PCF BANK

PCF Group plc

Annual Report &
Financial Statements

2022

PCF GROUP

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

PCF Bank Limited (the Bank) offered retail savings products for individuals and lending products for consumers and businesses to finance motor vehicles, plant, equipment and property. The Bank announced suspension of new lending and retail savings products following the end of the 2022 financial year.

Contents

Company Information

PCF Group plc

Directors

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

Directors who held office during the year and resigned during or after the year end
Tim Franklin *Non-executive Chair (resigned 31 January 2022)*
Marian Martin *Independent non-executive (resigned 23 December 2021)*
Carol Sergeant *Independent non-executive (appointed 20 September 2022 and resigned 21 December 2022)*
David Titmuss *Independent non-executive (resigned 20 September 2022)*

Company Secretary

LDC Nominee Secretary Limited *(resigned 1 April 2022)*
Jonathan Dolbear *(appointed 1 April 2022)*

Registered Office

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

Registered Number

02863246

Auditors

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
18 St Swithin's Lane
London EC4N 8AD

PCF Group plc (hereinafter referred to as PCF Group plc and the Company) is a company registered in England and Wales, registration number 02863246, and listed on the Alternative Investment Market[2] and is the main parent company in the PCF Group (the Group). PCF Bank Limited (PCF Bank and the Bank) is a wholly owned subsidiary of PCF Group plc (and is therefore part of the Group) 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, the registered offices are at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.

[1] With effect from 5 May 2022, Garry Stran was appointed Chief Executive Officer, having previously held the office as interim.
[2] PCF Group plc's ordinary shares ceased to be listed for trading on the London Stock Exchange's Alternative Investment Market with effect from 20 December 2022, following its shareholders' approval on 12 December 2022.

*The services of our nominated adviser and joint broker were no longer required from 20 December 2022.

Strategic Report

Business and financial highlights for the 12 months to 30 September 2022

The focus for the financial year has been stabilising our business, which involved a temporary increase in our cost base, to remediate legacy issues and drive transformation of our processes. This enabled us to achieve the solid foundations needed to explore strategic options for the future.

In undertaking a Going concern review, the Directors consider that the strategic decision taken in November 2022, to exit the UK banking market and to ultimately manage its loan and savings portfolio positions down over time in line with their respective terms and conditions, whilst exploring strategic opportunities, are all relevant and applicable to the Annual Report & Financial Statements 2022. Those decisions were made given the absence of any strategic capital injection or a viable business combination.

The implications of those decisions are that the Board ultimately intends to liquidate the entity, with the focus shifting to ensuring an orderly exit from the UK banking market, with PCF Group delisting from AIM on 20th December 2022, hence the application of the Going concern basis of accounting is inappropriate. Refer to 'Going concern', Note 1.2 to the Financial Statements, for further details.

Business and financial performance

- Statutory loss before tax of £(14.0) million (2021: loss of £(3.1) million).
- Adjusted loss before tax[3] of £(6.7) million (2021: profit of £0.7 million).
- Net operating income decreased by (22)% to £20.9 million (2021: £26.8 million).
- Net interest margin[3] reduced to 5.7% (2021: 6.6%) reflecting the focus on higher quality lending.
- Net loans and advances decreased by (16)% to £306 million (2021: £364 million).
- New loan origination totalled £160 million (2021: £187 million), and included within new loan origination is Azule Limited (Azule) brokered lending[4] of £25 million (2021: £30 million).
- Staff and operating expenses increased 37.9% to £29.2 million (2021: £21.2 million), mainly due to increased headcount and professional services costs, which included £3.9 million of expenses related to the remediation of legacy issues (2021: £3.6 million).
- Cost: income ratio[3] increased to 144.5% (2021: 85.8%).
- Credit impairment charge reduced to £1.2 million (2021: charge of £6.7 million) mainly due to net expected credit loss (ECL) charge of £1.4million (including the amortisation of the back book and rate change charges of £0.7 million and ECL charges on newly originated loans during the year of £0.7 million (refer to Note 29.5)).
- Retail deposits of £281 million reduced over the period (2021: £327 million).
- Statutory return on average equity[3] of (32.2)% (2021: (6.1)%).
- Adjusted return on average equity[3] of (15.4)% (2021: 0.7%).
- Loss per share of (5.1) pence (2021: (1.2) pence).

Balance sheet stability underpinned by prudent capital and liquidity management

- Tangible net asset value[3] of £38.5 million (2021: £45.8 million).
- Common equity tier 1 ratio[6] of 15.1% (2021: 15.6%).
- Total capital ratio[6] of 17.4% (2021: 17.5%).
- Leverage ratio[5, 6] of 11.7% (2021: 12.6%).
- Liquidity coverage ratio of 475% (2021: 904%).
- Net stable funding ratio of 135% (2021: 159%).

[3] Refer to section non-International Financial Reporting Standards (IFRS) performance measures on pages 15 & 16 for further details of the definition of this non-IFRS performance measure.

[4] Azule Limited brokered lending, to third parties, is not included on our balance sheet, but generates commission income in our profit and loss statement.

[5] The leverage ratio is calculated applying the UK leverage ratio framework which applies to all UK firms from 1 January 2022. As a result, the leverage ratio for September 2021 has been recalculated on the same basis for comparability by excluding claims on central banks.

[6] Ratios are disclosed on a transition arrangement basis. Refer to page 63 for regulatory capital and leverage ratios presented on a fully-loaded basis.

Chair's statement
for the year ended 30 September 2022

Before commenting on the financial year ended 30 September 2022, I begin my statement by expressing my sincere disappointment at the recent outcome for the Group, announced in our Regulatory News Service (RNS) on 9 November 2022, which outlined the decision to cease lending and withdraw from the UK banking market.

The Board and all our colleagues have worked tirelessly with the aim of securing a sustainable future for the organisation. Regrettably, due to matters outside of our control[7], this was not possible. We have therefore taken the strategic decision to cease loan origination and new deposit taking, and to manage the run-off of the assets and liabilities as efficiently as possible, including repayment of deposits, to meet our strategic objective of maximising the return to shareholders. In line with this, the Group cancelled its share listing on the Alternative Investment Market (AIM) to reduce costs, and in light of the new strategic focus of the Group, the Board considered that retaining the listing was no longer in the best interests of its shareholders.

The implications of the decisions above are that the Board ultimately intends to liquidate the entity, with the focus shifting to ensuring an orderly exit from the UK banking market, hence the application of the Going concern basis of accounting is inappropriate. Refer to 'Going concern', Note 1.2 to the Financial Statements, for further details.

Stabilising the Group

On my appointment as Chair of the Group, my primary focus was to ensure that the Group met the challenges associated with remediation in the most effective way. I thank all stakeholders, particularly my colleagues within all levels of the PCF Group, for their support during this period.

The 2022 financial year was a challenging one for PCF Group as we stabilised and remediated the company, and subsequently explored our strategic options. The completion of the remediation work was essential in enabling us to explore the strategic options to achieve a certain and sustainable future for the Group. Over time, due to matters outside of our control[7], these strategic options have sadly not come to fruition.

The Group's financial performance reflects the significant challenge of executing the remediation and transformation programme, with the associated high level of investment expenditure, at a time when interest rates and costs were rising rapidly, reflecting global market, economic and political conditions.

During the year we have managed our capital position prudently, and successfully raised further capital to stabilise the business. This support was crucial in affording us time to continue to explore all the strategic options that were available to us, as we attempted to create certainty for the future and maximise value for shareholders.

The constraints on our ability to lend during this period have suppressed the potential for top line growth, with the rising interest rate environment and cost of living crisis adding a further challenging backdrop across the sector. However, our focus on lending in our lowest risk credit grades, albeit at reduced volume, meant that impairments have reduced.

Board and corporate governance

During the 2022 financial year, there have been several changes to the Board; I thank the outgoing Board members, Tim Franklin, Marian Martin, David Titmuss and Carol Sergeant for their support and wish them all the best for the future.

In terms of new Board members appointed during the financial year, in addition to myself as incoming Chair, we have created a new Senior Independent Director role and appointed Mark Sismey-Durrant to this position. Additionally, Garry Stran, CEO, and Caroline Richardson, CFO, joined the Board as executive directors early in the financial year. These new Board members have a wealth of experience in the financial services sector, which has proved invaluable both to the Board and the wider Group, as a number of very significant challenges were navigated during the year.

In order to explore and fully assess our strategic options, it was crucial that we made improvements in the areas of risk, governance and controls of the Group. Accordingly, further significant progress was made in these areas, including the embedding of improved controls, an improved Risk Management Framework and in the UK Corporate Governance Code 2018 (the Code) compliance. Further details of progress and ongoing improvements are set out in the Corporate Governance Report.

During 2022, one of the main aims of the Board has been to ensure the effectiveness of the Executive Team, as they improved governance whilst simultaneously managing the business on a day-to-day basis, including reacting to the various challenges that presented themselves during the year, while maintaining a focus on regaining the confidence of all stakeholders, and attempting to maximise value for shareholders.

Events since 30 September 2022

On 5 October 2022 an RNS was issued by the Company confirming that Castle Trust plc no longer intended to make an offer for PCF Group, and that we were seeking to raise further growth capital while also exploring other strategic options. In addition to the above, due to the continued uncertainty, we also announced the decision to suspend any new lending and to accelerate a review of operational structures to reduce our cost base.

On 9 November 2022, we issued a further RNS concluding that it was in the best interests of all stakeholders for PCF Group to commence a process of withdrawing from the UK banking market. As a result, PCF Group will not be recommencing lending and will therefore manage its loan and savings portfolio positions down over time, in line with the products' respective terms and conditions, whilst progressively reducing its cost base.

[7] Further details can be found in the 'Risk Overview' section, 'Commission model related complaints' paragraph, on page 18.

On 22 November 2022 the company announced, pursuant to AIM Rule 31, that it intended to seek shareholder approval for the cancellation of trading of its Ordinary Shares on AIM. The shareholders approved this resolution at the General meeting on 12 December 2022, and therefore the listing was cancelled on 20 December 2022.

On 20 December 2022 the majority of the loan portfolio held on the balance sheet of Azule Limited was sold to a third party for £1.6 million, generating a loss on disposal of £0.4 million. The fair value of this segment of the loan portfolio as at 1 October 2022 was £2.0 million.

In conclusion, I would again like to express my thanks to all my colleagues at PCF Group for their continued hard work and dedication throughout this difficult period, and I assure shareholders that whilst this outcome is regrettable, the Board believes that every possible avenue was explored in an attempt to avoid this position arising.

Simon Moore

Chair

20 February 2023


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Chief Executive Officer's Review
for the year ended 30 September 2022

This was an extremely challenging year for the business culminating, post the financial year end, in the decision for us to start the process of withdrawing from the UK banking market.

This was a very difficult strategic decision for the Board to make, given the consequences for the business, colleagues, customers, brokers and shareholders. This was particularly so given the considerable progress made over the last 18 months to remediate the issues that gave rise to the suspension in trading of the Group's shares in May 2021. This included seeking to raise growth capital or progressing other strategic options, with the goal of delivering a growing and sustainable value proposition for all our stakeholders.

Hence the application of the Going concern basis of accounting is inappropriate. Refer to 'Going concern', Note 1.2 to the Financial Statements, for further details.

Summary

Our initial focus during the year was the remediation of the legacy governance and control deficiencies, and in doing so, bring stability to the Group. On our journey we achieved a number of significant milestones, including bringing our statutory financial reporting up-to-date, ensuring our shares were readmitted to trading on AIM, and improving the control and culture frameworks. The completion of this work was essential in enabling us to explore the strategic options to achieve a certain and sustainable future for the Group.

The options we considered and explored included seeking to raise further capital to organically grow the balance sheet, to exploit economies of scale or find a complementary business combination to accelerate this programme of growth.

As a result of this activity, we announced to the market that we had agreed terms with Castle Trust plc, whilst at the same time working with other interested parties to achieve a business combination. Due to matters outside of our control[8], which created legal uncertainty for potential partners in a business combination or in a capital raise, we were unable to reach a successful conclusion on a growth focused option.

Financial performance in the year

The Group's financial result for the period reflects the challenges we faced in prudently managing our capital position, and the significant uplift in our cost base as we accelerated our remediation programme and continued our transformation activities. Although, our credit impairment charge reduced due to improved credit performance of the book, our loss before tax of £(14.0) million includes the significant level of remediation expenses of £3.9 million. The loss for the year also included accounting adjustments associated with our exit from the UK Banking market, including accelerated recognition of costs associated with onerous contracts, £0.9 million, and the impairment on software, £2.6 million.

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

Progress against 2022 strategic objectives

In my statement in the Annual Report & Financial Statements 2021, I outlined our focus areas for 2022, and I can report the following updates in relation to those objectives:

- There has been a continued focus on prudent capital management, and we have maintained a stable total capital ratio.
- Capital has been raised from our majority shareholder, Somers Limited, to support the continued operation of the business as we explored our strategic options.
- We completed the majority of our remediation activities by the end of the 2022 financial year.
- Our enhancement activities and transformation have been discontinued following the recent public announcements.
- IT infrastructure enhancements, including the implementation of a data team and the corresponding development of a data warehouse, have been discontinued for the same reasons.
- Embedding our new culture in the business has continued, through our consistent communication and empowerment of our colleagues to speak up.
- A new performance management framework has been implemented for colleagues.
- We carried out limited activity on our customer proposition given the strategic position of the Group and the need to focus on strategic opportunities.

As I reflect on what we achieved in the financial year, I am incredibly proud of all our colleagues. It has been a challenging and uncertain period for everyone involved with the business. I am sorry that we have had to part with many of our hard working, and in many cases longest-serving team members, whose dedication and service to the organisation has been exceptional, and wish them all the best for the future.

I understand that many shareholders will be extremely frustrated and disappointed that, despite the investments that have been made, we have been unable to secure a sustainable future for the organisation. I apologise for the distress and value deterioration that our shareholders have encountered.

However, I am certain that we could not have worked harder to find a solution to the challenges faced by the organisation. These challenges ranged from the well-documented legacy issues to the emergence of new challenges within the sector which, ultimately, frustrated our efforts to find a strategic solution.

We will continue to work in the best interests of our stakeholders, and I particularly thank our majority shareholder, Somers Ltd, for its support and understanding during this difficult period.

As we enter what I anticipate will be the final part of the PCF journey, you have my assurance that we will endeavour to deliver the best outcome possible for all our stakeholders.

G G Stran

Chief Executive Officer

20 February 2023

[8] Further details can be found in the 'Risk Overview' section, 'Commission model related complaints' paragraph, on page 18.

Review of the Group's Performance

	2022 £'000	2021 £'000	Change %
Net interest income	**19,118**	26,253	(27)
Net fees and commission income	**971**	119	716
Net loss on sale of debt securities classified at fair value through other comprehensive income (FVOCI)	**(186)**	—	—
Net gains on financial instruments classified at fair value through profit or loss (FVTPL)	**1,025**	378	171
Net operating income	**20,928**	26,750	(22)
Staff and operating expenses	**(29,212)**	(21,189)	38
Depreciation and amortisation	**(1,864)**	(1,707)	9
Net profit arising from derecognition of financial assets measured at amortised cost[9]	**18**	939	(98)
Impairment on goodwill	**—**	(1,147)	—
Impairment on software and office equipment	**(2,644)**	(68)	3788
Total operating expenses excluding credit impairment charges	**(33,702)**	(23,172)	45
Credit impairment charge	**(1,230)**	(6,677)	(82)
Statutory loss before tax	**(14,004)**	(3,099)	352
Income tax (charge)/credit	**(56)**	38	(247)
Statutory loss after tax	**(14,060)**	(3,061)	359
Memo			
Deduct profit on derecognition of financial assets	**(18)**	(939)	
Add back remediation related expenses	**3,896**	3,608	
Add back impairment on goodwill	**—**	1,147	
Add back impairment on software	**2,619**	—	
Add back onerous contract provision	**854**	—	
Adjusted (loss)/profit before tax	**(6,653)**	717	

The Group manages its operational performance through a number of financial key performance indicators, which are stated below.

Key metrics			
Net loans and advances to customers	305,554	363,992	(16)%
Customer deposits	281,053	327,166	(14)%
Net Interest Margin (NIM)[10] (%)	5.7	6.6	(0.9) ppt
Cost: income ratio[10] (%)	144.5	85.8	(58.7) ppt
Impairment charge as % of average gross loans[10] (%)	0.4	1.6	1.2 ppt
Statutory return on equity[10] (%)	(32.2)	(6.1)	(26.1) ppt
Loss per share (pence)	(5.1)	(1.2)	(3.9) pence

[9] Derecognition of financial assets refers to the sale of credit-impaired loans.

[10] Refer to section Non-IFRS performance measures on pages 15 & 16 for further details of the definition of this non-IFRS performance measure.

In the 12 months to 30 September 2022, the Group reported a statutory loss before tax of £(14.0) million (2021: £(3.1) million) as we accelerated the completion of the remediation programme and continued to invest in the systems and processes to bring us in line with industry standards. The loss for the year also included accelerated recognition of costs associated with onerous contracts, £0.9 million, and the impairment on software, £2.6 million. During this period we have also prudently managed our lending, as we stabilised our capital position, which has reduced our top line. In addition, the changing interest rate environment has added pressure to the cost of funding across the industry.

Increased cost base to remediate legacy issues and transform the business

Staff and operating expenses of £29.2 million were £8.0 million, 38% higher than in 2021 (2021: £21.2 million). Staff expenses are the main driver of the increase, contributing £4.6 million additional costs in 2022, as we have hired additional experienced heads to execute remediation and transformation activities to stabilise our core business. The majority of the remaining increase of £3.4 million is for additional professional services, IT investment and the onerous contract provision.

Both periods included a similar level of overall remediation expenses of £3.9 million (2021: £3.6 million). The majority of the remediation activities have now been completed, with the £3.9 million remediation expenses split into £1.4 million staff costs, mainly Finance and Risk Departments, £2.1 million professional services, and £0.4 million of irrecoverable VAT. Impairment on software of £2.6 million was also recognised as a result of accounting adjustments associated with our exit from the UK Banking market.

The cost base peaked in the first half of the year, as much of the project activity was completed before the end of March 2022. The remaining cost base is currently under review to identify further savings.

Capital raise and loan book

During the 12-month period to 30 September, we received two tranches of new capital from our main shareholder, Somers Limited. In June 2022, the first tranche of £2.7 million was received, which was closely followed by an additional £1.4 million in July 2022. This helped to stabilise the capital position.

Net loans and advances to customers decreased by 16% to £306 million (2021: £364 million), with the majority of the reduction occurring before March 2022.

In the first half of the year (H1), new loan originations (excluding Azule brokered lending[4]) totalled £62 million (H1 2021: £104 million), whilst in the second half of the year (H2), new business origination increased to £73 million (H2 2021: £53 million). During the year originations have been limited by the prudent management of capital.

Margin and net interest income pressure

Net interest income of £19.1 million was £7.2 million (27%) lower than the previous year (2021: £26.3 million), which reflects the prudent lending and capital management within the period. The main drivers of the income reduction were the average net loans and advances to customers reducing by 15%, and our margin reducing by 90 basis points to 5.7% (2021: 6.6%). Since the onset of the COVID-19 pandemic, we have taken an active decision to concentrate the majority of our new lending in 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 in recent periods. As the Bank of England base rate has risen, our average deposit rates have also increased, as we proactively managed our deposit book to retain existing and attract new funding in a competitive market.

Since March 2022, we have aimed to mitigate the downward pressure on our margin by expanding our credit risk appetite.

Adversely, the increase in average deposit rates has been significant in the second half of the financial year, however we have proactively increased lending rates to partially offset this impact.

Funding through retail deposits and interest rate increases

Retail deposits continue to be the main source of funding for the Group. Deposits of £281 million on 30 September 2022 was 14% lower than the previous year end (2021: £327 million). This reduction continues to be managed to reflect our reduced requirement for funding, given the decrease in our loan book. Our deposit-to-loan ratio of 92% remains similar to the previous year (2021: 90%). We have managed our deposit book to allow us to maintain a Liquidity Coverage Ratio (LCR) in excess of our regulatory requirement. The LCR is 475% (2021: 904%).

The Group's cost of funding increased to 2.2% (2021: 1.3%).

[4] Azule Limited brokered lending, to third parties, is not included on our balance sheet, but generates commission income in our profit and loss statement.

Strong impairments performance and increased credit quality of book

Credit impairment charges for the year were £1.2 million, a significant reduction of £(5.4) million (82%) on the previous period (2021: £6.7 million). This incorporates the expected credit losses as a result of deteriorating macro-economic conditions. The reduction, when compared with the prior period, predominately reflects the reducing loans and advances as well as, importantly, the improved credit quality of the overall book. Credit impairment charges as a percentage of average loans for the period was 0.4% and our Expected Credit Loss (ECL) coverage ratio as at 30 September 2022 was 3.0% (2021: 3.3%).

On an adjusted basis, adjusting for remediation related expenses, impairment on software and onerous contract provision, the Group generated a loss before tax of £(6.7) million (2021: profit of £0.7 million).

The value of loans in forbearance at 30 September 2022 was less than 1%, a similar level to the previous year.

Capital, funding and liquidity management

The table below summarises the key regulatory capital, risk weighted assets and regulatory ratios for the Group.

	2022 £'000	2021 £'000	Change
Liquidity coverage ratio (%)	**475**	904	(429) ppt
Net stable funding ratio (%)	**135**	159	(24) ppt
Common Equity Tier 1 capital	**39,825**	50,111	(21%)
Subordinated Tier 2 capital	**6,311**	6,136	3%
Total regulatory capital	**46,136**	56,247	(18%)
Counterparty and credit risk Risk Weighted Assets (RWAs)	**217,899**	273,282	(20%)
Operational risk RWA	**46,333**	47,812	(3%)
Credit valuation adjustment RWA	**276**	109	153%
Total RWA	**264,508**	321,203	(18%)
Common Equity Tier 1 ratio (%)[11]	**15.1**	15.6	(0.5) ppt
Common Equity Tier 1 ratio (%) – fully loaded	**14.6**	14.4	0.2 ppt
Total capital ratio (%)[11]	**17.4**	17.5	(0.1) ppt
Total capital ratio (fully loaded)	**17.1**	16.5	0.6 ppt
Leverage ratio (%)[11, 12]	**11.7**	12.6	(0.9) ppt
Leverage ratio (%) (fully loaded)[12]	**11.3**	11.6	(0.3) ppt

[11] Ratios are disclosed on a transition arrangement basis.

[12] The leverage ratio is calculated applying the UK leverage ratio framework which applies to all UK firms from 1 January 2022. As a result, the leverage ratio for September 2021 has been recalculated on the same basis for comparability by excluding claims on central banks.

As a result of the prudent capital management and the aforementioned capital injections in the period, the total capital ratio has remained relatively stable at 17.4% (2021: 17.5%). The Risk Weighted Assets (RWAs) have reduced by 18% in the year to £265 million as at 30 September 2022, from £321 million in 2021, as the loans and advances have reduced and the overall credit quality of the book improved.

The Group maintains a diversified funding model that includes retail deposits and drawings from the Bank of England's Term Funding Schemes. At 30 September 2022, the Group had a total of £59.8 million drawn through the Term Funding Schemes (2021: £59.6 million). In addition, the Group had £7 million subordinated notes (Tier 2) in issue to the British Business Investments Limited (BBI), which were issued under a £15 million subordinated notes facility, the commitment period of which expired on 16 September 2022.

Total regulatory capital reduced by 18% to £46.1 million in the period, largely as a result of the loss after tax in the 2022 financial year, causing a reduction in retained earnings.

Prudent capital management continues to be a top priority. The Group has managed capital through the period of the COVID-19 pandemic and the current financial year, by taking a more selective approach to credit and new business volumes. Although the credit appetite has changed since the end of the first half of the financial year, the credit quality of the overall book remains strong.

More detail regarding regulatory capital ratios is set out in the Risk Management Report on page 63, and further details can be found in the Group's Pillar 3 disclosure, which is available on our website.

PCF GROUP

Segmental business review

Business Finance Division (BFD)

The Business Finance Division (BFD) provides hire purchase and finance lease agreements to sole traders, partnerships and limited companies to help them acquire motor vehicles, plant and equipment. Lending is typically for up to 5 years with longer terms of up to 10 years for specialist niche assets.

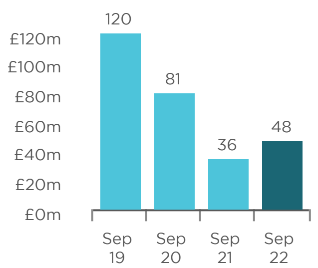
Vehicle and asset finance are commonly-used sources of finance for businesses, providing significant cash flow benefits for those using them. The market in the UK is both mature and vast, with the Group having a share of less than 1% (2021: less than 1%).

The division predominantly uses broker intermediaries as its route to market, with transactions being processed through the Group's internet-based proposal system. 2022 showed an encouraging increase in demand from small and medium-sized enterprises (SMEs) compared to the previous year.

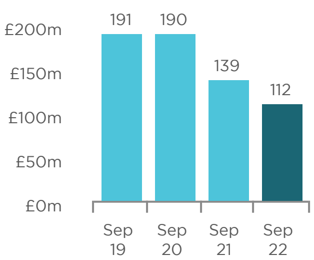
However, overall growth across the asset finance market remained modest as supply shortages and lead times continued to have an adverse impact during the current financial year.

The division's performance for the year ended 30 September was impacted by the internal restriction on lending in the period, as in the prior financial year. During the period, the Group focused on managing the overall capital position, although the core strength of the division remained. New business origination in BFD for 2022 was £48 million, an increase from £36 million in 2021, but this still led to the gross loan book decreasing to £112 million (2021: £139 million).

BFD - new business volumes



BFD - gross portfolio



The new business written into our top four credit grades was 95% of the total (2021: 92%).

Net operating income for the division reduced to £7.3 million (2021: £8.1 million), and there was an impairment charge of £0.1 million (2021: £5.0 million).

Consumer Finance Division (CFD)

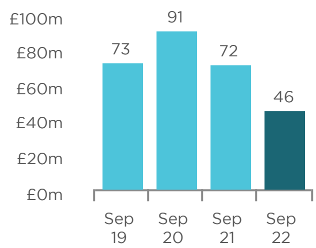
The Consumer Finance Division (CFD) provides hire purchase and conditional sale agreements to retail customers. While most of the finance we provide is in respect of motor cars, we also have specialist knowledge to enable us to finance classic cars, caravans, motorhomes and horseboxes. Most of the vehicles 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.

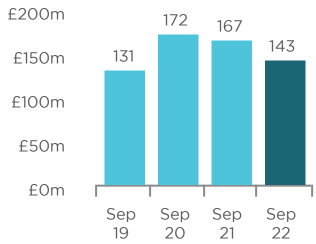
In the first nine months of calendar year 2022, as per figures released by the Finance & Leasing Association, the consumer car finance new business volumes increased by 4%, versus the same period in 2021. The used car finance market remained robust in the same period, with new business volumes approximately 10% higher than in 2021.

While PCF Group'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 £46 million (2021: £72 million). The total gross loan book decreased to £143 million (2021: £167 million).

CFD - new business volume



CFD - gross portfolio



The new business written into our top four credit grades was 94% of the total (2021: 100%).

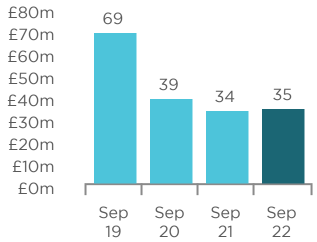
Net operating income for the division reduced to £7.6 million (2021: £10.6 million), and the impairment charge decreased to £1.1 million (2021: £1.2 million).

Azule Limited (Azule)

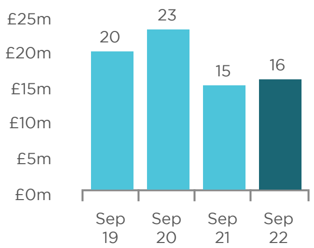
Azule Limited (Azule) provides direct-to-end-user asset finance origination to niche markets in the UK and across Europe, which includes broadcast and media, sound, lighting and audio visual. It finances assets such as cameras, lenses, sound equipment, lighting equipment, post-production equipment and 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 2022, there was an uplift in demand within the broadcast and media sectors, which were some of the worst affected during the COVID-19 pandemic, following the lifting of COVID-19-related social restrictions. Supply and lead times continue to have an adverse impact in 2022. Total origination of £35 million was higher than last year (2021: £34 million). This includes brokered originations of £25 million (2021: £30 million), which are not included on our balance sheet, but generate commission income in our profit and loss statement. The gross loan book on 30 September 2022 increased by 6.3% to £16 million (2021: £15 million).

Azule - new business volumes



Azule - gross portfolio



Net operating income for the division reduced to £1.9 million (2021: £2.6 million), and there was an impairment credit of £(0.2) million (2021: charge £0.6 million).

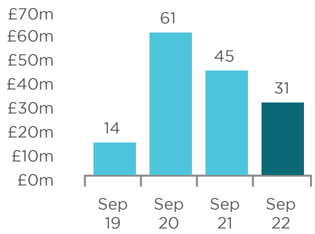
Bridging Finance

The Bridging Finance division 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.

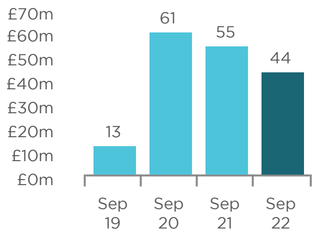
The primary focus is the provision of short-term loans against property, and is used by the borrower as a temporary financing solution, before transitioning to another financial arrangement or selling the property. Facilities are typically between 6 and 18 months, with a maximum loan to value of 75%.

New business origination for the year was £31 million (2021: £45 million).

Bridging Finance - new business volumes



Bridging Finance - gross portfolio



Net operating income for the division reduced to £4.1 million (2021: £5.5 million), and the impairment charge for the year was £0.2 million (2021: credit £(0.2) million).

Savings

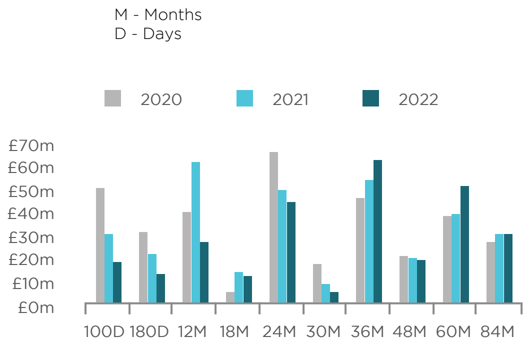
Through PCF Bank Limited (the Bank), the Group accepts sterling denominated deposits from individuals resident in the UK, with products targeted at specific customer segments, namely:

- 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, were offered competitive fixed rate deposit products with fixed terms of between 12 and 84 months.
- Savers also had the option of 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.

Savings balances reduced by 14% in the year to £281 million, an appropriate outcome given the reduction in the size of the loan book. The deposit portfolio will be managed to an appropriate level over time, as the lending book rolls off. At 30 September 2022, the Bank had over 7,700 savings customers (2021: 8,100) with an average balance of more than £36,000 (2021: £40,000).

Outstanding balances across savings product terms at financial year end



Financial Overview
Non-International Financial Reporting Standards (IFRS) performance measures

The Group's management believes that the non-International Financial Reporting Standards (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 business's 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.

In addition, the performance measures 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.

	2022	
Net interest income £'000	Average[13] customer assets £'000	Net interest margin %
19,118	**334,773**	**5.7**

	2021	
Net interest income £'000	Average[14] customer assets £'000	Net interest margin %
26,253	395,498	6.6

Cost income ratio

Definition: Total operating expenses (excluding credit impairment charges, impairment on goodwill, profit/loss on derecognition of financial assets, impairment on software* and onerous contract provision) divided by net operating income.

	2022	
Operating expenses £'000	Net operating income £'000	Cost income ratio %
30,247	**20,928**	**144.5**

	2021	
Operating expenses £'000	Net operating income £'000	Cost income ratio %
22,964	26,750	85.8

[13] Average of balances from 30 September 2022 and 30 September 2021
[14] Average of balances from 30 September 2021 and 30 September 2020

* Impairment on software is included in the adjustments in 2022, as this is driven by our exit from the UK banking market. The £55k impairment on software recognised in 2021 is not considered an adjusting item.

Statutory return on average equity

Definition: Statutory profit/(loss) after tax divided by average equity.

	2022	
Statutory loss after tax £'000	Average[13] equity £'000	Statutory return on average equity %
(14,060)	**43,693**	**(32.2)**

	2021	
Statutory loss after tax £'000	Average[14] equity £'000	Statutory return on average equity %
(3,061)	50,345	(6.1)

Adjusted profit/(loss) before tax

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

	2022 £'000	2021 £'000
Adjustments		
Deduct profit on derecognition of financial assets	**(18)**	(939)
Add back: remediation related expenses	**3,896**	3,608
Add back: impairment on goodwill	**—**	1,147
Add back: impairment on software*	**2,619**	—
Add back: onerous contract provision	**854**	—
Total	**7,351**	3,816

	2022	
Statutory loss before tax £'000	Adjustments (See above) £'000	Adjusted loss before tax £'000
(14,004)	**7,351**	**(6,653)**

	2021	
Statutory loss before tax £'000	Adjustments (See above) £'000	Adjusted profit before tax £'000
(3,099)	3,816	717

Impairment charge as a % of average gross loans

Definition: Credit impairment charge divided by average gross loans.

	2022	
Impairment charge £'000	Average[15] gross loans £'000	Impairment charge as % of average gross loans %
1,230	**345,708**	**0.4**

	2021	
Impairment charge £'000	Average[16] gross loans £'000	Impairment charge as % of average gross loans %
6,677	410,999	1.6

Adjusted return on average equity

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

	2022	
Adjusted loss after tax £'000	Average[15] equity £'000	Adjusted return on average equity %
(6,709)	**43,693**	**(15.4)**

	2021	
Adjusted profit after tax £'000	Average[16] equity £'000	Adjusted return on average equity %
333	50,345	0.7

Tangible net asset value

Definition: Net asset value excluding intangible assets.

	2022	
Total Equity £'000	Intangible assets £'000	Tangible net asset value £'000
38,524	**—**	**38,524**

	2021	
Total Equity £'000	Intangible assets £'000	Tangible net asset value £'000
48,862	3,075	45,787

[15] Average of balances from 30 September 2022 and 30 September 2021

[16] Average of balances from 30 September 2021 and 30 September 2020

Deposit to loan ratio

Definition: Ratio of deposits to loans.

	2022	
Deposits £'000	Net loans and advances to customers £'000	Deposit to loan ratio %
281,053	**305,554**	**92**

	2021	
Deposits £'000	Net loans and advances to customers £'000	Deposit to loan ratio %
327,166	363,992	90

Risk Overview

Risk is a natural consequence of the Group's business activities and the environment in which it operates.

The Board retains overall responsibility for overseeing the maintenance of a system of internal control that seeks to ensure an effective risk management framework and oversight process operates across the Group. The Risk Management Framework (RMF) and associated governance arrangements are designed to ensure a clear organisational structure with distinct, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the Group is, or may become, exposed.

Throughout the last financial year, the Group continued to undertake work to improve the effectiveness of its risk management, and to put a strong culture of risk awareness, listening and speaking up at the heart of PCF Group and its RMF. The RMF, following an external review, went through an extensive update that was subsequently approved by the Board in March 2022.

As part of the revised RMF, our colleague performance management and reward practices now have a key focus on risk management within their design. The Group aims for colleagues to be risk aware, and to strike the right balance between delivering our 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 were 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 26 to 33, includes the Board and Executive committees being Board Audit Committee (BAC), Board Risk Committee (BRC), the Executive Committee (ExCo), Financial Reporting & Control Committee (FRCC), Assets & Liabilities Committee (ALCO) and Executive Risk Committee (ERC).

Risk strategy

The Group has defined its risk management objectives and strategy. Following the announcement made on 9 November 2022 of the Board's decision to withdraw from the UK banking market, focus for its risk strategy has moved to ensuring that the Group achieves this objective in a timely fashion and with due regard for all stakeholders.

During this period, the Group will continue to take a proportionate approach to risk management, which is to ensure that risks taken are suitably considered, that the needs of all stakeholders are considered, and that the Group's risk management capabilities and resources are appropriate in light of the revised objective.

Ongoing activities that will support the revised strategic objective include:

- Adapting the control environment as appropriate.
- Ensuring the Group's risk profile, including principal and emerging risks, are fully identified, owned and managed, with a proportionate risk appetite set for each.
- Ongoing analysis, including stress-testing and portfolio analytics.
- Reviewing retention and remuneration policies for colleagues to ensure that appropriate skills are retained.
- Ensuring continued compliance with all regulatory requirements, including the fair treatment of customers.

The Board will continue to focus 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 the strategic objectives, each with a Board-approved risk appetite. These risks are described and articulated in the Risk Management Report section.

Emerging risks and uncertainties

Emerging risks and uncertainties are either:

- Newly identified risks due to external factors or arising because of the Group pursuing the revised strategy, with the inherent potential to impact this strategy or the revised business model.
- A previously identified principal risk where the residual risk has materially increased.

Withdrawal from the UK banking market and delisting from AIM

The Group has been unable to raise further significant growth capital and has been unable to execute on alternative strategic opportunities. The Group continues to explore strategic transactions with bona fide interested third parties, however the Board concluded, and subsequently announced on 9 November 2022, that it was in the best interest of all stakeholders for the Bank to commence a process of withdrawing from the UK banking market, and for the Group to delist from AIM. A review process of the Group's operational structure, with a focus on reducing costs, has also been commenced.

The Bank's key focus is to ensure that it has sufficient capital and liquidity to repay customer deposits and discharge its other liabilities as they become due.

The key risks that would prevent this from being achieved include:

- The cash flows from its lending portfolio (whether from the sale of assets or natural amortisation) fail to meet plan expectations.
- The current sector-wide legal uncertainty regarding potential claims for compensation from customers in respect of commissions paid to brokers for lending introductions, adversely impacting the execution of the strategy.
- An inability to retain or recruit sufficiently skilled colleagues.
- An inability to manage costs within the revised business plan.
- An intervention by the Group's Regulators.

Capital, liquidity and market risk

As at 30 September 2022, and at all times since, capital and liquidity metrics remain above regulatory requirements.

Somers Limited injected capital into the Group of £2.7 million and £1.4 million in June and July 2022 respectively, increasing its majority holding from 64.4% to 73.2%. The Group's ability both to raise growth capital and to transact in any new interest rate swaps has been adversely impacted as a result of the challenges the Group has faced (as announced in various RNS communications) and general market conditions.

The Group has a term loan facility from the Bank of England under the Term Funding Scheme with additional incentives for SMEs (TFSME). In addition, the Group had access to a subordinated note facility from British Business Investments Limited (BBI) the commitment period of which expired on 16 September 2022. The Group and the Bank are required under the terms of the facilities to file their Annual Report & Financial Statements 2022 with BBI within 180 days of the 30 September 2022. The Group had an undrawn £30 million revolving credit facility, which was voluntarily terminated on 21 December 2021. As the Group has ceased all new lending, the collateral pools to support the TFSME will reduce in size. Therefore, the Group will start repayment of the facility earlier than the contractual requirement.

There remains a risk that the Group is unable to remain solvent during its withdrawal from the UK banking market.

Regulatory risk and legislative change

The UK regulatory landscape continues to move at pace with significant policy initiatives, including data governance, consumer duty, remuneration, operational resilience, sustainability, Environmental Social and Governance (ESG), financial impacts from climate change and implementation of the UK Capital Requirements Regulation (CRR). This could result in the risk that the Group does not meet new requirements on a timely basis, which could result in regulatory action being taken.

As part of the revised strategy, the Group continues to review key policies and assurance plans, with a focus on capital, liquidity, cyber risk, internal fraud, financial and regulatory reporting, data protection, colleague incentive schemes, treating customers fairly, customer communications, complaints and anti-money laundering. The Group frequently engages with regulators and industry trade bodies, such as the Finance and Leasing Association, on these and other significant industry issues that arise.

People risk

The recent market announcement to withdraw from the UK banking market, combined with cost management initiatives, has resulted in a reduction in headcount and could result in the Group experiencing an increase in resignations from remaining colleagues, and increased difficulty in attracting and hiring replacements. To mitigate this risk, the Remuneration Committee has approved a colleague retention package, which will be kept under review.

Commission model related complaints

During the 2022 financial reporting period, the Group has seen an increase in Data Subject Access Requests (DSARs), complaints and claims in respect of certain historical commission models utilised by the lending industry to reward brokers, and complaints regarding the extent of non-disclosure of those arrangements to customers. Currently, there are a number of legal and regulatory uncertainties around the basis for such complaints or claims, and so the Group continues to closely monitor Financial Ombudsman Service decisions, court rulings and industry commentary.

COVID-19 pandemic and geopolitical uncertainty

The full impact of the longer-term implications of the recent COVID-19 pandemic remains uncertain and may affect several key risks faced by the Group.

More recently, economic uncertainty has increased as a consequence of the events currently taking place in Ukraine, with the UK experiencing increased levels of inflation.

This increase in inflation has led the Bank of England to increase interest rates from record lows to 4% in January 2023, the highest level since the global financial crisis hit in 2008, with further rises expected in 2023.

The increase in inflation, combined with the impact of the tightening of monetary policy has the potential to impact on credit performance as disposable incomes for consumers and cash flow for commercial customers comes under pressure.

Arrears levels in respect of the portfolio more than three months in arrears, across both the CFD and BFD business segments, are lower than 18 months ago. The Group continues to monitor this closely.

Any resulting increase in loan impairment could be further exacerbated by climate change-related issues that may impact the second-hand car market and subsequently the residual value of assets sold in possession.

Remediation activities

As a result of remediation activity and the general investment in the Group's operating platform, the Group's cost base increased significantly in the 2022 financial year.

The Group's internal controls have dependencies on both systems and people. There is a risk that the remediation activity carried out was not sufficient or was not implemented correctly. Additionally, there is the risk that the internal control environment is not adapted sufficiently to meet the demands of the Group's revised strategy. This could result in increased levels of operational and people risk, an extended remediation period and difficulties in executing the strategic objectives of the Group.

Operational resilience including cyber risk

Operational resilience is the ability of firms and the financial sector 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, to 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, and set impact tolerances for the maximum tolerable disruption. The Group has also 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 should approach their operational resilience. The Group has now established an Operational Resilience Framework, with Internal Audit completing an independent review of its design in December 2021.

Cyber-attacks continue to be a threat globally, exacerbated by current geopolitical events, and are inherent across all industries. PCF Group continues to focus on the 'Defend, Deter, Develop' theme, as recommended by the National Cyber Security Centre. Grant Thornton completed an internal audit on Cyber Risk for Malware and Ransomware Protection which was rated as 'Some Improvement Required'.

Financial loss resulting from the physical or transitional impacts of climate change

Climate change represents a material financial risk to regulated firms, as social and economic policy continues to change 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 impact on the Group's business strategy relating to vehicle financing. The Group's approach to identifying and managing climate change risk is founded on how it may impact other principal risks: strategic and business risk, credit risk, market risk, capital risk, operational risk, regulatory risk and conduct risk.

As the Group has ceased all new lending, it will no longer continue on its path to Task Force on Climate-related Financial Disclosures (TCFD) compliance and adopting the Department for Business, Energy and Industrial Strategy (BEIS) climate-related financial disclosures. This has been further articulated in the Sustainability 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 2022, the Group had no exposure to LIBOR, having terminated on 21 December 2021 a revolving credit facility with Leumi ABL Limited that referenced LIBOR.

Stakeholder Engagement Report

Section 172 statement

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

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

Key stakeholders are considered to be the members, employees, customers, suppliers, and regulators of the Group and its communities and the environment. Below are some examples of how the Board engages with, and has regard to the interests of these key stakeholders.

Members (shareholders and investors)

- The Board is committed to communicating with members openly and transparently through a number of channels, and has done so over the period.
- The Group conducted its Annual General Meeting on 25 March 2022, together with further shareholder meetings on 6 July 2022 and 29 July 2022, at which shareholders were able to ask questions of the Group's Board and management.
- The Group also communicated with its shareholders by way of announcements in relation to the lifting of the suspensions of trading in respect of its shares, its full year and half year results, capital raises, transactional and strategic updates.
- In addition to our shareholder meetings over the period, the Group held two question-and-answer sessions via the Investor Meet Company platform on 27 January 2022 and 30 June 2022, followed by a further session on 7 December 2022, which were well received, with management appreciating the opportunity for direct discussion with our shareholders and investors after a prolonged share suspension and delayed financial reporting.
- The Group maintains its Investor portal on its website.
- We regret that delays to delivering the Annual Report & Financial Statements 2021 led to a further suspension of trading in the Group's shares on Alternative Investment Market (AIM) in April 2022. The provision of these accounts, combined with Interim 2022 results put the Group back on track to deliver its ongoing market commitments on a timely basis and to rebuild confidence with its members.
- In order to further the interests of the shareholders during the year the Group has (i) continued its remediation programme (ii) brought its financial reporting up-to-date (iii) managed its capital prudently and raised capital from Somers Limited and (iv) explored strategic options to seek a business combination.
- Unfortunately, as reported in the Chair's Statement, the Group has been unable to raise further significant growth capital and the strategic transactions have not come to fruition and so the Board concluded that the Group did not have an independent future. In line with this the Group also announced that it planned to cancel its share listing on the AIM, to reduce costs, and in light of the new strategic focus of the Group, the Board considered that retaining the listing was no longer in the best interests of its shareholders. The cancellation of the Group's share listing on AIM took effect on the 20 December 2022.
- Mindful of the impact of this decision on shareholders and their ability to trade their shares, the Company has put in a place a matched bargain settlement facility with Asset Match, as announced on 9th December 2022.
- Also during this period the Group was mindful of the dilutive effect the pre-emptive capital raises by Somers Limited were on other shareholders. The Group continues to keep under review the possibility of offering shareholders at some stage the right to 'catch up' or benefit from some form of alternative mechanism, if a commercially viable proposition can be found.

Employees (colleagues)

- Our colleagues are important to us. We have sought to ensure that we develop and retain talent, ensuring that, despite the strategic objectives of the business, we create a working environment that is stimulating, enjoyable and rewarding so as to minimise unplanned colleague turnover.
- Regular all-colleague 'town hall' meetings continue, providing an opportunity for colleagues to ask questions of the CEO and other members of the Executive Team. On occasion over the period, members of the Board have also attended to give an insight into their careers and roles on the Board and its various committees.
- Hybrid working is now embedded throughout the organisation.
- The well-being and mental health of our colleagues remains a focus, with support from our HR team that includes biweekly coffee and chat sessions and access to a confidential Employee Assistance 24/7 helpline.
- Our cultural change programme continued delivering real change across the Group with an empowered group of Culture Champions driving longer-term culture as a key business priority.
- We completed anonymous company-wide surveys in August 2021, March 2022 and August 2022. The August 2022 survey resulted in a response rate of 67%. Overall the scores indicated that progress was maintained and improved upon in some important cultural areas, including diversity, work-life balance, colleagues understanding of their roles and support received by colleagues from line managers. In other areas there had been a drop in scores relating to happiness at work and willingness to recommend the Group as a place to work, which was felt to derive from the fact that at that time

there was continuing uncertainty about the Group's strategic direction.

- Our Diversity & Inclusion (D&I) Committee continues to drive initiatives across the Group working in partnership with the HR team. The D&I survey in December 2021 received a response rate of 91%. The D&I Committee then engaged with the Executive Committee on the results and the current D&I plans continued to be developed during 2022.
- In order to further the interests of colleagues during the year the Group has (i) embedded its new culture throughout the business through consistent communication and empowerment of our colleagues and (ii) put in place a new performance management framework in order to give our colleagues the right feedback in order for them to best improve and advance their careers.
- Unfortunately, given the new strategic priority, the Group is looking to progressively reduce its costs, which has led to the difficult decision of making a number of our colleagues redundant. In doing so the Group is trying to undertake such a programme as sensitively and flexibly as it can, mindful that many of our colleagues have been with the Group for a large part of their careers.

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 that have been awarded the Gold Trusted Service Award for three successive years.
- We have increased our operational oversight, enhanced our complaints management capability and used root 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, notwithstanding the new strategic direction of the Group, this will remain an important priority for us.
- As detailed in the CEO's Review, the Group's ability to further the interest of its customers by seeking ways to improve the customer proposition and the range of products that the business could offer them has been constrained as the Group has focused on its strategic opportunities. That said, we have managed to introduce some incremental gains in terms of our customer interaction experience with the introduction of certain automated self-serve aspects to our offering.

Suppliers

- Notwithstanding the change in strategic focus as detailed in the Chair's Statement, the Group will continue to be reliant on maintaining strong relationships with a number of existing trading partners that are responsible for key aspects of our operations, such software providers and credit information bureaux.
- We will continue to 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.
- As the Company reduces its cost base over time, it is possible that there will be an increasing reliance on external partners and suppliers and therefore the Company will ensure that it maintains collaborative, transparent and effective relationships with partners.

Regulators

- Our compliance with regulation is overseen by our Board Audit and Risk Committees.
- During the period, up to the cancellation of the Group's shares listing on AIM on 20 December 2022, we maintained a good working relationship with our NOMAD, Peel Hunt LLP, who were a key source of guidance and support for the Company as it dealt with its interactions with AIM Regulation, the challenges of the share suspensions, the delayed financial reporting issues and as we sought to achieve the various strategic initiatives detailed in the Chair's Statement.
- Our Executive Team remains committed to maintaining open and transparent regular direct engagement with regulators. In 2021 we increased the focus and depth of engagement with our regulators with senior hires in our Risk function, ensuring our regulators were kept up-to-date with progress on our remediation programme and more recently on the strategic decisions leading to the Group deciding to withdraw from the UK banking market.
- Being committed to maintaining sufficient resources to manage the Bank in a compliant manner during the wind-down process, the Group has (i) implemented changes to its Board (as detailed in the Chair's Statement) (ii) embedded improved controls across in its financial and regulatory reporting frameworks, (iii) following on from the share suspension, legacy issues and the implementation of our new culture, undertaken periodic discussion on culture with our regulators and (iv) we review and act upon regulatory developments and monthly digests from the PRA and FCA.

Communities and the environment

- During the financial year we continued our participation in a scheme that 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 new colleagues at the start of their careers in our apprenticeship scheme.
- The Group's approach to its interactions with its community and impact on the environment will also be impacted by its strategic decision to cease new lending and implement a progressive cost reduction. However, both issues will remain factors that will be taken into consideration as the process evolves.

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

G G Stran

Chief Executive Officer

20 February 2023

PCF GROUP

Sustainability Report

PCF Group (the Group) recognises the major threat that climate change poses to global, social and economic development. The Group 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.

In 2022, the Group developed and approved a Climate Risk Management Framework to ensure that the risks associated with climate change are considered across the organisation, including at the most senior levels. The framework embeds an approach to climate change risk management, with appropriate oversight by the Board and senior management, with 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.

The Group included climate change risk as one of the principal risks in its enterprise-wide Risk Management Framework. Whilst it has a low direct carbon footprint from its own operations, the Group's 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. The Group undertook a climate risk identification exercise and an initial measurement of the 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. The Group collects data on motor vehicle engine types and our assessment, completed in 2021, 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. Carbon intensity data mapping was conducted for our car finance portfolio, which showed that the carbon intensity of our car finance portfolio is slightly higher than the UK average. As the Group has stopped all lending and is withdrawing from the UK banking market, it will no longer be refining its credit assessment approach with regards to consideration of climate transition risks, as part of the Group's loan origination process.

The Group's 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. Analysis completed in 2021 showed that only 1% of the properties in the Group's portfolio are at a high risk of flooding.

From a property transition risk perspective, the Group undertook, in 2021, a mapping of the residential and commercial properties in its bridging loans portfolio to the Energy Performance Certificate Register. The results showed that 32% of the properties in the Group’s portfolio, that were mapped to the register, have energy ratings of C or above, with 8% of the properties having F or G energy ratings.

The Group 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.

The Group 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 had two initiatives to demonstrate our commitment to the environment and the transition to a carbon neutral economy. Both of these initiatives were discontinued when the Group stopped lending:

- In the 2022 financial year, The Group continued its participation in the Mossy Earth project, which restores areas of wilderness through rewilding and reforestation projects across a variety of ecosystems around the world. Its commitment to this project takes the form of a donation of £2 for every finance agreement the Group processed.
- In 2022, the Group introduced electric vehicle company cars for its sales employees.

Ordinarily, the Group would have continued on its path towards Task Force on Climate-related Financial Disclosures (TCFD) compliance, signing up as a TCFD supporter, progressively aligning Annual Report & Financial Statement disclosures with the TCFD strategic framework, and adopting the Department for Business, Energy and Industrial Strategy (BEIS) climate-related financial disclosures guide in its 2023 Annual Report & Financial Statements. However, the Board concluded and subsequently announced on 9 November 2022 that it was in the best interest of all stakeholders for PCF Bank to commence a process of withdrawing from the UK banking market and for PCF Group to delist from AIM. As a consequence of this decision the Group will not continue on its path to TCFD compliance.

The following 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 2022 financial year we have continued to see a reduction in the Group's carbon emissions, driven by lower electricity consumption in our offices. Gas consumption for heating the office in Datchet has increased, based on estimated meter readings by the energy provider, but remains low. All of the Group's emissions are UK based.

UK	2022 tCO2e	2022 kWh	2021 tCO2e	2021 kWh
Scope 1 Fuel for office heating	**4**	**20,125**	2	8,618
Scope 2 Emissions from the purchase of electricity for own use	**20**	**102,594**	26	121,111
Total Scope 1 and Scope 2 emissions	**24**	**122,719**	28	129,729
Emission intensity Scope 1 and Scope 2 in tCO2e/net operating income in £m		**1.1**		1.0

All emissions are UK based.

PCF GROUP

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 2022.

I am pleased to report continued progress in the governance of the business. The Board has changed significantly during the financial year; along with myself as a replacement Chair, we also have a new Senior Independent Director role in Mark Sismey-Durrant. Additionally, Garry Stran, the CEO and Caroline Richardson, the CFO, joined the Board as Executive Directors early in the financial year, having joined the Group in July 2020 and March 2021 respectively. These new Board members have a wealth of experience in the financial services sector, which is proving invaluable both to the Board and the wider Group.

As reported in the 2021 Annual Report & Financial Statements (published in May 2022) a comprehensive Financial Position and Prospects Procedures (FPPP) review and report was completed in early 2022, and we have since implemented several of the recommended further control improvements. The Group's enhanced Risk Management Framework was approved by the Board in March 2022 and is being embedded across the organisation. A Financial Control Framework (FCF) was developed, however with the announcement to suspend lending and with steps taken to reduce our cost base the next stage of the FCF project has now been stopped. These improvements, in building a more robust control framework, have all been underpinned by the strengthened culture and governance structure.

There are several improvements in our efforts to fully comply with the UK Corporate Governance Code 2018 (the Code). Following my appointment in January 2022, all Board and Board committee 'terms of reference' have been reinvigorated, a new in-house Company Secretary has been appointed and a system to manage Board information and meetings has been implemented to facilitate efficient and effective corporate governance. Our current compliance with the Code is set out below. The governance improvements have been controls-focused, overseen by the Board Risk and Board Audit Committee. However, improvements have also been initiated by the Board Remuneration Committee and again our new non-executive Board Directors bring a wealth of experience to facilitate change. Further details of improvements made are set out in the respective committee reports.

Finally, as previously reported, the Group is now up-to-date with its external reporting commitments, having published the 2020 and 2021 Annual Report & Financial Statements, and the 2021 and 2022 Interim Reports during the financial year to the 30 September 2022. This is a significant achievement by PCF Group colleagues in putting our historical reporting delays behind us. However, the delay in the finalisation of prior period reports resulted in the Company's shares being temporarily suspended from trading in the prior financial year, (as set out in the 2021 Annual Report & Financial Statements), with the suspension being lifted in January 2022 but reinstated from 1 April 2022 to 31 May 2022, being lifted again on publication of the 2021 Annual Report & Financial Statements.

All the improvements noted above follow on from significant corporate governance progress reported in the 2021 Annual Report & Financial Statements, published in May 2022. These improvements included a substantially new executive management team, the hiring of colleagues to fill key Second Line of Defence roles, enhancement in the Group's stress-testing and credit analytics, and the embedding of a new culture initiative and training programme to put risk at the centre of all that we do in the Group.

The Board continues, together with the Executive Committee, to drive appropriate values, behaviours and attitudes to support the Group's strategy.

At an operational level, the Group applies the Code, which 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 seven directors, five of whom are non-executive and two of whom are Executive Directors. Of the non-executive directors, three are considered independent, including the Chair who is considered independent on appointment and thereafter, under the Code, the test of independence is not appropriate in relation to the Chair. Aside from the Chair, two non-executive directors, 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. Mark Brown was previously a director of two businesses in which Somers Limited was a shareholder.

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. Mark Sismey-Durrant was Interim Chair of the Board Risk Committee from January 2022 until Carol Sergeant's appointment as Chair of the Board Risk Committee on 19 October 2022 and has resumed the role of Interim Chair of the Board Risk Committee from 21 December 2022 following Carol's resignation. Mark Brown is the Interim Chair of the Remuneration Committee, having taken this role following on from the departure of the previous Chair, David Titmuss, in September 2022.

In addition to its scheduled eleven meetings during the financial year, the Board met regularly on specific issues that included the progress of the independent investigation (reported in the Annual Report & Financial Statements 2020), the suspension of trading in the Company's shares, the finalisation of the 2020 and 2021 Annual Report & Financial Statements and Interim Report, the appointment of a new auditor, the raising of capital from our substantial shareholder, Somers Limited, the monitoring of the impact of the significant changes underway in the Group on colleagues, customers and other stakeholders as well as maintaining oversight of prudent management of the financial well-being of the Group. Additionally, the Board has met to consider strategic options for the Group.

An evaluation of the Board and its individual members (including future training needs) was carried out by myself as the new Chair in the fourth quarter of 2022. The Board effectiveness review was an internal self-assessment exercise, completed by individual Board members and facilitated by the Company Secretary.

A report was prepared by the Company Secretary, with the findings of the evaluation having been considered by the Nomination Committee on 20 December 2022. The overall conclusion is that the Board is operating effectively and that individual Board members are operating effectively, though there were recommendations for improvements in the timeliness of the publication of papers to the Board and its committees, for reassessing the Board and committee structure to reflect the Group's status and strategic direction and at the same time to resolve any issues around the balance of independence on the Board.

The Board was considered to have a strong collegiate culture, which has been important as it has navigated the challenges of the last year and will continue to be important in the forthcoming period.

As set out in the Stakeholder Reports, the Group now faces the task of implementing the changes in strategic objectives, as announced on 9 November 2022, and the changes arising from PCF Group plc ceasing to be subject to the AIM Rules for Companies by reason of its ordinary shares ceasing to be listed on AIM since 20 December 2022. The Board is currently reassessing the structure and extent of its overall Board and Committee governance with a view to adapting it to meet its reduced requirements going forward. However, such adaptation will seek to ensuring that the governance and oversight of the Group's processes remains robust to optimise the outcome for the benefit of all stakeholders. The Board will keep under review its composition and skill sets to ensure that it is best placed to achieve this.

Simon Moore

Chair

20 February 2023

PCF GROUP

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 2022.

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

It is the Board's view that it currently 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 as at the year end had an experienced Interim Chief People Officer who regularly engaged with the Board on colleague matters and colleague engagement. This role is now taken up by the new office of the Chief of Staff. Given the size of the workforce, an experienced Chief of Staff is considered the most effective means of developing and monitoring colleague engagement.
- **At least half the Board, excluding the Chair, are not independent non-executive directors (Code Provision 11)** Following the appointments of Garry Stran and Caroline Richardson as executive directors on the 5 October 2021, and notwithstanding the subsequent further changes to the Board, the company ceased to be compliant with this provision. It had been the intention for this to be addressed by the appointment of Carol Sergeant as a further independent non-executive director, but with the resignation of both David Titmuss and Carol Sergeant, unfortunately the Company was unable to achieve this and the composition of the Board will be further reviewed in future reporting periods.
- **Lack of Senior Independent Director (SID) and lack of Chair's appraisal (Code Provision 12)** With the appointment of Mark Sismey-Durrant to the new role of SID on 9 January 2022, the Company addressed its previous non-compliance with this provision. With a SID in place an appraisal of the Chair has now been carried out.
- **Evaluation of performance of Board committees, individual directors and auditors (Code Provisions 21 and 22)** The new Chair has undertaken an evaluation of the effectiveness of the Board and its individual Directors, including future training needs. Effectiveness reviews were also undertaken of the Board Audit Committee, the internal auditors and the external auditors. These effectiveness reviews formed part of the governance remediation by the new Chair, which is substantially complete, however effectiveness reviews are now required to be extended to the other three committees of the Board.
- **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 review of strategic opportunities announced in May 2022, and the decision to stop all lending and exit from the UK banking market, a viability assessment has not been prepared and a viability statement is not included in this Annual Report. Refer to the Directors' Report for the Board's assessment of Going concern.
- **The Remuneration Committee does not comprise solely of independent non-executive directors and its interim Chair is not an independent non-executive director (Code Provision 32)** During the year all non-executive directors (NEDs), including NEDs not regarded as independent, have been members of the Remuneration Committee. The Company has sought to maintain independence through having a majority of independent NEDs on this Committee. On 19 October 2022, the Board resolved that Mark Brown be appointed as Chair of the Board Remuneration Committee on an interim basis. In making its decision, the Board assessed that the factors that it applied when considering Mark Brown's independence, whilst applicable in considering his role as a Board director, were not of a nature that would be likely to influence the undertaking of his duties as Chair of the Remuneration Committee given the scope of its terms of reference. This is a temporary arrangement given the current priorities of the Group; the composition of the Remuneration Committee will be further reviewed in future reporting periods.
- **Disparity in Pension Contribution Rates (Code Provision 38)** Historically, the pension contribution rates have been 10% for executive directors and 7% for the workforce. The Remco has now determined that the pension contribution rates will be aligned for any new Executive Director hirings that the Company might make in the future.
- **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 change in business strategy, the Company will not be in a position to implement this Code provision.

Following the Company's ordinary shares ceasing to be listed on AIM on 20 December 2022, as part of the overall process of reassessing the structure and extent of its Board and Committee governance structure the Board will also be reviewing the extent to which it will continue to adopt elements of the Code.

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 came to the attention of the Board in relation to the 2020 year end, the Board has been particularly focused on reviewing and improving control frameworks to ensure more effective corporate governance and oversight, including the improvement in the internal controls systems and risk framework 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 (BRC) and Board Audit Committee (BAC). The BRC is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures. During the year, the BRC has approved an enhanced RMF. The BAC assists the Board in discharging its responsibilities regarding financial reporting, oversight of external and outsourced internal audit activities, internal controls and whistleblowing. During the year BAC has overseen improvements in financial controls.

Overall assessment

The Board has taken great strides to improve the oversight of the Group's financial controls, and continues to monitor the effectiveness of its RMF and internal controls systems. Additionally, it carefully scrutinised the Financial Position and Prospects Procedures (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, as well as reviewing the controls assessments of third-party advisers. Ultimately, as a result of this scrutiny, the Board approved the FPPP in January 2022.

PCF GROUP

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 LV= Financial Services and Mobilize Financial Services 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.

Number of Ordinary Shares of 5p held:

As at 30 September 2021	None
As at 30 September 2022	**None**

Mark Sismey-Durrant

Independent non-executive director and Senior Independent Director, appointed 9 January 2022.

Mark has over 40 years' experience in banking starting at Midland Bank in 1978. His career has a particular focus on specialist challenger banking and he was CEO of three such banks over a period spanning 23 years – Sun Bank plc, Heritable Bank plc and more recently, Hampshire Trust Bank Plc. He is currently also Chair of fintech Cashplus Bank and Chair of Swedish finance group Yourban. He is a fellow of the Chartered Institute of Bankers and a fellow of the Royal Society of Arts.

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

Number of Ordinary Shares of 5p held:

As at 30 September 2021	None
As at 30 September 2022	**None**

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 13 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 where she chaired their audit committees.

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

Number of Ordinary Shares of 5p held:

As at 30 September 2021	33,204
As at 30 September 2022	**33,204**

Mark Brown

Non-executive director, appointed on 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 the Interim Chair of the Remuneration Committee and is a member of the Nomination Committee.

Number of Ordinary Shares of 5p held:

As at 30 September 2021	200,000
As at 30 September 2022	**200,000**

David Morgan

Non-executive director, appointed on 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.

Number of Ordinary Shares of 5p held:	
As at 30 September 2021	500,000
As at 30 September 2022	**500,000**

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 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 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 Ltd 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.

Number of Ordinary Shares of 5p held:	
As at 30 September 2021	87,305
As at 30 September 2022	**87,305**

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 at the Co-operative Bank plc and during nearly twelve years at Deutsche Bank, latterly as UK Finance Director. Caroline's experience, notably at the Co-operative Bank plc, has included close liaison with the Prudential Regulation Authority. Caroline is a Chartered Accountant and has a First-Class Honours Degree in Economics from the University of Hull.

Number of Ordinary Shares of 5p held:	
As at 30 September 2021	None
As at 30 September 2022	**None**

Appointment and resignation of directors during the year ended 30 September 2022

- 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.
- Carol Sergeant was appointed a director on 20 September 2022 and resigned on 21 December 2022.
- David Titmuss resigned as a director on 20 September 2022.

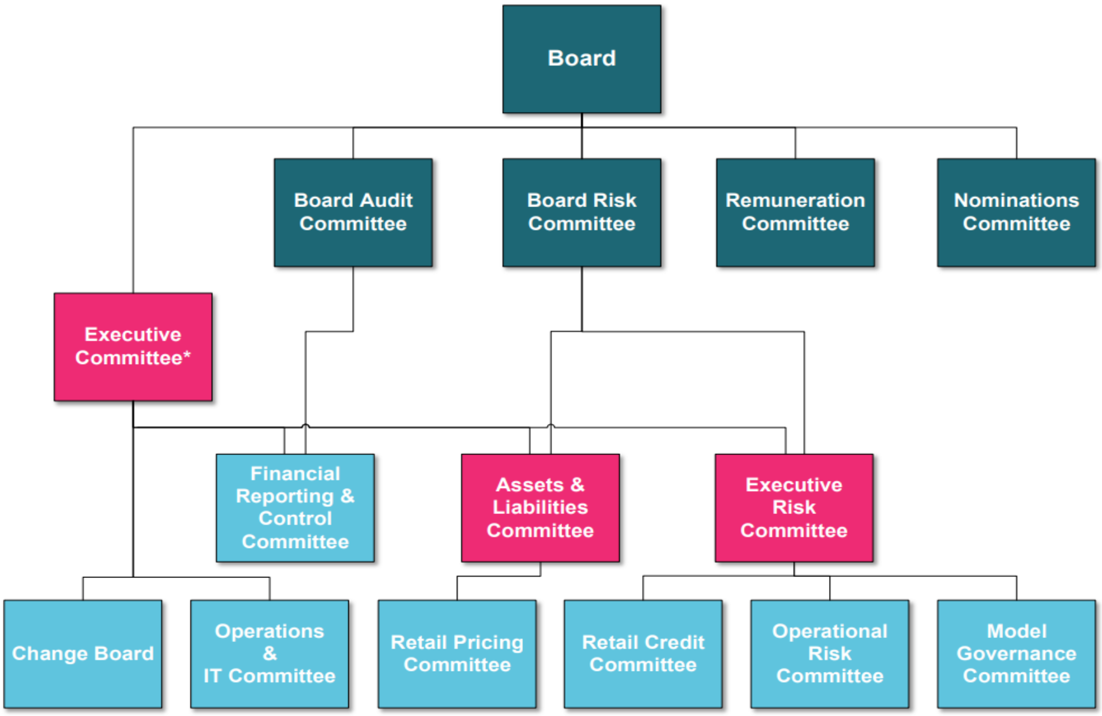
PCF GROUP

Corporate Governance Structure

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

- Nominations 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 30, 31 and 36
- Senior Executives and nominated Heads of Department

The PCF Group plc (the Group) Board meets separately from the PCF Bank Limited (the Bank) Board. The Group Board (hereinafter, the Board) met no less than nine times[17] during the year and its primary responsibilities are to provide leadership, set strategic objectives and risk appetite for the Group. The Board delegates specific powers to other committees, as shown in the chart above, and to the Chief Executive Officer and the Senior Management Team.

The effectiveness of the Board is the responsibility of the non-executive Chair.

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 previously in the Strategic Report and the Corporate Governance Report, improvements in governance have been a priority.

Over the last 15 months a new committee structure and new committee responsibilities have been implemented to improve governance. An outline of the Executive Committee, Financial Reporting & Control Committee, Assets & Liabilities Committee and Executive Risk Committee (ERC) responsibilities are set out in the Risk Management Report on page 58. Below these four Executive committees there are management committees with responsibility for specific risks and appropriate oversight. Prior to the establishment of all the management committees, their responsibilities have been undertaken by the parent Executive committee.

[17] During 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 Structure

Board balance and independence

The Group and the Bank Boards consist of three independent non-executive directors, the Chair, 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 includes Mark Sismey-Durrant, a Senior Independent Director (SID). The SID works closely with the Chair acting as a sounding board and an intermediary for other directors as and when necessary. The SID is available to shareholders and other non-executives to address any concerns or issues considered not adequately dealt with through the usual channels of communication (i.e. through the Chair, the Chief Executive Officer or Chief Financial Officer). The SID is responsible for meeting, at least annually, with the non-executives to review the Chair's performance and for carrying out succession planning for the Chair's role. The profiles of the members of the Board are provided on pages 30 to 31. The tenure of Chair is less than nine years, which is in accordance with the Code. All directors are subject to annual re-election.

The Boards comprise members with diverse professional backgrounds, skills, experience and knowledge in the areas of banking, finance, risk, marketing, business, general management and strategy that are 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 and compliance 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. During the year, a decision was made to appoint Mark Sismey-Durrant as a Senior Independent Director (SID) to increase the resources available to 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 Board is responsible for the success of the Group.

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 Board Risk Committees, whose Chairs provide oral reports, minutes or updates to the Board. The Board Audit and Board Risk Committee review the effectiveness of the controls through the Second and Third Lines of Defence (as set out in the Risk Management Report on page 57. Further details of the work of the Board Audit and Risk Committee can be found on pages 43 to 49.

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 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.

Corporate Governance Structure

Board/Committee Member	Board	Board Audit Committee	Board Risk Committee	Nominations Committee	Remuneration Committee
Number of meetings attended/(eligible)	(21)	(15)	(8)	(4)	(8)
Tim Franklin (resigned 31 January 2022)	6 (6)	–	–	3 (3)	4 (4)
Simon Moore (appointed 9 January 2022)	14 (16)	-	-	2 (2)	4 (4)
Mark Brown	21 (21)	15 (15)	–	2 (4)	8 (8)
Christine Higgins	19 (21)	15 (15)	7 (8)	4 (4)	8 (8)
Marian Martin (resigned 23 December 2021)	5 (5)	5 (5)	2 (2)	1 (2)	3 (3)
David Morgan	20 (21)	–	8 (8)	4 (4)	8 (8)
Carol Sergeant (appointed 20 September 2022 and resigned 21 December 2022)	1 (1)	–	–	–	–
Mark Sismey-Durrant (appointed 9 January 2022)	15 (16)	10 (10)	6 (6)	2 (2)	4 (4)
David Titmuss (resigned 20 September 2022)	19 (20)	–	8 (8)	4 (4)	8 (8)
Garry Stran (appointed 5 October 2021)[18]	19 (20)	–	–	–	–
Caroline Richardson (appointed 5 October 2021)[18]	18 (20)	–	–	–	–

[18] The CEO and CFO are standing invitees to the Board Audit Committee and the Board Risk Committee meetings. The CEO attends the Remuneration Committee and the Nominations Committee meetings by invitation.

Appointments to the Board

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

The Board complies with the provision of the Code, which requires that all directors should stand for reappointment 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

The Chair is responsible for leading the development of, and monitoring the effective implementation of, training for the Directors.

The training plan for directors includes an induction from the HR team for new directors. All directors are required to complete annual refresher training, primarily through the Group's online training system. The induction and refresher training covers various industry practices and standards, such as: whistleblowing, FCA overview, treating customers fairly, GDPR, conflicts of interest, diversity, equality and inclusion, information and cyber security. Directors are committed to their own ongoing professional development. During the year, the Company retained the use of an independent external governance expert as part of our programme of governance improvement, with training delivered to individuals or small groups of Board members on governance and prudential regulatory areas as required. Board members have also received AIM-related training from the Company's NOMAD.

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 responsibilities

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 32. 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 from the Nomination, Remuneration, Board Audit and Board Risk Committee are set out on pages 37 to 49 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, any strategic developments and the legal and regulatory affairs of the Group and the Bank. The CRO has a standing invitation to attend all scheduled Board meetings.

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. When required, additional Board meetings may be organised to ensure key matters receive sufficient Board time and scrutiny on a timely basis.

Executive Committee

The Board has delegated its day-to-day management responsibilities to the Executive Committee (ExCo), which meets at least monthly to ensure effective management of the Group and to monitor its performance. ExCo's primary responsibility is to ensure the implementation of strategies and culture that have been 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.

With the new Group strategy announced in November 2022, and implemented cost reductions, the roles of Chief Capital Officer, Chief People Officer and Sales and Marketing Director have been eliminated. Therefore the former colleagues holding these roles are no longer members of ExCo as at the date of this report. The work undertaken by these former colleagues is now managed by remaining ExCo members.

In addition to Garry Stran, CEO, and Caroline Richardson, CFO, as at the date of this report, the other members of ExCo are set out below. All of these were ExCo members throughout the financial year apart from, Chris Bowyer, Chief Operating Officer and Stephen Butterworth, Chief of Staff, who joined ExCo in September and December 2022 respectively, replacing the previous incumbents of their roles.

Andrew Barber
Chief Technology Officer (CTO)

Andrew joined the 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.

Chris Bowyer
Chief Operating Officer (COO) (awaiting regulatory approval)

Chris has over 35 years of banking and financial services experience. Chris has held senior roles in retail banking and a number of other financial services organisations. Chris has a breadth of experience across operations, IT and transformational change, with a deep knowledge of loan origination and servicing, arrears management, quality assurance and debt sale and purchase. Chris joined the Group as Head of Operational Excellence in early 2021 and was appointed Chief Operating Officer on 1 September 2022.

Jason McCabe
Chief Risk Officer (CRO) (awaiting regulatory approval)

Jason joined the 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 and compliance. Jason 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
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.

Stephen Butterworth

Chief of Staff

Stephen's role is to support the Chief Executive Officer to ensure successful implementation and delivery, and he also has responsibility for the Group's HR and Talent functions. Stephen has over 30 years experience in financial services, with specific expertise in credit management at the operational and strategic level with Nationwide Building Society, and as an Executive Director of private equity owned outsourcing and credit management organisations.

Nomination Committee Report

Committee members of the Nomination Committee (NomCo)

Simon Moore
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 (SID)
(Member from 9 January 2022)

Former members

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

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

David Titmuss
Independent non-executive director
(Member until 20 September 2022)

Dear Shareholder,

I present my report to you as Chair of the Nomination Committee (NomCo) for the year ended 30 September 2022.

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 NomCo

The role of NomCo is to:

- Review the structure, size and composition of the Board.
- Lead the process for appointments to the Board.
- Ensure plans are in place for orderly succession to the Board and senior management positions.
- 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.

In late 2021, Tim Franklin advised NomCo that he was considering retiring in early 2022. NomCo, which had already engaged Warren Partners to source appropriate candidates for the role of Senior Independent Director (SID), then expanded that search instruction to also consider candidates for the role of Board Chair. Following that process, NomCo then recommended to the Board that it appoint Simon Moore as Board Chair and Mark Sismey-Durrant as SID in January 2022.

NomCo recommended the Board to appoint Garry Stran as Chief Executive Officer in May 2022, Garry having held the role of CEO on an interim basis since May 2021.

During the year, NomCo also completed the process of recruiting an independent non-executive director to Chair the Board Risk Committee. NomCo engaged the same external executive search firm to source appropriate candidates, resulting in the appointment of Carol Sergeant in September 2022.

Following David Titmuss's resignation on 20 September 2022, given the current strategic uncertainties of the Group and the anticipated difficulty that would arise in recruiting a replacement Chair of the Remuneration Committee (RemCo), NomCo considered and recommended to the Board that Mark Brown act as the Interim Chair of the RemCo. NomCo assessed the nature of his previously declared interests (Mark Brown having previously been a director of two businesses in which Somers Limited was a shareholder) were likely to be insufficiently influential in relation to his undertaking the Chair of RemCo role, given the scope of the Committee's terms of reference.

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 the 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 2022, three of the Company's eight directors were women.

In line with the UK Corporate Governance Code 2018, NomCo discloses that the gender balance in the Executive Committee at 30 September 2022 was 71.7% male and 28.3% female and in management positions was 80% male and 20% female.

This report was approved by the Nomination Committee on 20 February 2023.

Simon Moore

Chair of the Nomination Committee

20 February 2023

Remuneration Committee Report

Committee members of the Remuneration Committee (RemCo)

Mark Brown

Non-executive director
(Member throughout the year and Interim Chair from 19 October 2022)

Simon Moore

Non-executive director
(Member from 9 January 2022)

Christine Higgins

Independent non-executive director

David Morgan

Non-executive director

Mark Sismey-Durrant

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

Former members

Tim Franklin

Non-executive director
(Member until 31 January 2022)

Marian Martin

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

David Titmuss

Independent non-executive director
(Chair/Member until 20 September 2022)

Carol Sergeant

Independent non-executive director
(Member from 19 October 2022 to 21 December 2022)

Dear Shareholder,

I present my report to you as Chair of the Remuneration Committee (RemCo) for the year ended 30 September 2022.

Introduction

The RemCo has delegated responsibility from the Board for reviewing the performance of the executive directors and the remuneration of the directors and senior managers in the Group.

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. During the year ended 30 September 2022, RemCo specifically consulted with such external advisers when considering adjustments to the remuneration arrangements of the Chief Executive Officer and the Chief Financial Officer.

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 further ensure that the interests and values of our customers and stakeholders 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 against 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 the 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.
- Annual performance incentive.
- 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 51 to 54. 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 that are not share-related are disclosed in Note 32 to the Financial Statements.

Following the cancellation of the trading of the Company's shares on AIM on 20 December 2022, the Committee will be reviewing the structure of the share-based component of the executives' remuneration.

Key activities in the year

The Committee's primary activities during the year included:

(i) a review and the making of certain administrative updates to its terms of reference.

(ii) a review and determination of salary increases and bonuses for both the executive directors, and the remuneration principles to be applied to other Group colleagues.

(iii) the initial fee arrangements for newly appointed non-executive directors, existing non-executive directors and the Chairs of the Board Audit and Board Risk Committees.

(iv) the remuneration package for Garry Stran upon his assuming the role of CEO from his Interim CEO role.

(v) the CEO and CFO remuneration and retention arrangements.

RemCo met eight times during the year to 30 September 2022.

Since 30 September 2022, the Committee has met twice, on 20 October 2022 to consider the 2021/2022 pay review and annual performance incentive arrangements for all colleagues including the Executive Directors. Due to the overall strategic position of the Group at that time, and the financial performance of the Group in the year to 30 September 2022, it was determined that it was not appropriate to award an across the board pay increase and no annual performance incentives should be paid. In addition, certain retention payment principles were recommended for the key positions and colleagues required to ensure operational integrity be maintained to a standard required for the ongoing strategic and regulatory requirements of the Group, as it withdraws from the UK banking market. The RemCo also met on the 11 January 2023 to consider future remuneration and incentive arrangements for the workforce.

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 certain other employees' contribution rates 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 is not aligned in accordance with the provisions of the 2018 UK Corporate Governance Code. RemCo agreed during the year that the contributions will be aligned for any future new director and senior employee hires.

Variable remuneration

The annual performance incentive 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 2022, 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 2022, and due to the overall strategic position, no payments in respect of the annual performance incentive component of remuneration packages were made.

2022	Fixed Salary/fee £'000	Fixed Pension £'000	Fixed Taxable benefits £'000	Variable Bonus £'000	Variable Other £'000	Total £'000
Executive directors						
G Stran (appointed 5 October 2021)[19, 20]	**335**	**34**	**8**	**—**	**127**	**504**
C Richardson (appointed 5 October 2021)[19, 21]	**269**	**27**	**1**	**—**	**196**	**493**
Non-executive directors						
M F Brown[22]	**43**	**—**	**—**	**—**	**—**	**43**
T A Franklin (resigned 31 January 2021)	**40**	**—**	**—**	**—**	**—**	**40**
C A Higgins[22, 23]	**59**	**—**	**—**	**—**	**19**	**78**
D J Morgan[22]	**43**	**—**	**—**	**—**	**—**	**43**
D Titmuss[22, 24] (resigned 20 September 2022)	**65**	**—**	**—**	**—**	**—**	**65**
M Martin (resigned 23 December 2021)	**28**	**—**	**—**	**—**	**—**	**28**
S Moore (appointed 9 January 2022)	**105**	**—**	**—**	**—**	**—**	**105**
M T Sismey-Durrant (appointed 9 January 2022)	**56**	**—**	**—**	**—**	**—**	**56**
C Sergeant (appointed 20 September 2022 and resigned 21 December 2022)	**2**	**—**	**—**	**—**	**—**	**2**
Total	**1,045**	**61**	**9**	**—**	**342**	**1,457**

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

[19] Includes remuneration for the full financial year including 1-4 October 2021.
[20] G Stran undertook the role of Interim CEO and received an allowance of £96,000 in addition to his salary as COO of £245,000 to reflect the increased responsibility. Upon appointment as CEO his base salary was increased to £380,000 effective from February 2022, 'Other' £32,000 relates to additional allowances prior to February 2022 and £95,000 of retention payments relating to the period June 2022 to September 2022. Taxable benefits including Private Medical Insurance and Pension were paid in cash.
[21] CFO salary increased to £300,000 from £225,000 with effect from 1 March 2022 to reflect the responsibilities being undertaken. 'Other' includes: £25,000 related to salary allowances prior to March 2022; £75,000 of retention payments relating to the period June 2022 to September 2022 and £45,000 related to the cost of accommodation, which ceased in September 2022, together with the associated cumulative tax liability of £51,000 paid in November 2022.
[22] The NED fee structure for existing NEDS was revised, with effect from 1 July 2022, and revised fees are included above for Christine Higgins and David Titmuss. Mark Brown and David Morgan remained at their current level of fees.
[23] Christine Higgins received a temporary uplift in her Non-Executive fee for additional regulatory responsibilities undertaken during the period February 2022 to April 2022 before these regulatory responsibilities were fully undertaken by Simon Moore (the new Chair of the Board) and Mark Sismey-Durrant (the Chair of the Board Risk Committee). This temporary uplift is included in 'Other'.
[24] David Titmuss received £16,250 of fees in lieu of notice on leaving the Group on 20 September 2022.
[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.

[27] Remuneration from date of appointment as Interim Chief Executive on 21 May 2021 (having joined the Group as COO in 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.
[28] 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

Following the investigations undertaken in 2021, and in the context of specific findings, commercially agreed settlement arrangements have been reached in relation to recovery actions against certain individuals. The Group continues to consider and pursue other claims.

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, 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 20 February 2023.

Mark Brown

Interim Chair of the Remuneration Committee

20 February 2023

Board Audit Committee Report

Committee members of the Board Audit Committee (BAC)

Christine Higgins

Independent non-executive director

(Chair)

Mark Sismey-Durrant

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

Former members

Marian Martin

Independent non-executive director

(Member until 23 December 2021)

Mark Brown

Non-executive director

(Member until 19 October 2022)

Carol Sergeant

Independent non-executive director

(Member from 19 October 2022 to 21 December 2022)

Dear Shareholder,

I present my report to you as Chair of the Board Audit Committee (BAC) for the year ended 30 September 2022 and I have outlined below the key work of the Committee during the year.

Responsibilities of BAC

- 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 UK LLP (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.
- 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.

Composition and governance

BAC consists of two non-executive directors, both 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 include the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and representatives of the outsourced internal audit function and the external auditor. Since his appointment, the Chair of the Board has also attended BAC as a standing invitee.

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

Meetings and areas of focus

BAC met fifteen times during the year, including four scheduled meetings. An oral report was made to the Board following each meeting and the approved minutes are made available for Board members to review.

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 meetings to address matters related to delayed completion of the Financial Statements to 30 September 2020, and financial controls and reporting process remediation activities. Additionally, due to delayed external reporting, BAC meetings during the financial year to 30 September 2022 have included BAC considerations relating to the publishing of the 2020 and 2021 Annual Reports & Financial Statements, and 2021 and 2022 Interim Reports. Details of BAC considerations in relation to these reports are included in the BAC reports in the respective 2020 and 2021 Annual Reports & Financial Statements, and are therefore not repeated in this BAC report.

Financial reporting and preparation of the financial statements

The Committee scrutinised the Annual Report & Financial Statements 2022. The Committee considered the Annual Report & Financial Statements 2022 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 2022 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 the language used could be understood by a person with reasonable knowledge of financial sector financial reporting. 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 economic and geopolitical events were appropriately recognised.

The Committee discussed and challenged the management's analyses, the external auditor's work, and conclusions on the main areas of judgement presented in the Annual Report & Financial Statements 2022 (see details below under 'Significant accounting issues and judgements') as well as the management's documented assessment of compliance with the UK Corporate Governance Code 2018, including those exceptions set out on page 28.

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 2022. Financial information submitted for inclusion in the Financial Statements was verified by individuals with appropriate knowledge and experience. The Annual Report & Financial Statements 2022 was scrutinised throughout the process by relevant senior stakeholders before being submitted to BAC, 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 2022 was discussed with the external auditor during the year and, where appropriate, has been addressed as an area of audit focus in the Auditor's report. The Committee also scrutinised the March 2022 Interim Report and the accounting judgements made in its preparation.

Remediation and improvements in financial controls and reporting processes

The finance transformation work sought to embed good practice, efficiency and control improvements. This transformation work has been managed by an experienced change professional who provided regular oversight reports to BAC. In April 2022, BAC oversaw the creation of a 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. As a result of the change in business strategy announced in November 2022, the redevelopment of the Group's IFRS 9 model was stopped, and further Financial Control Framework control improvement works have been limited to only essential control items.

Accounting policies and judgements

The Committee reviewed the Group's accounting policies during the year and confirmed that 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 2022 reporting are set out within this report.

In view of the Group not applying the Going concern basis of preparation, as set out below, the accounting policies have been appropriately updated.

The Committee noted that there are 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 that had a material impact on the Group.

Significant accounting issues and judgements

In reviewing the 2022 Financial Statements, BAC reviewed, discussed and challenged the management's assessment of the following significant accounting issues and judgements:

- **Going concern**: The committee considered IAS1's guidance that an entity is a Going concern unless management either intends to liquidate the entity or cease trading or has no realistic alternative but to do so. Given the change in strategic direction announced by the Group on 9 November 2022, the committee agreed with management's assessment that it would not be appropriate to apply the Going concern basis of accounting and that an alternative basis of preparation of 'other than Going concern' was appropriate. The committee considered management's assessment of the implications of this conclusion, and the key dependencies, on the application of the relevant accounting standards and agreed that no significant classification or measurement changes arose from them.
- **Events after the balance sheet date**: The committee considered the conditions and decisions which had existed at the year end and those which occurred only after the balance sheet date. It also considered whether those post-balance sheet events might instead have only provided evidence of conditions that already existed at the year end date. The committee is satisfied that while efforts to raise further growth capital and to seek other strategic opportunities which may have avoided the decision to exit the UK banking market, continued after the year end, there was a high degree of uncertainty that any of these could realistically be achieved. The committee therefore agreed that, substantively, the decision to exit the UK banking market was taken prior the year end; and that the announcements made after the year end provide only further evidence of conditions present at the year end. The committee therefore agrees with the assessment that those announcements require certain adjustments in these financial statements as post-balance sheet events.
- **IFRS 9 - Expected Credit Loss (ECL) allowance**. The Committee discussed management's assessment of key assumptions used in the IFRS 9 models and the assumptions and rationale that supported adjustments to the modelled ECL allowance 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.
- **IFRS5 – Held for Sale and Discontinued Operations**: The committee noted the advanced status of discussions for a sale of the Azule Limited loan portfolio. It agreed with management's assessment that a sale of the portfolio is highly probable within one year and recognised that the sale completed before these financial statements were issued for signing. The committee therefore agreed that it should be classified as a disposal group of non-current loans and advances to customers held for sale under IFRS 5 as disclosed in Note 15 and Note 1.6.7. The committee discussed whether any of the strategic options being considered by management as at the year end date indicated with a high probability that a sale of other loans or operations, in whole or in part, may be concluded within 12 months. The committee agreed with management's assessment that they would not and therefore that no other assets or operations would be classified as Held for Sale or Discontinued Operations.
- **IFRS9 – Change in business model:** In light of the uncertainty that existed at year end over which, if any, of the strategic options available to management might progress the committee agreed that, with the exception of the Azule Limited loan portfolio, insufficient clarity existed to support a change in business model of any, or all, of the loan portfolio from Hold to Collect contractual cash flows to an alternative basis. For the same reason, management's decision for no change in business model of other financial assets, including the Group's liquidity resources, is supported by the Committee.

- **Onerous contracts**: The committee recognised the decisions to reduce operational costs taken in advance of the year end and those arising from the conclusion that events after the balance sheet were adjusting events. The committee agreed with management's identification of contracts that were and were not onerous at the year end date.
- **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.
- **Fixed and Intangible asset impairment**: At 30 September 2022, the carrying value of the Group's tangible assets was £1.3 million (2021: £2.4million) as set out in Note 17, and intangible assets was £nil million (2021: £3.1 million) as set out in Note 18 to the Financial Statements. The Committee considered management's impairment assessment of tangible and intangible assets, and in particular management's proposal that the value of all intangible assets should be fully impaired as at 30 September 2022. The Committee noted the findings of impairments identified by management and is satisfied with the impairment assessments, and that the presentation of tangible and intangible assets in the Financial Statements is appropriate.
- **Assessment of deferred tax assets**: As the Going concern basis of preparation has not been applied, the committee was comfortable it remained appropriate that no deferred tax assets were recognised. See Note 11 for further details.
- **Recoverability of the Parent Company's investment in the Bank subsidiary**: The Parent Company's carrying value of its investment in PCF Bank Limited at 30 September 2022 was £36.1 million (2021: £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 that the recoverable amount of the investment in the Bank, being the Bank's cash-generating unit's net asset value, was greater than the carrying value of the Parent Company's investment in the Bank. As a result, management's conclusion was that 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 Company's carrying value of its investment in Bank.
- **Risk of management override of controls**: The Committee considered the risk that management could override controls and was comfortable that the control framework that is in place across the Group, ensures that this risk is managed appropriately.
- **Derecognition of loans and advances to customers on sale of credit-impaired loans**: In August 2022, the Group sold a portfolio of credit-impaired loans with a carrying value of £0.4 million, generating a small profit on disposal of £18,000, as set out in Note 7 to the Financial Statements. The Committee considered the 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 2022, and that the ECL allowance on the remaining credit-impaired loan portfolio was appropriate at 30 September 2022. 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.

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 pages 15 to 16. 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 the prior financial year, and the Group also recognised a profit from the sale of credit-impaired loans in the year ending 30 September 2022 and 30 September 2021, and incurred significant costs in respect of remediation activities in both years. The Group also recognised an onerous contract provision and impairment on software, which are both accounting adjustments associated with its exit from the UK banking market. 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.

Internal audit

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

The Board has outsourced its internal audit function to Grant Thornton UK LLP (Grant Thornton). BAC is responsible for agreeing and overseeing the internal audit plan. Grant Thornton issued nine internal audit reports during the year ending 30 September 2022 (2021: eight). There were no high rated audit findings or unsatisfactory reports issued during 2022. There was one audit rated 'Satisfactory', (Cyber Security), (2021: four). Four audits were rated 'Some Improvement Required', (Ransomware, Complaints, Savings products and design of the Culture change programme), (2021: three). Three audits were rated 'Needs Improvement', (Financial controls, Regulatory reporting controls and Treasury LSREP, (2021: three). One audit was unrated, (Climate Change), as management were no longer in a position to undertake management actions following the strategic decision to withdraw from the UK Banking market. In 2022 there were no audits being rated 'Unsatisfactory' (2021: one).

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. With the uncertainty on the future strategic direction of the Group and other third party assurance work undertaken in the group in 2022, the audit plan required adjusting with a total of nine audits completing fieldwork versus the original plan of fifteen audits (2021: eight) being undertaken in the year.

Grant Thornton observed the response from the areas they reviewed during the year and, through interaction with the management, reported that the 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 the presence of the management.

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 through discussion of issued internal audit reports with Grant Thornton. In addition, an effectiveness review of the outsourced internal auditor was performed and actions identified to further improve effectiveness.

The original internal audit budget for the financial year 2022/23 was significantly increased to include part time internal audit resource dedicated to the Group, and to provide more internal audit coverage. However, BAC is currently assessing the internal audit programme for the next 12 months in light of the recent change in strategic objective.

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 has delegated to BAC the responsibility for reviewing and monitoring the effectiveness of 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 that resulted in the delayed publication of the Annual Report & Financial Statements 2020, and consequently the delayed Annual Report & Financial Statements 2021. In 2021 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 forms part of the enhanced Risk Management Framework. The Committee and the CFO have utilised independent external advisers to support the changes required. The cost of these external advisers, plus those utilised on other remediation activities, has contributed to elevated professional services fees as set out in the business performance review. However, with the announcement to cease new lending, and with steps taken to reduce our cost base, the next stage of the FCF project will no longer proceed. .

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

During the financial year, the oversight of reports issued by the Chief Compliance Officer was transferred from BAC to BRC. Prior to the transfer to BRC, 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 Terms of Reference.

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

BAC has overseen internal control systems and reporting improvements.

New auditor

The transition to the new auditor, MacIntyre Hudson LLP (MH), took place in the year ending 30 September 2022 and was overseen by BAC, with the first MH audit being of the Annual Report & Financial Statements 2021. Details of the transition were set out in the BAC 2021 report.

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 2022 including their initial assessment of risks, risk evaluation, areas of focus, scope and materiality, as well as the results of the audit. The committee also reviewed and approved the fees proposed by MH, and these are set out in Note 10.

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

During the year, 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. The BAC effectiveness review of MH and the audit transition concluded that overall MH were performing effectively, with improvements made in the financial year.

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 2022 through a questionnaire sent to BAC invitees, which concluded that the Committee was operating effectively.

This report was approved by the Board Audit Committee on 20 February 2023.

Christine Higgins

Chair of the Board Audit Committee

20 February 2023

Board Risk Committee Report

Members of the Board Risk Committee (BRC)

Christine Higgins

Independent non-executive director

David Morgan

Non-executive director

Mark Sismey-Durrant

Independent non-executive director (SID) (Member from 9 January 2022, Interim Chair from 9 January 2022 to 19 October 2022 and currently Interim Chair from 21 December 2022)

Former members

Carol Sergeant

Independent non-executive director

(Chair and Member from 19 October 2022 to 21 December 2022)

Marian Martin

Independent non-executive director

(Chair and Member until 23 December 2021)

David Titmuss

Independent non-executive director

(Member until 20 September 2022)

Dear Shareholder,

I present my first report to you as Chair of the Board Risk Committee (BRC) for the year ended 30 September 2022.

The BRC's principal role 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.

In addition, BRC supports the Board in setting the tone and the culture that promotes effective risk management across the Group.

Responsibilities of 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 & Compliance Function, including the sufficiency of resources.
- Advise the Board on the risk aspects of any proposed changes to strategy or 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.
- Review exceptions and breaches to Board-approved policies, including lending outside of the Credit Policy.
- Oversee the risks associated with the Group's complex and material financial models.
- Review reports from the Money Laundering Reporting Officer (MLRO) and the adequacy and effectiveness of both the Group's and Bank's financial crime controls.
- Review the Group's ICAAP, ILAAP, Recovery and Solvent Wind-Down Plans, and recommend them to the Board for approval.

Composition and governance

BRC consists of three non-executive directors, of which two 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 BRC are the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Deputy Chief Risk and Chief Compliance Officer, Chief Operating Officer and Chief Capital Officer.

The Chairs of BRC and BAC are each a member of the other's Committee. The Chief Risk Officer is accountable to the BRC and has a reporting line into the Chair of BRC.

Meetings and areas of focus

BRC has held eight meetings during the financial year. Following the Group's announcement to suspend new lending activities, a BRC was convened to review the revised business and strategic risk outlook for the Bank, and subsequently advised the Board on the risks arising from this strategic change and the data and analysis required to monitor these risks.

The regular meetings considered matters including, but not limited to:

- The ongoing review of the viability of the Group's Solvent Wind-Down Plan and the key risks associated with any invocation thereof.
- The enhancement of the Group's RMF (which was subsequently approved by the Board in March 2022).
- The review of resources within the Second Line Risk Management Team, and the execution of the associated recruitment plan to ensure that the experience and capability of the team was of an appropriate standard.
- The review of the target risk architecture and data infrastructure required to ensure that the oversight of the Group's key risk exposures, in particular credit risk and operational risk, was of an appropriate standard.
- The review and amendment of the Risk Appetite Statements and Level 1 metrics to ensure that they were of an appropriate standard.
- A review of changes in approach to interest rate and market risk mitigation methodologies.
- A review of the Group's readiness for the new Consumer Duty regulations.

BRC has carefully monitored the risks 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 and the Group's emerging risks, as set out in the Strategic Report.

Following the approval of the revised RMF, approved by Board on 28 March 2022, the review of the Compliance Report and associated matters transferred from Board Audit Committee to BRC.

The 2022/23 priorities for the Risk and Compliance Function are outlined below.

- The review and approval of the Group's principal risk policies.
- Oversight of the Group's execution of its amended business plan, given its exit from the UK banking market.
- The review of the performance of the portfolio in relation to forbearance, arrears and other credit related matters.
- The review of the Treating Customers Fairly (TCF) aspects of withdrawing from the UK banking market.
- The review of the annual MLRO report, together with the adequacy and effectiveness of the Group's financial crime controls.
- A review of the key assumptions and scenarios for liquidity and capital stresses and potential impact on the Group's amended business plan.

Looking ahead

As part of its remit, BRC is responsible for overseeing the risks arising from the Group's revised strategic objective to withdraw from the UK banking market. The Committee's main priority is to support the successful execution of this strategy through effective review and challenge, including monitoring an appropriate set of risk metrics and early warning indicators.

This report was approved by the Board Risk Committee on 20 February 2023.

Mark Sismey-Durrant

Interim Chair of the Board Risk Committee

20 February 2023

PCF GROUP

Directors' Report

The directors present their report and audited consolidated Financial Statements for PCF Group plc for the year ended 30 September 2022.

Principal activities

The Group's principal activities have been the purchase, hire, financing and sale of vehicles, equipment and property, and the provision of related fee-based services and retail savings products. The subsequent events section (and the Going concern statement set out on page 52) highlight that the activity of the Group has changed after the year end, as no new lending is being undertaken and no new deposits are being taken by PCF Bank Limited. Additionally, whilst the Group will continue to service its existing business, it has also announced that it will look to manage its existing loan and savings portfolio positions down and to reduce its cost base.

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 on pages 3 to 22.

The consolidated results for the financial year are set out in the Consolidated Income Statement on page 74.

The directors do not recommend the payment of a dividend in respect of the year ended 30 September 2022 (year ended 30 September 2021: nil).

Share capital

PCF Group plc is a public limited company incorporated in England and Wales; its shares were historically quoted on the AIM market of the London Stock Exchange up until 20 December 2022. Further details of the delisting are set out in the Subsequent Events disclosure section below. Mindful of the impact of the AIM delisting on shareholders and their ability to trade their shares, the Group has put in place a matched bargain settlement facility with Asset Match as announced on 9 December 2022.

Due to the delays in finalisation of the 2020 and 2021 Annual Report & Financial Statements, the Group's shares were temporarily suspended from trading in May 2021. The suspension was lifted on 25 January 2022, on publication of the Interim Report 2021, but reinstated from 1 April 2022 to 31 May 2022 before again being lifted on publication of the Annual Report & Financial Statements 2021 at the end of May 2022. The Company is now up-to-date with its historical external reporting commitments.

The Group has in issue one class of ordinary shares of 5 pence each all ranking pari passu. All the issued ordinary shares of the Group 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 28 to the Financial Statements. The review of forward-looking prudential regulatory metrics, and the prudent management of regulatory capital, resulted in the two capital injections totalling £4.1 million by the Group's majority shareholder, Somers Limited, in June and July 2022. During the year, shareholders approved the grant of new authorities to allot and issue new ordinary shares up to a nominal value of £25 million and separately to disapply pre-emption rights in respect of such issuance.

Directors and their interests

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

The directors' interests in the shares of the Company, all of which were beneficial interests, at 30 September 2022, or at the date of resignation, are listed below.

	At 30 September 2022*	At 30 September 2021
Non-executive Directors	**No. of ordinary shares of 5p each**	**No. of ordinary shares of 5p each**
Simon Moore** (appointed 9 January 2022)	-	-
Mark Brown**	200,000	200,000
Christine Higgins**	33,204	33,204
David Morgan**	500,000	500,000
Carol Sergeant (appointed 20 September 2022 and resigned 21 December 2022)**	-	-
Mark Sismey-Durrant (appointed 9 January 2022)**	-	-
Tim Franklin (resigned 31 January 2022)*	125,783	125,783
Marian Martin (resigned 23 December 2021)*	37,303	37,303
David Titmuss (resigned 20 September 2022)*	50,000	50,000
Executive Directors		
Garry Stran (appointed 5 October 2021)**	83,705	83,705
Caroline Richardson (appointed 5 October 2021)**	-	-

* Shareholdings are as at the date of resignation for former directors.
** There has been no change in shareholdings from 30 September 2022 to the date of this report.

No directors held options in the Company's share option plans as at 30 September 2022 (2021: nil).

Directors' compensation

Details of the remuneration of the directors and other benefits are provided in the Remuneration Committee Report on pages 39-42 and in Note 9 to the Financial Statements.

Directors' indemnities

The Company's Articles of Association permit it to indemnify directors in accordance with the Companies Act. PCF Group plc granted contractual indemnities to each of the current directors to cover against liabilities that they may sustain or incur in the proper performance of their duties. These indemnities are available for inspection at the Company's registered office. The Group maintains Directors and Officers (D&O) liability insurance for qualifying directors and officers.

Substantial shareholdings

At 30 September 2022, the Company had been notified of the following interests of 3% or more in its issued ordinary share capital.

	Percentage
Somers Limited	73.24%
Stichting Value Partners	11.54%

Corporate governance statement

The Corporate Governance Report set out on pages 26 to 49 provides a review of the Group's corporate governance arrangements.

The various Board Committee reports, and the section 172 statement set out on pages 37 to 49 and pages 20 to 22 respectively, 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 2022 (2021: 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 55 to 68.

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 55 to 68.

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 consider that the strategic decision taken in November 2022, to exit the UK Banking market and to ultimately manage its loan and savings portfolio positions down over time in line with their respective terms and conditions, whilst exploring strategic opportunities, are all relevant and applicable to the Annual Report & Financial Statements 2022. Those decisions were made given the absence of a strategic capital injection or a viable business combination.

The implications of those decisions are that the Board ultimately intends to liquidate the entity, with the focus shifting to ensuring an orderly exit from the UK banking market, with PCF Group delisting from AIM on 20 December 2022, hence the application of the Going concern basis of accounting is inappropriate.

The Board has reviewed a new baseline forecast financial plan and assumptions, which indicates that PCF Group can continue to meet all liabilities as they fall due over the next 12 to 18 months.

The Group and the Bank have prepared a solvent wind down plan (SWD) in connection with the Group's and Bank's withdrawal from the UK banking market. There remains a risk that the Group and the Bank are unable to remain solvent during the implementation of the SWD. The key risks that would prevent this from being achieved include:

- The cash flows from its lending portfolio (whether from the sale of assets or natural amortisation) fail to meet planned expectations.
- The current sector-wide legal uncertainty regarding potential claims for compensation from customers in respect of commissions paid to brokers for lending introductions, adversely impacting the execution of the strategy.
- An inability to retain or recruit sufficiently skilled colleagues.
- An inability to manage costs with received business plan.
- An intervention by the Group's Regulators.

In conclusion therefore, in the absence of a strategic capital raise or viable business combination, the directors have taken the decision to exit the UK banking market and hence ultimately liquidate the entity, which determines that the Annual Report & Financial Statements 2022 will use an accounting basis other than Going concern.

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 on pages 17 to 19 and the Risk Management Report. In line with the requirements of the 2018 UK Corporate Governance Code (the Code), the directors have performed an assessment of the principal and emerging risks facing the Group, including those that would threaten its business model and impact the Group's performance, capital or liquidity. Indeed several of these risks have now materialised and accordingly as set out below, in the subsequent events section (and in the Going Concern statement above), the Group's focus, and hence the risks it faces have shifted to exiting the UK banking market.

Risk management and internal controls

As described in the Corporate Governance Report on pages 26 to 36, the Group's risk management and internal control systems are monitored at Board level. A review of the Group's Risk

Management Framework (RMF) has been undertaken, overseen by the Board Risk Committee.

The Group's prospects have previously been assessed primarily through a strategic plan. The production of the strategic plan included a full review of recent performance and key assumptions by the CFO, CEO and the Executive Committee, before presentation to. and approval by, the Board. However, in view of the decision to exit UK banking market, the focus of the review of the Group's prospects has now shifted to how to best: 1) manage its loan and savings portfolio positions down over time; 2) reduce its cost base and 3) ensure an orderly run off of the business.

Subsequent events disclosure

Since 30 September 2022 year end, there have been the following events.

On 5 October 2022, a Regulatory News Service (RNS) statement was issued by the Company announcing that Castle Trust plc no longer intended to make an offer for the Group, and that the directors were seeking to raise further growth capital and also exploring other transactional options. In addition to the above, due to the continued uncertainty, it was also announced that the directors had decided to suspend any new lending and to accelerate a review of operational structures in order to reduce the Group's cost base.

On 9 November 2022, the Group issued a further RNS concluding that it was in the best interests of all stakeholders of the Group to commence a process of withdrawing from the UK banking market. As a result, PCF Group will not be recommencing lending and will therefore manage its loan and savings portfolio positions down over time in line with the products' respective terms and conditions, whilst progressively reducing its cost base. The Group also announced that it planned to cancel its share listing on AIM.

The Group has taken and continues to take steps to implement the activities outlined in these RNS announcements, including staff and cost reductions.

The rationale for the delisting from AIM was that at a time when the Group needed to focus on its efficient operations and reducing its loan and deposit books, significant internal resources and external advice have been required for compliance with AIM Rules. This use of internal and external resources is expensive for the Group and is not benefiting shareholders as it would if the Group were not exiting the UK banking market.

Accordingly, the directors considered that it was no longer in the best interests of the Group or its shareholders as a whole for the Group to retain its AIM listing and, as announced by way of further RNS and a Circular on 22 November 2022, then took steps to cancel the Company's listing from AIM. This occurred on 20 December 2022, following the shareholders' approval in General Meeting on the 12 December 2022.

See non-adjusting events after the balance sheet date on in Note 33 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 UK adopted 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, in which regard please see Going concern Statement.

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 financial loss 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 opinion, of which the auditor is unaware.

Resignation of Ernst & Young LLP and the appointment of new auditors at a 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 MacIntyre Hudson LLP to replace them on 23 December 2021.

Annual General Meeting and additional General Meetings

At the General Meeting of PCF Group plc on 4 February 2022, its members passed three ordinary resolutions:

1. To receive and approve the Directors' Report and the audited Financial Statements of the Group 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 Group and to authorise the directors to determine their remuneration.

At the Annual General Meeting of 25 March 2022, resolutions were passed to re-elect the directors. In addition, two resolutions were passed as follows:

1. A resolution to empower the directors to allot for cash on a non-pre-emptive basis: (i) in connection with a rights issue, open offer or other pro-rata offer to existing shareholders; and (ii) (otherwise than pursuant to (i)) up to approximately 5% of the total issued ordinary share capital of the Company.
2. A resolution to authorise the Company to apply a ratio between fixed and variable components of total remuneration of 'Remuneration Code Staff' that exceeds 1:1, provided that the ratio does not exceed 1:2.

As the Annual Report & Financial Statements 2021 was not ready at the time of the holding of the Annual General Meeting, a General Meeting was held on 29 July 2022, at which its members passed three ordinary resolutions:

1. To receive and approve the Directors' Report and the audited Financial Statements of the Group for the year ended 30 September 2021.
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 2021.
3. To re-appoint MacIntyre Hudson LLP as auditors of the Group and to authorise the directors to determine their remuneration.

At the General Meeting on 6 July 2022, its members approved the grant of new authorities to allot and issue new ordinary shares up to a nominal value of £25,000,000 and separately to disapply pre-emption rights in respect of such issuance.

At the General Meeting on 12 December 2022 the delisting of the Group's shares from AIM was approved by its members. Further details are set out in the Subsequent Events section above.

A separate letter from the Chair summarising the business of the Annual General Meeting and the Notice convening that meeting will be sent to the members with this Annual Report.

The Directors' Report was approved by the Board on 20 February 2023.

On behalf of the Board

G G Stran

Chief Executive Officer

20 February 2023

Risk Management Report

for the year ended 30 September 2022

Introduction

The report relates to the year ended 30 September 2022. This report is dated 20 February 2023. The report has been brought up-to-date for recent events and matters relevant to the Group's current operating model where appropriate.

Principal risks are the primary risks that the business faces that could impact the delivery of the Group's strategic objectives. 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 that 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 operates effectively. While the RMF has undergone a review and been in place throughout the year, the programme of work initially planned to further enhance and embed the framework will be refocused and aligned to the Group's revised strategy, to ensure it remains successful during its withdrawal from the UK banking market.

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 a proportionate risk appetite is set.

The Board sets the risk appetite and culture and ensures that this is cascaded into day-to-day operations through policies, qualitative statements, risk appetite metrics, risk exposure limits, Board and committee review, monitoring and assurance, recruitment of competent employees and training. 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 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 that could impact the delivery of its strategic objectives, 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 interest 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 RMF is 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. It 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 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 Prudential Regulation Authority (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.

Board Risk Strategy and Appetite

Business Lines & Central Functions	Risk Functions	Internal Audit Function
First Line of Defence (1LoD)	**Second Line of Defence (2LoD)**	**Third Line of Defence (3LoD)**
Risk Management & Control	**Independent Oversight & Challenge**	**Independent Assurance**
• Identify, assess, control and mitigate risks within risk appetite. • Develop and implement internal procedures, plans and controls. • Clear definition of roles and responsibilities. • Escalate issues to management and control functions. • Development and implementation of risk management actions. • Monitoring of risk against expectations/appetite. • Provide reporting to senior management. • Focus on achieving fair customer outcomes.	• Develop robust frameworks and policies to control and manage risks. • Facilitate and oversee implementation of effective risk management practices by business owners. • Co-ordinate the Group's approach to setting and reporting of risk appetite. • Monitoring effectiveness of frameworks/high-level policies. • Oversight of 1LoD on-going management of compliance with regulatory requirements. • Advisory and oversight.	• Review and assessment of first and second line activities. • Provide independent assurance of the risk management framework.

- Business lines, as the First Line of Defence, have the primary responsibility for risk decisions: identifying, measuring, monitoring and controlling risks within Board approved risk appetite. They are required to establish effective governance and control frameworks for their business areas that are compliant with Group policy requirements. This includes the need to develop and maintain appropriate risk management skills and processes to enable them to operate within the Group's risk appetite.
- The Second Line of Defence encompasses the Risk & 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 2022, compliance with risk appetite was reported to the BRC and the Board by the CRO. 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 the Group'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 26 to 49, 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. values, in the activities overseen by that committee. The role of key executive led committees is given below.

Executive Committee (ExCo)

The Board has delegated responsibility for the day-to-day management of the Group to the Executive Management Team, led by the Chief Executive Officer, through the Executive Committee (ExCo). 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 & Control Committee (FRCC)

The Financial Reporting and Control Committee (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)

The Assets and Liabilities Committee (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 Executive Risk Committee (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, and is responsible for the development and enhancement of the Group's regulatory Solvent Wind-Down Plan.

ERC has a dual reporting line to both ExCo and BRC.

The ERC is chaired by the Chief Risk Officer.

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.

The Group has been unable to raise further significant growth capital and the strategic opportunities that were explored have not come to fruition. The Group continues to explore strategic transactions with bona fide interested third parties. However, the Board has concluded that it was in the best interest of all stakeholders for the Group to commence a process of withdrawing from the UK banking market, and for PCF Group to delist from AIM.

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 counterparty's 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.

	2022 £'000	2021 £'000
On-balance sheet		
Cash and balances at central banks	**58,748**	56,126
Loans and advances to customers		
Consumer lending (net)	**139,520**	163,641
Business lending (net)	**107,044**	130,860
Azule lending (net)	**15,417**	14,283
Bridging finance (net)	**43,573**	55,208
Debt instruments at Fair Value Through Other Comprehensive Income (FVOCI)	**22,272**	16,155
Derivative financial instruments	**1,128**	209
Other assets (excluding prepayments)	**553**	4,120
	388,255	440,602
Off-balance sheet		
Undrawn facilities	**19,560**	8,958

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 2022, the gross carrying amount of exposures with forbearance measures was £2.8 million (2021: £3 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.

International Financial Reporting Standards (IFRS) 9 treatment of credit risk

Under International Financial Reporting Standards (IFRS) 9 the Group calculates impairment allowances on loans and advances to customers on an Expected Credit Loss (ECL) basis. ECL allowances 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 both gross loans and advances to customers and net exposure to customers after allowance for impairment losses based on the year-end stage classification.

Impairment allowance for loans and advances to customers

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
2022				
Loans and advances to customers	**274,648**	**25,123**	**15,282**	**315,053**
Allowance for impairment losses	**(2,210)**	**(1,154)**	**(6,135)**	**(9,499)**
Net total	**272,438**	**23,969**	**9,147**	**305,554**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
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

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 (PD) estimation process to support its capital assessment and to determine risk grades associated with each lending decision through a scorecard. The 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 ECL allowance.

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 that 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 2022	Internal PD range 2021
1	AAA & AA, LTV <=80%	**0.66% - 2.69%**	0.55% - 2.69%
2	AAA & AA, LTV > 80%	**3.83% - 9.08%**	1.88% - 9.08%
3	A & B+, LTV <=80%	**1.31% - 5.29%**	1.10% - 5.29%
4	A & B+, LTV > 80%	**3.71% - 9.32%**	3.71% - 9.32%
5	B & B-, LTV <=80%	**2.15% - 8.04%**	2.15% - 8.04%
6	B & B-, LTV > 80%	**5.74% - 13.82%**	5.74% - 13.82%
7	C & D	**6.69% - 17.25%**	7.01% - 17.25%

Consumer Finance

Internal rating grade	Internal rating description	Internal PD range 2022	Internal PD range 2021
1	AAA & AA, LTV <=80%	**2.02% - 3.39%**	2.02% - 3.39%
2	AAA & AA, LTV > 80%	**2.41% - 4.20%**	2.57% - 4.20%
3	A & B+, LTV <=80%	**3.97% - 6.62%**	3.97% - 6.62%
4	A & B+, LTV > 80%	**4.72% - 8.14%**	5.04% - 8.14%
5	B & B-, LTV <=80%	**5.66% - 9.49%**	5.66% - 9.49%
6	B & B-, LTV > 80%	**11.43% - 19.00%**	9.67% - 19.00%
7	C & D, LTV <=80%	**7.79% - 12.90%**	7.79% - 12.90%
8	C & D, LTV > 80%	**15.22% - 25.58%**	15.22% - 25.58%

Capital risk

Capital risk is 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.

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 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. The Group has been unable to raise further significant growth capital and given its decision to exit the UK banking market, the key focus is now to ensure that it has sufficient capital and liquidity to repay all customer deposits and discharge its remaining liabilities. In doing so, the Group continues to enhance its financial analysis including stress-testing and portfolio analytics.

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 Common Equity Tier 1 (CET1) capital requirement of 4.5% of Risk Weighted Assets (RWAs), a Tier 1 capital requirement of 6% of RWAs and a total capital requirement of 8% of RWAs.

Somers Limited, the Group's majority shareholder, injected capital into the Group of £2.7 million and £1.4 million in June and July 2022 respectively.

Risk Weighted Assets (RWAs)

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

	2022 £'000	2021 £'000
Central Government and central banks	**—**	—
Institutions	**774**	511
Corporates	**6,260**	8,122
Retail	**162,658**	189,202
Secured by mortgages on immovable property	**20,525**	26,740
Exposures in default	**9,045**	6,660
Items associated with particular high risk	**6,589**	20,331
Other items [29]	**12,048**	21,716
Total credit risk	**217,899**	273,282
Operational risk	**46,333**	47,812
Credit valuation adjustment	**276**	109
Total Risk Weighted Assets	**264,508**	321,203

[29] Other items in Annual Report & Financial Statements for 2021 have been represented into the four asset classes i.e. Secured by mortgages on immovable property, Exposures in default, Items associated with particular high risk, Equity and Other items.

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 2022, CCB was 2.5% (2021: 2.5%) with the CCyB set at 0% (2021: 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.

	2022 £'000	2021 £'000
Equity		
Issued capital	**16,691**	12,550
Share premium	**17,443**	17,679
Other reserves recognised for CET 1 capital	**24**	9
Investment in own shares	**(147)**	(147)
Retained earnings	**4,513**	18,771
Total equity	**38,524**	48,862
Adjustments to Regulatory Capital		
Goodwill and intangible assets	**—**	(3,075)
Adjustment for prudent valuation	**(23)**	(16)
Other	**—**	—
IFRS 9 transitional adjustment	**1,324**	4,340
Total deductions	**1,301**	1,249
Total CET 1 Capital	**39,825**	50,111
Other Capital		
Subordinated Debt Tier 2 Capital	**6,311**	6,136
Total Regulatory Capital	**46,136**	56,247

Under UK's Leverage Framework (PS 21/21), PCF Group 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.

	2022 £'000	2021 £'000
Available own funds		
Common Equity Tier 1 (CET 1) Capital	**39,825**	50,111
Common Equity Tier 1 (CET 1) Capital as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**38,501**	45,771
Tier 1 Capital	**39,825**	50,111
Tier 1 Capital as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**38,501**	45,771
Total Capital	**46,136**	56,247
Total Capital as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**44,967**	52,272
Risk Weighted Assets		
Total Risk Weighted Assets	**264,508**	321,203
Total Risk Weighted Assets as if IFRS 9 or analogous ECLs transitional arrangement are not applied	**263,184**	316,863
Capital ratios (as a percentage of risk weighted exposure amount)		
Common Equity Tier 1 ratio (%)	**15.1%**	15.6%
Common Equity Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**14.6%**	14.4%
Tier 1 Capital ratio (%)	**15.1%**	15.6%
Tier 1 Capital ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**14.6%**	14.4%
Total Capital ratio (%)	**17.4%**	17.5%
Total Capital ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**17.1%**	16.5%
Leverage ratio[30]		
Total exposure measure	**340,637**	398,535
Leverage ratio (%)	**11.7%**	12.6%
Leverage ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**11.3%**	11.6%

[30] The leverage ratio is calculated applying the UK leverage ratio framework which applies to all UK firms from 1 January 2022. As a result, the leverage ratio for September 2021 has been recalculated on the same basis for comparability by excluding claims on central banks.

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's withdrawal from the UK Banking market and its current ability 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 throughout 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 (%)

	2022	2021
LCR %	**475%**	904%
NSFR %	**135%**	159%

Liquidity resources

The Group has central bank facilities 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.

	2022 £'000	2021 £'000
Cash and balances with the Bank of England	**55,912**	53,886
UK Government securities and other qualifying securities	**22,272**	16,155
Sub-total High Quality Liquid Assets (HQLA)	**78,184**	70,041
Cash at Bank	**2,836**	2,240
Contingent central bank facilities	**—**	13,658
Total	**81,020**	85,939

Given the potential for liquidity threats following the events of 2020 and 2021, the Group took the decision to hold additional liquidity in the form of cash reserves with the Bank of England.

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
2022						
Undiscounted financial assets	**58,749**	**42,086**	**87,375**	**206,667**	**37,643**	**432,520**
Undiscounted financial liabilities	**156**	**49,366**	**98,676**	**208,330**	**3,716**	**360,244**
Net contractual liquidity gap	**58,593**	**(7,280)**	**(11,301)**	**(1,663)**	**33,927**	**72,276**
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	396,841
Net contractual liquidity gap	55,964	17,139	(103,228)	46,867	102,755	119,497

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 2022, the Group had total wholesale and retail funding of £348.0 million (2021: £393.9 million) that supported net loans and advances of £305.6 million (2021: £363.9 million). Moreover, at 30 September 2022, the Group had a Net Stable Funding Ratio in excess of the regulatory minimum of 100% (2021: in excess of 100%). Surplus liquidity in periods shown above will be used to cover liquidity shortfalls in subsequent periods.

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 event that the Group was to become insolvent. 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 that have been pledged as collateral (i.e. that 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
2022	**89,195**	**238,631**	**327,826**
2021	86,663	293,484	380,147

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 has fixed the cost of borrowing using an interest rate swap 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.

Given the Group's decision to exit from the UK banking market, these facilities will not be reinstated. 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

	2022 £'000	2021 £'000
Impact on present value of assets and liabilities at year end from a parallel change in the yield curve		
+200 basis points shift	**(1,791)**	411
–200 basis points shift	**2,450**	(455)

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 London Interbank Offered Rate (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.

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 the Group'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
2022	**(39)**
2021	(38)

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.

The Board is responsible for ensuring that the RMF is proportionate, relevant and operates effectively. While the RMF has undergone a review and been in place throughout the year, the programme of work initially planned to further enhance and embed the framework will be refocused and aligned to the Group's revised strategy, to ensure it remains successful during its withdrawal from the UK banking market.

Ongoing activities that will support the revised strategic objective include:

- Adapting the control environment as appropriate.
- Ensuring the Group's risk profile, including principal and emerging risks, are fully identified, owned and managed, with a proportionate risk appetite set for each.
- Reviewing retention and remuneration policies for colleagues to ensure that appropriate skills are retained.

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 advisers 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.

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 that 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 as we worked through remediation activities. The recent market announcement to withdraw from the UK banking market and combined cost management initiatives, has led to unease amongst colleagues, and higher levels of unplanned attrition. To mitigate this risk, the Executive Management Team has implemented a programme to increase the retention of key colleagues essential to an orderly and successful execution of its revised strategy.

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 websites, 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 the Group'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 the Group.

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 engagement with industry bodies such as UK Finance and The Finance and Leasing Association.

Group policies and procedures set out the principles and key controls that are to be applied across the business and which are aligned to the Group's risk policies. These are reviewed by the business units to take into account any regulatory or business changes, with oversight and advisory provided by the Second Line Risk & Compliance function. Risk & Compliance oversight includes thematic reviews and gap analysis against the regulations.

The Group is currently updating key policies and assurance plans in accordance with its UK banking market exit strategy, with a focus on capital, liquidity, cyber risk, internal fraud, financial and regulatory reporting, data protection, incentive schemes, treating customers fairly, customer communications, complaints and anti-money laundering.

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 has enhanced its recruitment, training and colleague performance management. As the Group embeds this, the Group 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.

Consumer Duty

On 27 July 2022, after several years of industry consultation, the FCA published its Final Guidance (FG22/5) and Policy Statement (PS22/9) on the introduction of a new Consumer Duty. This will need to be fully implemented within 12 months, by the end of July 2023. A gap analysis was undertaken by Compliance in September 2022. The Board agreed the plan and approach to how the Group will embed the new Duty into its business on 20 October 2022. Given the Group's decision to stop lending and exit from the UK banking market, the Group's customer book has become 'closed' for the purposes of Consumer Duty and as such the deadline for implementation of the new Duty will extend from July 2023 to July 2024. Treating Customers Fairly, and in particular Principles 6 and 7 of the FCA's Sourcebook, will continue to be applicable.

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. Following the Board's decision to stop all lending and withdraw from the UK banking market, the risk strategy focus has moved to ensuring the Group remains successful in the execution of this withdrawal. As a consequence, the Group will not be refining its credit assessment approach with respect to loan origination, or continuing on its path towards Task Force Climate-related Disclosures (TCFD) compliance.

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 'key audit matters' section below, 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 Group financial statements, as defined below, consolidate the accounts of PCF Group plc and its subsidiaries (the "Group"). The "Parent Company" is defined as PCF Group plc, as an individual entity. The relevant legislation governing the Parent Company is the United Kingdom Companies Act 2006 ("Companies Act 2006").

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 2022. The financial statements that we have audited comprise:

- The Consolidated Income Statement
- The Consolidated Statement of Comprehensive Income.
- The Consolidated Statement of Financial Position.
- The Company Statement of Financial Position.
- The Consolidated Statement of Changes in Equity.
- The Company Statement of Changes in Equity.
- The Consolidated Statement of Cash flows.
- Notes 1 to 35 to the Financial Statements, including the significant 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 UK-adopted International Accounting Standards.

In our opinion 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 2022 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted International Accounting Standards; 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 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 opinion.

Emphasis of matter – financial statements prepared on a basis other than going concern

We draw attention to Note 1.2 to the Financial Statements which explains that the Directors have taken the decision to exit the UK Banking market and liquidate the Group and Parent Company and therefore do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements have been prepared on a basis other than going concern as described in Note 1.2.

Our opinion is not modified in respect of this matter.

Overview of our audit approach

Group audit scope

Our audit was scoped by obtaining an understanding of the Group, including Parent Company, and its environment, including the Group's 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 by the directors that may have represented a risk of material misstatement.

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.

Materiality

Overall materiality for the Group financial statements was £415,000 (2021: £246,000) which was determined based on 1% (2021: 0.525%) of adjusted net assets.

Key Audit Matter

The key audit matter we identified in the current year was:

- Risk of misstatement of expected credit losses on loans and advances to customers.

2021 key audit matters:

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

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.

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: £305,554,000 (2021: £363,992,000). Expected credit losses recognised on loans and advances to customers: £9,499,000 (2021: £12,370,000). .

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 Company's accounting policy on ECL is set out in Note 1.5.2 to the Financial Statements.

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

We performed the following procedures:

Validation of design and implementation of controls around the ECL model.

- We performed a walkthrough of the design and implementation of the Company's processes and controls 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 year result of the remediation activities being undertaken by the Group and Company. As such we adopted a fully substantive approach.

Model validation

- Reviewed and tested the design and implementation of the ECL model for compliance with IFRS 9 requirements, including ITGCs operating at the Company that are relevant to the determination of ECL.
- Checked the appropriateness of the Company'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 accuracy and 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.
- 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 included validating the payment history of the exposure to ensure that the exposure has been correctly classified as either stage 1, 2 or 3.
- 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 experts

- Engaged with and instructed independent modelling and credit risk experts 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 2022.

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.

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.

Overall Materiality £415,000 (2021: £246,000)

Basis of determining overall materiality:

We determined materiality based on 1% (2021: 0.525%) of adjusted net assets.

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 year ended 30 September 2022, the Group continued with its remediation activities, which has had a significant impact on the financial performance of the PCF Group. In view of this we concluded that the key area of focus of the users of the financial statements would be whether Group has adequate capital resources. We therefore considered net assets as an approximation of capital resources of Group.

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

Performance materiality £249,000 (2021: £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 our understanding of the control environment of the Group and Parent Company.

Error reporting threshold

We agreed to report any corrected or uncorrected adjustments exceeding £21,000 (2021: £12,300) to the Audit Committee as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

The control environment

We evaluated the design and implementation of those internal controls of the Group and Parent Company which are relevant to our audit such as those relating to the financial reporting cycle. We deployed our internal IT audit specialists to get an understanding of the general IT environment.

Climate-related risks

In planning our audit and gaining an understanding of the Group and Parent Company, we considered the potential impact of climate-related risks on the business and its financial statements. We obtained management's climate-related risk assessment, along with relevant documentation relating to management's assessment and held discussions with management to understand their process for identifying and assessing those risks. We have agreed with managements' assessment that climate-related risks are not material to these financial statements.

Reporting to 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.

Strategic report and directors' report

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.

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

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 basis other than going concern of accounting and any material uncertainties identified, set out on page 52;
- 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 52.
- Directors' statement on fair, balanced and understandable set out on page 54;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 52;
- Section of the annual report that describes the review of the effectiveness risk management and internal control systems set out on page 46.
- Section describing the work of the audit committee set out on page 43.

Matters on which we are required to report by exception

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 made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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 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.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Identifying and assessing potential risks arising from irregularities, including fraud is detailed below:

The extent of the procedures undertaken to identify and assess the risks of material misstatement in respect of irregularities, including fraud, included the following:

- We considered the nature of the industry and sector the control environment, business performance including remuneration policies and the Company's own risk assessment that irregularities might occur as a result of fraud or error. From our sector experience and through discussion with the directors, we obtained an understanding of the legal and regulatory frameworks applicable to the Company focusing on laws and regulations that could reasonably be expected to have a direct material effect on the financial statements, such as provisions of the Companies Act 2006, UK tax legislation or those that had a fundamental effect on the operations of the Company including the regulatory and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
- We enquired of the directors and management including the in-house legal counsel, compliance, risk and internal audit, audit committee concerning the Company's policies and procedures relating to:
    - identifying, evaluating and complying with the laws and regulations and whether they were aware of any instances of non-compliance.
    - detecting and responding to the risks of fraud and whether they had any knowledge of actual or suspected fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included utilising the spectrum of inherent risk and an evaluation of the risk of management override of controls. We determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce costs, creating fictitious transactions to hide losses or to improve financial performance, and management bias in accounting estimates particularly in determining expected credit losses.

Audit response to risks identified

In respect of the above procedures:

- We corroborated the results of our enquiries through our review of the minutes of the Company's board and audit committee meetings, inspection of the complaints register, inspection of legal and regulatory correspondence and correspondences from HMRC and the regulators PRA and the FCA.
- Audit procedures performed by the engagement team in connection with the risks identified included:
    - evaluation of the design and implementation of controls that management has put in place to prevent and detect fraud;
    - testing of journal entries and other adjustments for appropriateness including

those processed late for financial statement preparation, those posted by infrequent or unexpected users, those posted to unusual account combinations and reviewing accounting estimates for bias;

- challenging the assumptions and judgements made by management in its significant accounting estimates, in particular those relating to the determination of the expected credit losses provisions of loans and amounts advanced to customers. as reported in the key audit matter section of our report;
- review of 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; and
- obtaining confirmations from third parties to confirm existence of a sample of Bank balances.
- enquiry of management around actual and potential litigation and claims.

- The Company operates in a highly regulated banking industry. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities; and
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including experts, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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 2 years. .

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
Senior Statutory Auditor

For and on behalf of MHA MacIntyre Hudson
Statutory Auditor

London, United Kingdom

20 February 2023

Consolidated Income Statement

for the year ended 30 September 2022

	Note	Group Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Interest and similar income	3	**31,307**	40,790
Interest and similar expense	4	**(12,189)**	(14,537)
Net interest income		**19,118**	**26,253**
Fees and commission income		**2,282**	1,835
Fees and commission expense		**(1,311)**	(1,716)
Net fees and commission income	5	**971**	**119**
Net loss on sale of debt securities classified at fair value through other comprehensive income (FVOCI)		**(186)**	—
Net gains on financial instruments classified at fair value through profit or loss (FVTPL)		**1,025**	378
Net operating income		**20,928**	**26,750**
Impairment losses on financial assets	6	**(1,230)**	(6,677)
Net profit arising from derecognition of financial assets measured at amortised cost	7	**18**	939
Personnel expenses	8	**(17,203)**	(12,619)
Other operating expenses	10	**(12,009)**	(8,570)
Depreciation of office equipment, motor vehicles and right-of-use assets	17	**(1,157)**	(1,068)
Amortisation of intangible assets	18	**(707)**	(639)
Impairment loss on software	18	**(2,619)**	(55)
Impairment loss on office equipment	17	**(25)**	(13)
Impairment loss on goodwill	18	**—**	(1,147)
Total operating expenses		**(34,932)**	**(29,849)**
Loss before tax		**(14,004)**	(3,099)
Income tax (charge)/credit	11	**(56)**	38
Loss after tax		**(14,060)**	**(3,061)**
Earnings per 5p ordinary share – basic and diluted	12	**(5.1)p**	(1.2)p

The accounting policies and Notes on pages 78 to 134 form part of and should be read in conjunction with these financial statements. All activities in the current and prior year relate to continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2022

	Group Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Loss after tax	**(14,060)**	(3,061)
Other comprehensive income/(loss) that may be recycled to Income Statement:		
Currency translation reserve		
Currency translation differences	**(2)**	—
Fair Value Through Other Comprehensive Income reserve movements relating to debt securities		
Net gains/(losses) from changes in fair value	**17**	(51)
Other comprehensive income/(loss) that may be recycled to profit or loss	**15**	(51)
Total comprehensive loss for the year	**(14,045)**	(3,112)

PCF GROUP

Consolidated Financial Position

at 30 September 2022

		Group		Company	
		30 September 2022	30 September 2021	30 September 2022	30 September 2021
	Note	£'000	£'000	£'000	£'000
Assets					
Cash and balances at central banks	13	**58,748**	56,126	**422**	318
Loans and advances to customers	15	**305,554**	363,992	**—**	—
Derivative financial instruments	29	**1,128**	209	**—**	—
Financial assets at fair value through other comprehensive income (FVOCI)	14	**22,272**	16,155	**—**	—
Investments in subsidiaries	16	**—**	—	**36,088**	32,000
Due from related companies	19	**—**	—	**10,509**	8,958
Intangible assets	18	**—**	3,075	**—**	—
Office equipment, motor vehicles and right-of-use assets	17	**1,333**	2,350	**672**	1,151
Current taxes		**1,669**	1,675	**1,483**	1,483
Other assets	20	**1,681**	5,169	**1,388**	1,098
Total assets		**392,385**	448,751	**50,562**	45,008
Liabilities					
Due to banks	21	**59,842**	59,630	**—**	—
Due to customers	22	**281,053**	327,166	**—**	—
Due to related companies	19	**—**	—	**6,906**	5,918
Lease liabilities	25	**551**	1,037	**527**	983
Other liabilities	26	**4,336**	4,929	**2,293**	3,211
Provisions	27	**952**	—	**854**	—
Subordinated liabilities	24	**7,127**	7,127	**—**	—
Total liabilities		**353,861**	399,889	**10,580**	10,112
Equity					
Issued capital	28	**16,691**	12,550	**16,691**	12,550
Share premium	28	**17,443**	17,679	**17,443**	17,679
Other reserves	28	**24**	9	**—**	—
Own shares	28	**(147)**	(147)	**(147)**	(147)
Retained earnings		**4,513**	18,771	**5,995**	4,814
Total equity		**38,524**	48,862	**39,982**	34,896
Total liabilities and equity		**392,385**	448,751	**50,562**	45,008

The Company reported a profit for the financial year ended 30 September 2022 of £1,379,000 (2021: profit of £237,000).

The financial statements were approved and authorised for issue by the Board on 20 February 2023.

On behalf of the Board

G G Stran
Director

C Richardson
Director

The accounting policies and Notes on pages 78 to 134 to 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 2022

	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 2021	**12,550**	**17,679**	**(147)**	**9**	**18,771**	**48,862**
Loss for the year	**—**	**—**	**—**	**—**	**(14,060)**	**(14,060)**
Issuance of new shares	**4,141**	**(236)**	**—**	**—**	**—**	**3,905**
Fair value gain on FVOCI financial instruments	**—**	**—**	**—**	**17**	**—**	**17**
Share-based payments	**—**	**—**	**—**	**—**	**(198)**	**(198)**
Foreign exchange difference	**—**	**—**	**—**	**(2)**	**—**	**(2)**
Balance at 30 September 2022	**16,691**	**17,443**	**(147)**	**24**	**4,513**	**38,524**
Balance at 1 October 2020	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
Fair value loss 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

	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 2021	**12,550**	**17,679**	**(147)**	**4,814**	**34,896**
Profit for the year	**—**	**—**	**—**	**1,379**	**1,379**
Issuance of new shares/scrip dividend	**4,141**	**(236)**	**—**	**—**	**3,905**
Share-based payments	**—**	**—**	**—**	**(198)**	**(198)**
Balance at 30 September 2022	**16,691**	**17,443**	**(147)**	**5,995**	**39,982**
Balance at 1 October 2020	12,512	17,625	(147)	4,522	34,512
Profit for the year	—	—	—	237	237
Issuance of new shares/scrip dividend	38	54	—	—	92
Share-based payments	—	—	—	55	55
Cash dividends	—	—	—	—	—
Balance at 30 September 2021	12,550	17,679	(147)	4,814	34,896

The accounting policies and Notes on pages 78 to 134 form part of, and should be read in conjunction with, these financial statements.

PCF GROUP

Consolidated Statement of Cash Flows

for the year ended 30 September 2022

	Note	Group 2022 £'000	Group 2021 represented* £'000	Company 2022 £'000	Company 2021 £'000
Operating activities					
(Loss)/Profit before tax		**(14,004)**	(3,099)	**1,883**	422
Other non-cash items included in (loss)/profit before tax					
Depreciation of office equipment, motor vehicles and right-of-use assets	17	**1,157**	1,068	**605**	440
Loss on disposal of office equipment, assets held under operating leases and motor vehicles	17	**—**	2	**—**	—
Loss on disposal of intangible assets	18	**—**	55	**—**	—
Amortisation of other intangible assets	18	**707**	639	**—**	—
Impairment loss on goodwill	18	**—**	1,147	**—**	—
Interest on lease liabilities	25	**25**	28	**23**	26
Accrued finance costs*	23	**1,013**	631	**—**	—
Share-based payments		**(198)**	55	**(198)**	55
Impairment of office equipment	17	**25**	13	**—**	—
Impairment loss on software	18	**2,619**	—	**—**	—
Impairment losses on financial assets	6	**1,230**	6,677	**—**	—
Reversal of office equipment, fixtures, fittings, and motor vehicle write-off	17	**—**	(9)	**—**	(9)
Other non-cash items		**1**	—	**(5)**	—
Income tax paid		**(50)**	(1,706)	**(504)**	(1,552)
Adjustment for change in operating assets and liabilities					
Net change in loans and advances	15	**57,208**	56,334	**—**	—
Net change in Group company lending	19	**—**	—	**(1,551)**	(199)
Net change in other assets	20	**3,488**	(3,118)	**(290)**	(328)
Net change in derivative financial instruments	29	**(919)**	(289)	**—**	—
Net change in amounts due to customers	22	**(46,113)**	(14,880)	**—**	—
Net change in Group company borrowing	19	**—**	—	**988**	676
Net change in other liabilities	26	**(593)**	(255)	**(918)**	985
Net change in provisions	27	**952**	—	**854**	—
Net cash flows (used in)/from operating activities		**6,548**	43,293	**887**	516
Investing activities					
Net purchase of debt instruments at FVOCI	14	**(6,100)**	(7,111)	**—**	—
Purchase of office equipment	17	**(57)**	(280)	**—**	—
Proceeds from sale of office equipment and motor vehicles	17	**18**	—	**—**	—
Purchase of intangible assets	18	**(259)**	(589)	**—**	—
Purchase of shares in subsidiary	16	**—**	—	**(4,088)**	
Net cash flows (used in) investing activities		**(6,398)**	(7,980)	**(4,088)**	—
Financing activities					
Interest paid on bank borrowings*	23	**(241)**	(55)	**—**	—
Interest paid on subordinated liabilities*	23	**(560)**	(560)	**—**	—
Proceeds from share issue during the year	28	**3,905**	92	**3,905**	92
Repayment of borrowings	23	**—**	(3,005)	**—**	—
Repayment of capital element of leases	25	**(632)**	(595)	**(600)**	(568)
Net cash flows from/(used in) financing activities		**2,472**	(4,123)	**3,305**	(476)
Net increase in cash and cash equivalents		**2,622**	31,190	**104**	40
Cash and cash equivalents brought forward		**56,126**	24,936	**318**	278
Cash and cash equivalents carried forward		**58,748**	56,126	**422**	318

*The accrued finance costs, and interest paid on bank borrowings and subordinated liabilities, have been represented in the prior year comparatives to be consistent with current year disclosure. There is no impact on the Cash and cash equivalents balance.

The accounting policies and Notes on pages 78 to 134 to form part of, and should be read in conjunction with, these financial statements.

Notes to the Financial Statements
for the year ended 30 September 2022

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 registered office is at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.

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.

The wholly owned subsidiary, PCF Bank Limited (the 'Bank'), is a specialist bank, which offered retail savings products for individuals and lending products for consumers and businesses to finance the purchase of motor vehicles, plant and equipment, bridging finance, broadcast and media, sound, lighting and audio visual. All new lending is originated out of the Bank.

PCF Credit Limited provides leasing and hire purchase products for consumers and businesses to finance the purchase of motor vehicles, plant and equipment. Azule Limited and Azule Finance Limited provide leasing and hire purchase products to niche markets in the UK and across Europe, which includes broadcast and media, sound, lighting and audio visual. PCF Credit Limited, Azule Limited and Azule Finance Limited hold portfolios of legacy originated lending.

1.2 Basis of measurement and 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 consider that the strategic decision taken in November 2022, to exit the UK banking market and to ultimately manage its loan and savings portfolio positions down over time in line with their respective terms and conditions, whilst exploring strategic opportunities, are all relevant and applicable to the Annual Report & Financial Statements 2022. Those decisions were made given the absence of any strategic capital injection or a viable business combination.

The implications of those decisions are that the Board ultimately intends to liquidate the entity, with the focus shifting to ensuring an orderly exit from the UK banking market, with PCF Group delisting from AIM on 20 December 2022, hence the application of the Going concern basis of accounting is inappropriate.

The Board have reviewed a new baseline forecast financial plan and assumptions, which indicates that PCF Group can continue to meet all liabilities as they fall due over the next 12 to 18 months.

In conclusion therefore, in the absence of a strategic capital raise or viable business combination, the Directors have taken the decision to exit the market and liquidate the entity, which determines that the Annual Report & Financial Statements 2022 will use an accounting basis other than Going concern.

The Group and the Bank have prepared a solvent wind down plan (SWD) in connection with the Group's and Bank's withdrawal from the UK banking market. There remains a risk that the Group and the Bank are unable to remain solvent during the implementation of the SWD. The key risks that would prevent this from being achieved include:

- The cash flows from its lending portfolio (whether from the sale of assets or natural amortisation) fail to meet planned expectations.
- The current sector-wide legal uncertainty regarding potential claims for compensation from customers in respect of commissions paid to brokers for lending introductions, adversely impacting the execution of the strategy.
- An inability to retain or recruit sufficiently skilled colleagues.
- An inability to manage costs with received business plan.
- An intervention by the Group's Regulators.

In preparing these Financial Statements on an other than Going concern basis, the relevant accounting standards for each aspect of the Financial Statements have been applied based on the conditions that existed, and decisions that had been taken by management, as at or prior to 30 September 2022. The material accounting policies and judgements applied in light of applying a basis of preparation other than Going concern are detailed below.

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 UK adopted 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 International Financial Reporting Standards (IFRS) 9 'Financial Instruments', is measured at fair value with the changes in fair value recognised in profit or loss in accordance with IFRS 9. Other contingent considerations that are not within the scope of IFRS 9 are measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is 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 profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's Cash Generating Units (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 profit or loss. 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

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.

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts issued in 2005. The standard is effective for annual periods beginning on or after 1 January 2023, and will be applied from that date, although it is expected to have no or an immaterial impact on the Group.

In February 2021, the IASB issued amendments to IAS 1 that require entities to disclose their material accounting policies rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on the concept of materiality and its application to accounting policy information. The amendments are effective for annual periods beginning on or after 1 January 2023, and will be applied from that date, although they are expected to have no, or an immaterial, impact on the Group.

In February 2021, the IASB issued amendments to IAS 8 that replace the definition of a change in accounting estimates with a definition of accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023, and will be applied from that date, although they are expected to have no, or an immaterial, impact on the Group.

In January 2021, the IASB published amendments to IAS 1 which affect the presentation of liabilities as current or non-current based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its rights to defer settlement, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, and will be applied from that date, although they are expected to have no, or an immaterial, impact on the Group.

In May 2021, the IASB issued amendments to IAS 12 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments introduce a further exception from the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, and will be applied from that date, although they 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 profit or loss. Other financial 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 below).

Offsetting of financial assets and financial liabilities

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group has both a legally enforceable right to set off the recognised amounts; and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 FVTPL in profit or loss. 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 (FVOCI) 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 profit or loss. 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 profit or loss.

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.

In light of applying a basis other than Going concern to these Financial Statements, and the decision announced on 9 November 2022 to exit the UK banking market and sell some or all parts of the loan portfolio, management considered the implications for the business model assessment and whether any reclassifications were necessary at or prior to the year end date. Noting in any case that the reclassification date for any financial assets identified as requiring reclassification is the first day of the next accounting period.

Given these significant decisions were taken and announced after the year end, and as the implications for any part of the loan portfolio remain unclear at the time of preparation, no reclassifications have yet been identified, with the exception of the Azule Limited loan portfolio, which has been classified as Held for Sale under IFRS 5 at 30 September 2022 (see Note 15) and reclassified as held under a Fair Value Through Other Comprehensive Income business model with effect from 1 October 2022. Loans reclassified out of the amortised cost measurement category and into the Fair Value Through Other Comprehensive Income measurement category, their fair values are measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the loan and the fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

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. The terms are considered substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate of the loan, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original loan. Any costs or fees incurred are recognised as part of the gain or loss on derecognition. 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.

Where a renegotiated loan remains on substantially the same terms, the original loan is not derecognised and any costs or fees incurred adjust the carrying amount of the loan and are amortised over the remaining term of the loan.

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 any gain or loss on derecognition is recognised in profit or loss. The new loan is recognised at fair value and any costs or fees incurred adjust the carrying amount of the loan and are amortised over the remaining term of the loan. 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, an ECL allowance 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, an ECL allowance 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 SICR. The Group considers 30 days past due to be an appropriate backstop measure and does not rebut this presumption.

Due to the impact and uncertainty introduced on the external environment by COVID-19, it has been necessary to consider whether 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 Limited (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[31] 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 ECL allowances, 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 ECL allowance 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.

[31] 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 (ECL)

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 profit or loss as a credit to impairment losses on financial assets.

Overlays and Post Model Adjustments (PMAs)

Management adjustments are made to the 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.

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:

- The ECL model does not allow an exposure to be cured unless the loan has returned to full payment. The Group has included an overlay to account for these cured agreements which has resulted in the ECL allowance reducing by £(0.1) million (2021: £(0.1) million).
- For those customers within the Consumer Finance, Business Finance and Azule businesses who had received payment deferral holidays were perceived to have a higher likelihood of default than estimated by the model. The Group applied a PMA to those customers with payment deferral holidays of £0.1 million (2021: release £(0.1) million) to ensure any uncollateralised exposure was fully provided for. For these customers, the modelled ECL allowance was compared to the uncollateralised exposure, reduced to prevent over provisioning.
- Due to the short term of loans within the Bridging business, the Group assessed there would be a higher likelihood of default and a higher loss than estimated by the model. The Group applied a PMA to all bridging loans in Stage 1 and Stage 2 of £0.2 million (2021: £0.3 million). The modelled ECL allowance for all Stage 3 bridging loans was reduced by £(2.9) million (2021: £(0.1) million) following an individual assessment of each loan exposure against the expected recoverable amount of the collateral to ensure the model was not overestimating losses for the collateralised element of the exposure and any uncollateralised exposure was fully provided for.
- All client agreements in default (Stage 3) where the customer was either still in possession of the asset or the Group had seized the asset pending sale, were individually assessed based on known information about the specific cases, such as whether a charging order is in place and expected realisable values of the collateral, with a recovery rate estimated on the shortfall. These specific overlays reduced the overall ECL by £(2.6) million (2021: £(1.2) million).
- A PMA was implemented to adjust the ECL charge 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 resulted in a release of £(0.9) million (2021: increase £1.2 million).

The total of the overlays and PMAs is a net decrease to the impairment allowance of £(6.2) million (2021: immaterial).

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 Fees and commission income

The Group earns fees 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 (FVTPL) relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated 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 payments 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 is 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 Property, equipment and right-of-use assets

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 depreciation period or methodology, as appropriate, and treated as changes in accounting estimates. Right of use assets are presented together with property and equipment in the Statement of Financial Position.

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 profit or loss in the year the asset is derecognised.

During the year, a small group of assets, related to operating cost reduction decisions taken before the year end, were impaired.

Over and above that, in light of applying a basis other than Going concern to these Financial Statements, and the decision announced on 9 November 2022 to exit the UK banking market, and sell some or all parts of the loan portfolio, management considered the implications for office equipment, fixtures, fittings and motor vehicles.

Given these significant decisions were taken and announced after the year end, no significant impairments were taken nor adjustments made to the useful life of the majority of assets.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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 profit or loss 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 profit or loss. 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 profit or loss.

Given the significant decisions taken and announced after the year end, a decision was taken to fully impair all intangible assets as an adjusting post-balance sheet event to these financial statements.

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 profit or loss.

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 Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. These measurement requirements are not applied to portfolios of loans classified as held for sale. Such loans continue to be measured in accordance with the Group's Financial Instruments policy.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment in an associate or a portion of an investment in an associate, the investment, or the portion of the investment in the associate, that will be disposed of is classified as held for sale when the criteria described above are met. The Group then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

1.5.13 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.

1.5.14 Employee 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.

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.

Provision is made for the anticipated cost of restructuring, including redundancy costs, when an obligation exists; for example, when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by announcing its main features or starting to implement the plan.

1.5.15 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.

In light of applying a basis other than Going concern to these Financial Statements, and the decision announced on 9 November 2022 to exit the UK banking market, and sell some or all parts of the loan portfolio, management considered the implications for provisions and contingent liabilities and undertook a review to identify any onerous contracts from decisions taken at or prior to 30 September 2022.

As a result of that review, a number of onerous contracts were identified that related to decisions taken to reduce operating costs. Management expects to identify and provide for additional onerous contracts and the costs of restructuring, related to decisions only taken and announced after the year end, in the next Financial Statements.

1.5.16 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 profit or loss. Management periodically evaluates positions taken in the tax returns, with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate.

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 (VAT) except in the case of overdue loans and receivables, other receivables and other payables that 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.

1.5.17 Own shares

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

1.5.18 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.

1.5.19 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 profit or loss.

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 UK adopted 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 1.6.8.

1.6.1 Effective Interest Rate (EIR)

The Effective Interest Rate receivable on loans and advances to customers involves judgement and estimation based on the Group's experience of managing customer behaviour of early-settling loans, the most significant of which are set out below. The expected behavioural life of customer loans is exposed to changes in internal and external factors, such as changes in the Bank of England Base Rate, and may result in adjustments to the carrying amount of loans that must be recognised in profit or loss.

Judgement

- Selecting the components of EIR that are integral parts of the loan instrument which are reliant on the maturity profile of the loans.
- Calibrating the expected behaviour and life cycle of the loan instruments.

Estimate

- The expected future behavioural life is estimated using behavioural models which are based on market trends and experience. The sensitivity of the behavioural life assumption to the carrying amount of loans and advances to customers.

Management calibrated the behavioural life EIR based on four years of historical data observed across the loan portfolio. The calculation of the behavioural life EIR is sensitive to changes in the time series of data over which the behavioural life of the loan portfolio is assessed. The behavioural life of the loan portfolio was also considered based on two alternative time series of the loan data with the sensitivity to the recognition of interest income as follows:

	Scenario 1 4.5 years £'000	Scenario 2 5 years £'000
2022		
Increase / (decrease) in interest income	**(15)**	**75**
2021		
Increase / (decrease) in interest income	(30)	4

1.6.2 Impairment losses on financial assets

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 Financial Reporting & Control Committee (FRCC) 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 FRCC.

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 most significant are set out as follows:

Judgement

- Selecting and calibrating PD, LGD and EAD models, which support the ECL calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions.
- Selecting model inputs and weighting each economic scenario to calculate an unbiased expected loss.
- Defining what is considered to be a significant increase in credit risk.
- Making management adjustments to modelled expected losses to account for model and limitations and deficiencies, expert credit judgements and late breaking information.

Estimate

- The section "forward-looking information" in Note 1.6.2 below sets out the economic forecasts for each of the five scenarios and provides an indication of the sensitivity of ECL to the application of 100% weightings being applied to different economic scenarios.
- Note 30.3.7 sets out factors used in the consumer and business finance ECL models, and the ECL sensitivity to the factors applied, for estimating when a significant increase in credit risk has arisen.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. 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 which are set out in Note 1.5.2.

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

The Group's internal credit grading model, which assigns PDs to the individual grades is set out in Note 30.3.4.

Economic outlook

Global geopolitical events, in particular the ongoing conflict in Ukraine, energy and commodity price rises, supply chain issues, new COVID variants and the resulting restrictions, have all negatively impacted market conditions in the year to 30 September 2022.

Change/Outlook

Excluding the release of ECLs on loans sold and written off during the year and with the net reduction in the loan over the year, the credit loss charge was £1.4 million for the year to 30 September 2022 (2021: £5.6 million) as set out in Note 29.5. The credit loss charge reflects the impacts of ongoing market uncertainty, which we continue to monitor closely. While direct COVID-19 impacts have receded, the overall credit risk outlook reflects a heightened level of uncertainty in the macroeconomic environment in the short to medium-term due to a combination of evolving factors. These include the ongoing conflict in Ukraine, supply chain disruption, the rising cost of living including rising energy and food costs, and inflation. In addition, the cessation of various government support schemes could have an impact on both consumers and businesses and the impact of this on our customers will be closely monitored. These factors could result in higher credit losses in the future.

Forward-looking information

Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable, supportable and includes assumptions linked to economic variables that impact losses in each portfolio. The introduction of macroeconomic information introduces additional volatility to ECLs.

In order to calculate forward-looking ECLs, economic scenarios are sourced from Oxford Economics, which are then used to project potential credit conditions for each portfolio. An overview of these scenarios using key macroeconomic indicators is provided below.

Five different projected economic scenarios are currently considered to cover a range of possible outcomes. These include a baseline scenario, which reflects the best view of future economic events. In addition, two upside scenario and two downside scenario paths are defined relative to the baseline. Management assigns the scenarios a probability weighting to reflect the likelihood of specific scenarios and therefore loss outcomes materialising, using a combination of quantitative analysis and expert judgement.

The impact of forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables. The modelled impact of macroeconomic scenarios and their respective weightings is reviewed by business experts incorporating management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

The FRCC including the CFO meets monthly, to review and, if appropriate, agree changes to the economic scenarios and probability weightings assigned thereto. The decision is subsequently noted at the BAC.

Scenario forecasts deployed in IFRS 9 macroeconomic models are updated on a quarterly basis and were refreshed in September 2022 to calculate the Group's ECL charge with the current Base scenario reflecting the latest consensus macroeconomic forecasts available at the time of the scenario refresh.

Base scenario

In the base scenario, while the energy price guarantee will keep near-term inflation in check, inflation will remain elevated for the foreseeable future. The forecast sees further inflation increases impacting household income which, along with significant monetary policy tightening, will contribute to lower growth prospects. As at 30 September 2022, the latest base scenario forecasts GDP growth of 0% over the financial year to 30 September 2023 and then peaking at 3.2% through December 2024 into March 2025 and then falling to below 2.0% from September 2026. The average Base Rate across financial year 2023 is forecast at 2.9% and then falling to below 2.0% from December 2024. The unemployment rate is forecast to rise to 4.8% by 30 September 2023. As conditions normalise, the labour market is expected to recover, returning to the expected long-run level of 3.8% from June 2025. Meanwhile CPI is forecast to fall to 4.4% by 30 September 2023 after peaking at 10.3% during financial year 2023, and then falling below the Bank of England target rate of 2.0% from March 2024. With falling incomes and as higher interest rates begin to bite and stretching affordability, house price growth is expected to slow and turn negative in 2023. After hitting a low point of (5.6%) in June 2024. The house price level is not expected to return to the current September 2022 level until after March 2026.

Upside scenario

GDP is forecast to recover significantly with growth accelerating to 5.1% by September 2023 and 4.3% in September 2024. Reflecting much stronger demand, the unemployment rate in the UK continues its descent reaching a low of 2.1% by September 2025 from 3.6% at December 2022. To bring inflation under control amid the surge in demand pressures, the MPC is forecast to raise rates even faster than anticipated in the baseline forecast, pushing Bank Rate up to 4.5% by September 2023 before falling to 2.5% from March 2026, reflecting inflation being above the 2% target until June 2025, peaking at 10.7% in December 2022 before falling to 6.5% by September 2023 and 3.5% by September 2024.

House price growth is forecast to average 4.0% and commercial property price inflation to average 3.0% over the next five years.

Mild upside scenario

In the mild upside scenario, GDP growth is forecast at 3.1% by September 2023 and 3.8% by September 2024. When viewed against the upside scenario, the labour market is forecast to deteriorate in the near-term as higher interest rates and lower real incomes impact on employment growth with unemployment reaching 4.3% by September 2023, 4.0% by September 2024 and then flattening to 3.6% from December 2025. The Bank Rate is forecast to peak at 4% by September 2023 and then falling to 3.6% by September 2024 and then stabilising at 2.3% from December 2025. Cost-push pressures from high commodity prices and demand-pull forces from strong demand in the short-term will see high rates of inflation and is only seen falling to 5.6% by September 2023 (from a high of 10.5% in December 2022) and continuing to fall thereafter to below the Bank of England target of 2% by June 2025.

Downside scenario

In the downside scenario, UK output continues to weaken with the economy contracting by (4.5)% by September 2023 as both consumer and business spending is sharply scaled back. The economy is seen recovering only gradually from the recession over 2024 before returning to growth of 2.1% from September 2024 and only reaching pre-pandemic levels by mid-2025. With consumer confidence severely dampened, businesses will be operating at significantly reduced capacity.

Employment is severely hit in the scenario as jobs are cut with much lower demand leading to freezes in hiring plans and firms laying off staff. Unemployment is therefore forecast to remain high at 6.0% by September 2023 and peaking at 7.0% throughout most of 2025 and remaining above 6.5% over the period to September 2027. To counter the downturn in the economy, the MPC is seen abandoning its tightening cycle and starts lowering the Base Rate throughout 2024 to below 2.0% from December 2024. Despite the reduced pressure from interest rates when compared to the baseline forecast, lower incomes and increased unemployment introduce forced sellers in the residential property market. House prices fall sharply seeing a fall of (20.3)% over the period from September 2022 through to September 2025.

Severe downside scenario

The severe downside scenario sees a sharp and immediate drop in UK output with the economy shrinking (6.9)% by September 2023 and not recovering until June 2024 with weak growth of 0.4% in June 2024 as financial stress remains elevated. Thereafter the economy grows at a much slower pace despite the significant scope for an economic rebound from extreme lows, resulting in a permanent loss of output as the supply side remains impaired. By the end of the decade the economy remains around 7.7% smaller compared to the baseline. Unemployment surges to 6.7% by December 2023 peaking at 7.4% in 2025, and only falling below 6.8% after December 2027. The rise in unemployment and prolonged economic weakness triggers a sharp increase in personal insolvencies and company bankruptcies accelerate given the extent of the recession as well as reflecting that balance sheets are already fragile at the start of the scenario. The MPC begins to aggressively cut the Bank Rate to 0.5% by September 2025. House prices collapse and are around (28.2)% lower by September 2025 compared to September 2022.

Economic scenarios

The tables below and on page 95 show economic assumptions within each scenario, and the weighting applied to each at 30 September 2022. The metrics below are key UK economic indicators, chosen to describe the economic scenarios. These are the main metrics used to set scenario paths which then influence a wide range of additional metrics that are used in expected credit loss models. The tables show averages and peaks for the key metrics over the five-year period with c.76% of the portfolio by loan value matures within five years or less. These periods have been included as they demonstrate the short, medium and long-term outlook for the key macroeconomic indicators which form the basis of the scenario forecasts.

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.

2022	Mild upside	Upside	Base	Downside	Severe downside
Scenario weightings	10%	10%	60%	10%	10%
5-year average					
GDP (year on year change)	**3.20%**	**2.69%**	**1.80%**	**0.85%**	**0.29%**
CPI (year on year change)	**2.93%**	**2.61%**	**2.23%**	**1.64%**	**1.40%**
Unemployment rate (5-year average)	**2.58%**	**3.85%**	**4.10%**	**6.57%**	**6.90%**
HPI (year on year change)	**3.98%**	**3.16%**	**2.26%**	**(0.78%)**	**(2.37%)**
Used Car Price Index (year on year change)	**(7.03%)**	**(6.86%)**	**(6.81%)**	**(6.44%)**	**(6.36%)**
Peak values					
GDP	**5.13%**	**3.77%**	**2.73%**	**2.31%**	**2.23%**
CPI	**6.48%**	**5.60%**	**4.44%**	**2.53%**	**1.67%**
Unemployment rate	**3.54%**	**4.29%**	**4.80%**	**7.00%**	**7.37%**
HPI	**7.73%**	**7.83%**	**7.96%**	**8.40%**	**8.68%**
Used Car Price Index	**(4.19%)**	**(3.66%)**	**(3.45%)**	**(2.15%)**	**(1.73%)**

2021	Mild upside	Upside	Base	Downside	Severe downside
Scenario weightings	10%	10%	60%	10%	10%
5-year average					
GDP (year on year change)	3.57%	3.33%	2.84%	1.83%	1.28%
CPI (year on year change)	2.39%	2.20%	2.09%	1.56%	1.34%
Unemployment rate (5-year average)	3.61%	2.57%	3.96%	6.12%	6.45%
HPI (year on year change)	4.04%	4.75%	1.48%	(3.15%)	(5.88%)
Used Car Price Index (year on year change)	(5.96%)	(5.13%)	(5.92%)	(5.60%)	(5.53%)
Peak values					
GDP	10.66%	10.11%	7.74%	3.22%	1.71%
CPI	4.05%	4.10%	3.01%	2.03%	2.19%
Unemployment rate	4.70%	4.70%	4.71%	6.34%	6.65%
HPI	8.37%	11.06%	3.77%	4.35%	4.81%
Used Car Price Index	(1.94%)	(1.92%)	(1.82%)	(1.12%)	(0.94%)

The calculation of the Group's ECL allowance is sensitive to changes in the chosen weightings. The effect on the closing modelled ECL allowance 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 ECL allowance 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
2022					
Business Finance Division	**(1,273)**	**(469)**	**24**	**793**	**809**
Consumer Finance Division	**(1,460)**	**(595)**	**(15)**	**1,068**	**1,080**
Bridging Finance Division	**(7)**	**(4)**	**—**	**5**	**8**
Azule Division	**(264)**	**(97)**	**5**	**164**	**168**

	Upside £'000	Mild upside £'000	Base £'000	Downside £'000	Severe downside £'000
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

1.6.3 Impairment testing of investment in subsidiaries and goodwill

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. An impairment is recognised if the impairment testing finds that the carrying amount of the investment in a subsidiary or CGU exceeds the 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 significant judgement and estimation uncertainty as follows:

Judgement

- The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests investments in subsidiaries and goodwill for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.

Estimate

- The future cash flows for subsidiaries and Cash Generating Units (CGU) 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 of subsidiaries and CGUs 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.

Goodwill

At 30 September 2022 there was no goodwill. During the year ended 30 September 2021 the carrying value of goodwill brought forward of £1.1 million was fully impaired to £nil at 30 September 2021 and therefore no sensitivity of the carrying value of goodwill to estimates used is presented.

Investment in subsidiaries

The review of investments in subsidiaries for impairment reflects the Board's best estimate of the recoverable amount of each subsidiary.

An impairment is recognised if the impairment testing finds that the carrying amount of the investment exceeds the recoverable amount.

The recoverable amount of each subsidiary is estimated as being the net assets of that subsidiary at the reporting date, being management's best estimate of both the fair value less costs to sell the subsidiary and its value-in-use and therefore no sensitivity of the Company's carrying value of investments in subsidiaries to estimates used is presented. Details of the Company's carrying value of its investment in its subsidiary and the net assets of the subsidiary are set out in Note 16.

1.6.4 Estimating the Incremental Borrowing Rate (IBR)

The Group cannot readily determine the interest rate implicit in the lease., therefore, The Group therefore applies judgement in estimating an appropriate interest rate with which to measure lease liabilities as follows:

Judgement

- Selecting the Group's 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.

Estimate

- 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 across the portfolio of lease liabilities ranges from 2.75% to 5.60%. The carrying value of the right-of-use asset, lease liability and dilapidation provision of the material leased office property were assessed as immaterially sensitive to a +/- 0.1% change in the IBR.

1.6.5 Climate risk

The Group makes use of reasonable and supportable information to make accounting judgments and estimates as set out in Note 1.6 in preparing these Financial Statements. This includes considering wheeled-assets valuation impacts to estimated credit loss assessments. For the purpose of the 2022 Annual Report & Financial Statements judgement was applied when considering climate risk as follows:

Judgement

- The Group applied judgement that did to 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.

1.6.6 Consequences of exiting from the UK banking market

Following the Directors' decision, taken after the year end, to exit the UK banking market and liquidate the entity, additional judgement has been applied in preparing these financial statements as follows:

Judgement

- Due to the decision taken after the year end to exit the UK banking market and liquidate the entity, management applied judgement in preparing these financial statements for the year ended 30 September 2022 on a basis other than Going Concern. No restatement of prior year results were considered applicable even though a material uncertainty over the going concern for the year ended 30 September 2021 existed.
- In preparing these Financial Statements the relevant accounting standards for each aspect of the Financial Statements have been applied based on the conditions that existed, and decisions that had been taken by management, as at or prior to 30 September 2022. As a consequence of this approach, no significant classification or measurement implications have been identified from adopting an other than Going concern basis of preparation nor from the decision to exit the UK banking market.
-

1.6.7 Non-current assets held for sale

At 30 September 2022, the Group was close to completing a sale of £3.6m (gross of impairment allowances) of loans held within the Azule Limited legal entity as set out in Note 15. These loans are a subset of the Azule operating segment. The sale completed shortly after the year end and judgement was required in determining the appropriate accounting treatment in the Financial Statements for the year ended 30 September 2022 as follows:

Judgement

- The Group applied judgement in concluding considers that the group of assets disposed of qualifies as a 'disposal group' under IFRS5, but not as a 'discontinued operation', by virtue of it falling short of representing a 'separate major line of business' in its own right.
- The Group further concluded that the accounting conclusion only impacts the disclosure requirements associated with the Held for Sale classification and there are no recognition, derecognition or measurement consequences.

1.6.8 Provisions

The recognition and measurement of provisions requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out as follows:

Judgement

- Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations.
- Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.

Estimate

- Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved. Details of the likelihood of an economic outflow for legal claims at the reporting date are set out in Note 31.

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 2022 and 30 September 2021.

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

2022	Consumer Finance £'000	Business Finance £'000	Azule £'000	Bridging Finance £'000	Adjustment at Group level £'000	Total segments £'000
Interest and similar income	14,340	11,434	1,090	4,443	—	31,307
Interest and similar expense	(6,676)	(4,265)	(214)	(1,034)	—	(12,189)
Net interest income	7,664	7,169	876	3,409	—	19,118
Fees and commission income	267	337	1,017	661	—	2,282
Fees and commission expense	(736)	(536)	(31)	(8)	—	(1,311)
Net fees and commission (expense)/income	(469)	(199)	986	653	—	971
Net (loss) on sale of debt securities classified at Fair Value Through Other Comprehensive Income	(91)	(66)	(9)	(20)	—	(186)
Net gains on financial instruments mandatorily at Fair Value Through Profit or Loss	520	365	36	104	—	1,025
Net operating income	7,624	7,269	1,889	4,146	—	20,928
Impairment (losses)/reversals on financial assets	(1,108)	(121)	152	(153)	—	(1,230)
Net profit/(loss) arising from derecognition of financial assets measured at amortised cost	(3)	21	—	—	—	18
Personnel expenses	(6,854)	(5,624)	(2,286)	(2,439)	—	(17,203)
Other operating expenses	(4,910)	(3,857)	(1,721)	(1,521)	—	(12,009)
Depreciation of office equipment, fixtures, fittings and right-of-use assets	(386)	(315)	(320)	(136)	—	(1,157)
Amortisation of intangible assets	(278)	(228)	(103)	(98)	—	(707)
Impairment losses on office equipment	(10)	(8)	(3)	(4)	—	(25)
Impairment losses on software	(1,031)	(842)	(364)	(382)	—	(2,619)
Impairment losses on goodwill	—	—	—	—	—	—
Total operating expenses	(14,580)	(10,974)	(4,645)	(4,733)	—	(34,932)
Segment profit/(loss) before tax	(6,956)	(3,705)	(2,756)	(587)	—	(14,004)
Income tax credit/(expense)	—	—	—	—	(56)	(56)
Profit/(loss) after tax	(6,956)	(3,705)	(2,756)	(587)	(56)	(14,060)
Total assets	185,106	138,819	15,648	52,812	—	392,385
Total liabilities	180,600	125,896	11,440	35,925	—	353,861

Segment information (cont'd)

Group 2021	Consumer Finance £'000	Business Finance £'000	Azule £'000	Bridging Finance £'000	Adjustment at Group level £'000	Total segments £'000
Interest and similar income	18,824	13,529	1,791	6,646	—	40,790
Interest and similar expense	(7,409)	(5,432)	(245)	(1,451)	—	(14,537)
Net interest income	11,415	8,097	1,546	5,195	—	26,253
Fees and commission income	65	509	1,037	224	—	1,835
Fees 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 sale of debt securities classified at Fair Value Through Other Comprehensive Income	—	—	—	—	—	—
Net gains 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)/reversals on financial assets	(1,219)	(5,016)	(649)	207	—	(6,677)
Net profit/(loss) 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 losses on 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

3 Interest and similar income

Group	2022 £'000	2021 £'000
Cash and short-term funds	**515**	20
Customer loans and advances at amortised cost	**28,170**	37,257
Customer loans and advances at amortised cost that are finance leases	**2,516**	3,410
Fair Value Through Other Comprehensive Income	**106**	103
Total interest and similar income	**31,307**	40,790

Operating lease rental income of £163,664 (2021: £130,247) has not been separately disclosed as it is not considered material and is included within interest income on loans and advances at amortised cost.

4 Interest and similar expense

Group	2022 £'000	2021 £'000
Bank borrowings at amortised cost	**1,013**	938
Customer deposits at amortised cost	**5,199**	5,839
Operating lease liabilities	**25**	28
Finance lease liabilities	**386**	630
Credit-related fees and commission	**5,566**	7,102
Total interest and similar expense	**12,189**	14,537

5 Net fees and commission income

Group	2022 £'000	2021 £'000
Fees and commission income		
Secondary lease income	**589**	414
Other fees not forming part of EIR	**1,437**	1,216
Other fees and commissions	**256**	205
	2,282	1,835
Fees and commission expense		
Debt recovery and valuation fees	**(153)**	(149)
Credit assessment costs	**(1,158)**	(1,567)
	(1,311)	(1,716)
Net fees and commission income	**971**	119

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 Notes 29.5 to 29.8. The charge during the year was as follows:

Group	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Total £'000
2022					
Impairment (charge)/release for the year on loans and advances to customers	**(757)**	**(750)**	**163**	**(55)**	**(1,399)**
Provision for undrawn contractually-committed facilities	**—**	**—**	**—**	**(98)**	**(98)**
Net write-off	**(522)**	**(917)**	**(11)**	**—**	**(1,450)**
Other movements in recoveries	**171**	**1,546**	**—**	**—**	**1,717**
Total impairment (charge)/release	**(1,108)**	**(121)**	**152**	**(153)**	**(1,230)**
2021					
Impairment (charge)/release for the year on loans and advances to customers	(745)	(4,570)	(501)	207	(5,609)
Provision for undrawn contractually committed facilities	—	—	—	—	—
Net write-off	(497)	(590)	(164)	—	(1,251)
Other movements in recoveries	23	144	16	—	183
Total impairment (charge)/release	(1,219)	(5,016)	(649)	207	(6,677)

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

During the year ended 30 September 2022 and 2021, the Group sold certain credit-impaired loans and advances to customers measured at amortised cost. 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 2022 and 2021 are set out below.

	Carrying amount of financial assets sold	Profit arising from derecognition	Carrying amount of financial assets sold	Profit arising from derecognition
	2022		2021	
Group	£'000	£'000	£'000	£'000
Loans and advances to customers	**386**	**18**	1,708	939

8 Personnel expenses

Personnel expenses include £1.4 million (2021: £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	2022 £'000	2021 £'000
Salaries and fees	**14,449**	10,848
Social security cost	**1,741**	1,020
Pension costs – defined contribution plan	**642**	407
Other benefits	**371**	344
	17,203	12,619

The average monthly number of persons employed by the Group during the year was 150 (2021: 131). The table below summarises the total number of employees by function at 30 September 2022.

Group	2022	2021
Front office	**30**	28
Risk and Compliance	**27**	22
Operations and IT	**48**	47
Finance and Treasury	**31**	33
Human Resources	**5**	7
Executives	**11**	10
	152	147

9 Directors' remuneration and staff costs

Group	2022 £'000	2021 £'000
Directors' remuneration		
Directors' emoluments	**1,395**	1,272
Payments in respect of personal pension plans	**60**	27
	1,455	1,299

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

Share-based payments

At 30 September 2022, 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 seven years (2021: eight 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	2022 £'000	Weighted average exercise price (pence)	2021 £'000	Weighted average exercise price (pence)
Outstanding at the beginning of year	**3,972**	**33**	3,972	33
Exercised during the year	**—**	**—**	—	—
Expired during the year	**(1,742)**	**(33)**	—	—
Outstanding at the end of the year	**2,230**	**33**	3,972	33
Exercisable at the end of the year	**2,230**	**33**	—	—

No options were granted during the year ended 30 September 2022 (2021: 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 (2021: four years).

Group	2022 £'000	Weighted average exercise price (pence)	2021 £'000	Weighted average exercise price (pence)
Outstanding at the beginning of year	**1,945**	**27**	2,715	15
Exercised during the year	**—**	**—**	(750)	(12)
Expired during the year	**(1,190)**	**(14)**	(20)	(26)
Outstanding at the end of the year	**755**	**21**	1,945	27
Exercisable at the end of the year	**755**	**21**	1,945	27

No options were granted during the year ended 30 September 2022 (2021: Nil). The fair value was measured at the grant date using the Black-Scholes model.

10 Other operating expenses

Other operating expenses include £2.5 million (2021: £2.9 million) of remediation expenses, primarily legal and consultancy work in relation to non-BAU (Business As Usual) activities. This predominantly includes costs incurred in updating our financial reporting, financial control framework, Financial Position and Prospects Procedures (FPPP) memorandum and a new IFRS 9 model.

Group	2022 £'000	2021 £'000
Administrative expenses	**4,252**	2,785
Advertising and marketing	**466**	353
Expenses relating to banking services and licences	**168**	116
Information technology and systems	**2,043**	1,311
Professional fees	**5,080**	4,005
	12,009	8,570

Professional fees include fees payable to the auditor of £299,000 (2021: £282,000) as analysed below.

Group	2022 £'000	2021 £'000
Statutory audit of the Company	**109**	50
Statutory audit of the Company's subsidiaries	**190**	232
	299	282

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 2022 and its comparatives**

Group	2022 £'000	2021 £'000
Current tax		
UK Corporation Tax on profit for the year	**–**	81
Overseas	**–**	(2)
Adjustments in respect of prior periods	**(56)**	(41)
Total tax (charge)/credit for the year	**(56)**	38

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

Group	2022 £'000	2021 £'000
Share-based payments	**(198)**	55
Statement of changes in equity	**(198)**	55

(c) **Factors affecting current tax charge for the year**
The Corporation Tax main rate is 19% (2021: 19%). The deferred tax asset has been measured at 25% (2021: 19%).

	2022 £'000	2021 £'000
Accounting loss before tax	**14,004**	3,099
UK Corporation Tax of 19% (2021: 19%)	**2,661**	589
Effect of		
Current year movement in recognised deferred tax asset	**–**	(154)
Expenses not deductible for taxation purposes	**(220)**	(338)
Adjustments in respect of prior years	**(56)**	(42)
Current year movement in unrecognised deferred tax asset	**(2,441)**	(1)
Impact on different overseas tax rates	**–**	1
Share-based payments	**–**	(17)
Income tax (charge)/credit as reported in the Consolidated Income Statement	**(56)**	38
Effective tax rate for the year	**– %**	1%

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.

Deferred tax

Deferred tax asset of £5.9 million at the substantively enacted rate of 25% (2021: £2.6 million at 25% rate) in total has not been recognised: in respect of trading losses of £13.6 million (2021: £2.9 million), with a corresponding deferred tax asset thereon of £3.4 million (2021: £0.7 million at 25% rate) and other temporary differences of £10.1 million (2021: £7.3 million), with a deferred tax asset thereon of £2.5 million at the substantively enacted rate of 25% (2021: £1.8 million at 25% rate).

12 Earnings Per Share (EPS)

Basic Earnings Per Share (EPS) is calculated by dividing the net loss 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 loss and share data used in the basic and diluted EPS calculations.

Group	2022 £'000	2021 £'000
Net (loss) attributable to ordinary shareholders	**(14,060)**	(3,061)

	2022 '000 units	2021 '000 units
Basic weighted average number of shares	**276,268**	250,335
Basic loss per five pence ordinary share	**(5.1)p**	(1.2)p

There were no potential dilutive shares during the year.

13 Cash and balances at central banks

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Cash and demand deposits	**58,748**	56,126	**422**	318

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 Financial assets at Fair Value Through Other Comprehensive Income (FVOCI)

Financial assets at Fair Value Through Other Comprehensive Income consists of debt securities only.

Group	2022 £'000	2021 £'000
Balance at 1 October	**16,155**	9,095
Net purchase/(sale) of bonds	**6,100**	7,111
Change in fair value during the year	**17**	(51)
Balance at 30 September	**22,272**	16,155

There are no material impairment losses on debt instruments at FVOCI during the year and at year end (2021: £nil).

15 Loans and advances to customers

Group	2022 £'000	2021 £'000
Consumer lending – gross	**142,756**	166,866
Business lending – gross	**111,956**	138,550
Azule lending – gross	**16,439**	15,465
Bridging lending – gross	**43,902**	55,481
	315,053	376,362
Allowance for impairment losses (Note 29.5)	**(9,499)**	(12,370)
	305,554	363,992

PCF GROUP

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

	2022 £'000	2021 £'000
Less than one year	**59,858**	72,582
Between one and five years	**178,468**	222,270
More than five years	**76,727**	81,510
Impairment allowance	**(9,499)**	(12,370)
	305,554	363,992

The Group offers finance lease agreements to its customers for hard assets such as motor vehicles, plant and machinery. The Group registers its interest against the Vehicle Registration Mark (VRM), Vehicle Identification Number (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, it does 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	2022 £'000	2021 £'000
Within one year	**2,168**	2,390
After one year but no more than two years	**5,959**	6,286
After two years but no more than three years	**7,736**	9,357
After three years but no more than four years	**3,159**	10,086
After four years but no more than five years	**3,899**	2,196
More than five years	**191**	258
	23,112	30,573

The following table shows a reconciliation of minimum future lease payments to the gross and net investment in lease payments receivable:

	2022 £'000	2021 £'000
Minimum future lease payments/gross investment in leases	**23,112**	30,573
Unearned finance income	**(2,647)**	(3,633)
Net investment in finance leases	**20,465**	26,940

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 2021	**3,225**	**7,690**	**1,182**	**273**	**12,370**
Charge/(release) for the year (Note 6)	**757**	**750**	**(163)**	**55**	**1,399**
Release on write-off	**(244)**	**(3,007)**	**3**	**1**	**(3,247)**
Release against sold loans	**(502)**	**(521)**	**—**	**—**	**(1,023)**
At 30 September 2022	**3,236**	**4,912**	**1,022**	**329**	**9,499**
Made up of:					
Individual impairment	**1,473**	**2,171**	**820**	**148**	**4,612**
Collective model ECL allowance including:					
overlays and PMAs	**1,763**	**2,741**	**202**	**181**	**4,887**
Total impairment	**3,236**	**4,912**	**1,022**	**329**	**9,499**

PCF GROUP

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/(release) 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 ECL allowance including:					
overlays and PMAs	1,427	3,524	615	—	5,566
Total impairment	3,225	7,690	1,182	273	12,370

Non-current loans and advances to customers held for sale under IFRS 5

The Azule Finance division contains a sub portfolio of loans and advances to customers held by the Azule Limited subsidiary that were held for sale under IFRS 5 as at 30 September 2022 as part of management's decision to sell the loan book. As at 30 September 2022 these loans remained under the amortised cost classification in accordance with IFRS 9 and were reclassified to fair value through other comprehensive income on 1 October 2022 to reflect the change in business model from the historical hold-to-collect business model to hold-to-collect and to sell. Refer to Note 33 for details of the loss realised on the sale of Azule Limited loan book on 20 December 2022.

Azule Limited loan portfolio held for sale	2022 £'000	2021 £'000
Loans and advances to customers - gross	**3,618**	7,977
Allowance for impairment losses	**(754)**	(623)
	2,864	7,354

The Consolidated Income Statement on page 74 includes the following results attributable to Azule Limited before the elimination of intercompany transactions.

Azule Limited interest and fee income before elimination of intercompany transactions	2022 £'000	2021 £'000
Interest and similar income	**412**	1,101
Fees and commission income	**1,239**	1,057

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 2022	Percentage of equity interest 2021
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*
Detroit Funding Limited	Jersey	Investment company	100	N/A

*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.

The registered office of Detroit Funding Limited is 22 Grenville Street, St Helier, Jersey JE4 8PX.

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 subsidiaries was as follows:

Company	2022 £'000	2021 £'000
At 1 October		
Cost and net book value	**32,000**	32,000
Increase of investment in PCF Bank Limited	**4,088**	—
Acquisition of Detroit Funding Limited	**—**	—
At 30 September	**36,088**	32,000

The Company has an investment in PCF Bank Limited (the Bank). The net asset value of the Bank at 30 September 2022 was £38.1 million (2021: £49.3 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. The additional investment in the Bank during the year was £4.1 million (2021: 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.

The Company purchased 100% of the issued share capital of Detroit Funding Limited on 7 June 2022 for £1. Detroit Funding Limited was subsequently wound up on 28 November 2022.

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

				Right-of-use assets			
Group	Assets held under operating leases £'000	Office equipment £'000	Motor vehicles £'000	Land and buildings £'000	Office equipment £'000	Total right-of-use assets £'000	Total £'000
Cost							
At 1 October 2021	**655**	**1,588**	**—**	**2,408**	**23**	**2,431**	**4,674**
Additions during the year	**—**	**57**	**126**	**—**	**—**	**126**	**183**
Disposals during the year	**(165)**	**(25)**	**—**	**—**	**—**	**—**	**(190)**
At 30 September 2022	**490**	**1,620**	**126**	**2,408**	**23**	**2,557**	**4,667**
Depreciation and impairment							
At 1 October 2021	**306**	**797**	**—**	**1,206**	**15**	**1,221**	**2,324**
Depreciation during the year	**147**	**374**	**28**	**602**	**6**	**636**	**1,157**
Disposals during the year	**(147)**	**(25)**	**—**	**—**	**—**	**—**	**(172)**
Write back	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Impairment	**—**	**25**	**—**	**—**	**—**	**—**	**25**
At 30 September 2022	**306**	**1,171**	**28**	**1,808**	**21**	**1,857**	**3,334**
Net book value	**184**	**449**	**98**	**600**	**2**	**700**	**1,333**

Group	Assets held under operating leases £'000	Office equipment £'000	Right-of-use assets: 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 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

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

Loss on disposal of office equipment, assets held under operating leases and motor vehicles

	2022 £'000	2021 £'000
Cost	**190**	50
Accumulated depreciation	**(172)**	(48)
Net book value of disposed asset	**18**	2
Proceeds from disposal of assets	**(18)**	—
Loss on disposal	**—**	2

Company	Right-of-use assets Motor vehicles £'000	Land and buildings £'000	Office equipment £'000	Total £'000
Cost				
At 1 October 2021	**—**	**2,283**	**23**	**2,306**
Additions during the year	**126**	**—**	**—**	**126**
Disposals during the year	**—**	**—**	**—**	**—**
At 30 September 2022	**126**	**2,283**	**23**	**2,432**
Accumulated depreciation				
At 1 October 2021	**—**	**1,140**	**15**	**1,155**
Depreciation during the year	**28**	**572**	**5**	**605**
Write back	**—**	**—**	**—**	**—**
At 30 September 2022	**28**	**1,712**	**20**	**1,760**
Net book value	**98**	**571**	**3**	**672**
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	1,155
Net book value	—	1,143	8	1,151

Future minimum lease rentals, receivable under non-cancellable operating leases

Group	2022 £'000	2021 £'000
One year or within one year	**151**	182
One to two years	**66**	151
Two to three years	**—**	72
Three to four years	**—**	—
	217	405

None of the property or equipment above are under any form of restrictions on title, and none have been pledged as security for liabilities.

18 Goodwill and other Intangible assets

Goodwill related partly to the Group's Consumer Finance Division (CFD) which arose 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.

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 30 September 2021 annual impairment test, the Group assessed the economic performance of each acquisition to assess whether the value of future discounted cash flows was 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 2021 Board-approved profitability forecast was used and discounted back to present value.

At 30 September 2022 there was no goodwill. During the year ended 30 September 2021 the carrying value of goodwill brought forward of £1.1 million was fully impaired to £nil at 30 September 2021. At 30 September 2021 both of the Cash Generating Units (CGUs) previously acquired were expected to continue to perform for the foreseeable future. However, the forecast covered a five year period, and there was a requirement to capture expected growth and cash flows beyond these dates. To complete this, a terminal valuation was performed to assess whether goodwill had been impaired or not. Terminal values often comprise a large percentage of the total assessed value.

Basis for the TMV and Azule Cash Generating Units goodwill impairment during the year ended 30 September 2021

The recoverable amount of the TMV and Azule CGU at 30 September 2021 was determined based on a Value In Use (VIU) calculation that used cash flow projections from a then recent financial forecast taken to the 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 were updated to reflect the latest view of future performance in light of the economic climate in May 2022, which indicated a more benign demand and future expected growth in its products and services. The pre-tax discount rate applied to cash flow projections was 15.17% per annum over a five year period and, for the period beyond, a terminal growth rate of 1% was used, being, at the time, the expected long-term average growth rate for the Group within the economies in which it operates. It was concluded that the Value In Use no longer exceeded the carrying value. Based on this assessment outcome, the indication was that the goodwill should be written off in full and reduced to zero during the year ended 30 September 2021.

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).

The Group's 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				
		Under	Total		
	In use	development	intangibles	Goodwill	Total
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost					
At 1 October 2021	**7,227**	**98**	**7,325**	**—**	**7,325**
Additions during the year	**—**	**259**	**259**	**—**	**259**
Transfers	**260**	**(260)**	**—**	**—**	**—**
Disposals	**(10)**	**—**	**(10)**	**—**	**(10)**
Reclassified to IT costs	**—**	**(8)**	**(8)**	**—**	**(8)**
At 30 September 2022	**7,477**	**89**	**7,566**	**—**	**7,566**
Amortisation and impairment					
At October 2021	**4,250**	**—**	**4,250**	**—**	**4,250**
Amortisation during the year	**707**	**—**	**707**	**—**	**707**
Write-off impairment loss on software	**2,530**	**89**	**2,619**	**—**	**2,619**
Write-off	**—**	**—**	**—**	**—**	**—**
Disposals	**(10)**	**—**	**(10)**	**—**	**(10)**
At 30 September 2022	**7,477**	**89**	**7,566**	**—**	**7,566**
Net book value at 30 September 2022	**—**	**—**	**—**	**—**	**—**

	Software				
		Under	Total		
	In use	development	intangibles	Goodwill	Total
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'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 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

19 Due from and to related companies

The following outstanding balances are due from and to companies with the PCF Group plc group of companies.

	Company	
	2022	2021
	£'000	£'000
Due from related companies	**10,509**	8,958
Due to related companies	**6,906**	5,918

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 related 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 ECL allowance has been recorded.

20 Other assets

	Group 2022 £'000	Group 2021 £'000	Company 2022 £'000	Company 2021 £'000
Prepayments	**1,139**	1,049	**1,139**	1,049
Other receivables	**542**	4,120	**249**	49
	1,681	5,169	**1,388**	1,098

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

21 Due to banks

Group	2022 £'000	2021 £'000
Non-current		
Secured loans and borrowings	**59,842**	59,630
	59,842	59,630

Bank overdrafts

The Group had no bank overdraft facility at 30 September 2022 (30 September 2021: £nil).

Interest bearing facilities

£59.6 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 January 2025. The loan is secured by a charge over specified loans and receivables and the guarantee of the Company. At 30 September 2022, the Group had an outstanding principal balance of £59.6 million (2021: £59.6 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 and terminated on 22 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 one year. The facility is secured by bonds owned by the Bank. This facility was undrawn at 30 September 2022 (2021: £nil). In September 2021, the facility was suspended and has not been reinstated.

22 Due to customers

Group	2022 £'000	2021 £'000
Retail customers		
Notice account	**29,336**	50,016
Term deposit	**251,717**	277,150
	281,053	327,166

Included in amounts due to customers is accrued interest amounting to £2.0 million (2021: £1.8 million) and £0.1 million (2021: £0.3 million) for term deposits and notice accounts respectively.

23 Financing activities

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

Group	Note	1 October 2021 £'000	Funding cash flows £'000	Accrued interest £'000	Interest cash flows £'000	30 September 2022 £'000
Due to banks	21	**59,630**	**—**	**453**	**(241)**	**59,842**
Subordinated liabilities	24	**7,127**	**—**	**560**	**(560)**	**7,127**
		66,757	**—**	**1,013**	**(801)**	**66,969**

Group	Note	1 October 2020 £'000	Funding cash flows £'000	Accrued interest £'000	Interest cash flows £'000	30 September 2021 £'000
Due to banks	21	62,620	(3,005)	70	(55)	59,630
Subordinated liabilities	24	7,126	—	561	(560)	7,127
		69,746	(3,005)	631	(615)	66,757

2021 Accrued interest and Interest cash flows have been re-presented to be consistent with the current year disclosure.

24 Subordinated liabilities

Group	2022 £'000	2021 £'000
Subordinated debt	**7,127**	7,127
	7,127	7,127

£7 million subordinated notes issued by PCF Bank Limited

At 30 September 2022, PCF Bank Limited had £7 million subordinated notes in issue to British Business Investments Limited (30 September 2021: £7 million), which were issued under a £15 million subordinated notes facility. As of 16 September 2022 no further drawdowns can be issued. Each tranche of notes has a fixed coupon of 8% per annum, a final maturity 10 years from the date of issue, and is callable by the issuer 5 years from the date of issue. These notes meet the conditions for Tier 2 capital.

25 Lease liabilities

Group	2022 £'000	2021 £'000
At 1 October	**1,037**	1,604
Accretion of interest	**25**	28
Payments	**(632)**	(595)
New leases entered into	**121**	—
At 30 September	**551**	1,037

Company	2022 £'000	2021 £'000
At 1 October	**983**	1,525
Accretion of interest	**23**	26
Payments	**(600)**	(568)
New leases entered into	**121**	—
At 30 September	**527**	983

26 Other liabilities

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Collateral repayable	**1,200**	180	**—**	—
Accruals	**1,911**	2,948	**1,077**	1,595
Other payables	**1,225**	1,801	**1,216**	1,616
	4,336	4,929	**2,293**	3,211

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

27 Provisions

Group	2022 £'000	2021 £'000
Loan commitments issued	**98**	—
Other provisions	**854**	—
At 30 September	**952**	—

Company	30 September 2022 £'000	30 September 2021 £'000
Loan commitments issued	**—**	—
Other provisions	**854**	—
At 30 September	**854**	—

Loan commitments issued

At 30 September 2022, the amount in respect of loan commitments issued represents the sum of an ECL allowance of £98,000 (2021: £nil).

Other provisions

The following table sets out other provisions.

Group	Onerous contracts £'000
At 1 October	—
Provisions made during the year	854
At 30 September	854

Company	Onerous contracts £'000
At 1 October	—
Provisions made during the year	854
At 30 September	854

Onerous contracts

In light of applying a basis other than Going concern to these Financial Statements, and the decision announced on 9 November 2022 to exit the UK banking market, and sell some or all parts of the loan portfolio, management considered the implications for provisions and contingent liabilities and undertook a review to identify any onerous contracts from decisions taken at or prior to 30 September 2022 (2021: £nil).

As a results of that review, a number of onerous contracts were identified that related to the decision taken to reduce operating costs and a provision against onerous contracts was made during the year of £854,102 (2021: £nil). Management expects to identify and provide for additional onerous contract and the costs of restructuring related to decisions only taken and announced after the year end, in the next financial statements.

28 Issued capital and reserves

Group and Company	2022 '000 units	2021 '000 units	2022 £'000	2021 £'000
Ordinary shares issued and fully paid				
At 1 October	**250,990**	250,240	**12,550**	12,512
Issuance of new shares during the year	**82,820**	750	**4,141**	38
Scrip dividend	**—**	—	**—**	—
At 30 September	**333,810**	250,990	**16,691**	12,550

Called-up share capital comprises 333,810,000 (2021: 250,990,000) ordinary shares of 5 pence 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.

Group and Company

Share premium	2022 £'000	2021 £'000
At 1 October	**17,679**	17,625
Issuance of new shares during the year	**(236)**	54
At 30 September	**17,443**	17,679

The reduction in share premium reflects the costs incurred in respect of the issuance of new shares during the year.

Group Other reserves	2022 £'000	2021 £'000
At 1 October	**9**	60
Fair value movements in debt instruments at FVOCI	**17**	(51)
Foreign exchange difference	**(2)**	—
At 30 September	**24**	9

Own shares (Employee Share Option Plans)

Own shares represent 768,377 (2021: 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 2022 was £17,290 (2021: £184,410).

Group and Company Own shares (Employee Share Option Plans)	2022 £'000	2021 £'000
Own shares		
At 1 October	**(147)**	(147)
At 30 September	**(147)**	(147)

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 at Fair Value Through Profit or Loss (FVTPL)

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 2022				
Cash and balances at central banks	**58,748**	**—**	**—**	**58,748**
Loans and advances to customers	**305,554**	**—**	**—**	**305,554**
Derivative financial instruments	**—**	**1,128**	**—**	**1,128**
Debt securities at Fair Value Through Other Comprehensive Income (FVOCI)	**—**	**—**	**22,272**	**22,272**
Other assets (excluding prepayments)	**542**	**—**	**—**	**542**
Total financial assets	**364,844**	**1,128**	**22,272**	**388,244**
Due to banks	**59,842**	**—**	**—**	**59,842**
Due to customers	**281,053**	**—**	**—**	**281,053**
Subordinated debt	**7,127**	**—**	**—**	**7,127**
Other liabilities and provisions (excluding accruals)	**2,523**	**—**	**—**	**2,523**
Total financial liabilities	**350,545**	**—**	**—**	**350,545**

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
Derivative financial instruments	—	209	—	209
Debt securities at Fair Value Through Other Comprehensive Income (FVOCI)	—	—	16,155	16,155
Other assets (excluding 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 and provisions (excluding accruals)	1,981	—	—	1,981
Total financial liabilities	395,904	—	—	395,904

Company	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
At 30 September 2022				
Cash and balances at banks	**422**	**—**	**—**	**422**
Due from Group companies	**10,509**	**—**	**—**	**10,509**
Other assets (excluding prepayments)	**249**	**—**	**—**	**249**
Total financial assets	**11,180**	**—**	**—**	**11,180**
Due to Group companies	**6,906**	**—**	**—**	**6,906**
Other liabilities and provisions (excluding accruals)	**1,216**	**—**	**—**	**1,216**
Total financial liabilities	**8,122**	**—**	**—**	**8,122**

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 (excluding prepayments)	49	—	—	49
Total financial assets	9,325	—	—	9,325
Due to Group companies	5,918	—	—	5,918
Other liabilities and provisions (excluding accruals)	1,616	—	—	1,616
Total financial liabilities	7,534	—	—	7,534

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.

Financial instruments held at amortised cost Group	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
At 30 September 2022					
Assets					
Cash and balances at central banks	**58,748**	**58,748**	**—**	**—**	**58,748**
Loans and advances to customers	**305,554**	**—**	**—**	**305,554**	**313,670**
Other assets (excluding prepayments)	**542**	**—**	**—**	**542**	**542**
	364,844	**58,748**	**—**	**306,096**	**372,960**
Liabilities					
Due to banks	**59,842**	**59,842**	**—**	**—**	**59,842**
Due to customers	**281,053**	**—**	**—**	**281,053**	**269,212**
Subordinated liabilities	**7,127**	**—**	**—**	**7,127**	**7,623**
Other liabilities and provisions (excluding accruals)	**2,523**	**1,200**	**—**	**1,323**	**2,523**
	350,545	**61,042**	**—**	**289,503**	**339,200**

Financial instruments held at amortised cost Group	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
At 30 September 2021					
Assets					
Cash and balances at central banks	56,126	56,126	—	—	56,126
Loans and advances to customers	363,992	—	—	363,992	420,378
Other assets (excluding prepayments)[32]	4,120	—	—	4,120	4,120
	424,238	56,126	—	368,112	480,624
Liabilities					
Due to banks	59,630	59,630			59,630
Due to customers	327,166	—	—	327,166	327,166
Subordinated liabilities	7,127	—	—	7,127	8,346
Other liabilities and provisions (excluding accruals)[32]	1,981	—	—	1,981	1,981
	395,904	59,630	—	336,274	397,123

For Due to banks and Due to customers, other assets (excluding accruals), other liabilities and provisions (excluding accruals) carrying value is assessed to approximate fair value.

[32] 30 September 2021 Other assets (excluding prepayments), Other liabilities and provisions (excluding accruals) have been represented to be consistent with the current year disclosure.

The following table shows an analysis of financial instruments recorded at Fair Value Through Other Comprehensive Income (FVOCI) by level of the fair value hierarchy.

Group	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Fair Value Adjusted Through Other Comprehensive Income					
2022					
Debt financial instruments at FVOCI	**22,272**	**22,272**	**—**	**—**	**22,272**
2021					
Debt financial instruments at FVOCI	16,155	16,155	—	—	16,155

The following table shows an analysis of financial instruments recorded at Fair Value Through Profit or Loss (FVTPL) by level of the fair value hierarchy.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000	Notional £'000
Financial instruments held at Fair Value Through Profit or Loss					
2022					
Derivative financial assets					
Over The Counter interest rate derivatives	**—**	**1,128**	**—**	**1,128**	**14,800**
	—	**1,128**	**—**	**1,128**	**14,800**
2021					
Derivative financial assets					
Over The Counter interest rate derivatives[33]	—	209	—	209	19,600
	—	209	—	209	19,600

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 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
2022			
Derivatives in economic relationships			
Interest rate swaps	**1,128**	**—**	**14,800**
Total derivative financial instruments	**1,128**	**—**	**14,800**

	Carrying value assets £'000	Carrying value liabilities £'000	Notional amount £'000
2021			
Derivatives in economic relationships			
Interest rate swaps[33]	209	—	19,600
Total derivative financial instruments	209	—	19,600

[33] 30 September 2021 notional amount has been represented to be consistent with the amortised notional reporting basis applied in the current year disclosure

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
2022				
Gross carrying amounts				
Performing				
High grade	**240,925**	**16,548**	**—**	**257,473**
Standard grade	**16,517**	**2,387**	**—**	**18,904**
Sub-standard grade	**17,206**	**1,538**	**—**	**18,744**
Non-performing				
Individually impaired	**—**	**913**	**13,205**	**14,118**
Collectively impaired	**—**	**3,737**	**2,077**	**5,814**
Gross total	**274,648**	**25,123**	**15,282**	**315,053**
Allowance for impairment losses	**(2,210)**	**(1,154)**	**(6,135)**	**(9,499)**
Net total	**272,438**	**23,969**	**9,147**	**305,554**
Undrawn commitments	**19,560**	**—**	**—**	**19,560**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
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

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 2021	**335,029**	**27,693**	**13,640**	**376,362**
New assets originated or purchased	**139,021**	**430**	**—**	**139,451**
Assets derecognised or matured, and remeasurements	**(168,420)**	**(21,104)**	**(5,278)**	**(194,802)**
Transfers to Stage 1	**40,821**	**(40,223)**	**(598)**	**—**
Transfers to Stage 2	**(64,694)**	**80,173**	**(15,479)**	**—**
Transfers to Stage 3	**(7,015)**	**(20,774)**	**27,789**	**—**
Amounts written off	**(94)**	**(1,071)**	**(3,370)**	**(4,535)**
Debt sale	**—**	**(1)**	**(1,422)**	**(1,423)**
At 30 September 2022	**274,648**	**25,123**	**15,282**	**315,053**

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

ECL allowance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2021	**3,407**	**3,005**	**5,958**	**12,370**
New assets originated or purchased	**687**	**4**	**—**	**691**
Assets derecognised or matured, and remeasurements	**1,444**	**(495)**	**(241)**	**708**
Transfers to Stage 1	**1,388**	**(1,358)**	**(30)**	**—**
Transfers to Stage 2	**(3,285)**	**6,575**	**(3,290)**	**—**
Transfers to Stage 3	**(1,430)**	**(5,697)**	**7,127**	**—**
Amounts written off	**(1)**	**(879)**	**(2,367)**	**(3,247)**
Debt sale	**—**	**(1)**	**(1,022)**	**(1,023)**
At 30 September 2022	**2,210**	**1,154**	**6,135**	**9,499**

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
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 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.

PCF GROUP

29.6 Impairment allowance for loans and advances by divisions

Loans and advances Gross carrying amount	Stage 1 £'000	Stage 2 Not past due £'000	Stage 2 <30 days £'000	Stage 2 >=30 days £'000	Stage 2 Total £'000	Stage 3 £'000	Total £'000
2022							
CFD	132,672	3,638	723	2,359	6,720	3,364	142,756
BFD	100,837	3,457	462	2,196	6,115	5,004	111,956
Azule	14,365	790	57	95	942	1,132	16,439
Bridging	26,774	8,203	3,143	—	11,346	5,782	43,902
Total	274,648	16,088	4,385	4,650	25,123	15,282	315,053

Impairment allowances	Stage 1 £'000	Stage 2 Not past due £'000	Stage 2 <30 days £'000	Stage 2 >=30 days £'000	Stage 2 Total £'000	Stage 3 £'000	Total £'000
2022							
CFD	766	186	43	193	422	2,048	3,236
BFD	1,204	343	38	212	593	3,115	4,912
Azule	106	56	6	12	74	842	1,022
Bridging	134	41	24	—	65	130	329
Total	2,210	626	111	417	1,154	6,135	9,499

Coverage ratio	Stage 1	Stage 2 Not past due	Stage 2 <30 days	Stage 2 >=30 days	Stage 2 Total	Stage 3	Total
2022							
CFD	0.6%	5.1%	5.9%	8.2%	6.3%	60.9%	2.3%
BFD	1.2%	9.9%	8.2%	9.7%	9.7%	62.3%	4.4%
Azule	0.7%	7.1%	10.5%	12.6%	7.9%	74.4%	6.2%
Bridging	0.5%	0.5%	0.8%	—%	0.6%	2.2%	0.7%
Total	0.8%	3.9%	2.5%	9.0%	4.6%	40.1%	3.0%

Loans and advances Gross carrying amount	Stage 1 £'000	Stage 2 Not past due £'000	Stage 2 <30 days £'000	Stage 2 >=30 days £'000	Stage 2 Total £'000	Stage 3 £'000	Total £'000
2021							
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

Impairment allowances	Stage 1 £'000	Stage 2 Not past due £'000	Stage 2 <30 days £'000	Stage 2 >=30 days £'000	Stage 2 Total £'000	Stage 3 £'000	Total £'000
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

Coverage ratio	Stage 1	Stage 2 Not past due	Stage 2 <30 days	Stage 2 >=30 days	Stage 2 Total	Stage 3	Total
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%	—%	0.5%
Total	1.0%	8.4%	16.3%	14.4%	10.9%	43.7%	3.3%

29.7 Stage 3 decomposition

	Stage 3 Gross carrying amount £'000	ECL £'000	Coverage %
2022			
No longer credit-impaired but in cure period that precedes transfer to Stage 2	**—**	**—**	**—**
Credit-impaired not in cure period	**15,282**	**6,135**	**40**
Total	**15,282**	**6,135**	**40**

	Stage 3 Gross carrying amount £'000	ECL £'000	Coverage %
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	44

29.8 Analysis of loans by product types

Gross carrying amounts	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
2022				
Bridging	**26,774**	**11,346**	**5,782**	**43,902**
Finance lease	**17,683**	**1,512**	**1,270**	**20,465**
Hire purchase/conditional sale	**230,174**	**12,265**	**7,711**	**250,150**
Loans	**17**	**—**	**519**	**536**
Total	**274,648**	**25,123**	**15,282**	**315,053**

Gross carrying amounts	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
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

Impairment allowances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
2022				
Bridging	**134**	**65**	**130**	**329**
Finance lease	**195**	**151**	**800**	**1,146**
Hire purchase/conditional sale	**1,881**	**938**	**4,789**	**7,608**
Loans	**—**	**—**	**416**	**416**
Total	**2,210**	**1,154**	**6,135**	**9,499**

Impairment allowances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
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

30 Financial risk management

The Group and its operations are predominantly based 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. 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 that 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	2022	2021
	%	%
Year end	**1.2**	1.1
Average	**1.2**	1.2

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

(b) **Undiscounted contractual cash flows**

Group	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
2022						
Financial assets						
Cash and balances at central banks	**58,749**	**—**	**—**	**—**	**—**	**58,749**
Loans and advances to customers	**—**	**41,273**	**86,446**	**183,374**	**37,643**	**348,736**
Debt instruments at FVOCI	**—**	**147**	**438**	**22,700**	**—**	**23,285**
Derivative financial instruments	**—**	**113**	**491**	**593**	**—**	**1,197**
Other assets	**—**	**553**	**—**	**—**	**—**	**553**
Total undiscounted financial assets	**58,749**	**42,086**	**87,375**	**206,667**	**37,643**	**432,520**
Financial liabilities						
Due to banks	**—**	**—**	**—**	**59,600**	**—**	**59,600**
Due to customers	**—**	**46,730**	**98,342**	**141,674**	**3,716**	**290,462**
Subordinated debt	**—**	**—**	**—**	**7,000**	**—**	**7,000**
Lease liabilities	**156**	**163**	**334**	**56**	**—**	**709**
Other liabilities	**—**	**2,473**	**—**	**—**	**—**	**2,473**
Total undiscounted financial liabilities	**156**	**49,366**	**98,676**	**208,330**	**3,716**	**360,244**
Surplus/(shortfall)	**58,593**	**(7,280)**	**(11,301)**	**(1,663)**	**33,927**	**72,276**

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
2021						
Financial assets						
Cash and balances at central banks	56,126	—	—	—	—	56,126
Loans and advances to customers	8,359	26,602	42,562	251,422	110,993	439,938
Debt instruments at FVOCI	—	—	4,005	12,148	—	16,153
Derivative financial instruments	—	2	41	168	—	211
Other assets	—	4,120	—	—	—	4,120
Total undiscounted financial assets	64,485	30,724	46,608	263,738	110,993	516,548
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
Subordinated debt[34]	—	—	—	—	7,000	7,000
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	15,238	403,841
Surplus/(shortfall)	55,964	17,141	(103,187)	47,034	95,755	112,707

[34] Subordinated debt represented to be consistent with current year disclosure.

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
2022						
Financial assets						
Cash and balances at central banks	**422**	**—**	**—**	**—**	**—**	**422**
Due from Group companies	**10,509**	**—**	**—**	**—**	**—**	**10,509**
Other assets	**—**	**249**	**—**	**—**	**—**	**249**
Total undiscounted financial assets	**10,931**	**249**	**—**	**—**	**—**	**11,180**
Financial liabilities						
Lease liabilities	**148**	**155**	**317**	**56**	**—**	**677**
Due to Group companies	**6,906**	**—**	**—**	**—**	**—**	**6,906**
Other liabilities	**—**	**1,216**	**—**	**—**	**—**	**1,216**
Total undiscounted financial liabilities	**7,054**	**1,372**	**317**	**56**	**—**	**8,799**
Surplus/(shortfall)	**3,877**	**(1,123)**	**(317)**	**(56)**	**—**	**2,381**

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
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)	3,358	(1,712)	(434)	(431)	—	781

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 2022, the Group had total wholesale and retail funding of £348.0 million (2021: £393.9 million) that supported net loans and advances of £305.6 million (2021: £363.9 million). Moreover, at 30 September 2022, the Group had a Net Stable Funding Ratio in excess of the regulatory minimum of 100% (2021: in excess of 100%).

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

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

Below is the analysis of the Group's encumbered and unencumbered assets that would be available to obtain additional funding as collateral. For this purpose, encumbered assets are assets 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
2022			
Debt financial instruments at FVOCI	**22,272**	**—**	**22,272**
Hire purchase/conditional sale	**56,692**	**185,850**	**242,542**
Loans	**—**	**120**	**120**
Finance lease	**10,231**	**9,088**	**19,319**
Bridging	**—**	**43,573**	**43,573**
Total	**89,195**	**238,631**	**327,826**

Group	Carrying amount of encumbered assets £'000	Carrying amount of unencumbered assets £'000	Total £'000
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

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 points for the whole financial year would have a favourable effect on profits of £131,613 (2021: favourable £97,738) and a favourable impact on capital of £106,606 (2021: favourable £76,168).

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	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Financial assets on-balance sheet				
Cash and balances at central banks	**58,748**	56,126	**422**	318
Loans and advances to customers				
Consumer lending (net)	**139,520**	163,641	**—**	—
Business lending (net)	**107,044**	130,860	**—**	—
Azule lending (net)	**15,417**	14,283	**—**	—
Bridging finance (net)	**43,573**	55,208	**—**	—
Due from related companies	**—**	—	**10,509**	8,958
Debt instruments at FVOCI	**22,272**	16,155	**—**	—
Derivative financial assets	**1,128**	209	**—**	—
Other assets	**1,681**	4,120	**1,388**	49
	389,383	440,602	**12,319**	9,325
Off-balance sheet				
Undrawn facilities	**19,560**	8,958	**—**	—

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.

Group	Gross amounts recognised £'000	Effect of master netting agreements £'000	Financial collateral £'000	Net amounts after offsetting and collateral £'000
2022				
Derivative financial assets	**1,128**	**—**	**(1,200)**	**(72)**
Derivative financial liabilities	**—**	**—**	**—**	**—**
2021				
Derivative financial assets	209	—	(180)	29
Derivative financial liabilities	—	—	—	—

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 2022, the gross carrying amount of exposures with forbearance measures was £2.8 million (2021: £3.0 million). This relates to 239 agreements (2021: 600) in forbearance, with temporary modifications to terms and conditions. At 30 September 2022, there were no loans that have had refinancing or permanent modification to terms and conditions (2021: 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 following table for forbearance analysis.

30.3.2 Forborne and modified loans

The following tables provide a summary of the Group's forborne loans and advances to customers.

	Gross carrying amount of forborne loans					
		Stage 1	Stage 2	Stage 3		
Group	Gross Carrying Amount £'000	Performing forborne loans £'000	Performing forborne loans £'000	Non-performing forborne loans £'000	Total forborne loans £'000	Forbearance ratio
2022						
CFD	**142,756**	**—**	**1,010**	**416**	**1,426**	**1.00%**
BFD	**111,956**	**—**	**741**	**58**	**799**	**0.71%**
Azule	**16,439**	**229**	**57**	**261**	**547**	**3.33%**
Bridging	**43,902**	**—**	**—**	**—**	**—**	**—%**
Total	**315,053**	**229**	**1,808**	**735**	**2,772**	**0.88%**

	Expected Credit Losses (ECLs) on forborne loans						
Group	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
2022							
CFD	**—**	**—**	**81**	**—**	**225**	**—**	**306**
BFD	**—**	**—**	**92**	**—**	**15**	**—**	**107**
Azule	**—**	**4**	**6**	**—**	**210**	**—**	**220**
Bridging	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**—**	**4**	**179**	**—**	**450**	**—**	**633**

	Gross carrying amount of forborne loans					
		Stage 1	Stage 2	Stage 3		
Group	Gross carrying amount £'000	Performing forborne loans £'000	Performing forborne loans £'000	Non-performing forborne loans £'000	Total forborne loans £'000	Forbearance ratio
2021						
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	—	—	—	—	—%
Total	376,362	186	2,080	690	2,956	0.79%

	Expected Credit Losses (ECLs) on forborne loans						
Group	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
2021							
CFD	—	—	20	8	19	—	47
BFD	—	2	163	127	217	—	509
Azule	—	—	11	33	—	—	44
Bridging	—	—	—	—	—	—	—
Total	—	2	194	168	236	—	600

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 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 (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 (PD) 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 2022	Internal PD range 2021
1	AAA & AA, LTV <= 80%	**0.66% - 2.69%**	0.55% - 2.69%
2	AAA & AA, LTV > 80%	**3.83% - 9.08%**	1.88% - 9.08%
3	A & B+, LTV <= 80%	**1.31% - 5.29%**	1.10% - 5.29%
4	A & B+, LTV > 80%	**3.71% - 9.32%**	3.71% - 9.32%
5	B & B-, LTV <= 80%	**2.15% - 8.04%**	2.15% - 8.04%
6	B & B-, LTV > 80%	**5.74% - 13.82%**	5.74% - 13.82%
7	C & D	**6.69% - 17.25%**	7.01% - 17.25%

Consumer Finance

Internal rating grade	Internal Rating description	Internal PD range 2022	Internal PD range 2021
1	AAA & AA, LTV <= 80%	**2.02% - 3.39%**	2.02% - 3.39%
2	AAA & AA, LTV > 80%	**2.41% - 4.20%**	2.57% - 4.20%
3	A & B+, LTV <= 80%	**3.97% - 6.62%**	3.97% - 6.62%
4	A & B+, LTV > 80%	**4.72% - 8.14%**	5.04% - 8.14%
5	B & B-, LTV <= 80%	**5.66% - 9.49%**	5.66% - 9.49%
6	B & B-, LTV > 80%	**11.43% - 19.00%**	9.67% - 19.00%
7	C & D, LTV <= 80%	**7.79% - 12.90%**	7.79% - 12.90%
8	C & D, LTV > 80%	**15.22% - 25.58%**	15.22% - 25.58%

30.3.5 Exposure at Default (EAD)

The Exposure at Default (EAD) 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 occurs when 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 ECL allowance from what the ECL is in the next twelve months, to a lifetime ECL.

Due to the emergence of global geopolitical events, in particular the ongoing conflict in Ukraine, energy and commodity price rises, management re-assessed the internal SICR factor for CFD, BFD and Azule during the year ended 30 September 2022 in response to the risk macroeconomic events could negatively impact customers ability to repay. The re-assessment took into account the ability of customers to repay due to the rising cost of living and energy costs escalating, the MPC implementing Base Rate increases to counter the effects of inflation at high levels, and changes in the outlook of house prices. Results of the re-assessed SICR factors were reported to, and approved by, the FRCC during the year ended 30 September 2022. An exposure is considered to have significantly increased in credit risk when the IFRS 9 lifetime PD has increased by a factor of 1.6 for CFD and 1.7 for BFD and Azule. 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.

	2022 £'000	2021 £'000
Increase in SICR by 20 basis points in the Business Finance portfolio	**(7)**	(10)
Increase in SICR by 20 basis points in the Consumer Finance portfolio	**(10)**	(37)
Increase in SICR by 20 basis points in the Azule portfolio	**(1)**	(3)
Increase in SICR by 20 basis points in the Bridging portfolio	**—**	—
Decrease in SICR by 20 basis points in the Business Finance portfolio	**9**	7
Decrease in SICR by 20 basis points in the Consumer Finance portfolio	**131**	2
Decrease in SICR by 20 basis points in the Azule portfolio	**2**	5
Decrease in SICR by 20 basis points in the Bridging portfolio	**—**	—

31 Commitments, contingent liabilities and contingent assets

At 30 September 2022, the Group had undrawn commitments to lend to customers of approximately £19.6 million (2021: £8.9 million). In addition, at 30 September 2022, the Group had agreed to lease a motor vehicle from a third party, the lease for which commenced in December 2022.

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 1.5.15 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 2022, assessed to have a greater than remote likelihood of economic outflow, is £0.4 million (2021: £nil) PCF Bank is robustly defending such items.

In addition, during the financial year, the Group has experienced an increase in customer complaints and/or customer pre-claim notifications relating to payments by the Group in respect of broker commissions. Having performed an analysis of the volume and nature of such complaints, as well as taking account of available information and external legal advice at the date of approving this Annual report and financial statements, management considers the Group can and will continue to defend such matters cost effectively and has determined that these matters only represent a contingent liability. Whilst material costs in relation to this issue are not considered probable at this time, we currently an estimate of £0.3m to £2.1m is possible.

The Group has and continues 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.

32 Related parties

The non-executive directors did not hold any funds in savings accounts in the Group at 30 September 2022 (2021: £0.1 million). The directors' remuneration is disclosed in Note 9.

In addition, there were other material related party transactions related to management fee recharges of £28.2 million (2021: £18.9 million), £0.1 million (2021: £0.4 million) and £1.2 million (2021: nil) to PCF Bank Limited, PCF Credit Limited and Azule Limited respectively by PCF Group plc for the year ended 30 September 2022.

Key management personnel of the Group are the Board Directors.

Further details of balances with other Group companies are given in Note 19: Due from and to Group companies.

33 Post Balance Sheet Events

Since 30 September 2022, the Group has commenced a process of withdrawing from the UK banking market. As a result, the Group will not be recommencing lending and will therefore manage its loan and savings portfolio positions down over time in line with the products' respective terms and conditions, whilst progressively reducing its cost base. The Group cancelled its share listing on AIM which took effect on the 20 December 2022.

Following the decision to withdraw from the market, a review of supplier contracts was carried out to identify if any would qualify as being onerous in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. As a result of this review, four contracts worth £0.9 million have been identified as onerous as at 30 September 2022, and a provision has been created in this regard.

In addition, the Group considered the accounting treatment of redundancy and restructuring costs which have been incurred since year end as a result of the decision to withdraw from the market. As at 30 September 2022, implementation of the restructuring plan had not commenced and there had not been any communication with the potentially impacted staff. Therefore, in accordance with IAS 37, charges for any such costs which have been incurred since year end have not been recognised in these financial statements.

On 20 December 2022 the majority of the loan portfolio of Azule Limited was sold to a third party for £1.6 million, generating a loss on disposal of £0.4 million. The fair value of this segment of the loan portfolio as at 1 October 2022 was £2.0 million.

34 Capital management

On 9 November 2022, the Board concluded that it is in the best interest of all stakeholders for the Bank to commence a process of withdrawing from the UK banking market, and for the Group to delist from AIM.

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 revised business objectives and to maximise shareholder value. The Group has a number of measures that it takes to manage its capital position, and to ensure it remains solvent during its withdrawal from the UK banking market. There remains a risk that the Group is unable to remain solvent during its withdrawal from the UK banking market. Further details of these are provided in the Chief Executive Officer's Statement on page 11.

CRR regulatory requirements, which include 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 self-assessment of the ICAAP. The ICAAP is reviewed by the PRA, which culminates in the PRA setting the 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 the 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 its revised strategic objectives 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 the Risk Management Report on pages 55 to 68.

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