PCF BANK

PCF Group plc

Interim Report 2022

PCF GROUP

PCF Group plc is the AIM-listed Parent Company of the specialist bank, PCF Bank Limited.

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

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

Contents

PCF GROUP

Company Information

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 (appointed 5 October 2021)*
David Titmuss *Independent non-executive*

Directors who held office during the year and resigned during or after the year end
Tim Franklin *Independent non-executive Chair (resigned 31 January 2022)*
Marian Martin *Independent non-executive (resigned 23 December 2021)*

Company Secretary

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

Registered Office

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

Registered Number

02863246

Auditors

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

Nominated Adviser & Broker (NOMAD)

Peel Hunt LLP
100 Liverpool Street
London EC2M 2AT

Joint Broker

Shore Capital Limited
Cassini House
57 St. James's Street
London SW1A 1LD

Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Media & Investor Relations

Tavistock Communications Limited
1 Cornhill
London EC3V 3ND

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

The following summary of the consolidated interim financial statements should be read in conjunction with PCF Group plc's Annual Report & Financial Statements 2021, notably the emerging risks and uncertainties outlined in the Risk Overview.

Garry Stran, Chief Executive Officer, commented: 'During the period under review, the Group focused management and financial resource on the remediation of our control and governance framework, as a result of the well documented challenges the Group has faced. These results reflect the challenges, which the Group has now largely addressed. Management's energies and focus can now return to creating and running an efficient and digitalised business, to drive a return to profitability, and the creation of enhanced shareholder value over the medium-term'.

Business highlights

- Net loans and advances reduced to £321 million (September 2021: £364 million).
- Total new business originations were 40% lower at £62 million (2021: £104 million), of which £22 million were originated in the month of March 2022. These origination numbers exclude Azule brokered lending of £15 million (2021: £19 million), which is not included on our balance sheet, but generates commission income in our profit and loss statement.
- The focus remained on writing high quality business, with 87% (2021: 93%) of originations in our top four credit grades. There was a strategic change at the end of this interim period, with our risk appetite returning to pre-COVID levels, as the impact of COVID-19 receded. This is intended to ensure a more appropriate balance of risk in our new loan originations in order to increase yield.
- Customer savings balances reduced to £291 million (September 2021: £327 million) with circa 7,600 customers (September 2021: circa 8,100) mirroring the reduction in the lending book.

Financial highlights

- Statutory loss before tax of £7.5 million (2021: Statutory profit before tax of £1.4 million)[1], with the reduction being driven by lower net interest income due to reduced loans and advances, compressed margin, and higher operating expenses, due to remediation and investment spend.
- Adjusted loss before tax[2] of £4.6 million (2021: Adjusted profit before tax of £1.9 million)[1].
- Net operating income decreased by 26% to £10.7 million (2021: £14.5 million).
- Net interest margin[2] decreased to 5.9% (2021: 6.7%)[1].
- Staff and operating expenses increased to £15.8 million (2021: £8.9 million) driven partly by remediation costs including dedicated staff, professional advisers, and third parties of £2.9 million (2021: £0.5 million), and further investment in staff, to ensure that the operating platform is suitable to recommence growth.
- Cost to income ratio[2] increased to 156% (2021: 67%)[1].
- Credit impairment charge of £1.5 million (2021: £3.4 million)[1] with the reduction primarily driven by lower loans and advances, and the non-recurrence of a provision increase on defaulted receivables in the prior period.
- Impairment charge as a percentage of average gross loans[2] was 0.8% (2021: 1.5%)[1] reflecting the higher credit quality of the portfolio.
- Statutory return on average equity[2] of (33.1)% (2021: 4.3%)[1].
- Loss per share of (3.0) pence (2021: Earnings per share of 0.4 pence)[1].
- Total Capital Ratio[3] of 17.0% (September 2021: 17.5%).
- Leverage ratio[3] of 11.9% (September 2021: 11.1%).
- Liquidity Coverage Ratio of 609% (September 2021: 904%).

1 The prior period balances have been restated or re-presented for the financial year. Refer to note 4 for further details.

2 Refer to section non-IFRS performance measures on page 8 for further details of the definition of this non-IFRS performance measure.

3 Ratios are disclosed on a transition arrangement basis. Refer to page 50 for regulatory capital and leverage ratios presented on a fully loaded basis.

PCF GROUP

Chief Executive Officer's statement

for the six months ended 31 March 2022

Unusually this statement for the interim period comes shortly after the publication of our Annual Report & Financial Statements 2021, as we return to a normalised reporting schedule following a period of uncertainty and challenge for the business and our colleagues. The efforts and willingness of colleagues to go 'above and beyond' in respect of their dedication to bringing the reporting back on track, following a significant hiatus, is greatly appreciated, and I would like to take this opportunity to thank all of those involved.

The Group's performance in the period inevitably reflects the control and governance challenges we faced, resulting in an increased cost base, driven by significant expenses to remediate legacy issues, and the essential transformation of our systems and functions to prepare for growth. As the remediation activity nears its conclusion we will be able to give more focus to our goal of becoming a data-driven business to enable faster, cheaper, and more consistent decision making and analysis across our business. Investment in technology, in particular data and automation, remains at the heart of our transformation programme, together with our continued work on cultural change.

Capital management has also been a key focus, with the continued prudent management of the loan book adding to pressure on our income line. With hindsight, the switch to higher credit quality lending appears well-founded, during a period of heightened economic and geopolitical unrest. I look forward to growing the lending book once we have stronger confidence in the external environment, and our improved internal controls, subject to our desired capital position.

As a result of the publication of our Annual Report & Financial Statements for the financial year 2021 our shares resumed trading on the 31 May 2022.

The geopolitical uncertainty and dynamic inflationary and interest rate environment of recent months has added to the challenges we face, but these are being managed at both the operational and strategic levels.

Culture, governance and controls, and technology

Following significant senior hires to the Board and Executive team over the last twelve months, the Group has continued to progress in embedding our strengthened culture and governance structure.

The cultural improvement programme ensures our colleagues feel comfortable and empowered to speak up and challenge decisions should they have concerns. I am confident that all colleagues would now proactively raise awareness of and take personal responsibility for managing risk, speaking up and doing the right thing. Our new purpose, mission and values reflect the importance of this within PCF Group.

Following a rework of the Group's Risk Management Framework (RMF) and control environment, we have continued to hire colleagues to fill key second line of defence roles, and enhance the Group's stress-testing and credit analytics capabilities. The Group's new RMF was approved by the Board in March 2022.

A key area of focus for the Group is for our operational areas to become totally data-driven to ensure speed and consistency of service, decision making, and pricing across our product range. The Group has continued its investment in IT systems, infrastructure and skilled people to continue our journey towards a technologically advanced, digital, and modern operating platform. We plan to leverage economies of scale and move towards our ultimate goal of a zero marginal cost operating model once these systems, supported by our new approach to data-driven decisioning, are fully implemented.

Remediation update and transformation focus

Since the start of the remediation programme in 2021, the Group has successfully achieved a number of significant milestones. Our statutory financial reporting is now up to date, with the publication of the Annual Report & Financial Statements for 2020 and 2021, along with the interim reports.

A comprehensive Financial Position and Prospects Procedures (FPPP) review and resulting report was commissioned, and we have progressed well with the control improvements required. A new RMF is currently being embedded across the organisation, and the Financial Control Framework (FCF) has made good progress. These improvements in building a more robust control framework have all been underpinned by the strengthened culture and governance structure.

Following the completion of our remediation programme, we will continue to transform our functions with an aspiration to attain market leading capability within three years.

The transformation programme is focused on automation, improving the customer and partner experience, and ensuring that our control framework is fit for purpose. We will do this through executing against the following five objectives:

- Automation of our business service platform and self-service capability.
- Increased automation of our financial reporting and data-led budgeting and scenario planning.
- Embedding the Risk Management Framework across the Group.
- The creation and leveraging of an improved data warehouse to drive intelligent decisions, at speed, through an automated and self-service led delivery platform.
- The continued development of our people and culture with a specific focus on empowerment and risk management.

Events since 31 March 2022

The suspension of our shares was removed on 31 May 2022, upon the publication of the Annual Report & Financial Statements 2021. The suspension from trading on Alternative Investment Market (AIM) had been in place from 1 April 2022 due to the delay in the publication of the Annual Report & Financial Statements 2021.

To manage capital constraints, and the corresponding implication for our loan originations, we have decided to accelerate an element of our capital raising, by requesting a further investment in the Company from our majority shareholder Somers Limited of circa £4 million. We received the first tranche of £2.7 million on 7 June 2022, with the second tranche expected in early July.

At the same time, we are investigating our strategic opportunities. To this end, as announced on 31 May 2022, the Group is in early stage discussions with Castle Trust Capital plc, in relation to a possible offer for the entire issued, and to be issued, shares of the Company. These discussions are continuing to progress.

On the trading side, we have continued to prudently manage our loan book. Our gross loans and advances have stabilised in recent months and we expect this trend to continue for the remainder of this financial year.

Business and financial performance

At a headline level the Group generated a statutory loss before tax of £7.5 million (2021: Statutory profit before tax of £1.4 million).

Staff and operating expenses increased to £15.8 million (2021: £8.9 million) driven partly by remediation costs including dedicated staff, professional advisers and third parties of £2.9 million (2021: £0.5 million). We increased investment in our people, and third party professional services, driving significant enhancements to our control functions and processes, and ensuring that the operating platform is suitable to recommence growth.

Net operating income decreased by £3.8 million to £10.7 million in the period (2021: £14.5 million), largely driven by lower net interest income, as the loan book decreased and margin reduced. Net interest margin reduced to 5.9% in the period (2021: 6.7%) as lending attracting higher yields redeemed and was replaced with lower yielding new assets, with the business continuing to focus on originating loans in our top four credit grades.

The average loan book in the first half of the financial year was £342 million (2021: £426 million). This was as a result of the prudent capital management over the last twelve months, but has reduced income.

The credit impairment charge reduced by £1.9 million to £1.5 million (2021: £3.4 million) reflecting the reduced lending book, and the non-recurrence of a provision increase on defaulted receivables in the prior period.

On an adjusted basis the loss before tax for the period is £4.6 million (2021: Adjusted profit before tax of £1.9 million).

New business origination in the period was lower at £62 million (2021: £104 million). Origination levels were managed prudently to ensure the Group maintained an appropriate level of capital, within regulatory requirements. The second quarter originations were £43 million versus a first quarter of £19 million. The business generated originations of £22 million in March 2022 alone, at an attractive yield. This was the third best month in our history, and demonstrates that our core competencies remain intact.

The Group's cost to income ratio deteriorated to 156% (2021: 67%), with the combination of higher expenses from remediation and investment, and lower net operating income from the reduced balance sheet and lower margins.

The Group generated a statutory loss after tax of £7.5 million (2021: Statutory profit after tax of £1.1 million) which represents a statutory return on average equity of (33.1)% (2021: 4.3%) and a loss per share of (3.0) pence (2021: Earnings per share of 0.4 pence).

Capital, funding and liquidity management

The Group remains extremely focused on ensuring it maintains sufficient levels of capital and liquidity. At 31 March 2022, the Group had a total capital ratio of 17.0% (September 2021: 17.5%) and a liquidity coverage ratio of 609% (September 2021: 904%).

The Group's diversified funding model comprises retail deposits, wholesale funding and drawings from the Bank of England's Term Funding Schemes. At 31 March 2022, the Group held £291 million in deposits and had drawings of £60 million against the Term Funding Schemes. This is in addition to the £7 million of Tier 2 capital from the facility that we have with British Business Investments Limited.

Changes to the Board

Our new Chair, Simon Moore, and Senior Independent Director, Mark Sismey-Durrant, were appointed to the Board on 9 January 2022. Both have a wealth of experience in the banking sector, which will prove invaluable to the Board and the wider Group.

In addition the search for an experienced Chair of Board Risk Committee has been completed and the appropriate regulatory permissions are being sought for the successful candidate.

Outlook

Financial performance of the Group in the period has been impacted by the increased expenses due to ongoing remediation and investment in transformation activities. As the remediation programme reaches its maturity in 2023 financial year the Group's expense base will start to reduce, although transformation related expenses will remain in the short-term.

New business origination volumes are expected to be higher in the second half of the 2022 financial year, although we continue to prudently manage our lending. Net loans and advances have stabilised at the end of this reporting period and we anticipate continued stability in the second half of the financial year. The increased levels of originations in March 2022 gives me confidence for the future growth prospects of the Group.

Our move to a more balanced and appropriate blend of risk in our originations will benefit margin in future periods and in due course lead to an increase in revenues.

As we fund the majority of our loan originations through retail deposits, we are exposed to the rising interest rate environment. As a result we have been proactively managing our fixed term and notice rates to compete in a challenging market. This could lead to margin compression, as interest expense increases over time, unless market conditions are such that the increased cost of funding can be passed onto borrowers, or the business accepts a different risk profile of lending assets.

The Group is also actively exploring strategic opportunities to increase certainty for shareholders and to maximise shareholder value.

The Board is confident that the prudent management of capital, and improvements in culture, governance and controls, has laid solid foundations for future growth. Following the significant focus on satisfying our statutory financial reporting in recent times, we can now turn our attention to the future. I am positive that we now have the right people and controls in place to enable the Group to achieve its true potential, whether that be as a stand-alone business or through one of the strategic opportunities that we are exploring.

G G Stran
Chief Executive Officer

29 June 2022

PCF GROUP

Financial review

Non-IFRS performance measures

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

Non-IFRS performance measures glossary

Net interest margin

Definition: Net interest income (annualised) divided by average customer assets (loans and advances to customers). The components of the calculation are summarised below.

2022

Net interest income[1] £'000	Average customer assets[2] £'000	Net interest margin %
10,032	342,251	5.9%

2021*

Net interest income[1] £'000	Average customer assets[3] £'000	Net interest margin %
14,310	426,326	6.7%

Cost income ratio

Definition: Total operating expenses (excluding credit impairment charge) divided by net operating income.

2022

Operating expenses £'000	Net operating income £'000	Cost income ratio %
16,704	10,697	156.2%

2021*

Operating expenses £'000	Net operating income £'000	Cost income ratio %
9,774	14,547	67.2%

Statutory return on average equity

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

2022

Statutory loss after tax[1] £'000	Average equity[2] £'000	Statutory return on average equity %
(7,457)	45,127	(33.1)%

2021*

Statutory profit after tax[1] £'000	Average equity[3] £'000	Statutory return on average equity %
1,112	52,412	4.3%

[1] Annualised on a day count basis. E.g. for Net interest income of £10,032,000, this is annualised by dividing by 182 (days) and multiplying by 365 (days), equalling £20,119,000.

[2] Average of balances from 31 March 2022 and 30 September 2021.

[3] Average of balances from 31 March 2021 and 30 September 2020.

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

Adjusted profit/(loss) before tax

Definition: This represents management's view of underlying performance. See table below for items excluded from statutory profit/(loss) to arrive at 'Adjusted profit/(loss) before tax'. No 'Adjusted profit/(loss) before tax' measure was disclosed in the Interim Report 2021.

	2022 £'000	2021 £'000
Adjustments		
Add back:		
Remediation related expenses	2,881	531
Total	2,881	531

2022		
Statutory loss before tax £'000	Adjustments £'000	Adjusted loss before tax £'000
(7,457)	2,881	(4,576)

2021*		
Statutory profit before tax £'000	Adjustments £'000	Adjusted profit before tax £'000
1,367	531	1,898

Impairment charge as a % of average gross loans

Definition: Credit impairment charge (annualised) divided by average gross loans.

2022		
Impairment charge[1] £'000	Average gross loans[2] £'000	Impairment charge as % of average gross loans %
1,450	353,959	0.8%

2021*		
Impairment charge[1] £'000	Average gross loans[3] £'000	Impairment charge as % of average gross loans %
3,406	445,647	1.5%

Adjusted return on average equity

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

2022		
Adjusted loss after tax[1] £'000	Average equity[2] £'000	Adjusted return on average equity %
(4,576)	45,127	(20.3)%

2021*		
Adjusted profit after tax[1] £'000	Average equity[3] £'000	Adjusted return on average equity %
1,542	52,412	5.9%

[1] Annualised on a daycount basis. E.g. for Net interest income of £10,032,000, this is annualised by dividing by 182 (days) and multiplying by 365 (days), equalling £20,119,000.

[2] Average of balances from 31 March 2022 and 30 September 2021.

[3] Average of balances from 31 March 2021 and 30 September 2020.

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

Consolidated Income Statement

	Note	Half-year to 31 March 2022 unaudited £'000	Half-year to 31 March 2021* unaudited £'000
Interest income calculated using the effective interest method	6	**15,891**	21,827
Interest expense calculated using the effective interest method	7	**(5,859)**	(7,517)
Net interest income		**10,032**	14,310
Fees and commission income	8	**860**	958
Fees and commission expense	8	**(570)**	(928)
Net fees and commission income	8	**290**	30
Net profit on financial instruments classified at fair value through profit or loss		**375**	207
Net operating income		**10,697**	14,547
Personnel expenses		**(9,454)**	(5,731)
Depreciation of office equipment, motor vehicles and right-of-use assets		**(578)**	(575)
Amortisation of intangible assets		**(354)**	(319)
Impairment loss on software		**-**	(14)
Other operating expenses		**(6,318)**	(3,135)
Impairment losses on financial assets	9	**(1,450)**	(3,406)
Total operating expenses		**(18,154)**	(13,180)
(Loss)/Profit before tax		**(7,457)**	1,367
Income tax	10	**-**	(255)
(Loss)/Profit after tax		**(7,457)**	1,112
Earnings per 5p ordinary share - basic and diluted	17	**(3.0p)**	0.4p

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

Consolidated Statement of Comprehensive Income

	Half-year to	
	31 March 2022 unaudited £'000	31 March 2021* unaudited £'000
(Loss)/Profit after taxation	**(7,457)**	1,112
Other comprehensive income that will be reclassified to the income statement		
Fair value gain/(loss) on FVOCI financial instruments	**14**	(62)
Deferred tax	**–**	–
Total items that will be reclassified to the income statement	**14**	(62)
Total comprehensive income net of tax	**(7,443)**	1,050

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

PCF GROUP

Consolidated Balance Sheet

	Note	At 31 March 2022 unaudited £'000	At 30 September 2021 audited £'000
Assets			
Cash and balances at central banks		**64,196**	56,126
Debt instruments at FVOCI		**12,132**	16,155
Derivative financial instruments		**568**	209
Loans and advances to customers	11	**320,509**	363,992
Office equipment, motor vehicles and right-of-use assets		**1,934**	2,350
Goodwill and other intangible assets	13	**2,870**	3,075
Current tax assets		**1,728**	1,675
Other assets		**2,273**	5,169
Total assets		**406,210**	448,751
Liabilities			
Due to customers		**290,712**	327,166
Due to banks		**59,666**	59,630
Lease liabilities		**859**	1,037
Other liabilities		**6,457**	4,929
Subordinated liabilities	15	**7,125**	7,127
Total liabilities		**364,819**	399,889
Equity			
Issued capital	16	**12,550**	12,550
Share premium	16	**17,679**	17,679
Other reserves		**23**	9
Own shares		**(147)**	(147)
Retained earnings		**11,286**	18,771
Total equity		**41,391**	48,862
Total equity and liabilities		**406,210**	448,751

The interim financial statements were approved and authorised for issue by the Board on 29 June 2022.

On behalf of the Board

G G Stran
Director

C Richardson
Director

Consolidated Statement of Changes in Equity

(Unaudited)	Attributable to equity holders of the Group					
	Non-distributable				Distributable	
	Issued capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 October 2021	12,550	17,679	(147)	9	18,771	48,862
Loss for the period	–	–	–	–	(7,457)	(7,457)
Fair value gain/(loss) on FVOCI financial instruments	–	–	–	14	–	14
Share-based payments	–	–	–	–	(28)	(28)
Balance at 31 March 2022	12,550	17,679	(147)	23	11,286	41,391

(Unaudited)	Attributable to equity holders of the Group					
	Non-distributable				Distributable	
	Issued capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 October 2020	12,512	17,625	(147)	53	23,832	53,875
Correction of prior period error	–	–	–	7	(2,055)	(2,048)
At 1 October 2020 (Restated)*	12,512	17,625	(147)	60	21,777	51,827
Profit for the period	–	–	–	–	1,112	1,112
Issuance of new shares/scrip dividend	38	54	-	–	–	92
Fair value gain/(loss) on FVOCI financial instruments*	–	–	–	(62)	–	(62)
Share-based payments	–	–	–	–	28	28
Balance at 31 March 2021	12,550	17,679	(147)	(2)	22,917	52,997

(Audited)	Attributable to equity holders of the Group					
	Non-distributable				Distributable	
	Issued capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2021	12,550	17,679	(147)	(2)	22,917	52,997
Loss for the period	–	–	–	–	(4,173)	(4,173)
Reclassification to cash	–	–	–	11	–	11
Fair value gain/(loss) on FVOCI financial instruments	–	–	–	–	–	–
Share-based payments	–	–	–	–	27	27
Balance at 30 September 2021	12,550	17,679	(147)	9	18,771	48,862

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

Consolidated Statement of Cash Flows

	Half-year to	
	31 March 2022 unaudited £'000	31 March 2021* unaudited £'000
Operating activities		
(Loss)/Profit before tax	**(7,457)**	1,367
Other non-cash items included in (loss)/profit before tax		
Depreciation of office equipment, motor vehicles and right-of-use assets	**578**	575
Loss on sale of motor vehicles	**16**	2
Amortisation of other intangible assets	**354**	319
Interest on lease liabilities	**14**	21
Accrued finance costs	**125**	15
Impairment loss on software	**-**	14
Share-based payments	**(28)**	28
Impairment losses on financial assets	**1,450**	3,406
Income tax paid	**(53)**	(1,721)
Adjustment for change in operating assets and liabilities		
Net change in loans and advances	**42,033**	(2,051)
Net change in other assets	**2,896**	(1,298)
Net change in derivative financial instruments	**(359)**	(98)
Net change in amounts due to customers	**(36,454)**	(3,448)
Net change in other liabilities	**1,528**	912
Net cash flows from/(used in) operating activities	**4,643**	(1,957)
Investing activities		
Net sale of debt instruments at FVOCI	**4,037**	6,439
Purchase of office equipment and motor vehicles	**(56)**	(85)
Purchase of intangible assets	**(149)**	(352)
Net cash flows from investing activities	**3,832**	6,002
Financing activities		
Proceeds from share issue during the period	**-**	92
Net coupons paid on subordinated borrowings	**(2)**	98
Repayment of capital element of leases	**(314)**	(293)
Net repayments of other borrowings	**(89)**	(3,020)
Net cash flows used in financing activities	**(405)**	(3,123)
Net increase in cash and cash equivalents	**8,070**	922
Cash and cash equivalents brought forward	**56,126**	24,936
Cash and cash equivalents carried forward	**64,196**	25,858

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

Notes to the Interim Report

1 Basis of preparation

The consolidated interim financial statements for the half-year to 31 March 2022 have been prepared in accordance with the UK adopted IAS 34 'Interim Financial Reporting'. They should be read in conjunction with PCF Group plc Annual Report & Financial Statements 2021 (hereinafter referred to as the 'Annual Report & Financial Statements 2021') which were prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and delivered to the Registrar of Companies. The auditor's report for those accounts contained a qualified opinion on the opening balance sheet at 1 October 2020 relating to Expected Credit Losses and contained a statement under 498(2) and (3) of the Companies Act 2006.

The consolidated interim financial statements have not been audited or subject to review by the Group's auditor.

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 section of the Annual Report & Financial Statements 2021. In particular, this going concern statement should be read in conjunction with the Emerging risks and uncertainties section of that 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 these consolidated interim financial statements for the six months ended 31 March 2022.

In undertaking a going concern review the directors have reviewed a base and alternative short-term financial plan to September 2023, which present a different set of strategic and operating assumptions over that time frame. In both cases, profitability is dependent on capital being raised. However, there are various uncertainties related to capital raising which are noted in the Emerging risks and uncertainties section of the Strategic Report in the Annual Report & Financial Statements 2021, and the associated capital raising risks may be further exacerbated by the current geopolitical situation.

To manage capital constraints and the corresponding implications for our loan originations, we have decided to accelerate an element of our capital raising, by requesting further investment in the Company from our majority shareholder Somers Limited of circa £4 million with £2.7 million having being received on 7 June 2022 and a further £1.5 million expected in early July. At the same time we are also investigating other strategic opportunities as outlined in the Chair's statement within the Annual Report & Financial Statements 2021.

Should the Group not be successful in achieving its capital raising or any other strategic opportunities there is no certainty that it could continue to originate new lending given its projection that over the Review Period regulatory capital ratios are forecast to fall below regulatory capital minimum requirements. Should new lending be suspended this would reduce income and the prospect of the Group being able to generate profits which would further impact on its ability to generate capital organically.

In conclusion the raising or organic generation of capital is not guaranteed, nor is the completion of other strategic opportunities and therefore the directors have concluded that the current lack of certainty, and the associated risks represent a material uncertainty which casts a significant doubt on the Group's ability to continue as a going concern. The Board has a reasonable expectation that it will be able to affect a capital raise or implement strategic opportunities and therefore holds a reasonable expectation that the Group will have adequate resources, notably adequate regulatory capital, to continue its operations for the period to 30 June 2023 being at least the next twelve months from the date of approval on these consolidated interim financial statements. On this basis the directors continue to adopt the going concern basis in preparing these accounts.

2 Accounting policies

The accounting policies adopted by the Group in the preparation of these consolidated interim financial statements and those which the Group currently expects to adopt in the Annual Report & Financial Statements 2022 are consistent with those disclosed in the Annual Report & Financial Statements 2021.

Significant accounting judgements, estimates and assumptions

The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition at 31 March 2022 are those relating to impairment losses on financial assets and effective interest rate. These significant accounting judgements, estimates and assumptions are referenced in Note 1.6 of the Annual Report & Financial Statements 2021. Management's consideration of this source of uncertainty is outlined in the relevant sections of the Annual Report & Financial Statements 2021.

Information used for significant estimates

Key financial estimates are based on a range of anticipated future economic conditions described by internally developed scenarios. Measurement of expected credit losses and effective interest rate are highly sensitive to reasonably possible changes in those anticipated conditions. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. Refer to the Emerging risks and uncertainties section in the Annual Report & Financial Statements 2021.

3 Standards issued but not yet effective

Minor amendments to IFRSs effective for the Group from 1 October 2021 have been issued by the International Accounting Standards Board. These amendments are expected to have no or an immaterial impact on the Group's financial statements.

4 Amendments to prior year comparatives

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

Consolidated income statement extract at 31 March 2021

	31 March 2021 (as originally presented) unaudited £'000	Correction of error £'000	Re-presentation £'000	31 March 2021 (restated balance) unaudited £'000
Interest income calculated using the effective interest method	21,680	147	–	21,827
Interest expense calculated using the effective interest method	(7,517)	–	–	(7,517)
Net interest income	14,163	147	–	14,310
Fees and commission income	1,307	–	(349)	958
Fees and commission expense	(928)	–	–	(928)
Net fees and commission income	379	–	(349)	30
Net profit on financial instruments classified at fair value through profit or loss	207	–	–	207
Net operating income	14,749	147	(349)	14,547
Personnel expenses	(5,731)	–	–	(5,731)
Depreciation of office equipment, motor vehicles and right-of-use assets	(575)	–	–	(575)
Amortisation of intangible assets	(319)	–	–	(319)
Impairment loss on software	(14)	–	–	(14)
Other operating expenses	(3,135)	–	–	(3,135)
Impairment losses on financial assets	(3,755)	–	349	(3,406)
Total operating expenses	(13,529)	–	349	(13,180)
Profit before tax	1,220	147	–	1,367
Income tax charge	(255)	–	–	(255)
Profit after tax	965	147	–	1,112

Consolidated Statement of financial position extract at 30 September 2020

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

Consolidated Statement of financial position extract at 31 March 2021

	31 March 2021 (as originally presented) unaudited £'000	Opening balance adjustment for September 2020 audited £'000	Correction of error £'000	31 March 2021 (restated balance) unaudited £'000
Assets				
Cash and balances at central banks	25,858	–	–	25,858
Debt instruments at FVOCI	2,594	–	–	2,594
Loans and advances to customers	425,795	(294)	147	425,648
Office equipment, motor vehicles and right-of-use assets	2,652	–	–	2,652
Goodwill and other intangible assets	4,346	–	–	4,346
Deferred tax assets	1,822	(1,810)	(12)	–
Current tax assets	1,341	56	–	1,397
Other assets	3,349	–	–	3,349
Derivative financial instruments	18	–	–	18
Total assets	467,775	(2,048)	135	465,862
Liabilities				
Due to banks	59,615	–	–	59,615
Due to customers	338,336	–	–	338,336
Subordinated liabilities	7,224	–	–	7,224
Lease liabilities	1,332	–	–	1,332
Other liabilities	6,358	–	–	6,358
Total liabilities	412,865	–	–	412,865
Equity				
Issued capital	12,550	–	–	12,550
Share premium	17,679	–	–	17,679
Own shares	(147)	–	–	(147)
Other reserves	3	7	(12)	(2)
Retained earnings	24,825	(2,055)	147	22,917
Total equity	54,910	(2,048)	135	52,997
Total equity and liabilities	467,775	(2,048)	135	465,862

Consolidated statement of cash flows extract at 31 March 2021

	31 March 2021 (as originally presented) unaudited £'000	Correction of error £'000	31 March 2021 (restated balance) unaudited £'000
Operating activities			
Profit before tax	1,220	147	1,367
Other non-cash items included in profit before tax			
Depreciation of office equipment, motor vehicles and right-of-use assets	575	–	575
Loss on sale of motor vehicles	2	–	2
Amortisation of other intangible assets	319	–	319
Interest on lease liabilities	21	–	21
Accrued finance costs	15	–	15
Impairment loss on software	14	–	14
Share-based payments	28	–	28
Impairment losses on financial assets	3,755	(349)	3,406
Income tax paid	(1,733)	12	(1,721)
Adjustment for change in operating assets and liabilities			
Net change in loans and advances	(2,253)	202	(2,051)
Net change in other assets	(1,298)	–	(1,298)
Net change in derivative financial instruments	(98)	–	(98)
Net change in amounts due to customers	(3,448)	–	(3,448)
Net change in other liabilities	912	–	912
Net cash flows used in operating activities	(1,969)	12	(1,957)
Investing activities			
Net sale of debt instruments at FVOCI	6,451	(12)	6,439
Purchase of office equipment and motor vehicles	(85)	–	(85)
Purchase of intangible assets	(352)	–	(352)
Net cash flows from investing activities	6,014	(12)	6,002
Financing activities			
Proceeds from share issue during the period	92	–	92
Coupons paid on subordinated borrowings	98	–	98
Repayment of capital element of leases	(293)	–	(293)
Net repayments of other borrowings	(3,020)	–	(3,020)
Net cash flows used in financing activities	(3,123)	–	(3,123)
Net increase in cash and cash equivalents	922	–	922
Cash and cash equivalents brought forward	24,936	–	24,936
Cash and cash equivalents carried forward	25,858	–	25,858

Restatement and re-presentation explanation

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

- The 2020 profit, and hence the 1 October 2020 opening retained earnings have been restated for a historical accounting error in relation to timing of recognition of interest income calculated using the effective interest method. This related to the calculation of the Effective Interest Rate on a legacy system acquired with the purchase of Azule Limited in 2018. The error impacted the 2020 profit and loss account with overstated income of £0.3 million (pre-tax) and loans and advances understated by the same amount. After tax the net impact on shareholders' funds is a reduction of £0.2 million. The impact of this error is to reduce the interest income recognised in 2020 and increase the interest income recognised in 2021. There is no net impact on retained earnings at 30 September 2021. The error was identified as part of the improvement in financial controls including a deep dive of balances of this legacy system on which no new trades have been booked since May 2021, and which is therefore in run-off.

- Deferred Tax asset: Given the disclosure of a material uncertainty in relation to going concern in both the Annual Report and Financial Statements in 2020 and 2021, deferred tax assets in respect of future taxable profits were derecognised in the 2021 Annual Report & Financial Statements. Accordingly, management have judged it appropriate to also derecognise the deferred tax asset of £1.8 million previously recognised in the 2020 Annual Report & Financial Statements and the Interim Report for the six months ended 31 March 2021 and therefore comparatives have been restated accordingly.

Re-presentation

- Costs and accumulated depreciation amount for intangible assets, Note 13, have been re-presented according to those intangible assets that were 'in-use' or 'under development' at 31 March 2021 to be consistent with the current year disclosure.

- Amounts in the income statement for impairment losses have been reclassified with the reversal of impairment losses of £0.3 million and a corresponding adjustment in fees and commission income for the same amount.

5 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; Business Finance; Azule Finance and Bridging Finance.

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

	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Adjustment at Group level £'000	Total segments £'000
Half-year to 31 March 2022						
Interest income calculated using the effective interest method	7,319	5,796	558	2,218	–	15,891
Interest expense calculated using the effective interest method	(3,094)	(2,183)	(110)	(472)	–	(5,859)
Net interest income	4,225	3,613	448	1,746	–	10,032
Fee and commission income	45	78	490	247	–	860
Fee and commission expense	(333)	(209)	(23)	(5)	–	(570)
Net fees and commission (expense)/income	(288)	(131)	467	242	–	290
Net profit on financial instruments classified at fair value through profit or loss	170	135	18	52	–	375
Net operating income	4,107	3,617	933	2,040	–	10,697
Personnel expenses	(3,930)	(3,212)	(858)	(1,454)	–	(9,454)
Depreciation of office equipment, motor vehicles and right-of-use assets	(220)	(175)	(115)	(68)	–	(578)
Amortisation of intangible assets	(161)	(127)	(17)	(49)	–	(354)
Other operating expenses	(1,743)	(2,023)	(1,695)	(857)	–	(6,318)
Impairment losses on financial assets	(290)	(843)	(264)	(53)	–	(1,450)
Total operating expenses	(6,344)	(6,380)	(2,949)	(2,481)	–	(18,154)
Segment loss before tax	(2,237)	(2,763)	(2,016)	(441)	–	(7,457)
Income tax	–	–	–	–	–	–
Loss after tax	(2,237)	(2,763)	(2,016)	(441)	–	(7,457)
At 31 March 2022						
Total assets	183,166	145,769	20,800	56,475	–	406,210
Total liabilities	164,724	131,093	18,213	50,789	–	364,819

Segment information (cont'd)

	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Adjustment at Group level £'000	Total segments £'000
Half-year to 31 March 2021*						
Interest income calculated using the effective interest method	9,863	7,599	876	3,489	–	21,827
Interest expense calculated using the effective interest method	(3,693)	(2,995)	(112)	(717)	–	(7,517)
Net interest income	6,170	4,604	764	2,772	–	14,310
Fee and commission income	60	402	372	124	–	958
Fee and commission expense	(557)	(348)	(15)	(8)	–	(928)
Net fees and commission (expense)/income	(497)	54	357	116	–	30
Net profit on financial instruments classified at fair value through profit or loss	87	79	9	32	–	207
Net operating income	5,760	4,737	1,130	2,920	–	14,547
Personnel expenses	(2,070)	(1,924)	(775)	(962)	–	(5,731)
Depreciation of office equipment, motor vehicles and right-of-use assets	(202)	(184)	(116)	(73)	–	(575)
Amortisation of intangible assets	(135)	(122)	(14)	(48)	–	(319)
Impairment loss on software	(6)	(5)	(1)	(2)	–	(14)
Other operating expenses	(1,018)	(1,136)	(815)	(166)	–	(3,135)
Impairment losses on financial assets	(608)	(2,543)	(282)	27	–	(3,406)
Total operating expenses	(4,039)	(5,914)	(2,003)	(1,224)	–	(13,180)
Segment profit/(loss) before tax	1,721	(1,177)	(873)	1,696	–	1,367
Income tax credit/(charge)	(321)	219	163	(316)	–	(255)
Profit/(loss) after tax	1,400	(958)	(710)	1,380	–	1,112
At 31 March 2021						
Total assets	195,219	177,593	21,809	70,094	1,147	465,862
Total liabilities	173,687	158,005	18,810	62,363	–	412,865

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

6 Interest income calculated using the effective interest method

	Half-year to 31 March 2022 unaudited £'000	Half-year to 31 March 2021* unaudited £'000
Cash and short-term funds	**96**	1
Loans and advances to customers	**14,427**	19,871
Finance lease interest	**1,325**	1,875
Financial instruments – FVOCI	**43**	80
Total interest and similar income	**15,891**	21,827

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

7 Interest expense calculated using the effective interest method

	Half-year to 31 March 2022 unaudited £'000	Half-year to 31 March 2021 unaudited £'000
Paid and accrued to banks	**436**	426
Paid and accrued to customers	**2,458**	3,016
Credit related fees and commission	**2,731**	3,682
Interest expense from finance lease	**221**	373
Interest expense on lease liabilities	**13**	20
Total interest and similar expense	**5,859**	7,517

8 Net fees and commission income

	Half-year to 31 March 2022 unaudited £'000	Half-year to 31 March 2021* unaudited £'000
Fees and commission income		
Secondary lease income	**283**	178
Other fees not forming part of EIR	**577**	367
Other fees and commission	**–**	413
	860	958
Fees and commission expense		
Debt recovery and valuation fees	**(49)**	(129)
Credit assessment costs	**(521)**	(799)
	(570)	(928)
Net fee and commission income	**290**	30

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

9 Impairment losses on financial assets

Impairment losses on financial assets relates to impairment losses on loans and advances to customers. The charge during the six month periods was as follows.

	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Total £'000
Half-year to 31 March 2022 - Unaudited					
Impairment charge for the period on loans and advances to customers	140	1,225	253	53	1,671
Net write-off	236	334	11	–	581
Net termination (gains)	(86)	(716)	–	–	(802)
Total impairment charge	290	843	264	53	1,450
Half-year to 31 March 2021* - Unaudited					
Impairment charge for the six months on loans and advances to customers	608	2,543	282	(27)	3,406
Total impairment charge	608	2,543	282	(27)	3,406

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

10 Income tax

The income tax rate is nil % (31 March 2021: 19%), representing the best estimate of the annual effective tax rate applied to operating profit before tax for the six months period ended 31 March 2022.

11 Loans and advances to customers

	At 31 March 2022 unaudited £'000	At 30 September 2021 audited £'000
Consumer lending – gross	**148,134**	166,866
Business lending – gross	**121,582**	138,550
Azule lending – gross	**16,748**	15,465
Bridging lending – gross	**45,091**	55,481
	331,555	376,362
Allowance for impairment losses	**(11,046)**	(12,370)
Total loans and advances to customers	**320,509**	363,992

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

Unaudited	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 for the period (Note 9)	861	504	252	3	1,620
Release on write-off	(921)	(2,023)	–	–	(2,944)
Release against sold loans	–	–	–	–	–
At 31 March 2022	3,165	6,171	1,434	276	11,046
Made up of					
Individual impairment	1,449	2,159	406	241	4,255
Collective model provisions including overlays and PMAs	1,716	4,012	1,028	35	6,791
Total impairment	3,165	6,171	1,434	276	11,046

Unaudited	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 period (Note 9)	608	2,543	282	(27)	3,406
(Recoveries)/write-offs	(555)	(1,332)	(141)	–	(2,028)
At 31 March 2021	6,974	11,530	1,053	453	20,010
Made up of					
Individual impairment	40	1,582	263	–	1,885
Collective model provisions including overlays and PMAs	6,934	9,948	790	453	18,125
Total impairment	6,974	11,530	1,053	453	20,010

Audited	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Total £'000
At 1 April 2021	6,974	11,530	1,053	453	20,010
Charge/(release) for the period	137	2,027	219	(180)	2,203
Release on write-off	(860)	(1,421)	(24)	–	(2,305)
Release against sold loans	(3,026)	(4,446)	(66)	–	(7,538)
At 30 September 2021	3,225	7,690	1,182	273	12,370
Made up of individual impairment	1,798	4,166	567	273	6,804
Collective model provisions including overlays and PMAs	1,427	3,524	615	–	5,566
Total impairment	3,225	7,690	1,182	273	12,370

12 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 31 March 2022	Percentage of equity interest 30 September 2021
PCF Bank Limited	UK	Banking, hire purchase, leasing & bridging	100	100
PCF Credit Limited	UK	Leasing & hire purchase	100*	100*
Azule Limited	UK	Leasing & hire purchase	100*	100*
Azule Finance Limited	Ireland	Leasing & hire purchase	100*	100*
Azule Finance GMBH	Germany	Leasing & hire purchase	100*	100*

*Held by a subsidiary of the Company.

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

The registered office of Azule Finance Limited is Suite 104, 4/5 Burton Hall Road, Sandyford, Dublin 18.

The registered office of Azule Finance GMBH is Kirchtruderinger Straße 17, 81829 München, Germany.

All companies have an accounting reference date of 30 September, except for Azule Finance GMBH which is 31 December.

13 Goodwill and other intangible assets

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

	Software				
Group Unaudited	**In use £'000**	**Under development £'000**	**Total intangibles £'000**	**Goodwill £'000**	**Total £'000**
Cost					
At 1 October 2021	7,227	98	7,325	–	7,325
Additions during the year	–	149	149	–	149
Transfers	–	–	–	–	–
Disposals	–	–	–	–	–
Impairment	–	–	–	–	–
At 31 March 2022	7,227	247	7,474	–	7,474
Accumulated depreciation					
At 1 October 2021	4,250	–	4,250	–	4,250
Amortisation during the year	354	–	354	–	354
Write-off impairment loss on software	–	–	-	–	–
Write-off	–	–	-	–	–
At 30 March 2022	4,604	–	4,604	–	4,604
Net book value at 31 March 2022	2,623	247	2,870	–	2,870

	Software				
Group Unaudited	**In use £'000**	**Under development £'000**	**Total intangibles £'000**	**Goodwill £'000**	**Total £'000**
Cost					
At 1 October 2020	6,548	252	6,800	1,147	7,947
Additions during the year	290	62	352	–	352
Transfers	–	–	–	–	–
Disposals	–	–	–	–	-
Impairment	(45)	–	(45)	–	(45)
At 31 March 2021	6,793	314	7,107	1,147	8,254
Accumulated depreciation					
At 1 October 2020	3,620	–	3,620	–	3,620
Amortisation during the year	319	–	319	–	319
Write-off impairment loss on software	(31)	–	(31)	–	(31)
At 30 March 2021	3,908	–	3,908	–	3,908
Net book value at 31 March 2021	2,885	314	3,199	1,147	4,346

Group Audited	Software In use £'000	 Under development £'000	 Total intangibles £'000	Goodwill £'000	Total £'000
Cost					
At 1 April 2021	6,793	314	7,107	1,147	8,254
Additions during the year	(65)	302	237	–	237
Transfers	494	(494)	–	–	–
Disposals	(33)	(24)	(57)	–	(57)
Impairment	38	–	38	(1,147)	(1,109)
At 30 September 2021	7,227	98	7,325	–	7,325
Accumulated depreciation					
At 1 April 2021	3,908	–	3,908	–	3,908
Amortisation during the year	319	–	319	–	319
Write-off impairment loss on software	14	–	14	–	14
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

14 Financial instruments

14.1 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.

	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
At 31 March 2022 - unaudited				
Cash and balances at central banks	64,196	–	–	64,196
Loans and advances to customers	320,509	–	–	320,509
Debt instruments at FVOCI	–	–	12,132	12,132
Derivative financial instruments	–	568	–	568
Other assets (adjusted for prepayments)	1,197	–	–	1,197
Total financial assets	385,902	568	12,132	398,602
Due to banks	59,666	–	–	59,666
Due to customers	290,712	–	–	290,712
Subordinated liabilities	7,125	–	–	7,125
Other liabilities (adjusted for accruals)	3,952	–	–	3,952
Total financial liabilities	361,455	–	–	361,455

	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
At 30 September 2021 - audited				
Cash and balances at central banks	56,126	–	–	56,126
Loans and advances to customers	363,992	–	–	363,992
Debt instruments at FVOCI	–	–	16,155	16,155
Derivative financial instruments	–	209	–	209
Other Assets (adjusted for prepayments)	4,120	–	–	4,120
Total financial assets	424,238	209	16,155	440,602
Due to banks	59,630	–	–	59,630
Due to customers	327,166	–	–	327,166
Subordinated liabilities	7,127	–	–	7,127
Other liabilities (adjusted for accruals)	1,981	–	–	1,981
Total financial liabilities	395,904	–	–	395,904

The Group holds certain financial assets at fair value grouped into Levels 1 to 3 of the fair value hierarchy, as explained below.

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

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

Level 3 – These involve valuation techniques for which one or more significant inputs are not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, similar market products, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities 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.

	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments held at at amortised cost					
At 31 March 2022 - unaudited					
Cash and balances at central banks	64,196	64,196	–	–	64,196
Loans and advances to customers	320,509	–	–	320,509	366,707
Total	384,705	64,196	-	320,509	430,903
Due to banks*	59,666	59,666	–	–	59,666
Subordinated liabilities	7,125	–	–	7,125	8,107
Due to customers*	290,712	–	–	290,712	290,712
Total	357,503	59,666	–	297,867	358,485

	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments held at at amortised cost					
At 30 September 2021 - audited					
Cash and balances at central banks	56,126	56,126	–	–	56,126
Loans and advances to customers	363,992	–	–	363,992	420,378
Total	420,118	56,126	-	363,992	476,504
Due to banks*	59,630	59,630	–	–	59,630
Subordinated liabilities	7,127	–	–	7,127	8,346
Due to customers*	327,166	–	–	327,166	327,166
Total	393,923	59,630	–	334,293	395,142

*For Due to banks and Due to customers, carrying value is assessed to approximate fair value.

The following table shows an analysis of financial instruments recorded at FVOCI by level of the fair value hierarchy:

	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments at fair value through other comprehensive income (FVOCI)					
At 31 March 2022 - unaudited					
Quoted debt instruments	12,132	12,132	–	–	12,132
At 30 September 2021 - audited					
Quoted debt instruments	16,155	16,155	–	–	16,155

The following table shows an analysis of financial instruments recorded at FVTPL by level of the fair value hierarchy:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000	Notional £'000
Financial instruments at fair value through profit or loss (FVTPL)					
At 31 March 2022 - unaudited					
Derivative financial assets	–	568	–	568	17,600
Derivative financial liabilities	–	–	–	–	–
At 30 September 2021 - audited					
Derivative financial assets	–	209	–	209	16,000
Derivative financial liabilities	–	–	–	–	–

14.2 Impairment allowance for loans and advances to customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and stage classification. The amounts presented are gross of impairment allowances.

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 March 2022 - unaudited				
Gross carrying amounts				
Performing				
High grade	257,608	20,967	4,141	282,716
Standard grade	18,035	3,747	1,616	23,398
Sub-standard grade	15,237	3,642	913	19,792
Non-performing				
Individually impaired	–	1,109	2,254	3,363
Collectively impaired	–	11	2,275	2,286
Total	290,880	29,476	11,199	331,555
Allowance for impairment loss	(2,734)	(2,260)	(6,052)	(11,046)
Net total	288,146	27,216	5,147	320,509
Undrawn commitments	10,329	–	–	10,329

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2021 - audited				
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
Total	335,029	27,693	13,640	376,362
Allowance for impairment loss	(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 and the corresponding expected credit losses (ECLs) is as follows:

Gross carrying amounts	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 October 2021 - audited	335,029	27,693	13,640	376,362
New assets originated or purchased	63,002	392	(54)	63,340
Assets de-recognised or matured	(90,877)	(10,731)	(2,985)	(104,593)
Transfers to Stage 1	28,809	(28,633)	(176)	-
Transfers to Stage 2	(43,132)	50,846	(7,714)	-
Transfers to Stage 3	(1,946)	(9,184)	11,130	-
Amounts written-off	(5)	(907)	(2,642)	(3,554)
At 31 March 2022	290,880	29,476	11,199	331,555

ECL allowance	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 October 2021 - audited	3,407	3,005	5,958	12,370
New assets originated or purchased	350	3	4	357
Assets de-recognised or matured and remeasurements	658	477	128	1,263
Transfers to Stage 1	982	(976)	(6)	-
Transfers to Stage 2	(2,224)	5,044	(2,820)	-
Transfers to Stage 3	(439)	(4,424)	4,863	-
Amounts written-off	-	(869)	(2,075)	(2,944)
At 31 March 2022	2,734	2,260	6,052	11,046

Gross carrying amounts	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 October 2020* - audited	349,417	76,671	19,547	445,635
New assets originated or purchased	99,759	992	-	100,751
Assets de-recognised or matured	(17,862)	(75,334)	(5,504)	(98,700)
Transfers to Stage 1	565	(553)	(12)	-
Transfers to Stage 2	(49,146)	49,517	(371)	-
Transfers to Stage 3	(7,482)	(2,657)	10,139	-
Amounts written-off	-	-	(2,028)	(2,028)
At 31 March 2021	375,251	48,636	21,771	445,658

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

ECL allowance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2020 - audited	3,179	3,300	12,153	18,632
New assets originated or purchased	393	17	–	410
Assets derecognised or matured and remeasurements	1,435	(1,116)	2,677	2,996
Transfers to Stage 1	11	(11)	–	–
Transfers to Stage 2	(1,974)	2,078	(104)	–
Transfers to Stage 3	(678)	(321)	999	–
Amounts written-off	–	–	(2,028)	(2,028)
At 31 March 2021	2,366	3,947	13,697	20,010

Gross carrying amounts	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 April 2021 - unaudited	375,251	48,636	21,771	445,658
New assets originated or purchased	59,734	1,074	205	61,013
Assets derecognised or matured	(164,961)	47,461	4,198	(113,302)
Transfers to Stage 1	72,161	(72,172)	11	–
Transfers to Stage 2	(13,481)	13,794	(313)	–
Transfers to Stage 3	6,755	(10,858)	4,103	–
Amounts written-off	(430)	(242)	(3,977)	(4,649)
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 April 2021 - unaudited	2,366	3,947	13,697	20,010
New assets originated or purchased	299	(5)	52	346
Assets derecognised or matured and remeasurements	987	3,977	(3,107)	1,857
Transfers to Stage 1	1,354	(1,329)	(25)	–
Transfers to Stage 2	(1,250)	1,301	(51)	–
Transfers to Stage 3	(346)	(4,845)	5,191	–
Amounts written off	(3)	(41)	(2,261)	(2,305)
Debt sale	–	–	(7,538)	(7,538)
At 30 September 2021	3,407	3,005	5,958	12,370

14.3 Impairment allowance for loans and advances by divisions

Gross carrying amount	Stage 1 £'000	Not past due	Stage 2 £'000 <30 days	>=30 days	Total	Stage 3 £'000	Total £'000
31 March 2022 - unaudited							
Loans and advances							
CFD	137,121	3,766	343	3,431	7,540	3,473	148,134
BFD	106,809	4,779	482	3,171	8,432	6,341	121,582
Azule	13,452	1,772	30	502	2,304	992	16,748
Bridging	33,498	1,326	309	9,565	11,200	393	45,091
Total	290,880	11,643	1,164	16,669	29,476	11,199	331,555

Gross carrying amount	Stage 1 £'000	Not past due	Stage 2 £'000 <30 days	>=30 days	Total	Stage 3 £'000	Total £'000
30 September 2021 - audited							
Loans and advances							
CFD	156,140	3,491	464	3,411	7,366	3,360	166,866
BFD	113,345	12,507	310	4,548	17,365	7,840	138,550
Azule	12,321	627	-	1,035	1,662	1,482	15,465
Bridging	53,223	-	-	1,300	1,300	958	55,481
Total	335,029	16,625	774	10,294	27,693	13,640	376,362

Impairment provision	Stage 1 £'000	Not past due	Stage 2 £'000 <30 days	>=30 days	Total	Stage 3 £'000	Total £'000
31 March 2022 - unaudited							
CFD	693	220	33	384	637	1,835	3,165
BFD	1,838	507	48	633	1,188	3,145	6,171
Azule	184	240	3	177	420	830	1,434
Bridging	19	2	-	13	15	242	276
Total	2,734	969	84	1,207	2,260	6,052	11,046

Impairment provision	Stage 1 £'000	Not past due	Stage 2 £'000 <30 days	>=30 days	Total	Stage 3 £'000	Total £'000
30 September 2021 - audited							
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	Not past due	Stage 2 <30 days	>=30 days	Total	Stage 3	Total
31 March 2022 - unaudited							
CFD	0.51%	5.84%	9.62%	11.19%	8.45%	52.84%	2.14%
BFD	1.72%	10.61%	9.96%	19.96%	14.09%	49.60%	5.07%
Azule	1.37%	13.54%	10.00%	35.26%	18.23%	83.67%	8.56%
Bridging	0.06%	0.15%	0.00%	0.14%	0.13%	61.58%	0.61%
Total	0.94%	8.32%	7.22%	7.24%	7.67%	54.04%	3.33%

Coverage ratio	Stage 1	Not past due	Stage 2 <30 days	>=30 days	Total	Stage 3	Total
30 September 2021 - audited							
CFD	0.6%	6.6%	8.2%	11.1%	8.8%	47.9%	1.9%
BFD	1.7%	8.6%	28.4%	18.9%	11.7%	48.0%	5.6%
Azule	2.1%	15.2%	-	22.7%	19.9%	39.7%	7.6%
Bridging	0.5%	-	-	0.5%	0.5%	0.0%	0.5%
Total	1.0%	8.4%	16.3%	14.4%	10.9%	43.7%	3.3%

14.4 Stage 3 decomposition

	Gross carrying amount £'000	Stage 3 ECL £'000	Coverage %
31 March 2022 - unaudited			
No longer credit-impaired but in cure period that precedes transfer to Stage 2	750	605	81%
Credit-impaired not in cure period	10,449	5,447	52%
Total	11,199	6,052	

	Gross carrying amount £'000	Stage 3 ECL £'000	Coverage %
30 September 2021 - audited			
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	

14.5 Analysis of loans by product types

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amounts				
31 March 2022 - unaudited				
Bridging	33,498	11,200	393	45,091
Finance lease	19,499	2,060	1,453	23,012
Hire purchase/conditional sale	237,852	15,707	9,354	262,913
Loans	31	509	(1)	539
Total	290,880	29,476	11,199	331,555

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amounts				
30 September 2021 - audited				
Bridging	53,223	1,300	958	55,481
Finance lease	22,190	3,085	1,709	26,984
Hire purchase/conditional sale	259,195	23,307	10,820	293,322
Loans	421	1	153	575
Total	335,029	27,693	13,640	376,362

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Impairment provisions				
31 March 2022 - unaudited				
Bridging	19	15	242	276
Finance lease	333	361	1,016	1,710
Hire purchase/conditional sale	2,381	1,809	4,794	8,984
Loans	1	75	–	76
Total	2,734	2,260	6,052	11,046

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Impairment provisions				
30 September 2021 - audited				
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

Forborne and modified loans

The following tables provide a summary of the Group's forborne assets.

		Gross carrying amount of forborne loans				
		Stage 1	Stage 2	Stage 3		
	Gross carrying amount £'000	Performing forborne loans £'000	Performing forborne loans £'000	Non-performing forborne loans £'000	Total forborne loans £'000	Forbearance ratio
31 March 2022 (unaudited)						
Loans and advances to customers						
CFD	148,134	671	1,115	1,204	2,990	2.02%
BFD	121,582	1,652	1,584	1,189	4,425	3.64%
Azule	16,748	324	561	378	1,263	7.54%
Bridging	45,091	-	-	-	-	0.00%
Total loans and advances to customers	331,555	2,647	3,260	2,771	8,678	2.62%
30 September 2021 (audited)						
Loans and advances to customers						
CFD	166,866	40	230	69	339	0.20%
BFD	138,550	146	1,618	621	2,385	1.72%
Azule	15,465	-	232	-	232	1.50%
Bridging	55,481	-	-	-	-	0.00%
Total loans and advances to customers	376,362	186	2,080	690	2,956	0.79%

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	ECLs on forborne loans						
	Stage 1 Individual £'000	Stage 1 Collective £'000	Stage 2 Individual £'000	Stage 2 Collective £'000	Stage 3 Individual £'000	Stage 3 Collective £'000	Total £'000
At 31 March 2022 - unaudited							
Loans and advances to customers							
CFD	–	89	42	157	412	60	760
BFD	–	152	93	250	500	50	1,045
Azule	–	45	75	14	250	93	477
Bridging	–	–	–	–	–	–	–
Total loans and advances to customers	–	286	210	421	1,162	203	2,282
At 30 September 2021 - audited							
Loans and advances to customers							
CFD	–	–	20	8	19	–	47
BFD	–	2	163	127	217	–	509
Azule	–	–	11	33	–	–	44
Bridging	–	–	–	–	–	–	–
Total loans and advances to customers	–	2	194	168	236	–	600

15 Subordinated liabilities

	At 31 March 2022 unaudited £'000	At 30 September 2021 audited £'000
Subordinated liabilities	**7,125**	7,127
	7,125	7,127

£7.0 million subordinated notes issued by PCF Bank Limited
At 31 March 2022, PCF Bank Limited had a £15 million subordinated note facility from British Business Investments Limited (30 September 2021: £15 million). The notes may be issued once per quarter in tranches of between £1 million and £5 million, and each tranche has a fixed coupon of 8% per annum, a final maturity ten years from the date of issue and is callable by the issuer five years from the date of issue. These notes meet the conditions for Tier 2 capital. During the period ended 31 March 2022 no new notes were issued and at 31 March 2022 £7 million of notes remained issued (30 September 2021: £7 million).

16 Issued capital and reserves

	31 March 2022 unaudited '000 units	30 September 2021 audited '000 units	31 March 2022 unaudited £'000	30 September 2021 audited £'000
Ordinary shares issued and fully paid				
Opening balance at 1 October	**250,990**	250,240	**12,550**	12,512
Issuance of new shares during the period	**-**	750	**-**	38
Dividend reinvestment	**-**	–	**-**	–
Closing balance	**250,990**	250,990	**12,550**	12,550

Called-up share capital comprises 250,990,000 (2021: 250,990,000) ordinary shares of 5p each. Ordinary shares of 5p each ranking *pari passu* per share as a class to any return of capital, and all ordinary dividends with one vote per share.

Share premium	31 March 2022 unaudited £'000	30 September 2021 audited £'000
Opening balance	**17,679**	17,625
Issuance of new shares during the period	**-**	54
Closing balance	**17,679**	17,679

Group Other reserves	31 March 2022 £'000	30 September 2021 £'000
Fair value gain/(loss) for financial instruments Fair Value Through Other Comprehensive Income (FVOCI)		
Fair value movements in debt instruments at FVOCI	**23**	9
	23	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 (EBT) to meet obligations under the Company's Share Option Plans. The shares are stated at cost and their market value at 31 March 2022 was £65,158 (30 September 2021: £184,410).

Group	31 March 2022 £'000	30 September 2021 £'000
Own shares		
Opening balance	**(147)**	(147)
Closing balance	**(147)**	(147)

17 Earnings per share

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

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

	At	
	31 March 2022 unaudited £'000	31 March 2021 unaudited* £'000
Net Company (loss)/profit attributable to ordinary shareholders adjusted for the effect of dilution	**(7,457)**	1,112

	At	
	31 March 2022 unaudited '000 units	31 March 2021 unaudited '000 units
Basic and diluted weighted average number of shares	**250,990**	250,335
Basic and diluted earnings per 5p ordinary share	**(3.0)p**	0.4p

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

18 Share based payments

As at 31 March 2022, the Company has two share option plans:

- Senior executive equity-settled share option plans
- Company equity-settled share option plans

Further details can be found in Note 9 of the Annual Report & Financial Statements 2021.

Senior executive equity-settled share option plans

Group	Six months to 31 March 2022 unaudited '000 units	Weighted average exercise price unaudited (pence)	Year to 30 September 2020 audited '000 units	Weighted average exercise price audited (pence)
Outstanding at the beginning of the period/year	**3,972**	**33**	3,972	33
Granted during the period/year	**–**	**–**	–	–
Exercised during the period/year	**–**	**–**	–	–
Expired during the period/year	**(334)**	**35**	–	–
Outstanding at the end of the period/year	**3,638**	**33**	3,972	33
Exercisable at the end of the period/year	**–**	**–**	–	–

No options were granted during the period ended 31 March 2022 (30 September 2021: nil).

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

Company equity-settled share option plans

Group	Six months to: 31 March 2022 unaudited '000 units	Weighted average exercise price unaudited (pence)	Year to: 30 September 2020 audited '000 units	Weighted average exercise price audited (pence)
Outstanding at the beginning of the period/year	**1,945**	**27**	2,715	15
Granted during the period/year	**-**	**-**	–	–
Exercised during the period/year	**-**	**-**	(750)	(12)
Expired during the period/year	**-**	**-**	(20)	(26)
Outstanding at the end of the period/year	**1,945**	**27**	1,945	27
Exercisable at the end of the period/year	**1,945**	**27**	1,945	27

No options were granted during the period ended 31 March 2022 (30 September 2021: nil).

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

19 Commitments, contingent liabilities, and contingent assets

At 31 March 2022, the Group had undrawn commitments to lend to customers of £10.3 million (30 September 2021: £9 million).

The Group's subsidiary, PCF Bank Limited (the Bank), operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. The Group and the Bank have formal controls and policies for managing legal claims. Based on professional legal advice, the Group provides and/or discloses amounts in accordance with its accounting policies described in Note 1 of the Annual Report & Financial Statements 2021. From time to time the Group and the Bank receive legal claims relating to its business activities. The total value of claims at 31 March 2022, assessed to have a greater than remote likelihood of economic outflow, was £nil (30 September 2021: £nil).

The Group has begun to seek recovery of remuneration-related payments and other consequential losses suffered in relation to the events that led to the delay of the Annual Report & Financial Statements 2020 and the shares being suspended from trading on AIM. The amount of any recoveries cannot currently be quantified.

20 Related parties

The non-executive directors held a total of £85,800 in savings accounts in the Group at 31 March 2022 (30 September 2021: £106,272).

In addition, there were other material related party transactions related to management fee recharges of £0.3 million and £14.4 million to PCF Credit Limited and PCF Bank Limited respectively by PCF Group plc for the period ended 31 March 2022 (2021: £0.4 million and £18.9 million respectively).

Key management personnel of the Group are the Board Directors.

21 Non-adjusting events after the balance sheet date

COVID-19 pandemic and geopolitical uncertainty

Since the end of 2021 there have been no subsequent lockdowns as a result of COVID-19 and now in June 2022 all restrictions have been lifted.

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

The pandemic has had an unprecedented impact on the world economy, more recently exacerbated by the war in Ukraine. The Group's business is principally focused on UK based businesses and customers and the Group does not have any direct exposure to Russia or any sanctioned persons or entities. As the global economy emerges from the pandemic with the inevitable upturn in economic activity, demand for energy has increased at a time of uncertain supply, with a consequential marked increase in energy costs, leading to levels of inflation not seen in the UK for over thirty years. This has led the Bank of England to increase interest rates from record lows to the highest level seen in the last ten years, with Oxford Economics forecasting that the Monetary Policy Committee of the Bank of England will increase the Bank Rate to 2% by the end of 2022.

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

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

Announcement of 31 May 2022

The Group announced that it had decided to accelerate an element of its capital raising, by requesting a further investment from its majority shareholder Somers Limited of circa £4 million** over the next two months; at the same time, the Group was in early stage discussions with Castle Trust Capital plc in relation to a possible offer for the entire issued and to be issued shares of the Company.

Issuance of new shares 7 June 2022

On 7 June 2022 Somers Limited signed an agreement relating to the issue to it of 54,880,000 new ordinary shares of the Company at a subscription price of 5 pence per share, which raised gross proceeds of £2,744,000.

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

22 Management of capital risk

Risk Weighted Assets (RWA)

The Group does not operate a trading book and has no Market Risk Pillar 1 capital requirement. 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.

	31 March 2022 unaudited £'000	30 September 2021 audited £'000
Central Government and central banks	**–**	–
Institutions	**879**	511
Corporates	**7,800**	8,122
Retail	**168,819**	189,202
Other items	**53,230**	75,447
Total credit risk	**230,728**	273,282
Operational risk	**47,812**	47,812
Credit valuation adjustment	**353**	109
Total Risk Weighted Assets	**278,893**	321,203

Risk based capital

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

In 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 31 March 2022 CCB was 2.5% (30 September 2021: 2.5%) and CCyB was 0% (30 September 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:

	31 March 2022 unaudited £'000	30 September 2021 audited £'000
Equity		
Issued capital	**12,550**	12,550
Share premium	**17,679**	17,679
Other reserves recognised for CET 1 capital	**23**	9
Investment in own shares	**(147)**	(147)
Retained earnings	**11,286**	18,771
Total equity	**41,391**	48,862
Adjustments to Regulatory Capital		
Goodwill and intangible assets	**(2,870)**	(3,075)
Adjustment for prudent valuation	**(13)**	(16)
IFRS 9 transitional adjustment	**2,656**	4,340
Total deductions	**(227)**	1,249
Total CET 1 Capital	**41,164**	50,111
Other Capital		
Additional Tier 1 Capital	**–**	–
Subordinated Debt Tier 2 Capital	**6,310**	6,136
Total Regulatory Capital	**47,474**	56,247

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

PCF GROUP

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

	31 March 2022 (unaudited) £'000	30 September 2021 (audited) £'000
Available own funds		
Common Equity Tier 1 Capital	**41,164**	50,111
Common Equity Tier 1 Capital as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**38,508**	45,771
Tier 1 Capital	**41,164**	50,111
Tier 1 Capital as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**38,508**	45,771
Total Capital	**47,474**	56,247
Total Capital as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**45,080**	52,272
Risk Weighted exposure		
Total Risk Weighted Assets	**278,893**	321,203
Total Risk Weighted Assets as if IFRS 9 or analogous ECL transitional arrangements are not applied	**276,237**	316,863
Capital ratios (as a percentage of Risk Weighted exposure amount)		
Common Equity Tier 1 ratio (%)	**14.8%**	15.6%
Common Equity Tier 1 ratio (%) as if IFRS 9 or analogous ECL transitional arrangements are not applied	**13.9%**	14.4%
Tier 1 Capital ratio (%)	**14.8%**	15.6%
Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**13.9%**	14.4%
Total Capital ratio (%)	**17.0%**	17.5%
Total Capital ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**16.3%**	16.5%
Leverage ratio*		
Total exposure measure	**345,709**	450,976
Leverage ratio (%)	**11.9%**	11.1%
Leverage ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements are not applied	**11.2%**	10.2%

*The 31 March 2022 leverage exposure measure excludes central bank claims.

The Group is deemed to qualify as a small and non-complex institutions as defined in CRR Article 4(1)(145). In accordance with CRR Article 433b, for Pillar 3 purposes, small and non-complex institutions that are listed shall disclose on a semi-annual basis the key metrics referred to in Article 447.

	31 March 2022 (unaudited) £'000	30 September 2021 (audited) £'000
Available own funds		
Common Equity Tier 1 (CET 1) Capital	**41,164**	50,111
Tier 1 Capital	**41,164**	50,111
Total Capital	**47,474**	56,247
Risk Weighted exposure		
Total Risk Weighted Assets	**278,893**	321,203
Capital ratios (as a percentage of Risk Weighted exposure amount)		
Common Equity Tier 1 ratio (%)	**14.8%**	15.6%
Tier 1 Capital ratio (%)	**14.8%**	15.6%
Total Capital ratio (%)	**17.0%**	17.5%
Additional own funds requirements based on SREP (as a percentage of Risk Weighted exposure amount)		
Additional CET 1 SREP requirements (%)	**0.56%**	0.56%
Additional AT 1 SREP requirements (%)	**0.44%**	0.44%
Additional T 2 SREP requirements (%)	**0.25%**	0.25%
Total SREP own funds requirements (%)	**9%**	9%
Combined buffer requirement (as a percentage of Risk Weighted exposure amount)		
Capital conservation buffer (%)	**2.5%**	2.5%
Institution specific countercyclical capital buffer (%)	**0%**	0%
Combined buffer requirement (%)	**2.5%**	2.5%
Overall capital requirements (%)	**11.5%**	11.5%
CET 1 available after meeting the total SREP own funds requirements (%)	**5.8%**	6.6%
Leverage ratio*		
Total exposure measure	**345,709**	450,976
Leverage ratio (%)	**11.9%**	11.1%
Liquidity coverage ratio		
Total High Quality Liquid Assets (Weighted value - average)	**60,956**	53,886
Cash outflows - Total weighted value	**18,605**	16,645
Cash inflows - Total weighted value	**9,595**	11,683
Total net cash outflows (adjusted value)	**10,010**	5,962
Liquidity coverage ratio (%)	**609%**	904%
Net stable funding ratio		
Total available stable funding	**384,369**	428,865
Total required stable funding	**235,889**	269,642
NSFR ratio (%)	**163%**	159%

*The 31 March 2022 leverage exposure measure excludes central bank claims.

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.

At all times, the Group maintains sufficient high quality liquid resources to ensure that there is no significant risk from being unable to meet its liabilities as they fall due during a severe but plausible stress. The Group maintains a diversified funding strategy with close relationships with its banking counterparties and by being an active participant in the retail deposit taking market, seeking to align the tenor of its funding to the average effective life of its loan portfolio. The current ability of the Group to access wholesale debt facilities is discussed further in the emerging risks and uncertainties section of the Strategic Report of the Annual Report & Financial Statements 2021.

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 in the form of High Quality Liquid Assets. The amount of these has been significantly in excess of the 100% LCR minimum requirement through the period. Within both the LCR and OLAR assessments, the Group sets an intra-day limit to ensure that sufficient funds are held over and above daily requirements to account for volatility in intra-day cash flows.

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

Measure

	31 March 2022 unaudited £'000	30 September 2021 audited £'000
LCR %	**609%**	904%
NSFR %	**163%**	159%

Liquidity resources

The Group maintains a portfolio of highly marketable and diverse assets that may be liquidated quickly in the event of an unforeseen interruption in cash flow, the liquidity of which is regularly tested. The Group also has central bank facilities and lines of credit that it can access to meet liquidity needs. In accordance with the Group's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

	31 March 2022 unaudited £'000	30 September 2021 audited £'000
Cash and balances with Bank of England	**60,955**	53,886
UK Government securities and other qualifying securities	**12,132**	16,155
Sub-total High Quality Liquid Assets	**73,087**	70,041
Cash at Bank	**3,241**	2,240
Contingent central bank facilities	**–**	13,658
Total	**76,328**	85,939

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

Analysis of encumbered and unencumbered assets

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

Group	Carrying amount of encumbered assets £'000	Carrying amount of unencumbered assets £'000	Total £'000
31 March 2022			
Debt financial instruments at FVOCI	9,563	2,569	12,132
Hire purchase/conditional sale	67,000	186,929	253,929
Loans	–	463	463
Finance lease	13,262	8,040	21,302
Bridging	–	44,815	44,815
Total	89,825	242,816	332,641

Group	Carrying amount of encumbered assets £'000	Carrying amount of unencumbered assets £'000	Total £'000
30 September 2021			
Debt financial instruments at FVOCI	13,807	2,348	16,155
Hire purchase/conditional sale	60,005	223,049	283,054
Loans	–	460	460
Finance lease	12,851	12,419	25,270
Bridging	–	55,208	55,208
Total	86,663	293,484	380,147

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.

	31 March 2022 unaudited £'000	30 September 2021 audited £'000
On-balance sheet		
Cash and balances at central banks		
Cash and demand deposits	**64,196**	56,126
Loans and advances to customers (net)		
Consumer lending	**144,969**	163,641
Business lending	**115,411**	130,860
Azule lending	**15,314**	14,283
Bridging finance	**44,815**	55,208
Due from related companies		
Debt instruments at FVOCI	**12,132**	16,155
Derivative financial asset	**568**	209
Other assets	**1,197**	4,120
	398,602	440,602
Off-balance sheet		
Undrawn facilities	**10,329**	8,958

Avocette Limited, London

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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