PCF Bank Limited
Annual Report and Financial Statements

30 September 2019

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Company Information

Directors
T A Franklin
D J Morgan
C Higgins
M F Brown
D J Titmuss
M Martin (Appointed 25 July 2019)
S D Maybury
R J Murray
D R Bull

Company Secretary
R J Murray

Company Registration Number
02794633

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

Auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

Strategic Report

For the year ended 30 September 2019

Profile
PCF Bank Limited ('the Bank') is a wholly owned subsidiary of PCF Group plc (the 'Parent'). The shares of the Parent are listed on the Alternative Investment Market of the London Stock Exchange. Both entities are registered and domiciled in the United Kingdom.

The Bank is a specialist bank, offering retail savings products for individuals and lending products for consumers and businesses to finance motor vehicles, plant, bridge finance, equipment and property.

Highlights and key performance indicators

	Year ended 30 Sept 2019 £'000	Year ended 30 Sept 2018 £'000
Net operating income	18,815	2,315
Operating expenses	(12,906)	(5,813)
Dividend income	3,000	10,152
Profit before tax	8,909	6,654

	30 Sept 2019 £'000	30 Sept 2018 £'000
Loans and advances to customers	315,313	183,263
Deposits by customers	266,695	191,139
Shareholders' funds (Total equity)	54,244	36,938
Total assets	357,987	254,441
Return on average assets	3.57%	5.54%
Net Interest Margin	7.80%	7.70%
After Tax Return on Equity	17.09%	19.90%
CET1 Capital Ratio	17.23%	20.77%

Diversification while protecting the core business

We have made strong progress across the whole business this year. The strategy to diversify our asset classes and income streams is proving a great success and will play an important role in growing our lending portfolio in the coming years. Our established core business lines have made excellent progress against ambitious targets and we continue to deliver strong growth despite the challenging economic and political backdrop.

The benefits of our strategic decision to become a bank are becoming increasingly evident. These include lower funding costs, an ability to reach and retain a wider range of customers, greater flexibility to diversify our business and a reduced reliance on wholesale debt. We have executed a low-risk growth strategy by initially growing in existing markets in which we already had an established risk appetite and control framework, before looking to diversify our asset classes. In 2019, we have supplemented this strategy with diversifications by acquiring Azule, the broadcast and media asset finance specialist, and commencing a bridging property finance business line.

This year's results demonstrate the strength of this approach, delivering record profits and portfolio growth. The benefits of scale will continue to accrue as operational gearing increases our earnings against the significant fixed cost of establishing our banking platform.

Current trading and outlook

We have once again delivered on our strategic objectives, achieving our initial targets for portfolio size and return on equity ahead of time. Our next targets of a portfolio of £750 million and a return on equity of 15% by 30 September 2022 remain in place, but our progress to date suggests that an aspiration of a £1 billion portfolio should not be beyond our reach in the medium-term.

New business originations remain strong and we continue to maintain prudent underwriting standards, a cautious risk appetite and sensible terms of business. Our goal is to generate sustainable returns and, with our focus on a greater proportion of prime quality customers, our portfolio continues to perform well. We have a lending portfolio that has a wide spread of risk and, while we are not sanguine about the economic outlook, we feel our size, agility and well-established business model provide confidence for the future.

Economic uncertainty does however remain a risk. This could manifest itself as reduced demand in our market places, a fall in our growth rate or rising impairments due to an economic downturn. Should these circumstances arise, we recognise this could slow our progress, but we have built and will continue to build PCF's lending model on sound foundations, which will provide for our continued success.

New business momentum has built up throughout the year, with September 2019 being a record month for the Bank, which continued in October. Our diversification strategy has been a success and provides the Bank with extra strength in depth. The Bank is ahead of its plans in terms of growth, so we have accelerated investment in our technology platform, talent and governance framework. All this will leave us well placed to take advantage of market opportunities as they arise.

Principal Risks and Uncertainties

PCF is a specialist UK bank focused on retail and commercial lending business. Managing risk effectively is essential to the Bank and is fundamental to our strategy. This is achieved by maintaining a conservative business model which embodies a culture based on a prudent appetite for risk.

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

A clearly defined Risk Appetite Statement is in place which sets out the level of risk that the Bank is willing to take in pursuit of its business objectives.

The Board ensures that the Bank actively embraces a strong risk culture, where all staff are accountable for directly assessing, controlling and mitigating risks. The Board leads in setting the risk appetite and ensuring that the Risk Management Framework ('RMF') is fully embedded across the Bank, with a strong focus on the adherence to risk appetite in all metrics. Staff performance management and reward practices all have key risk inputs and a focus on risk management in their design. The Bank aims for employees to be risk aware and to strike the right balance between delivering on objectives, individual accountability and maintaining a safe and secure business.

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

Risk strategy

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

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

The Board focuses on the key risks that could prevent the Bank from achieving its strategic objectives. Risk management is integrated into the corporate framework and business planning with regular reporting to the Board and other committees, such as the ARC and Executive Committee ('ExCo').

Principal risks

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

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

Strategic & business risk

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

Statement - In order to maintain investor confidence in the Parent's AIM listing and market expectations, the Board operates the business in such a way as to optimise profits, within the approved risk appetite.

Key mitigating factors and controls

- The Bank does not intend to undertake any strategic actions within its business model which would put at risk its vision of being a successful, specialist lender in its chosen and target markets, backed by a strong and dependable savings franchise.
- The Bank will monitor, review and challenge its performance against strategy using established key performance indicators.
- The Bank will not put its core strategic and business objectives at a level of risk which is beyond its financial resources and operational capabilities under both normal and stressed conditions.
- Where the Bank is going through a strategic change programme, it will consider, in addition to readiness and any risks to delivery, the impact of that change on the business in terms of customers, staff, the control environment and reputation.
- The Board will set challenging but achievable financial targets.

- The Board and its committees will regularly monitor the business and macro-economic assumptions underlying its business, capital and liquidity plans.
- The Board will align the remuneration of staff to key strategic objectives.
- The Board will be alert to emerging risks to the business.

Credit risk

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

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

Key mitigating factors and controls

- The Bank will focus its lending on its specific areas of expertise.
- The Bank will embed lending policies, a risk control framework and risk management procedures in all business areas.
- The Bank will actively manage lending quality through the credit cycle.
- The Bank will review performance against risk appetite.
- The Bank will hold credit committee meetings for larger exposures, embedding new business lines or new areas of risk.
- The Bank will stress the portfolio to test resilience.
- The Bank will conduct a product risk assessment on any new business line.
- The Bank will endeavour to avoid concentrations of risk by geography, sector, asset class and single debtor and counterparty name.
- The Bank will embed effective collection strategies.

Capital risk

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

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

Key mitigating factors and controls

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

Liquidity & funding risk

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

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

Key mitigating factors and control

- The Bank will maintain its unencumbered liquidity resources in the form of high-quality liquid assets ('HQLA').
- The Bank will ensure that its HQLA will enable it to survive at least 30 days of a worse-case stress scenario.
- The Bank will maintain its Net Stable Funding Ratio ('NSFR') above the regulatory minimum of 100%.
- The Bank will carry out forward modelling to identify liquidity mismatches.

Market and interest rate risk

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

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

Key mitigating factors and controls

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

Operational risk

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

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

Key mitigating factors and controls

- The Bank will continue to implement a robust Operational Resilience Framework and regularly test the ongoing resilience of its operational and IT services, including Business Continuity Management, Disaster Recovery, Incident Management, Crisis Management, Third Party Management and the Cyber Strategy.
- The Bank will continue to review IT system architecture to ensure systems are resilient and that the confidentiality, integrity and availability of critical systems and information assets are protected against cyber-attacks.
- The Bank will continue to implement a robust project governance structure and delivery framework with respect to IT and change management to ensure there are appropriate controls in place covering scoping and planning, design, initiation, monitoring and risk assessment.
- The Bank will continue to implement actions from internal and external IT assurance reviews to enhance the resilience of systems supporting the processes most critical to customers.
- The Bank will continue to implement a robust Supplier and Outsourcing Assurance Framework and undertake ongoing due diligence on third parties.
- The Bank will continue to maintain competitive working practices to attract, retain and engage high quality employees.
- The Bank will continue to invest in enhanced systems and robust processes to protect customer information, including limiting access to key systems and enhancing the security, durability and accessibility of critical information.
- The Bank will continue to manage effectively change projects so that they do not cause serious disruption or create processing inefficiencies to the business during or after their implementation.
- The Bank will continue to maintain a strong internal control environment and adopt policies and procedures to detect and prevent the use of its business for money laundering, facilitating tax evasion, bribery and activities prohibited by legal and regulatory requirements.
- The Bank will continue to provide enhanced operational risk training and compliance awareness sessions to all employees.
- The Bank will continue to formally review and ratify all new products and business lines through its Marketing & New Products Approval Committee ('MNPA').
- The Bank, through continual investment in its IT infrastructure, resilience and security, will continue to maintain appropriate levels of control and ongoing testing to identify and counter the increasing level of threat arising from cyber-crime.
- The Bank will continue to embed cyber security in the design of technology and services and reduce cyber risk exposure to an acceptable level before deployment.
- The Bank will continue to maintain cyber risk insurance and review the policy no less than annually.
- The Bank will continue to maintain a robust system of controls in order to prevent the Bank being used to further financial crime and minimise the impact of external and internal fraud.
- The Bank will continue to maintain external and internal fraud insurance and review the policy no less than annually.

Regulatory risk

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

Statement – The Bank has no appetite for regulatory breaches, fines, censure, legal or enforcement action due to failing to comply with applicable laws, regulations and codes of conduct or legal obligations.

Key mitigating factors and controls

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

Conduct risk

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

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

Key mitigating factors and controls

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

Emerging risks

Emerging risks are those future risks which have been identified as possibly having an impact on the Bank's strategy, business model and performance.

Brexit and economic environment

Risk - The Bank has considered the potential for the process of the UK leaving the European Union ('EU') to lead to stress events in addition to those identified in the ILAAP and ICAAP assessments. Although Brexit has the potential to disrupt UK banks' access to markets in the remainder of the EU, the Bank has only limited brokerage business outside the UK.

Management believes that Brexit's potential effect on the Bank would be indirect or limited to a small number of industry sectors. Management's immediate concern is primarily focused on the negative effect that the prolonged process of Brexit may have on the economy, capital markets and consumer and business sentiment and the effect this may have on demand.

Mitigation - The Bank continues to monitor closely the Brexit negotiations and the potential economic impact on credit risk and implications for the business. It will decide whether internal scenario planning is required as the political and economic situation develops. The Bank has increased its pessimistic economic weightings to reflect to uncertainty of an outcome particularly around a no Brexit deal.

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

Technology and system security

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

Mitigation – The Board has approved a Cyber Strategy using best practice guidelines from the National Cyber Security Centre, the Financial Conduct Authority ('FCA') and the Bank of England. This strategy sets out in detail how the Bank will work to ensure it remains protected against the increasing threat of cyber-attacks. This strategy is the framework for the Bank's response to these threats and sets out five core objectives which have been delivered over the course of the financial year by implementing a number of cyber security led initiatives. These objectives are

- To understand cyber risk and act responsibly.
- To understand the extent and potential impact of exposure to the attack.
- To operate defences consistently across the Bank's cyberspace, physical site and organisations
- To have a robust incident response process in place.
- To strengthen collaboration with industry specialists. The Bank continues to be accredited under the Government's Cyber Essentials framework and is a member of the Cyber Security Information Sharing Partnership ('CiSP').

Future direction – The prevention of cybercrime remains a key focus for the Bank. The Bank continues to invest in its information security controls in response to emerging cybercrime threats and to seek to ensure that controls for known threats remain robust.

Technological and competitive changes to the motor vehicle market

Risk – Over 30% of the Bank's total portfolio of loans and receivables is in respect of finance agreements where the asset financed is a motor car. Technological and physical obsolescence in particular relating to diesel cars, could lead to a diminution of the Bank's underlying security if defensive action is not taken. Several factors may lead to reductions in values for used diesel vehicles.

Mitigation - The sector risks are mitigated by collateral backed lending, sensible loan to value lending, low average lending balances, a wide range of models and marques and an increased focus on prime motor finance. The Bank does not offer finance products that take a residual position in the motor vehicle. The Bank serves the UK used car market, which unlike the supply of new vehicles, often originating from EU markets and attracting increased tariffs, is largely self-contained.

Future direction - Continued successful participation in this sector requires a good understanding of the upcoming changes in regulation, prudent lending criteria and sensible lending practices. The Bank will monitor its portfolio on a regular basis and amend its lending criteria to reflect changes in economic conditions and the vehicle market, including research into the electric vehicle sector. The Bank will monitor data, consumer trends and national and local legislation to continue to form a view as to the expected path for diesel vehicles prices and implications for credit policy and back-book management.

The Bank has had a successful year delivering on it's strategic objectives. The medium term strategic plan for the business of a sustainable, diversified lending portfolio is well-developed and we have confidence in it's delivery.

Approved by order of the Board on 10 January 2020

23/1/20

S D Maybury

Director

Directors' Report

The directors present their report and financial statements for the year ended 30 September 2019.

Results and dividends

The Bank's profit for the year before taxation was £8,909,000 (year ended 30 September 2018: £6,654,000). The taxation charge for the year was £1,116,000 (year ended 30 September 2018: £412,000).

The directors do not recommend any dividend payment for the year (year ended 30 September 2018: Nil).

Principal activities

The Bank is a specialist bank, offering retail savings products for individuals and lending products for consumers and businesses to finance motor vehicles, plant, bridge finance, equipment and property.

The Bank received dividend income amounting to £3,000,000 from its subsidiaries' operational profits during the year (30 September 2018: £10,152,000). The Bank also received, by way of intra-group transfer, certain portfolios of finance receivables which were previously held by its subsidiaries and non-current assets and liabilities previously held by its Parent. The total amount of the transfers amounted to £18.1 million (30 September 2018 - £30.6 million).

Significant events

Further to the authority granted by shareholders at a Board meeting, on 29 March 2019 a further 10,000,000 new ordinary shares of a nominal value of £1.00 were issued at £1.00 per share.

During the year we also successfully completed a £15m Tier 2 capital facility.

Directors

The directors of the Bank during the year ended 30 September 2019 were those listed on page 2.

International Financial Reporting Standards ('IFRS')

The results for the year ended 30 September 2019 have been prepared in accordance with IFRS and its interpretations issued by the International Accounting Standards Board, as adopted by the European Union.

Statement of going concern

The Bank's business activities, together with the factors likely to affect its future development and position are set out in the Strategic Report. The financial position of the Bank, its cash flows, liquidity position and borrowing facilities are set out in the Financial Statements.

The Bank maintains an actively managed capital and liquidity base to cover risks inherent in the business and is meeting the capital and liquidity adequacy requirements of the banking supervisor, the Prudential Regulation Authority. The adequacy of the Bank's capital and liquidity is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) which are adopted by the Bank. The Bank participates in the Parent's centralised treasury arrangements and so shares banking arrangements with other Group companies. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Bank to continue as a going concern or its ability to continue with its current banking arrangements.

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

Directors' Report (cont'd.)

Statement of directors' responsibilities

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

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

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

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

Disclosure of information to auditors

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

Reappointment of auditors

A resolution to re-appoint Ernst & Young LLP as the Bank's auditors will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

23/1/20

R J Murray
Company Secretary

10 January 2020

Independent Auditor's Report

Independent Auditor's Report to the members of PCF Bank Limited

for the year ended 30 September 2019

Opinion

We have audited the financial statements of PCF Bank Limited for the year ended 30 September 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Overview of our audit approach

Key audit matters	• Risk of fraud in the recognition of revenue in respect of the application of the effective interest rate methodology • Impairment of loans and advances to customers as per IFRS 9 expected credit loss model
Materiality	• Overall materiality of £445k which represents 5% of Profit Before Tax.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit & Risk Committee
Risk of fraud in the recognition of revenue in respect of the application of the effective interest rate (EIR) methodology Interest and similar income: £30,277k (2018: £14,551k) Refer to the accounting policies (note 1.5.1) and note 2 of the Financial Statements For certain product fees, the Bank operates a model to recognise fee income (included within Interest Income) under the effective interest method. The effective interest method spreads the recognition of product fee income over the life of the financial instrument, as these are in substance an integral part of the overall yield. Effective interest rate models are sensitive to judgements about the expected lives of the product to which they relate. Due to the complexity of calculations, the degree of judgement exercised by the Bank in respect of the expected lives of the product and the different products for which fees are recognised, this is considered a key audit matter.	We identified and tested key controls over the effective interest rate model. We determined that we could place reliance on these controls for the purposes of our audit. We tested the key assumptions used in the EIR calculation including the expected lifecycle of the products. We validated and concluded that the model is appropriate. We utilised an independent leasing valuation specialist to recalculate the finance lease income using EIR methodology for each product on sample basis. In addition we recalculated finance lease income on a sample of leases and tested completeness and accuracy of data through reconciliation to source systems. We tested that fees and commissions were appropriately included in the EIR calculations in accordance with the accounting standards. We selected a risk-based sample of journal entries and examined the journals for validity and appropriateness.	We concluded to the Audit & Risk Committee that the EIR calculations and methodology were in accordance with accounting policies and standards and interest income was appropriately derived. Our testing concluded that the controls were designed and operating effectively. Our testing of journal entries did not highlight any issues and there was no evidence of management override of controls from the sample of journals we examined.

Risk	Our response to the risk	Key observations communicated to the Audit & Risk Committee
Impairment of loans and advances to customers as per IFRS 9 expected credit loss model Loans and advances to customers: £315,313k (2018: £183,263k) Impairment on loans and advances: £4,948k (2018: £743k) Refer to the accounting policies (note 1.4.3) and note 12 of the Financial Statements The application of IFRS 9 results in fundamental changes to how impairment provisions are determined as IFRS 9 requires a forward looking assessment of expected loss, as opposed to the incurred loss model used under IAS 39. There are also significant changes in disclosures. Impairment of loans and advances carries a high degree of estimation uncertainty derived from key model assumptions used to build the provision. Such assumptions include probabilities of default, loss given default, exposure at default, assessment of significant increase in credit risk, incorporation of forward-looking information and appropriateness of the staging. Given the level of judgement and subjectivity involved, there is a risk that the impairment provision could be materially misstated.	We understood and evaluated the design effectiveness of key controls. We concluded that we could not rely on controls over the ECL provision including review of input and output data, data validation, model governance and model testing. Accordingly, we adopted a fully substantive approach. We read all accounting interpretations and assessed for compliance with IFRS 9. We performed testing over the completeness and accuracy of the data inputs into the IFRS 9 model. EY credit risk specialists supported our audit of the IFRS 9 model design, operation integrity, assumptions used, staging methodology and criteria. We understood and challenged management's key model assumptions and any changes including macro economic factors, the relationship between economic parameters and credit risk, and the methodology for determining signficiant increases in credit risk. We tested the mathematical accuracy to confirm internal consistency of the formulas used within the models. We assessed whether material post model adjsutments made were appropriate. We assessed the sensitivity analysis over inputs and assumptions performed by management. We agreed the quantitative disclosures to source data and assessed the consistency of qualitative disclosures with accounting policies, model documentation and risk governance papers.	We concluded to the Audit & Risk Committee that following our challenge of the approach taken in a number of areas, that the impairment models and assumptions employed by the Bank were reasonable as at 30 September 2019, and for opening balances as at 1 October 2018. We noted that the provision levels held in relation to credit impairment were reasonably estimated and in line with the new requirements of IFRS 9. We highlighted to the Audit & Risk Committee, the control observations set out in the 'Our response to the risk' column.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Our application of materiality

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

Materiality

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

We determined materiality for the Bank to be £445k (2018: £333k), which is 5% (2018: 5%) of Profit Before Tax. We believe that Profit Before Tax provides is the most appropriate measurement basis for determining our materiality as it is a consistent basis for computing materiality across the banking industry. The primary stakeholders of the financial statements are the Parent and the Prudential Regulation Authority who regard the operating performance, particularly profit before tax, as the most relevant measure as this reflects profits available for distribution to shareholders or to be retained as retained earnings and forming part of the Bank's equity.

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

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 50% (2018: 75%) of our planning materiality, namely £222k (2018: £250k). We have set performance materiality at lower percentage due to the number of audit differences identified during the prior year audit.

Reporting threshold

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

We agreed with the Audit & Risk Committee that we would report to them all uncorrected audit differences in excess of £22k (2018: £17k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are the Companies Act 2006, Financial Services and Markets Act 2000 (FSMA), Financial Services Act 2012 and other relevant Financial Conduct Authority ('FCA') and Prudential Regulation Authority ('PRA') regulations.
- We understood how PCF Bank Limited is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and UK regulatory bodies; reviewed minutes of the Board and Audit & Risk Committee; and gained an understanding of the Bank's approach to governance, demonstrated by the Board's approval of the Bank's governance framework and the Board's review of the Bank's risk management framework and internal control processes.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by considering the controls that the Bank has established to address risks identified by the entity, or that otherwise seek to prevent or detect fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of executive management, internal audit, and those responsible for legal and compliance matters.
- The Bank operated in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team had the appropriate competence and capabilities.

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

Other matters we are required to address

- We were appointed by the Bank at the AGM on 8 March 2019 to audit the financial statements for the year ending 30 September 2019. The period of total uninterrupted engagement including previous renewals and reappointments of this company is 21 years, covering the years ending 31 December 1998 to 30 September 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit & Risk Committee.

Use of our report

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

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

Date 23 January 2020

Income Statement
for the year ended 30 September 2019

	Notes	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Interest revenue calculated using the effective interest method	2	30,277	14,551
Interest expense calculated using the effective interest method	3	(10,942)	(5,342)
Net interest income		19,335	9,209
Fee and commission income	4	276	157
Fee and commission expense	4	(733)	(230)
Net fees and commission expense		(457)	(73)
Net loss on financial instruments mandatorily at fair value through profit or loss		(63)	-
Write off of investments	15	-	(6,821)
Net operating income		**18,815**	**2,315**
Depreciation of office equipment, fixtures and fittings	16	(103)	(83)
Amortisation of intangible assets	17	(416)	(385)
Other operating expenses	7	(9,719)	(4,704)
Impairment losses on financial assets	5	(2,668)	(641)
Total operating expenses		**(12,906)**	**(5,813)**
Operating profit / (loss)		**5,909**	**(3,498)**
Dividend income	6	3,000	10,152
Profit before tax		**8,909**	**6,654**
Income tax charge	10	(1,116)	(412)
Profit after tax		**7,793**	**6,242**

Statement of Comprehensive Income

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Profit after taxation	**7,793**	**6,242**
Other comprehensive income that will be reclassified to the income statement:		
Fair value gain on available-for-sale financial instruments	-	18
Fair value loss on debt instruments at FVOCI	(10)	-
Deferred tax income/(expense)	2	(3)
	(8)	15
Total comprehensive income, net of tax	**7,785**	**6,257**

The accounting policies and Notes on pages 25 to 61 form part of, and should be read in conjunction with, these Financial Statements

Balance Sheet

at 30 September 2019

	Notes	30 September 2019 £'000	30 September 2018 £'000
Assets			
Cash and balances at central banks	11	6,110	21,284
Debt instruments at FVOCI	13	19,638	-
Available-for-sale financial investments	14	-	39,902
Loans and advances to customers	12	315,313	183,263
Due from related companies	20	6,001	6,181
Investment in subsidiaries	15	5,605	150
Office equipment, fixtures and fittings	16	500	224
Intangible assets	17	3,044	2,560
Deferred tax assets	18	204	90
Other assets	19	1,572	787
Total assets		**357,987**	**254,441**
Liabilities			
Due to banks	22	34,050	25,037
Due to customers	21	266,695	191,139
Derivative financial instruments	26.3	63	-
Other liabilities	23	2,935	1,327
Total liabilities		**303,743**	**217,503**
Equity			
Issued capital	25	31,298	21,298
Other reserves		7	15
Retained earnings		22,939	15,625
Total Equity		**54,244**	**36,938**
Total liabilities and equity		**357,987**	**254,441**

The Financial Statements were approved and authorised for issue by the Board on 10 January 2020

Signed on behalf of the Board of Directors by,

S D Maybury
Director
23 January 2020

D R Bull
Director
23 January 2020

The accounting policies and Notes on pages 25 to 61 form part of, and should be read in conjunction with, these Financial Statements

Statement of Changes in Equity

for the year ended 30 September 2019

	Issued capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 October 2018	21,298	15	15,625	36,938
Impact on transition to IFRS 9 – see note 1.4.3	-	-	(479)	(479)
Restated balance as at 1 October	21,298	15	15,146	36,459
Issuance of new shares during the year	10,000	-	-	10,000
Fair value loss on debt instruments at FVOCI	-	(8)	-	(8)
Profit for the year	-	-	7,793	7,793
Balance as at 30 September 2019	31,298	7	22,939	54,244
Balance as at 1 October 2017	16,298	-	9,383	25,681
Issuance of new shares during the year	5,000	-	-	5,000
Fair value gain on AFS financial instruments	-	15	-	15
Profit for the year	-	-	6,242	6,242
Balance as at 30 September 2018	21,298	15	15,625	36,938

The accounting policies and Notes on pages 25 to 61 form part of, and should be read in conjunction with, these Financial Statements

Statement of Cash flows

for the year ended 30 September 2019

	30 September 2019 £'000	30 September 2018 £'000
Operating activities		
Total operating profit / (loss)	5,909	(3,498)
Other non-cash items		
Depreciation of office equipment, fixtures and fittings	103	83
Amortisation of other intangible assets	416	385
Net change in AFS financial instruments	-	15
Net change in FVOCI financial instruments	(8)	-
Net change in derivative financial instruments	63	-
Income tax credit	-	(506)
Adjustment for change in operating assets		
Net change in loans and advances	(132,530)	(126,373)
Net change in amounts due from related companies	(1,685)	(10,322)
Write off of investments	-	6,821
Net change in other assets	(901)	(877)
Change in operating liabilities		
Net change in amounts due to customers	75,556	138,019
Net change in other liabilities	88	1,253
Net cash flows (used in) / from operating activities	**(52,989)**	**5,000**
Investing activities		
Dividends received	3,000	10,152
Net sale of debt instruments at FVOCI	20,264	-
Net purchase of debt instruments at AFS	-	(35,391)
Purchase of office equipment, fixtures and fittings	(379)	(36)
Investment in subsidiary	(3,183)	(4,467)
Purchase of intangible assets	(900)	(637)
Net cash flows from / (used in) investing activities	**18,802**	**(30,379)**
Financing activities		
Proceeds from share issue during the period	10,000	5,000
Proceeds from borrowings	9,013	25,037
Net cash flows from financing activities	**19,013**	**30,037**
Net (decrease) / increase in cash and cash equivalents	**(15,174)**	**4,658**
Cash and cash equivalents brought forward	21,284	16,626
Cash and cash equivalents carried forward	**6,110**	**21,284**

The accounting policies and Notes on pages 25 to 61 form part of, and should be read in conjunction with, these Financial Statements

Notes to the Financial Statements
for the year ended 30 September 2019

1. Basis of preparation and significant accounting policies

1.1 Corporate Information

PCF Bank Limited ('the Bank') is a company limited by shares, registered in England and domiciled in the United Kingdom. The Bank is wholly owned by PCF Group plc ('the Parent') whose shares are listed on the Alternative Investment Market ('AIM') of the London Stock Exchange. The Bank's registered office is at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.

The Bank is a specialist bank, offering retail savings products for individuals and lending products for consumers and businesses to finance motor vehicles, plant, bridge finance, equipment and property.

The Bank's financial statements for the year ended 30 September 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 10 January 2020.

1.2 Basis of preparation

The financial statements of the Bank have been prepared on a historical cost basis, except for debt financial instruments at fair value through other comprehensive income ('FVOCI') and derivatives at fair value through profit or loss ('FVTPL'). The financial statements are presented in Pound Sterling (£) and all values are rounded to the nearest thousand (£'000), except where otherwise indicated. The Bank is exempt from preparing group financial statements by virtue of s400 of Companies Act 2006 as the Bank is part of a larger group, with the Parent preparing group financial statements.

1.3 Statement of compliance

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

1.4 Summary of significant accounting policies

1.4.1 New standards, interpretations and amendments adopted

From 1 October 2018, a number of new and revised standards issued by the International Accounting Standards Board, and endorsed for use in the EU, came into effect for the Bank. New and revised standards adopted in the period that are deemed significant to the Bank are outlined below. A number of other new standards are also effective from 1 October 2018, but they do not have a material effect on the Bank's financial statements.

1.4.2 Changes in accounting policies and disclosures

- The accounting policies applied by the Bank differ from those in the 2018 Annual Report partly due to new standards and interpretations becoming effective. The following amendments to standards have been disclosed as they were applied for the first time in the 2019 financial year, resulting in consequential changes to the accounting policies and other note disclosures, where applicable.

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from contracts with customers'

IFRS 9 'Financial Instruments'

IFRS 9: 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 1 October 2018, in line with the Standard's requirements of applying the standard for financial periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

Accounting policies for comparative information measured under IAS 39 is disclosed in the 2018 Annual Report.

Transition

On implementation, the Bank has not provided a full restatement of comparatives but has instead reflected changes through the opening balance of retained earnings, as permitted by IFRS 9, and disclosed in the financial statements under statement of changes in equity.

Classification and measurement

IFRS 9 makes changes to the measurement categories for financial assets and liabilities, with the former categories under IAS 39 such as 'available for sale' (AFS) and 'held to maturity' being replaced.

The measurement categories under IFRS 9 are

- Assets, primarily the Bank's conditional sale, hire purchase, lease and loan receivables, which are deemed to consist solely of payments of principal and interest ('SPPI') and are intended to be held and collected and not sold, are held at amortised cost (see note 1.4.3).
- Instruments meeting the SPPI criteria, but which may be sold, which are held at fair value through other comprehensive income ('FVOCI') (see note 1.4.3).
- Assets not meeting the SPPI criteria and not classified under FVOCI, which are held at fair value through profit or loss ('FVTPL').

The accounting for the Bank's financial liabilities remains the same as it was under IAS 39.

The Bank's approach to the adoption of IFRS 9, and a reconciliation of the changes from IAS 39, are set out in note 1.4.2, which applied from 1 October 2018. This resulted in an increase in impairment provisions previously held under IAS 39 which was adjusted through retained earnings. IFRS 9 was not adopted until 1 October 2018 and so did not affect the financial statements for the year ended 30 September 2018.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities at 1 October 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 at 30-Sep 2018 £'000	New carrying amount under IFRS 9 at 01-Oct 2018 £'000
Financial assets				
Cash and balances at central banks	Loans and receivables	Amortised cost	21,284	21,284
Quoted debt instruments	Available for sale	FVOCI	39,902	39,902
Loans and advances to customers	Loans and receivables	Amortised cost	183,263	182,687
Due from related companies	Amortised cost	Amortised cost	6,181	6,181
Other assets	Amortised cost	Amortised cost	787	787
Total financial assets			**251,417**	**250,841**
Due to banks	Amortised cost	Amortised cost	25,037	25,037
Due to customers	Amortised cost	Amortised cost	191,139	191,139
Derivative financial instruments	FVTPL	FVTPL	-	-
Other liabilities	Amortised cost	Amortised cost	1,327	1,327
Total financial liabilities			**217,503**	**217,503**

The movement in 'Loans and advances to customers' is explained below and is due to an increase in the impairment provision from IAS 39 to IFRS 9.

1 October 2018	Under IAS 39 £'000	Increase /(Decrease) under IFRS 9 £'000	PMA £'000	Total provision £'000	Day one adjustment £'000
Consumer lending	296	727	(5)	1,018	722
Business lending	985	(139)	(7)	839	(146)
	1,281	588	(12)	1,857	576

Post Model Adjustment ('PMA') is a provision overlay.

Derivative financial instruments

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

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

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

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

Credit risk derived from derivative transactions is mitigated by entering into master netting agreements and holding collateral. Such collateral is subject to the standard industry Credit Support Annex and is paid or received on a regular basis. As at 30 September 2019, net cash collateral posted is nil (2018: nil).

IFRS 15 'Revenue from contracts with customers'

IFRS 15 'Revenue from contracts with customers', supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue and related Interpretations' and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. IFRS 15 is effective for the Bank from 1 October 2018.

The Bank has assessed the impact of the above and concluded that there is no material impact.

1.4.3 Financial instruments - initial recognition and subsequent measurement

Date of recognition

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

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described on page 30. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

Measurement categories of financial assets and liabilities

From 1 October 2018, the Bank classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either

- Amortised cost, as explained in note 1.4.2; or
- FVOCI, as explained in note 1.4.2

Financial liabilities are measured at amortised cost, and derivatives at FVTPL (see note 1.4.2).

Financial assets and liabilities

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

From 1 October 2018, the Bank measures balances at central banks, loans and advances to customers and other assets at amortised cost if both of the following conditions are met.

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

The SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. The Bank's loans assets of Hire Purchase and Conditional Sales Agreements are repaid by instalments of principal and interest with a fee upfront. These meet the SPPI test.

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

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

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

Debt instruments at FVOCI

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met.

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

- The contractual terms of the financial asset meet the SPPI test.

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss. The calculation of Expected Credit Losses ('ECL') for debt instruments at FVOCI is explained in note 1.4.3. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Due to banks and due to customers

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

Reclassification of financial assets and liabilities

From 1 October 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities for the year ended 30 September 2019.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised where

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

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

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability.

Impairment of financial assets

From 1 October 2018, the Bank is required to recognise Expected Credit Losses ('ECL') based on unbiased forward-looking information for all financial assets at amortized cost, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

The Bank uses the three-stage model for determination of expected credit losses: (i) For loans where the credit risk has not increased significantly since initial recognition, a provision is recognised for the expected 12-month credit losses expected to be incurred. (ii) For loans where there is deemed to be a significant increase in credit risk, a provision for the expected lifetime credit loss is recognised across the segment (as defined below). (iii) For loans that are in default, the Bank undertakes a specific impairment assessment. For loans classified as Stage 1, 2 or 3 an assessment is performed on a portfolio wide basis for impairment, with the key judgements and estimates being

- The determination of significant increase in credit risk;
- The probability of an account falling into arrears and subsequently defaulting;
- Loss given default; and
- Forward-looking information.

In addition, for loans that are greater than £100,000 in Stage 3, a further review of the recoverability of the exposure is performed. This includes assessing the value of any collateral held and what form of recovery action the Bank has assessed the exposure to be in. Recoverable actions could include, achieving a repayment plan or a charging order.

Significant increase in credit risk

The Bank applies a series of quantitative, qualitative and backstop criteria to determine if an account has demonstrated a significant increase in credit risk and should therefore be moved to Stage 2.

- Quantitative criteria: This considers the increase in an exposure's remaining lifetime Probability of Default ('PD') at the reporting date compared to the expected residual lifetime PD when the exposure was originated. The Bank segments its credit portfolios into PD bands and has determined a relevant threshold for each PD band, where a movement in excess of threshold is considered to be significant. These thresholds have been determined separately for each portfolio based on historical evidence of delinquency.

- Qualitative criteria: This includes the observation of specific events such as short-term forbearance, payment cancellation, historical arrears or extension to customer terms.

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

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

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

- when the borrower is more than 90 days past due on any material credit obligation to the Bank.
- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as default or past due event; and
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation

When a loan falls into default and a formal process of recovering the loan has taken place, the loan will initially be fully impaired. The recovery will include a number of actions such as selling the underlying assets and agreeing an arrangement to repay. The Bank will assess the likelihood of full recovery and assign each loan into categories for which each will have a different recovery percentage assigned.

The Bank writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. All write-offs are written down to the average value of a future debt sale. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the profit or loss statement.

The impairment policy does not allow an exposure to be cured (i.e. once a loan goes into default, it stays in default).

Forward looking information

Expected credit losses ('ECL')

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

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

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

	Consumer finance	Business finance
Unemployment rate	✓	✓
ONS Used Car Price Index	✓	
CPI	✓	✓
GDP		✓

The key source of these data sets is the Office of National Statistics ('ONS').

The Bank considers these indicators in forming the baseline, optimistic and pessimistic scenarios. The scenarios for UK economic growth, inflation, residential property prices and unemployment have been benchmarked against the UK banking sector as a whole. For the used car index, data has been obtained from the ONS and extrapolated for each scenario consistently with the other data. Bridging finance will use these indicators as the book grows. Currently an estimate is made as part of a post model adjustment whilst historical data is collected.

The method of weighting the economic scenarios was based on the Board's view of key risks to the Bank's loan book. The Board's key risks were the Brexit outcome and the credit environment. In both cases it was thought there was more uncertainty on the Brexit outcome and a deterioration of the credit environment, mainly seen in the increase of business failures, thus giving rise to increase in weighting. Whilst the overall pessimistic weighting has increased, the Board also concluded that there continues to be favourable outcomes such as an orderly Brexit, to the extent that the optimistic weighting is unchanged from the first implementation of IFRS 9. In conclusion, the Board approved in September 2019 a reduction (from the initial weightings as at 1 October 2018) in the base case weighting, from 80% to 65%,an increase in the optimistic weighting from 5% to 10% and an increase in the pessimistic weighting, from 10% to 25%. These scenarios are uniformly applied across all business lines. The changes for loans greater than £100k and in stage 3 has increased the provision by £73,000.

Model calculation

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

- PD - The Probability of Default ('PD') is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

- EAD - The Exposure at Default ('EAD') is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments in full, continued repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD - The Loss Given Default ('LGD') is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

Management adjustments are made to modelled output to account for situations where known or expected risk factors and information have not been considered in the modelling process.

Post model adjustment (PMA)

The Bank assesses the modelled output and where known or expected risk factors and information have not been considered in the modelling process the bank makes a PMA.

These are summarised as follows:

- Management apply a 0.05% provision of the capital balance for the Bridging portfolio. This is due to the lack of historical PD and LGD information in its first year of trading.
- Management has adjusted a customers provision in stage 3 due to specific knowledge on the valuation of assets and a charging order in place
- Management have applied an estimated recovery on debts that will be passed to a debt sales agent based on historical debt sales income

Total of the PMAs is a net reduction to the impairment provision of £0.3m.

Expected life

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

Discounting

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

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

The model assesses both stage 1 on a 12-month ECL and stage 2 on a lifetime ECL basis.

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

Those loans in formal recovery are assessed on a recovery basis having initially recognised a 100% impairment charge. The Bank will assess the likeliness of full recovery and assign each loan into categories for which each will have a different recovery percentage assigned.

The baseline recovery rate is the current rate of recovery for the category and is routinely back tested for accuracy. Each category will have a pessimistic and optimistic rate. The pessimistic rate is formulated as the worst recovery rate achieved in the preceding 10 years, excluding outliers. The optimistic rate is formed from the best recovery rates achieved over the past 10 years and where the rate is at its highest level and used as the current rate, management has agreed a small increase of up to 5% to the current rate.

The Board agreed to take the worst recovery rates in the preceding 10 years to further illustrate its concern around the implications of an unknown Brexit outcome.

The Bank has an IFRS 9 Model Governance Control Framework which states its objective to ensure the models inputs and outputs are understood and agreed by relevant stakeholders. The models have continued to be developed through the year and will be expanded across all products in the future.

Critical accounting estimates and judgements

IFRS 9 impairment involves several important areas of judgement, including estimating forward- looking modelled parameters (PD, LGD and EAD), developing a range of unbiased future economic scenarios, estimating expected lives and assessing significant increases in credit risk, based on the Bank's experience of managing credit risk.

Within the Bank's consumer and business finance portfolios, which comprise large numbers of small, homogenous assets with similar risk characteristics where credit scoring techniques are generally used, the impairment allowance is calculated using forward-looking modelled parameters, which are typically run at a cohort level.

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

The Asset and Liability Committee considers the recovery rates, weightings and economic factors on at least a quarterly basis, and where necessary, puts forward changes to Board for approval.
The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Bank's debt financial assets. The increase in allowance resulted in adjustment to retained earnings.

Upon adoption of IFRS 9, the Bank recognised additional impairment on its loans and receivables of £576,000.

	Allowance for impairment under IAS 39 as at 30 September 2018 £'000	Remeasurement £'000	ECL Under IFRS 9 as at 1 October 2018 £'000	ECL Under IFRS 9 as at 30 September 2019 £'000
Consumer lending	296	722	1,018	1,760
Business lending	985	(146)	839	3,182
Bridging loans	-	-	-	6
	1,281	**576**	**1,857**	**4,948**

	£'000
Remeasurement of ECL under IFRS 9	576
Deferred tax on remeasurement	(97)
Change in Equity due to impact on transition to IFRS 9	**479**

Deferred tax asset will be claimed over a 10 year period.

1.5 Significant accounting policies

With the exception of changes to the Bank's accounting policies resulting from new and revised accounting standards (note 1.4.2), the Bank has consistently applied the following accounting policies to all periods presented in the financial statements.

1.5.1 Recognition of income and expenses

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

Effective Interest Rate ('EIR') method

The Bank's EIR methodology recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and lifecycle of the instruments, as well as expected changes to the Bank of England Base Rate and other fee income/expense that are integral parts of the instrument.

Interest and similar income and expense

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

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

1.5.2 Dividend income

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

1.5.3 Fee and commission income

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

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

1.5.4 Leasing

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

Bank as a lessee

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

Bank as a lessor

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

1.5.5 Cash and cash equivalents

Cash and cash equivalents as referred to in the Statement of Cash Flows comprises of amounts due from banks on demand or with an original maturity of three months or less.

1.5.6 Office equipment, fixtures and fittings

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

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Office equipment, fixtures and fittings	Between 3 and 10 years

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

1.5.7 Intangible assets

The Bank's intangible assets include the value of computer software and the capitalised expenses relating to the project of applying to become and becoming a bank.

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

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

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

1.5.7.1 Intangible assets and amortisation

Intangible assets held by the Bank consists of computer software.

Externally acquired computer software is measured at cost less accumulated amortisation and any accumulated impairment losses. Cost includes the original purchase price of the asset and any directly attributable costs of preparing the asset for its intended use.

Internally developed computer software is recognised as an asset only when the Bank is able to demonstrate that the following conditions have been met:

- expenditure can be reliably measured;
- the product or process is technically and commercially feasible;
- future economic benefits are probable; and
- the Bank has the intention and ability to complete development and subsequently use or sell the asset.

If these conditions are not met, expenditure is recognised in administrative expenses in the statement of profit and loss as incurred. Capitalised costs include all costs directly attributable in preparing the asset so that it is capable of operating in its intended manner. Internally developed computer software is measured at capitalised cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in administrative expenses in the statement of profit and loss as incurred. Computer software is amortised on a straight-line basis over its estimated useful life of between five and ten years. Amortisation is recognised in administrative expenses in the statement of profit and loss. The amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Computer software is reviewed for indicators of impairment at each reporting date. If such an indication exists, the asset's recoverable amount, being the greater of value in use and fair value less costs to sell, is estimated and compared to the carrying amount. If the carrying amount of the asset exceeds the recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

1.5.8 Provisions

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

1.5.9 Taxes

Current tax

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

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

Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of FVOCI assets, which are charged or credited to Other Comprehensive Income ('OCI'). These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain.

Value Added Tax ('VAT')

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

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

1.5.10 Investment in subsidiary undertakings

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

1.6 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

1.6.1 Effective interest rate (estimate)

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate method. Management must use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. Management reviews the expected lives on a segmental basis, whereby products of a similar nature are grouped into cohorts that exhibit homogenous behavioural attributes. The key assumptions applied by Management in the effective interest rate methodology is the behavioural life of the assets. The expected life behaviours are subjected to changes in internal and external factors and may result in adjustments to the carrying amount of loans which must be recognised in the statement of profit and loss. The effective interest rate behavioural models are based on market trends and experience.

1.6.2 Impairment losses on financial assets (judgement and estimate)

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Loss ('LTECL') basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive the economic inputs into the ECL models.

It is the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

1.6.3 Impairment testing of investment in subsidiaries (judgement)

The Bank assesses, at each reporting date, whether there is an indication that investments in its subsidiaries may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

The review of investment in subsidiary for impairment reflects the Board's best estimate of future cash flows of the Bank's cash generating units (CGUs) and the rates used to discount these cash flows. Both these variables are subject to judgement and estimation uncertainty as follows:

- the future cash flows of the CGUs are sensitive to projected cash flows based on the forecasts and assumptions regarding the projected periods and the long-term pattern of sustainable cash flows thereafter;
- the rates used to discount future expected cash flows can have a significant effect on their valuations and are based on the price-to-book ratio method which incorporates inputs reflecting a number of variables.

An impairment is recognised if impairment testing finds that the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of the CGU is calculated based on its value in use, determined by discounting the future cash flows (post-tax profits) to be generated from its continuing use. Forecasted cash flows are reduced by any earnings retained to support the growth in the underlying CGU's loan books through higher regulatory capital requirements. Forecast post-tax profits are based on expectations of future outcomes, taking into account past experience and adjusted for anticipated revenue growth.

The key assumptions used in the calculation of value in use are as follows:

Discount rate

The post-tax discount rate is an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amount, timing and risk profile equivalent to those that the entity expects to derive from the asset. The Bank calculates discount rates using the price-to-book ratio method which incorporates target return on equity, growth rate and price-to-book ratio. The discount rate for each CGU is adjusted to reflect the risks inherent to the individual CGU.

Discount rates used were as follows:

PCF Credit Limited	14.77%
Azule Limited	14.52%

Cash flow period

PCF Credit Limited - Six years of cash flows (pre-tax profits) are included in the discounted cash flow model based on the Bank's business plan.

Azule Limited - Five years of cash flows (pre-tax profits) are included in the discounted cash flow model based on the Bank's business plan.

Terminal value growth rate

A terminal value growth rate is applied into perpetuity to extrapolate cash flows beyond the cash flow period. The terminal value growth rate of 5.0% is estimated by the Board.

1.7 Standards issued but not yet effective

A number of new and revised standards issued by the International Accounting Standards Board have not yet come into effect. Those deemed relevant to the Bank are as follows:

IFRS 16: 'Leases' (effective 2020 financial year)

IFRS 16: Leases

This standard was issued in January 2016 and it replaces the existing standard IAS 17 'Leases'. The standard requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 'Leases'. The new standard is effective from periods beginning on or after 1 January 2019 with early adoption permitted, provided the new revenue standard, IFRS 15 'Revenue from contracts with customers', has been applied, or is applied at the same date as IFRS 16.

The Bank does not have any operating leases as at 30 September 2019.

The Bank does not intend to early adopt IFRS 16 and therefore will adopt it from 1 October 2019.

2 Interest and similar income

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Cash and short term-funds	67	151
Loans and advances to customers	29,732	14,260
Financial instruments - FVOCI	478	-
Financial instruments - available-for-sale	-	140
Total interest and similar income	30,277	14,551

3 Interest and similar expense

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Paid and accrued to banks	298	279
Paid and accrued to customers	4,712	2,085
Credit-related fees and commission	5,932	2,978
Total interest and similar expense	10,942	5,342

4 Net fee and commission expense

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Fee and commission income		
Secondary lease income	49	70
Other fees not forming part of EIR	227	87
	276	157
Fee and commission expenses		
Debt recovery and valuation fees	(112)	(59)
Creditworthiness due diligence costs	(621)	(171)
	(733)	(230)
Net fee and commission expense	(457)	(73)

5 Impairment losses on financial assets

Impairment losses on financial assets relates to impairment losses on loans and advances to customers. The credit risk inherent in loans and advances to customers are detailed in Note 27.3. The charge during the year is as follows.

	Bridging finance £'000	Consumer lending £'000	Business lending £'000	Total £'000
30 September 2019				
Impairment charge for the year on loans and advances to customers	6	1,173	1,489	2,668
30 September 2018				
Impairment charge for the year on loans and advances to customers	-	343	298	641

6 Dividend income

During the year, the Bank received dividend income amounting to £3,000,000 (30 September 2018: £10,152,000) from its subsidiaries.

7 Other operating expense

Other operating expenses solely relates to management service charges agreed with the Parent in consideration for the resources and management services which it provided to the Bank.

8 Audit fees

Audit fees were paid by the Parent during the year and recharged through a management service charge. Audit fees were £235,000 (year ended 30 September 2018: £75,000).

9 Directors' emoluments and staff costs

Staff salaries were paid by the Parent during the year and recharged through a management service charge. Directors' emoluments were included as part of the management service charge. However, the amounts relating to directors' emoluments, were as below

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Non-executive director salaries	150	131
Executive director salaries	464	368
	614	499

A summary of the total recharge (salary only) of Directors emoluments to the Bank is set out below	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Executive directors		
S D Maybury	190	137
R J Murray	133	111
D R Bull	141	120
Non-executive directors		
M F Brown	21	18
T A Franklin	48	45
C A Higgins	29	26
D J Morgan	21	18
D Titmuss	26	24
M Martin	5	-
	614	**499**

10 Taxation

The components of income tax charge for the year ended 30 September 2019 and its comparative were as follows.

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Current tax		
UK Corporation Tax on profit of the year	1,115	563
Adjustments in respect of prior periods	15	36
Total current tax	1,130	599
Deferred tax		
Origination and reversal of temporary differences	28	(142)
Adjustments in respect of prior periods	(39)	(60)
Change in tax rate	(3)	15
Total tax charge for the year	1,116	412

Factors affecting current tax credit for the year

The tax assessed for the year differs from the standard rate of Corporation Tax in the UK of 19% (30 September 2018 – 19%). The differences are explained in the below table.

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

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Profit before tax as stated in the income statement	8,909	6,654
less: Dividend income received from subsidiaries	(3,000)	(10,152)
Operating profit / (loss) before tax	5,909	(3,498)
Corporation Tax in the UK of 19% (30 September 2018 - 19%)	1,125	(665)
Effects of:		
Expenses not deductible for tax purposes	19	1,296
Change in tax rate	(3)	15
Adjustments in respect of prior years	(25)	(24)
Difference on transfer of trade	-	(210)
Income tax charge as reported in income statement	1,116	412

11 Cash and balances at central banks

	30 September 2019 £'000	30 September 2018 £'000
Cash and demand deposits	6,110	21,284
	6,110	21,284

The Bank does not have monies held in trust for clients. The book value of cash and balances at central banks is assessed to approximate its fair value. Fair value approximates to carrying amount as cash and balances at central banks have minimal credit losses and are either short-term in nature or re-price frequently.

12 Loans and advances to customers

	30 September 2019 £'000	30 September 2018 £'000
Consumer lending-gross	125,174	79,168
Business lending-gross	182,132	104,838
Bridging finance-gross	12,955	-
	320,261	184,006
Allowance for impairment losses	(4,948)	(743)
	315,313	183,263

13 Debt financial instruments at fair value through other comprehensive income (FVOCI)

	30 September 2019 £'000	30 September 2018 £'000
Covered Bonds	19,638	-

There are no material allowances for impairment losses on debt financial instruments during the year and at year end.

14 Available-for-sale-financial instruments

	30 September 2019 £'000	30 September 2018 £'000
Government debt securities	-	39,902

15 Investment in subsidiaries

The financial statements of the Bank are prepared on a solo basis excluding its subsidiaries. The Bank is exempt from preparing financial statements by virtue of s400 of the Companies Act 2006 as the Bank is part of a larger group with the Parent preparing the financial statements. All the direct subsidiaries are incorporated in the United Kingdom and operate in the United Kingdom, Republic of Ireland and Germany. The Bank does not have any joint ventures or associates. The direct subsidiaries are as follows.

Name of company	Incorporated	Nature of business	Percentage of equity interest 30 September 2019	Percentage of equity interest 30 September 2018
PCF Credit Limited	UK	Leasing & hire purchase	100	100
PCF Equipment Leasing Limited	UK	Leasing & hire purchase	100	100
PCF Financial Leasing Limited	UK	Leasing & hire purchase	100	100
Azule Limited	UK	Leasing & hire purchase	100	-
Azule Finance Limited	IE	Leasing & hire purchase	100*	-
Azule Finance GMBH	DE	Leasing & hire purchase	100*	-

*Held by a subsidiary of the Company

PCF Equipment Leasing Limited and PCF Financial Leasing Limited were both dissolved on 28 November 2019.

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

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

The registered office of Azule Finance GMBH is Domgarten 12, 47877 Willich, Germany.

All companies have an Accounting Reference Date of 30 September.

On 30 October 2018, PCF Bank Limited acquired 100% of the share capital Azule Limited for a purchase consideration of £5.455m. Azule Limited owns 100% of Azule Finance Limited and Azule Finance Gmbh.

	30 September 2019 £'000	30 September 2018 £'000
Cost and net book value:		
At beginning of the year	150	2,504
Increase in investments	5,455	4,467
Write off of investments *	-	(6,821)
At the end of the year	5,605	150

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

The write off of investment relates to historical losses held in a dormant subsidiary. These losses, the investment and associated intercompany balances have been written off with those subsidiaries being dissolved. There was no net loss to the Bank in dissolving the dormant subsidiaries.

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

On 30 October 2018, the Bank acquired 100% of the voting shares of Azule Group, a UK market leader in providing specialist funding and leasing services to individuals and businesses in the broadcast and media industry. The Bank acquired Azule Group because it offers revenue synergies in a niche class of business-critical assets with strong collateral characteristics and lending to prime credit grade customers.

The purchase consideration was made up of three factors as below

Purchase consideration	**£'000**
Issue of shares	750
Cash paid	3,183
Contingent consideration	1,522
	5,455

The shares issued where 1,923,076 ordinary shares of PCF Group valued at 39p a share. PCF Bank Limited settled with PCF Group Plc separately.

The contingent consideration equates to £750,000 per year over two years, if the previous owners can generate at least £55m of new business for each year, though any excess can be taken forward into the second year. The contingent consideration at purchase consideration is the fair value over the two years.

16 Office equipment, fixtures and fittings

	30 September 2019 £'000	**30 September 2018 £'000**
Cost		
At beginning of the year	307	271
Additions during the year	379	36
Disposals during the year	(37)	-
At end of the year	649	307
Accumulated Depreciation		
At beginning of the year	83	-
Amortisation during the year	103	83
Disposals during the year	(37)	-
At end of the year	149	83
Net book value as at 30 September	500	224

17 Intangible assets

	30 September 2019 £'000	30 September 2018 £'000
Cost		
At beginning of the year	2,945	2,307
Additions during the year	900	638
At end of the year	3,845	2,945
Accumulated Depreciation		
At beginning of the year	385	-
Amortisation during the year	416	385
At end of the year	801	385
Net book value as at 30 September	3,044	2,560

18 Deferred Tax

	30 September 2019 £'000	30 September 2018 £'000
Decelerated capital allowances	128	79
Other temporary differences	76	11
	204	90
Opening deferred tax asset/(liability)	90	(94)
Recognised in income	(25)	127
Adjustment in respect of prior year timing difference	40	60
Adjustment to reserves on IFRS 9 adoption	97	-
Recognised in other comprehensive income	2	(3)
Closing deferred tax asset	204	90

The Corporation Tax main rate is 19% for the years starting 1 April 2017, 2018 and 2019 and at 17% for the year starting 1 April 2020.

The deferred tax asset has been measured at 17%, the tax rate effective from April 2020. As the timing of the reversal of the deferred tax asset is uncertain, the Bank has taken the approach of measuring the deferred tax asset at the lowest enacted tax rate.

19 Other assets

	30 September 2019 £'000	30 September 2018 £'000
Other receivables	1,572	787
	1,572	787

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

20 Due from related companies

These are the following outstanding balances with holding and related companies:

	30 September 2019 £'000	30 September 2018 £'000
Due from Parent	3,256	6,181
Due from subsidiary company	2,745	-
	6,001	6,181

These balances are unsecured, interest free and repayable on demand. There were no other material related party transactions.

21 Due to customers

	30 September 2019	30 September 2018
Retail customers:	£'000	£'000
Notice account	32,835	14,107
Term deposit	233,860	177,032
	266,695	191,139

Included in amounts due to customers is accrued interest amounting to £1,681,000 (30 September 2018: £1,086,000) and £220,000 (30 September 2018: £58,000) for term deposits and notice accounts respectively.

22 Due to banks

	30 September 2019 £'000	30 September 2018 £'000
Current		
Secured bank borrowings	9,050	37
Non-current		
Secured bank borrowings	25,000	25,000
	34,050	25,037

£25.0 million term loan facility was granted to PCF Bank by the Bank of England under the Term Funding Scheme.

This loan has an interest rate linked to the Bank of England Base Rate and has a maturity in February 2022. The loan is secured by a charge over loans and receivables and the guarantee of the Parent.

£9.0 million of bank borrowings are secured on covered bonds of £9.0m.

23 Other liabilities

	30 September 2019 £'000	30 September 2018 £'000
Other payables	395	220
Accruals	2,540	1,107
	2,935	1,327

24 Financing activity

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

	Notes	1 October 2018 £'000	Cash flows £'000	30 September 2019 £'000
Due to banks	22	25,037	9,013	34,050
		25,037	9,013	34,050

25 Issued capital and reserves

	30 September 2019 '000 units	30 September 2018 '000 units
Authorised ordinary shares of £1 each	63,000	63,000
Ordinary shares issued and fully paid		
At 1 October	21,298	16,298
Issuance of new shares during the year	10,000	5,000
At 30 September	31,298	21,298

10,000,000 new shares were issued to the Parent on the 29 March 2019 fully paid at par (5,000,000 on 30 April 2018).

26 Financial instruments

The Bank uses financial instruments to invest in liquid asset balances and raise wholesale funding via deposits from customers. The risk associated with financial instruments represents a significant component of those risks faced by the Bank and is analysed in more detail below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 26.2.

26.1 Valuation principles

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

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained in Note 26.2.

26.2 Assets and liabilities by classification, measurement and fair value hierarchy
The following table summarises the classification of the carrying amounts of the Bank's financial assets and liabilities.

	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
30 September 2019				
Cash and balances at central banks	6,110	-	-	6,110
Loans and advances to customers	315,313	-	-	315,313
Due from related companies	6,001	-	-	6,001
Debt financial instruments at FVOCI	-	-	19,638	19,638
Total financial assets	327,424	-	19,638	347,062
Investment in subsidiaries				5,605
Office equipment, fixtures and fittings				500
Intangible assets				3,044
Deferred tax assets				204
Other assets				1,572
Total assets				357,987
Due to banks	34,050	-	-	34,050
Due to customers	266,695	-	-	266,695
Derivative financial instruments	-	63	-	63
	300,745	63	-	300,808
Other liabilities				2,935
Total liabilities				303,743

	Amortised cost £'000	FVTPL £'000	Held at fair value as available for sale assets £'000	Total £'000
30 September 2018				
Cash and balances at central banks	21,284	-	-	21,284
Loans and advances to customers	183,263	-	-	183,263
Due from related companies	6,181	-	-	6,181
Asset for sale financial instruments	-	-	39,902	39,902
Total financial assets	210,728	-	39,902	250,630
Investment in subsidiaries				150
Office equipment, fixtures and fittings				224
Intangible assets				2,560
Deferred tax assets				90
Other assets				787
Total assets				254,441
Due to banks	25,037	-	-	25,037
Due to customers	191,139	-	-	191,139
	216,176	-	-	216,176
Other liabilities				1,327
Total liabilities				217,503

The Bank holds certain financial assets and liabilities at fair value, grouped into Levels 1 and 2 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 Bank's Level 1 portfolio mainly comprises UK Government bonds, fixed rate bonds and floating rate notes for which traded prices are readily available.

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

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

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

Financial Instruments held at amortised cost 30 September 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Carrying value £'000**	**Fair Value £'000**
Assets					
Cash and balances at central banks	6,110	-	-	6,110	6,110
Loans and advances to customers	-	-	315,313	315,313	363,247
Due from related companies	-	-	6,001	6,001	6,001
	6,110	-	321,314	327,424	375,358
Liabilities					
Due to banks	34,050	-	-	34,050	34,050
Due to customers	-	-	266,695	266,695	266,695
	34,050	-	266,695	300,745	300,745
30 September 2018					
Assets					
Cash and balances at central banks	21,284	-	-	21,284	21,284
Loans and advances to customers	-	-	183,263	183,263	212,539
Due from related companies	-	-	6,181	6,181	6,181
	21,284	-	189,444	210,728	240,004
Liabilities					
Due to banks	25,037	-	-	25,037	25,037
Due to customers	-	-	191,139	191,139	191,139
	25,037	-	191,139	216,176	216,176

Financial instruments held at fair value adjusted through other comprehensive income	Level 1 £'000	Level 2 £'000	Level 3 £'000	Carrying value £'000	Fair Value £'000
30 September 2019					
Debt financial instruments at FVOCI	19,638	-	-	19,638	19,638
30 September 2018					
Available-for-sale financial investments	39,902	-	-	39,902	39,902

Derivative financial instruments	Notional Level 1 £'000	Notional Level 2 £'000	Notional Level 3 £'000	Carrying value £'000	Fair Value £'000
30 September 2019					
Derivative financial assets	-	10,000	-	-	-
Derivative financial liabilities	-	10,000	-	(63)	(63)
30 September 2018					
Derivative financial assets	-	8,000	-	-	-
Derivative financial liabilities	-	8,000	-	-	-

Impairment allowance for loans and advances to customers

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

As at 30 September 2019 Gross carrying amounts	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Performing				
High grade	89,751	-	285	90,036
Standard grade	165,075	14,232	169	179,476
Sub-standard grade	36,598	3,927	25	40,550
Non-performing				
Individually impaired	-	2,317	7,882	10,199
Total	**291,424**	**20,476**	**8,361**	**320,261**

As at 1 October 2018 Gross carrying amounts	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Performing				
High grade	39,561	-	-	39,561
Standard grade	115,318	8,432	224	123,974
Sub-standard grade	16,355	1,730	17	18,102
Non-performing				
Individually impaired	-	637	2,271	2,908
Total	**171,234**	**10,799**	**2,512**	**184,545**

An analysis of changes in the gross carrying amount and the corresponding ECLs is, as follows:

ECL allowance (£)	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 October 2018	**171,234**	**10,799**	**2,512**	**184,545**
New assets originated or purchased	226,671	130	238	227,039
Assets de-recognised or matured	(85,878)	(4,388)	(304)	(90,570)
Transfers to Stage 1	1,488	(1,488)	-	-
Transfers to Stage 2	(16,851)	16,851	-	-
Transfers to Stage 3	(5,240)	(1,428)	6,668	-
Amounts written off	-	-	(753)	(753)
At 30 September 2019	**291,424**	**20,476**	**8,361**	**320,261**

ECL allowance (£)	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 October 2018	**639**	**452**	**767**	**1,858**
New assets originated or purchased	874	8	63	945
Assets de-recognised or matured	(24)	(40)	(245)	(309)
Transfers to Stage 1	83	(83)	-	-
Transfers to Stage 2	(56)	56	-	-
Transfers to Stage 3	(21)	(125)	146	-
ECL transfers	(67)	1,044	2,230	3,207
Amounts written off	-	-	(753)	(753)
At 30 September 2019	**1,428**	**1,312**	**2,208**	**4,948**

ECL transfers are movements to or from other stages.

The ECL on other financial assets has been assessed as approximately zero.

26.3 Valuation techniques

Debt instruments at FVOCI

Covered bonds debt securities are financial instruments issued by banks or building societies and collateralised against a pool of assets that, in case of failure of the issuer, can cover claims at any point in time. They are subject to specific legislation to protect bondholders. These instruments are generally highly liquid and traded in active markets resulting in a Level 1 classification. When active market prices are not available, the Bank uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future index levels and extrapolating yields outside the range of active market trading, in which instances the Bank classifies those securities as Level 2.

Derivative financial instruments

Fair values of derivatives are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows.

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

	30-Sep-19 £'000		30 Sept 2018 £'000	
	Fair Value	Notional	Fair Value	Notional
Interest rate swaps	(63)	10,000	-	8,000
	(63)	10,000	-	8,000

27 Financial risk management

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

27.1 Liquidity risk

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

The Bank seeks to manage its liquidity by matching the maturity of loans and advances with the maturity of deposits from customers.

The Bank 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 Bank also has central bank facilities and lines of credit that it can access to meet liquidity needs. In accordance with the Bank'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 Bank. Net liquid assets consist of cash, short–term bank deposits and liquid debt securities available for immediate sale, less deposits from customers and other issued securities and borrowings due to mature within the next month. The ratios during the year were, as follows:

a) Liquidity ratios

Advances to deposit ratios

	30 Sept 2019	30 Sept 2018
Year-end	1.2	1.0
Average	1.1	1.0

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

b) Undiscounted contractual maturities

At 30 September 2019	*On demand £'000*	*Less than 3 months £'000*	*3 to 12 months £'000*	*1 to 5 years £'000*	*Over 5 years £'000*	*Total £'000*
Financial assets						
Cash and balances at central banks	6,110	-	-	-	-	6,110
Loans and advances to customers	5,978	26,767	84,833	239,176	24,578	381,332
Due from related companies	6,001	-	-	-	-	6,001
Debt instruments at FVOCI	-	-	251	20,502	-	20,753
Total undiscounted financial assets	18,089	26,767	85,084	259,678	24,578	414,196
Financial liabilities						
Due to banks	-	9,056	141	25,251	-	34,448
Due to customers	-	9,780	120,859	128,885	20,621	280,145
Other liabilities	-	3,058	-	-	-	3,058
Total undiscounted financial liabilities	-	21,894	121,000	154,136	20,621	317,651
Surplus/(shortfall)	18,089	4,873	(35,916)	105,542	3,957	96,545

At 30 September 2018	*On demand £'000*	*Less than 3 months £'000*	*3 to 12 months £'000*	*1 to 5 years £'000*	*Over 5 years £'000*	*Total £'000*
Financial assets						
Cash and balances at central banks	21,284	-	-	-	-	21,284
Loans and advances to customers	2,143	14,406	47,050	156,149	6,978	226,726
Due from related companies	6,181	-	-	-	-	6,181
Available-for-sale financial investments	-	18,338	740	22,275	-	41,353
Total undiscounted financial assets	29,608	32,744	47,790	178,423	6,978	295,544
Financial liabilities						
Due to banks	-	47	141	25,265	-	25,453
Due to customers	-	9,885	88,034	94,533	8,103	200,555
Other liabilities	-	1,327	-	-	-	1,327
Total undiscounted financial liabilities	-	11,259	88,175	119,798	8,103	227,335
Surplus/(shortfall)	29,608	21,485	(40,385)	58,626	(1,125)	68,209

The Bank's policy on funding capacity is to ensure there is always sufficient long-term funding in place. The Bank endeavours to have committed borrowing facilities in place in excess of its forecast gross borrowing requirements for a minimum of the next twelve months. Additional funding from related companies will be utilised whenever required.

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

c) Analysis of encumbered and unencumbered assets

	Encumbered	Unencumbered		
		Available as collateral	Other	Total
	30 September 2019 £'000	30 September 2019 £'000	30 September 2019 £'000	30 September 2019 £'000
Debt financial instruments at FVOCI	9,083	10,555	-	19,638
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	39,973	186,252	39,133	265,358
Unsecured loans	-	619	1	620
Finance leases of equipment, plant and vehicles	11,765	17,414	8,515	37,694
Bridging finance	-	11,641	-	11,641
Net assets	60,821	226,481	47,649	334,951

	Encumbered	Unencumbered		
		Available as collateral	Other	Total
	30 September 2018 £'000	30 September 2018 £'000	30 September 2018 £'000	30 September 2018 £'000
Available-for-sale instruments	25,173	14,727	2	39,902
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	-	157,197	1,532	158,729
Unsecured loans	-	1	1	2
Finance leases of equipment, plant and vehicles	-	24,023	509	24,532
Net assets	25,173	195,948	2,044	223,165

27.2 Market risk - Interest rate risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Due to the nature and geographical operations of the Bank, the Bank's market risk is primarily interest rate risk.

The Bank lends on an instalment credit basis for up to ten years and holds a portfolio of variable rate liquid assets. It funds itself from a combination of fixed rate retail deposits from 1 year to 7 years, variable rate Term Funding Scheme ('TFS') funding, variable rate retail notice accounts and fixed rate wholesale funding. The Bank seeks to match the repayment profile of fixed rate instalment credit with the fixed rate retail and wholesale funding, but it is impossible to match them perfectly. This mismatch gives rise to interest rate sensitivity, which is managed using interest rate swaps as required.

Based on the exposure to interest rate risk, an increase in SONIA by 0.5 percentage point for the whole financial year would have a favourable effect on profits of £21,024 (30 September 2018 - £37,151) and a favourable impact on capital of £17,029 (30 September 2018 - £30,092).

27.3 Credit risk

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

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

Analysis of maximum exposure to credit risk and collateral

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Financial assets		
Cash and balances at central banks		
- Cash and demand deposits	6,110	21,284
Debt financial instruments at FVOCI	19,638	-
Available-for-sale financial instruments	-	39,902
Loans and advances to customers	315,313	183,263
Intercompany balances	6,001	6,181
Other assets	1,572	787
	348,634	251,417

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows.

- For securities lending and reverse repurchase transactions, cash or securities
- For corporate and small business lending, charges over inventory and trade receivables
- For bridging finance, lending over residential properties

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

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

27.3.1 Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the *Summary of significant accounting policies*.

- The Bank's definition and assessment of default (Note 27.3.2).
- An explanation of the Bank's internal grading system (Note 27.3.3).
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default (Notes 27.3.3,27.3.4 and 27.3.5 respectively).
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 27.3.6).
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note: 27.3.5).

27.3.2 Definition of default

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- The borrower is deceased
- The borrower (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- The borrower is in default of the legal agreement i.e. not paid or breached covenants

27.3.3 The Bank's internal rating and PD estimation process

The Bank operates an internal rating models. The Bank assesses its customers and are rated from AAA to D using an internal credit classification model. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These information sources are first used to determine the probability of defaults (PDs) for each segment. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward-looking information and the IFRS 9 Stage classification of the exposure.

Corporate lending

Corporate lending comprises hire purchase, lease or bridging loans. The borrowers are assessed by credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

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

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

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

The Bank's internal credit rating grades

- **Business Finance and Bridging**

Internal rating grade	Internal Rating Description	12-month Basel III PD range
1	AAA & AA, LTV <=80%	1.93-2.15%
2	AAA & AA, LTV > 80%	2.71-4.29%
3	A & B+, LTV <=80%	3.80-4.23%
4	A & B+, LTV > 80%	7.24-8.35%
5	B & B-, LTV <=80%	5.67-7.18%
6	B & B-, LTV > 80%	11.87-13.29%
7	C & D	13.98-16.35%

- **Consumer Finance**

Internal rating grade	Internal Rating Description	12-month Basel III PD range
1	AAA & AA, LTV <=80%	3.30-3.58%
2	AAA & AA, LTV > 80%	4.74-5.06%
3	A & B+, LTV <=80%	6.45-6.98%
4	A & B+, LTV > 80%	9.14-9.75%
5	B & B-, LTV <=80%	8.96-9.95%
6	B & B-, LTV > 80%	14.11-15.20%
7	C & D, LTV <=80%	12.07-13.06%
8	C & D, LTV > 80%	20.80-22.88%

27.3.4 Exposure at default

The exposure at default ('EAD') represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12month ECL. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments. The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

27.3.5 Loss given default

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. The Bank segments are made up of small homogeneous portfolios, based on the internal credit rating. The applied data is based on historically collected loss data as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each segment of each division. When assessing forward-looking information, the expectation is based on multiple scenarios. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries.

27.3.6 Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12month ECL or Lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has increased by a factor of 1.6.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 27.3.2 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

28 Related parties

Non-executive directors held a total of £186,756 in savings accounts in the Bank at 30 September 2019 (30 September 2018 - £102,805). During 2019, £1,169 interest expense relates to deposits from Bank's directors and is recorded under accruals at 30 September 2019.The Bank has an intercompany balance with the Parent, as detailed in Note 20. There were no other related party transactions.

29 Events after the balance sheet date

There have been no material post-balance sheet events.

30 Capital management

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

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

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

The Bank has a number of measures which it takes to manage capital position further details of this are provided in the strategic report.

The Prudential Regulation Authority ('PRA') supervises the Bank and receives information on the capital adequacy of, and sets capital requirements for, the Bank. The Bank is authorised by the PRA and regulated by the FCA and the PRA. The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars".

Pillar 1 - Minimum capital requirements
Pillar 2 - Supervisory review process
Pillar 3 - Market discipline

31 Ultimate Parent

The Bank's parent and ultimate parent is PCF Group plc. The Parent is incorporated and domiciled in England and Wales, and is a company limited by shares. The Parent's financial statements are available from its registered office: Pinners Hall, 105-108 Old Broad Street, London, EC2N 1ER.