 September 2021			
No longer credit-impaired but in cure period that precedes transfer to Stage 2	342	83	24%
Credit-impaired not in cure period	13,298	5,875	44%
Total	13,640	5,958	

	Gross carrying amount £'000	Stage 3 ECL £'000	Coverage %
30 September 2020			
No longer credit-impaired but in cure period that precedes transfer to Stage 2	1,428	316	22%
Credit-impaired not in cure period	18,119	11,837	65%
Total	19,547	12,153	

29.8 Analysis of loans by product types

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amounts				
At 30 September 2021				
Bridging	53,223	1,300	958	55,481
Finance lease	22,190	3,085	1,709	26,984
Hire purchase/conditional sale	259,195	23,307	10,820	293,322
Loans	421	1	153	575
Total	335,029	27,693	13,640	376,362

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amounts				
At 30 September 2020*				
Bridging	57,606	2,110	896	60,612
Finance lease	29,546	10,672	4,938	45,156
Hire purchase/conditional sale	261,516	63,886	13,581	338,983
Loans	749	3	132	884
Total	349,417	76,671	19,547	445,635

*Restated, refer to Note 1.7 for full details.

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Impairment provisions				
At 30 September 2021				
Bridging	267	6	–	273
Finance lease	440	465	809	1,714
Hire purchase/conditional sale	2,693	2,534	5,041	10,268
Loans	7	–	108	115
Total	3,407	3,005	5,958	12,370

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2020*				
Impairment provisions				
Bridging	289	11	180	480
Finance lease	570	666	3,407	4,643
Hire purchase / conditional sale	2,298	2,622	8,479	13,399
Loans	22	1	87	110
Total	3,179	3,300	12,153	18,632

*Restated, refer to Note 1.7 for full details.

30 Financial risk management

The Group is based, and its operations are predominantly, in the UK, although Azule does operate as a finance broker in the EU. While risk is inherent in the Group's activities, it is managed through an integrated Risk Management Framework (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.

30.1 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 from 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 2021	30 September 2020
Year end	**1.1**	1.4
Average	**1.2**	1.3

The Group recognises the importance of notice accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a 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 2021						
Financial assets						
Cash and balances at central banks	56,126	–	–	–	–	56,126
Loans and advances	8,359	26,602	42,562	251,422	110,993	439,938
Debt instruments at FVOCI	–	–	4,005	12,148	–	16,153
Derivative financial instrument	–	–	–	1	–	1
Other assets	–	4,120	–	–	–	4,120
Total undiscounted financial assets	64,485	30,722	46,567	263,571	110,993	516,338
Financial liabilities						
Due to banks	15	–	–	59,600	–	59,615
Due to customers	8,506	11,449	149,337	156,649	8,238	334,179
Lease liabilities	–	153	458	455	–	1,066
Other liabilities	–	1,981	–	–	–	1,981
Total undiscounted financial liabilities	8,521	13,583	149,795	216,704	8,238	396,841
Surplus/(shortfall)	55,964	17,139	(103,228)	46,867	102,755	119,497

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*	16,678	14,054	49,727	343,419	102,367	526,245
Debt instruments at FVOCI	–	–	–	9,114	–	9,114
Other assets	–	1,264	–	–	–	1,264
Total undiscounted financial assets	41,614	15,318	49,727	352,533	102,367	561,559
Financial liabilities						
Due to banks	24	23	105	62,476	–	62,628
Due to customers#	10,638	17,624	152,363	155,166	17,190	352,981
Derivative financial instrument	–	12	36	32	–	80
Lease liabilities	–	153	458	1,154	–	1,765
Other liabilities#	–	3,717	–	–	–	3,717
Total undiscounted financial liabilities	10,662	21,529	152,962	218,828	17,190	421,171
Surplus/(shortfall)	30,952	(6,211)	(103,235)	133,705	85,177	140,388

*Restated, refer to Note 1.7 for full details.
#Re-presented, refer to Note 1.7 for full details.

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 2021						
Financial assets						
Cash and balances at central banks	318	–	–	–	–	318
Due from Group companies	8,958	–	–	–	–	8,958
Other assets	–	49	–	–	–	49
Total undiscounted financial assets	9,276	49	–	–	–	9,325
Financial liabilities						
Lease liabilities	–	145	434	431	–	1,010
Due to Group companies	5,918	–	–	–	–	5,918
Other liabilities	–	1,616	–	–	–	1,616
Total undiscounted financial liabilities	5,918	1,761	434	431	–	8,544
Surplus/(shortfall)	3,385	(1,712)	(434)	(431)	–	808

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	434	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

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 2021, the Group had total wholesale and retail funding of £393.9 million (2020: £411.5 million)# that supported net loans and advances of £363.9 million (2020: £427.3 million)*. Moreover, at 30 September 2021, the Group had a Net Stable Funding Ratio in excess of the regulatory minimum of 100% (2020: in excess of 100%).

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

*Restated, refer to Note 1.7 for full details.

#Re-presented, refer to Note 1.7 for full details.

(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 that have been pledged as collateral (i.e. which are required to be separately disclosed under IFRS 7). Unencumbered assets are the remaining assets that the Group owns.

Group	Carrying amount of encumbered assets £'000	Carrying amount of unencumbered assets £'000	Total £'000
30 September 2021			
Debt financial instruments at FVOCI	13,807	2,348	16,155
Hire purchase/conditional sale	60,005	223,049	283,054
Loans	–	460	460
Finance lease	12,851	12,419	25,270
Bridging	–	55,208	55,208
Total	**86,663**	**293,484**	**380,147**

Group	Carrying amount of encumbered assets £'000	Carrying amount of unencumbered assets £'000	Total £'000
30 September 2020*			
Debt financial instruments at FVOCI	–	9,095	9,095
Hire purchase/conditional sale	82,765	242,820	325,585
Loans	–	774	774
Finance lease	20,417	20,096	40,513
Bridging	–	60,131	60,131
Total	**103,182**	**332,916**	**436,098**

*Restated, refer to Note 1.7 for full details.

30.2 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 within 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 10 years and holds a portfolio of variable rate liquid assets. It funds itself from a combination of fixed rate retail deposits from one year to seven years, variable rate Term Funding Scheme (TFS and TFSME) funding, variable rate retail notice accounts and fixed rate wholesale funding. Interest rate sensitivity has been managed using interest rate swaps as required. As set out in the management of market risk within the Risk Management Report, the Group is currently not able to manage interest rate risk in the banking book through interest rate swaps as these facilities are currently withdrawn.

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 a favourable effect on profits of £97,738 (2020: unfavourable £145,746) and a favourable impact on capital of £76,168 (2020: unfavourable £118,054).

30.3 Credit risk

Credit risk is the risk that a borrower fails to pay the interest or fails 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, 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 2021 £'000	30 September 2020* £'000	30 September 2021 £'000	30 September 2020 £'000
Financial assets on-balance sheet				
Cash and balances at central banks				
Cash and demand deposits	**56,126**	24,936	**318**	278
Loans and advances to customers				
Consumer lending (net)	**163,641**	164,933	**–**	–
Business lending (net)	**130,860**	180,143	**–**	–
Azule lending (net)	**14,283**	21,795	**–**	–
Bridging finance (net)	**55,208**	60,132	**–**	–
Due from related companies	**–**	–	**8,958**	8,759
Debt instruments at FVOCI	**16,155**	9,095	**–**	–
Derivative financial asset	**209**	–	**–**	–
Other assets	**4,120**	1,264	**49**	12
	440,602	462,298	**9,325**	9,049
Off-balance sheet				
Undrawn facilities	**8,958**	17,270	–	–

*Restated, refer to Note 1.7 for full details.

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.

Offsetting

Derivative transactions are entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under these agreements, in certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions with the counterparty. The Group executes a credit support annex in conjunction with the ISDA agreement, which requires the Group and its counterparties to post collateral to mitigate counterparty credit risk.

The ISDA master netting arrangement does not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously. The Group receives and gives collateral in the form of cash in respect of derivative transactions. This collateral is subject to standard industry terms including, when appropriate, an ISDA credit support annex. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The following table shows the impact on derivative financial assets and liabilities that have not been offset but for which the Group has enforceable master netting arrangements in place with counterparties. The net amounts show the exposure to counterparty credit risk after offsetting benefits and collateral and are not intended to represent the Group's actual exposure to credit risk. Financial collateral on derivative financial instruments consists of cash settled to mitigate the mark to market exposures.

Derivative financial instruments

Group	Gross amounts recognised £'000	Effect of master netting agreements £'000	Financial collateral £'000	Net amounts after offsetting and collateral £'000
30 September 2021				
Derivative financial assets	209	–	(180)	29
Derivative financial liabilities	–	–	–	–
30 September 2020				
Derivative financial assets	–	–	–	–
Derivative financial liabilities	(80)	–	–	(80)

30.3.1 Forborne and modified loans

As mentioned in Note 1.5.2, 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 was no negative impact on the customer's credit file as a result of these measures. However, where subsequent additional assistance was required after the six months of assistance and where full payments were not being maintained, a true reflection of the customer repayment history recommenced being recorded with the credit reference 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 is 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 2021, the gross carrying amount of exposures with forbearance measures was £2.9 million (2020: £40.4 million). This relates to 600 agreements (2020: 1,711) in forbearance that are COVID-19 related, with temporary modifications to terms and conditions. At 30 September 2021, there were no loans that have had a refinancing or permanent modification to terms and conditions (2020: nil). As set out in Note 1.5.2, a COVID-19 related concession does not in itself constitute a significant increase in credit risk. See the table below for forbearance analysis.

30.3.2 Forborne and modified loans

The following tables provide a summary of the Group's forborne assets:

Group	Gross Carrying Amount £'000	Gross carrying amount of forborne loans Stage 1 Performing forborne loans £'000	Stage 2 Performing forborne loans £'000	Stage 3 Non-performing forborne loans £'000	Total forborne loans £'000	Forbearance ratio
30 September 2021						
Loans and advances to customers						
CFD	166,866	40	230	69	339	0.20%
BFD	138,550	146	1,618	621	2,385	1.72%
Azule	15,465	–	232	–	232	1.50%
Bridging	55,481	–	–	–	–	0.00%
Total loans and advances to customers	376,362	186	2,080	690	2,956	0.79%

	Expected Credit Losses (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 2021							
Loans and advances to customers							
CFD	–	–	20	8	19	–	47
BFD	–	2	163	127	217	–	509
Azule	–	–	11	33	–	–	44
Bridging	–	–	–	–	–	–	–
Total loans and advances to customers	–	2	194	168	236	–	600

Group	Gross Carrying Amount £'000	Gross carrying amount of forborne loans Stage 1 Performing forborne loans £'000	Stage 2 Performing forborne loans £'000	Stage 3 Non-performing forborne loans £'000	Total forborne loans £'000	Forbearance ratio
30 September 2020*						
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	22,707	6,662	2,223	166	9,051	39.35%
Bridging	60,612	–	–	–	–	0.00%
Total loans and advances to customers	445,635	22,464	17,521	431	40,416	9.06%

	Expected Credit Losses (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							
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

*Restated, refer to Note 1.7 for full details.

30.3.3 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 1.5.2).
- An explanation of the Group's internal grading system (Note 30.3.4).
- How the Group defines, calculates and monitors the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) (Notes 30.3.4, 30.3.5 and 30.3.6 respectively).
- When the Group considers there has been a significant increase in credit risk of an exposure (Note 30.3.7).
- The Group's policy of segmenting financial assets where ECL is assessed on a collective basis (Note 30.3.7).

30.3.4 The Group's internal rating and Probability of Default (PD) estimation process

The Group operates an internal credit grading model and Probability of Default estimation process. The PD is an estimate of the likelihood of default over a given time. 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, Bridging Finance and Azule)

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

The table below sets out the internal ratings, description and internal PD ranges by grade for corporate lending and consumer lending.

Business Finance Division, Bridging Finance Division and Azule

Internal rating grade	Internal Rating Description	Internal PD range at 30 September 2021	Internal PD range at 30 September 2020
1	AAA & AA, LTV <=80%	0.55%-2.69%	1.37-2.15%
2	AAA & AA, LTV > 80%	1.88%-9.08%	2.58-4.29%
3	A & B+, LTV <=80%	1.10%-5.29%	2.70-4.23%
4	A & B+, LTV > 80%	3.71%-9.32%	5.05-8.35%
5	B & B-, LTV <=80%	2.15%-8.04%	3.72-7.18%
6	B & B-, LTV > 80%	5.74%-13.82%	8.37-13.29%
7	C & D	7.01%-17.25%	9.14-16.35%

Consumer Finance

Internal rating grade	Internal Rating Description	Internal PD range at 30 September 2021	Internal PD range at 30 September 2020
1	AAA & AA, LTV <=80%	2.02%-3.39%	2.57-3.58%
2	AAA & AA, LTV > 80%	2.57%-4.20%	4.18-5.06%
3	A & B+, LTV <=80%	3.97%-6.62%	5.06-6.98%
4	A & B+, LTV > 80%	5.04%-8.14%	8.09-9.75%
5	B & B-, LTV <=80%	5.66%-9.49%	7.02-9.95%
6	B & B-, LTV > 80%	9.67%-19.00%	12.01-15.20%
7	C & D, LTV <=80%	7.79%-12.90%	9.26-13.06%
8	C & D, LTV > 80%	15.22%-25.58%	17.19-22.88%

30.3.5 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 twelve 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 the Group's models.

30.3.6 Loss Given Default (LGD)

The credit risk assessment is based on a standardised Loss Given Default 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.

30.3.7 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. Azule, Bridging Finance does not have a SICR threshold due to its short-term nature.

The Group also applies a secondary qualitative method for triggering an asset's SICR, such as moving a customer to the watch list, or the account becoming forborne as indicated in Note 30.3.1. In certain cases, the Group may also consider that default events explained in Note 1.5.2 are a SICR 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)**	(10)
Increase in SICR by 20 basis points in the Consumer Finance portfolio	**(37)**	(26)
Increase in SICR by 20 basis points in the Azule portfolio	**(3)**	(1)
Decrease in SICR by 20 basis points in the Business Finance portfolio	**7**	10
Decrease in SICR by 20 basis points in the Consumer Finance portfolio	**2**	131
Decrease in SICR by 20 basis points in the Azule portfolio	**5**	1

31 Commitments, contingent liabilities and contingent assets

At 30 September 2021, the Group had undrawn commitments to lend to customers of approximately £9 million (2020: £17.3 million).

The Group's subsidiary, PCF Bank Limited (the Bank) 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 their business activities. The total value of claims as at 30 September 2021, assessed to have a greater than remote likelihood of economic outflow, is £nil (2020: £135,000).

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 the Annual Report & Financial Statements 2020 and the Company's shares being suspended from trading on Alternative Investment Market (AIM) of the London Stock Exchange. The amount of any recoveries cannot currently be quantified.

32 Related parties

The non-executive directors held a total of £0.1 million in savings accounts in the Group at 30 September 2021 (2020: £0.2 million). The directors' remuneration is disclosed in Note 9.

In addition, there were other material related party transactions related to management fee recharges of £0.4 million and £18.9 million to PCF Credit Limited and PCF Bank Limited respectively by PCF Group plc for the year ended 30 September 2021 (2020: £0.1 million and £13.7 million respectively).

Key management personnel of the Group are the Board Directors.

Further details of balances with other Group companies are given in Note 20: Due from related companies.

33 Non-adjusting events after the balance sheet date

The following non-adjusting events have occurred since the Balance Sheet date and do not impact on the going concern assessment undertaken by the directors in these Financial Statements.

COVID-19 pandemic and geopolitical uncertainty

Since the year end there have been no subsequent lockdowns as a result of COVID-19 and now in May 2022 all restrictions have been lifted.

COVID-19 direct financial support measures have unwound, the impact on credit arrears and losses has been limited, with the majority of customers who had requested COVID-19 related payment deferrals having returned to full servicing of their loans. Requests for assistance continued to fall as we moved through 2021, and due to a change of process adopted to manage customer forbearance, arrears have continued to trend back to levels reported pre-pandemic. The Group continues to monitor this.

The pandemic has had an unprecedented impact on the world economy, more recently exacerbated by the events currently taking place in Ukraine. The Group's business is principally focused on UK based businesses and customers and the Group does not have any direct exposure to Russia or any sanctioned persons or entities. As the global economy emerges from the pandemic with inevitable upturn in economic activity, demand for energy has increased at a time of uncertain supply, with a consequential marked increase in energy costs, leading to levels of inflation not seen in the UK for over thirty years. This has led the Bank of England to increase interest rates from record lows to the highest level seen in the last ten years, with Oxford Economics (OE) forecasting that the Monetary Policy Committee of the Bank of England will increase Bank Rate to 1.25% by the end of 2022.

Although PCF loans are generally fixed rate, the impact on households and businesses of rising food, energy costs, general inflation and interest rates may be reflected in affordability pressure. We are closely monitoring the potential impact of this on loan repayments.

While there is uncertainty in these macroeconomic risks, headwinds may restrict market prospects for the Group and increase the risk of loan impairments, higher prices and inflation expectations, and a disappointing recovery in labour market participation, which in turn leads to a downturn in domestic demand.

A revolving credit facility of £30 million granted to PCF Bank by Leumi ABL Limited

This facility, when drawn as a loan, had a variable rate linked to overnight LIBOR plus a margin and a maturity date of up to five years. The facility was secured by a charge over specified loans and receivables and the guarantee of the Company. At 30 September 2021 this facility was undrawn (2020: £nil) and the facility was terminated on 21 December 2021.

Announcement of 31 May 2022

The Group announced that it had decided to accelerate an element of its capital raising, by requesting a further investment from its majority shareholder, Somers Limited of circa £4 million[46] over the next two months; at the same time, the Group announced the investigation of strategic opportunities including business combinations, with the Group having received an approach from and entered into discussions with one party.

[46] An open offer to allow all shareholders to participate is expected to follow in due course.

34 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 EU 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, by virtue of the EU (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 that it takes to manage its capital position. Further details of this are provided in the Chief Executive Officer's Statement on page 138.

CRR regulatory requirements, which includes the undertaking of the Internal Capital Adequacy Assessment Process (ICAAP), are focused on the consolidated Group. 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 the following three pillars:

Pillar 1 – Minimum capital requirements

Pillar 2 – Supervisory review process

Pillar 3 – Market discipline

Pillar 2 requires the Group to complete a periodic self-assessment of the ICAAP. The ICAAP is reviewed by the PRA which culminates in the PRA setting Pillar 2 requirement 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 that 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, Pillar 2 requirements and additional Capital Requirements Directive buffers at all times.

Further details of the Group's management of capital, including regulatory capital and ratios are described in more detail in the Risk Management Report on pages 54 to 66.

35 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.