PCF BANK

Simple banking. At your service.

PCF Group plc

Annual Report & Financial Statements 2017

PCF GROUP

Simple banking. At your service.

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

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

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

Contents

Company Information	2
Strategic Report	3
Chairman's Statement	5
Chief Executive's Review	7
Corporate Governance	21
Audit & Risk Committee Report	30
Nomination & Remuneration Committee Report	33
Directors' Report	35
Risk Management	37
Independent Auditor's Report	40
Consolidated Income Statement	44
Consolidated Comprehensive Income	44
Consolidated Balance Sheet	45
Consolidated Statement of Changes in Equity	46
Consolidated Statement of Cash Flows	47
Notes to the Financial Statements	49
Notice of Annual General Meeting	80

PCF GROUP

Company Information

PCF Group plc (formerly known as Private & Commercial Finance Group plc)

Directors	**Tim Franklin** *Non-executive Chairman (appointed on 6 December 2016)* **Christine Higgins** *Non-executive (appointed on 13 June 2017)* **David Titmuss** *Non-executive (appointed on 11 July 2017)* **Mark Brown** *Non-executive* **David Morgan** *Non-executive* **Scott Maybury** *Chief Executive* **Robert Murray** *Managing Director* **David Bull** *Finance Director* **David Anthony** *Non-executive Chairman (resigned on 8 December 2016)* **Andrew Brook** *Non-executive (resigned on 13 June 2017)* **Anthony Nelson** *Non-executive (resigned on 11 July 2017)*
Company Secretary	**Robert Murray**
Registered Office	Pinners Hall 105-108 Old Broad Street London EC2N 1ER
Registered Number	02863246
Auditors	**Ernst & Young LLP** 25 Churchill Place Canary Wharf London E14 5EY
Nominated Adviser & Broker	**Panmure Gordon (UK) Limited** One New Change London EC4M 9AF
Joint Broker	**Stockdale Securities Limited** 100 Wood Street London EC2V 7AN
Registrars	**Computershare Investor Services PLC** The Pavilions Bridgwater Road Bristol BS99 7NH
Media & Investor Relations	**Tavistock Communications Limited** 1 Cornhill London EC3V 3ND

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

Strategic Report

for the year ended 30 September 2017

These final results constitute a 12 month period. The previous Accounting Period was an 18 month period due to a change in Accounting Reference Date. Therefore, the highlights, statement and review refer to a pro forma unaudited 12 month period to 30 September 2016 to provide a like-for-like comparison.

Business highlights

- The Group's banking subsidiary, PCF Bank Limited (the 'Bank'), commenced banking operations on 27 July 2017
- New customer deposits of £53 million were received in the period up to 30 September 2017
- Awarded 2018 Best New Provider by independent savings specialist, *Savings Champion*
- 24% increase in new business originations to £84.6 million (2016 – £68.4 million)
- Portfolio growth of 20% to £146 million (2016 – £122 million)
- Record low impairment charge of 0.5% (2016 – 1.0%)

Financial highlights

- Statutory profit before tax of £3.6 million (2016 – £3.6 million)
- Underlying profit before tax up 25% to £5 million (2016 – £4 million), before deducting £1.4 million of bank set-up costs
- 90% increase in recommended final dividend to 0.19p (2016 – 0.10p)
- Successful raising of £10.5million of new equity in April 2017
- Earnings per share 1.5p (2016 – 1.7p)
- After-tax Return on Equity reduced to 8.7% (2016 – 12.9%) following new equity issuance and investment in banking infrastructure
- CET 1 capital ratio of 26.3%, significantly more than minimum requirements
- OLAR Ratio 126%
- £31.3 million (2016 – £28.2 million) of unearned finance charges to contribute to earnings in future years

Key performance indicators

	Group		
£'000 unless stated	Audited year ended 30 September 2017	Unaudited pro-forma 12 months ended 30 September 2016	Audited 18 months ended 30 September 2016
Net interest income	11,064	9,784	14,193
Net operating income	10,870	9,652	14,025
Profit before taxation	3,633	3,602	5,127
Underlying profit before taxation[1]	5,000	4,041	5,633
Loans and advances to customers	145,718	121,960	121,960
Total equity	38,661	24,707	24,707
CET 1 capital ratio	26.3%	n/a	n/a
Overall Liquidity Adequacy Ratio	126%	n/a	n/a
Net assets per share	18.2p	15.1p	15.1p
Earnings per share (diluted)	1.5p	1.7p	2.6p
After-tax Return on Equity ('RoE')	8.7%	12.9%	13.0%
Net Interest Margin ('NIM')	8.3%	8.9%	8.9%
Return on Average Assets ('RoA')	2.8%	3.1%	3.1%

[1] Excludes expensed bank set-up costs

PCF GROUP

Chairman's Statement

for the year ended 30 September 2017

I am very pleased to present my first Results statement as Chairman of PCF Group plc. The last 12 months have seen continued progress and success on all fronts. In December 2016 we received regulatory authorisation to become a bank. This was a significant achievement as we had to put in place the extensive systems and processes necessary to gain a banking licence. I am delighted to say that we started receiving savings deposits from retail customers as early as July 2017. On behalf of the Board, I would like to extend my congratulations and thanks to our CEO, Scott Maybury, and all our staff for achieving this milestone and for their many other successes as outlined in the rest of my statement.

PCF Bank

Establishing ourselves as a specialist bank achieves a strategic goal we set ourselves two and a half years ago. Our operating model is now diversified across both our lending and funding platforms and this provides us with resilience, flexibility and opportunity. Access to the retail deposit market will provide us with the capability to expand our addressable lending market, generate portfolio scale and further increase profitability. The attainment of bank status will be transformational for the Group.

Profits, shareholder return and capital

Statutory profit before tax for the year ended 30 September 2017 was £3.6 million (2016 – £3.6 million). However, this statutory profit is reported after expensing £1.4 million (2016 – £0.4 million) of costs relating to our banking application. Underlying profit before tax, adjusted for these costs, increased by 25% to £5 million (2016 – £4 million). This strong set of results is underpinned by a good quality lending portfolio that continues to perform extremely well.

Substantial investment has been made for the future and, in preparation for the launch, the Bank received new equity investment of £10.5 million in April 2017. The expenditure on bank infrastructure and the raising of new equity resulted in earnings per share falling slightly to 1.5p (2016 – 1.7p). Net assets increased by 57% to £38.7 million (2016 – £24.7 million) and the Group Common Equity Tier 1 ('CET 1') Ratio is very strong at 26.3%. This capital base provides the financial strength to deliver our medium-term growth plans.

The Board recommends the payment of a final dividend of 0.19p per ordinary share, which is an increase of 90% over the previous year (2016 – 0.10p). If approved, the dividend will be paid on 6 April 2018 to shareholders on the register at 16 March 2018.

Governance and culture

The Board's responsibility to provide strong and effective governance has been a focus since my appointment in December 2016. Since then, we have enhanced the framework to be compliant with the UK Corporate Governance Code 2016. In my capacity as Chairman, I have overseen Board recruitment and committee composition and have every confidence in the governance framework we now have in place.

I would like to take the opportunity to welcome Christine Higgins and David Titmuss to the Board and to thank Tony Nelson and Andrew Brook for their service as non-executive directors. I would also like to extend my thanks to David Anthony who preceded me as Chairman. All three of our former colleagues made valuable contributions to the Board, its culture and the success of the Group.

The combined experience of the Board will be a continued strength as we enhance and maintain a strong corporate culture of core values, attitudes and behaviours.

Outlook

This has been a year of significant achievement, marked by our successful arrival as a new entrant bank. The Group has delivered continued financial success while building the operational, governance and risk frameworks that provide the foundation for future growth.

We are an ambitious business, built on these strong foundations. Our banking licence gives us access to diversified sources of competitively priced funding. We have a loan book that is performing well and our initial launch into more prime lending has been enthusiastically received by brokers and customers.

While the outlook for the wider UK economy remains uncertain, as the Government negotiates Britain's exit from the European Union, we remain confident of further progress in the coming year as we deliver on our strategy of profitable and sustainable growth.

Tim Franklin
Chairman

2 February 2018

BREAD

Chief Executive's Review

for the year ended 30 September 2017

A year of significant progress

It has been an excellent year of progress for the Group, having achieved the milestone of bank authorisation on 6 December 2016. The Bank successfully mobilised and launched its new brand and range of retail savings products in July 2017. It is a great credit to our team that the delivery of this huge undertaking has not detracted from continued portfolio growth and increased underlying profit generation.

Our Board recognised that achieving bank authorisation would entail significant costs and require additional capital, both of which would, in the short term, reduce earnings per share. However, we were, and remain, confident of the long-term benefits which will accrue as a result of this transformational strategy. These benefits include lower funding costs, the ability to reach and retain a wider range of customers, greater flexibility to diversify our business and reduction of the risks of relying on wholesale funding.

The underlying profit before tax for the year was up 25% to £5 million (2016 – £4 million) and ahead of market expectation. This underlying profit is before the deduction of £1.4 million of expenses (2016 – £0.4 million) related to the setting up of the banking operations. The statutory profit before tax reported after this investment in the banking team and infrastructure was £3.6 million (2016 – £3.6 million).

The profit after tax for the year was £2.8 million (2016 – £2.8 million) on an effective Corporation Tax rate of 23.3% (2016 – 22.2%). The higher than standard rate of Corporation Tax is mainly due to the carrying value of our deferred tax asset being revalued to the new, lower rate of Corporation Tax of 17%.

Portfolio quality

The lending portfolio grew by 20% during the year to £146 million (2016 – £122 million). The portfolio is reported net of unearned finance charges of £31.3 million (2016 – £28.2 million). These charges, which will be attributed to income over the next four years, contribute towards greater certainty and quality of earnings in the forthcoming periods.

This confidence of future earnings is underpinned by the quality of the portfolio, which continues to perform ahead of our expectations. The impairment charge was 0.5% (2016 – 1.0%) which represents a 50% reduction in the year. This improved impairment performance provides comfort in the event that the broader economic backdrop deteriorates. For many years, the Group has placed itself firmly in the prime to near-prime sectors of our respective markets and, by maintaining prudent underwriting standards, we are confident that we will continue to generate sustainable returns.

The reduced cost of funding through retail deposits increases our ability to access a greater part of that prime lending sector and will provide the driver for accelerated portfolio growth. We are targeting organic growth of the portfolio to £350 million within three years.

Driving future profitability

Our key profitability metric remains after tax Return on Equity ('RoE') but there will also be a focus on net interest margin to ensure our capital is being utilised on lending that delivers increased profitability, not just scale. The costs of operating as a bank are substantial but so are the benefits. This year's results have seen both the balance sheet and income statement fully weighted with both equity and those costs. Additional equity of £10.5 million was raised during the year, £2.5 million of fixed and intangible assets were added to the balance sheet and £1.4 million of operating costs were expensed through the income statement. These factors reduced our earnings per share to 1.5p (2016 – 1.7p) and our RoE to 8.7% (2016 – 12.9%), but we expect this to recover over the coming years as we grow our business. We are targeting a RoE of 12.5% within three years.

Our cost-to-income ratio for the current year increased to 59% (2016 – 54%) as we incurred those costs. However, after adjusting for set-up costs, the underlying ratio continued to fall from 51% to 47%. Over the past four years we have shown continually increasing profitability as our largely fixed cost base has benefited from portfolio growth. The same operational gearing will be seen in regard to the costs of banking and our new savings platform. We expect that strong organic growth will deliver increasing profitability and the target RoE as we further leverage our new model.

The Group generated earnings per share of 1.5p (2016 – 1.7p). The underlying earnings per share, adjusting for the new equity and the cost of investing in the Bank, was 2.3p (2016 – 1.9p), a 21% advance on the previous year. The net asset value per share is 18.2p (2016 – 15.1p).

We intend to operate a progressive dividend policy moving forward and have recommended a final dividend this year of 0.19p (2016 – 0.10p). The dividend pay-out ratio will balance the disciplines of paying a dividend with the capital-intensive nature of banking.

New savings operations

In the short period between launch and balance sheet date, the Bank received £53 million of retail deposits. The success of our deposit activities has been matched with positive feedback from our new customers on the technology platform and speed of service. This success was recognised by the independent savings advice specialist, *Savings Champion*, who awarded us, *'2018 Best New Provider'*. Total retail deposits have continued to build since the financial year end to support new business growth.

Our proposition to our customers is '*Simple banking. At your service*'. We are very pleased with our achievements to date and have welcomed over 1,100 new customers to the Bank. Our savings portfolio includes a range of maturities from 100 days to 7 years and an average balance outstanding of approximately £50,000. The savings products are targeted at middle to older aged savers, providing ease of service by utilising our on-line application portal or by postal application, if they prefer.

The ability to raise significant amounts of retail deposits will support our growth strategy and allow us to scale the portfolio far beyond what could be achieved for a company of our size in the wholesale debt markets. A depositor base also provides the greater flexibility and reduced costs of funds needed to launch new products and diversify asset classes.

Our initial use for the retail deposits has been on repaying and replacing, wherever possible, our more expensive wholesale bank debt. The remainder was used for new business origination. Our funding strategy going forward is to match business origination with fixed rate, fixed term deposits to lock in profit margin and reduce market volatility. On the evidence to date, we are encouraged and, by maintaining competitive interest rates to attract new depositors, believe in the sustainability of this strategy and our ability to fund both organic growth and acquisitions.

Strong balance sheet and capital base

The decision to introduce new capital before the launch of the Bank provides the necessarily robust capital position to deliver uninterrupted growth which is resilient to the stresses of economic uncertainty, investor sentiment, market volatility and regulatory change. The introduction of IFRS 9 and the increase in the counter-cyclical buffer will also need to be accommodated in 2018. The Group has a CET 1 capital ratio of 26.3% and an Overall Liquidity Adequacy Rule ('OLAR') Ratio of 126% which exceed regulatory requirements. OLAR is calculated on a 90-day basis which adequately covers our liquidity needs. These factors constitute a sensible starting position for a new bank as it embarks on a growth strategy. In the medium-term, the Group will achieve a more efficient capital model as we grow, bed in our new risk framework and optimise our treasury strategy.

New business lending up 24%

New business originations increased by 24% to £84.6million in the year (2016 – £68.4 million). The Group remains committed to supporting consumers and SMEs in the purchase of motor vehicles, plant and machinery. We have chosen these markets as they produce attractive returns and the lending is supported by assets with strong collateral characteristics.

The strong growth in originations has been driven by our Business Finance Division where we are best able to match our yield aspirations with our credit quality criteria and where we were also able to launch our new competitive prime terms before the year end. More than half of our total originations in the year were for business-critical assets for small companies, sole traders and partnerships. SME lending increased by 45% in the year (2016 – 22%). At 30 September 2017 the business finance portfolio was £73 million (2016 – £52 million) and the consumer motor portfolio was £72 million (2016 – £70 million).

Origination growth in our Consumer Finance Division was less successful with advances falling by 3% (2016 – increase of 8%). Consumer motor finance is a competitive market place and, with our previous more expensive funding model, we were not prepared to sacrifice margin to compete. In addition, the prevalence of the Personal Contract Purchase product ('PCP'), which we do not offer, and a fall in UK new vehicle sales, mean that these results were not unexpected.

This market also faces possible structural changes and we will be proactive in decisions regarding the future of diesel engines and the evolution of electric and autonomous vehicles. We have plans to restore growth to this division and expect successes in 2018 as we use our cheaper cost of funds to compete on a level playing field in the prime market. However, competing in this prime market has required changes to our IT platform, with additional automated functionality, and we expect this enhanced platform to go live in the first calendar quarter of 2018.

In the short period since the launch of the Bank, we have been able to deploy our new, cheaper cost of funds in our Business Finance Division, for our returning customers in motor finance and to establish a direct sales presence in the commercial vehicle market. We have also started offering more attractive terms on-line, supported by increased digital marketing. These new terms of business have been enthusiastically received by our broker network and our returning customers, with record levels of new business origination in both September and October.

Regulatory environment and risk

We are grateful for the support we have received from our regulators. They provided invaluable guidance through the mobilisation process and in bedding in the increased regulatory demands of being a bank. We expect that the Financial Conduct Authority ('FCA') investigation into the motor finance market will focus on affordability, transparency, commission arrangements and the PCP product. We do not expect the outcome to disrupt our current practices to any great extent. Work is also underway for adoption of the new General Data Protection Regulation ('GDPR') ahead of the compliance deadline in May 2018.

The Group aims to minimise the adverse impact on net interest margin caused by any increase in the cost of borrowing. We are a fixed rate lender and use fixed rate retail deposits and debt to protect our profit margin. The recent interest rate rise, therefore, has no effect on our existing portfolio and, as we enter a higher interest rate environment, our terms for new lending will need to reflect any increase in borrowing cost.

Our risk management focus will be to embed our risk management framework, refine credit policy as we move increasingly into the prime market, monitor the appropriateness of our risk tolerances and be alert to the ever present threat of cyber crime.

The PCF team and culture

During the year there have been a number of key recruits. We welcomed a new Chairman, two new non-executive directors and three new members to the executive team. The recruitments of Head of Risk and Compliance, Head of Treasury and Head of Savings have all been completed, strengthening our management team and broadening its experience. We now have the required governance structure and breadth of skills required of a bank. Our staff numbers have increased to 60 over the course of the year (2016 – 54).

We operate to high ethical and professional standards and conduct our business dealings in a manner of which we can be proud. Our products and services are

fair and simple to both depositors and borrowers alike and, through these core values, we expect to deliver beneficial outcomes for all our customers.

The mobilisation of the Bank was a complex and time consuming process. It is a great compliment to the whole team that the project was delivered in good time and business as usual continued to flourish. I would like to extend my sincere gratitude to all my colleagues for their dedication and hard work. Their professionalism and commitment to excellent customer service is outstanding.

Strategic initiatives

Our strategic objectives for 2018 give priority to unlocking the value in our new banking model and delivering accelerated growth, operational efficiencies and increased profitability. We have designed a framework that will safeguard the interests of all stakeholders and will manage risk accordingly, in order to maintain our reputation for sensible and sustainable growth.

Our initial focus has been on broadening our existing addressable markets and expanding our lending into the prime segments of those markets through our access to a cheaper cost of funds. This is a logical and lower risk first move because

- We have considerable knowledge of each market place and already operate successfully within them;
- Both markets are substantial, providing considerable potential for growth. We currently have no greater than a 0.5% share of either market;
- Execution of the strategy is immediate, putting our capital to work by utilising our existing routes to market and excellent relationships with introductory sources; and
- An increasingly prime portfolio will further enhance the quality of our portfolio and provide the resilience required should the economic environment become less favourable.

Our plans are well underway and, subject to the above-mentioned additional systems development for the Consumer Finance Division, we will be operating fully in the first calendar quarter of 2018. This strategy is expected to deliver significant portfolio growth which will be complemented by our direct marketing presence in the commercial vehicle market, a drive to increase our levels of repeat and returning customers and an increased digital marketing presence.

The use of technology has been integral to the success of the Group and will remain key to our future strategies. Over many years, we have developed an advanced IT platform based on efficiency, scalability and customer experience. 2017 has been no different with the introduction of a core banking system, an on-line application and savings portal and a data warehouse. These sit alongside *eQuote*, our internet-based proposal system for business origination, our in-house developed *eSign* product and *ICS*, our loan administration system, as examples of quality advancements in technology. We recognise the importance of technology to the sector and the role it plays as an enabler to success. We will continue to invest in existing systems and will look to introduce new complementary platforms to take advantage of the constantly evolving fintech technologies.

Additionally, the banking operations will be extended to offer a range of deposit products to corporate customers, broadening our market appeal. We have recently gained membership of the Bank of England's Sterling Monetary Framework which provides access to beneficial schemes, such as a Reserve Account and the Discount Window Facilities.

Finally, we will develop our strategy for asset diversification. We now have the flexibility to enter new markets and the balance sheet strength to make these meaningful additions. We will always be alert to opportunities within our existing organic markets but the objective will be to diversify our asset classes by type, term, distribution model and market. We will, at the appropriate time, execute this strategy through the acquisition of businesses or teams of people with the appropriate skills. Our ability to expand, initially through organic growth, allows us the time to research products and review the competitive landscape to ensure that our choices for diversification have the potential to be scaled up to core business lines within PCF and an earnings-enhancing outcome for shareholders.

The execution of these strategies will support growth beyond our initial organic portfolio target of £350 million and onto our longer-term objectives of a lending portfolio of £750 million and an RoE of 17.5% within five years.

Current trading and outlook

We are currently experiencing a relatively benign environment for loan defaults and, while our own expectation is that there will be little change in the near term, we are not complacent about the possibility of a future economic downturn and the impact this could have on our business. We have built PCF on sound financial and operational foundations and remain confident that our prudent practices, both past and present, stand us in good stead.

Our first steps as a bank have been very encouraging. We have successfully launched our savings proposition and the more competitive prime lending terms have been well received. In the short period from commencing operations as a bank to the end of the financial year, these successes have provided the momentum to deliver profits for 2017 ahead of market expectation and provide a strong start to our new financial year.

The potential for PCF Bank is substantial and our journey has only just begun. We have clear strategic objectives, have confidence in their execution and the growth prospects of the Group are exciting into the long-term.

Scott Maybury
Chief Executive

2 February 2018

Market and Business Overview

Business model

The Bank has two operating divisions

- Business Finance Division, which provides finance for vehicles, plant and equipment to SMEs; and
- Consumer Finance Division, which provides finance for motor vehicles to consumers.

Both divisions transact good quality, collateralised business which is processed through *eQuote*, the Bank's internet-based proposal system. *eQuote*, which is able to underwrite high volumes of proposals quickly and at low cost, enables us to send information and documentation to our customers, dealers and introducers electronically, therefore speeding up the application process.

The Group predominantly uses broker intermediaries as its route to market. However, it is increasingly developing direct relationships with suppliers and distributors in niche products and markets.

Simple banking. At your service.

We offer simple, easy to understand finance products using conditional sale, hire purchase and finance lease agreements.

Customers repay us by way of monthly instalments and we maintain a focus on ensuring that these payments are affordable.

We aim to offer excellent levels of service to our customers, intermediaries and dealers by using IT to speed up processes whenever we can. Our customers are at the heart of all that we do.

Our risk philosophy

The Group's risk philosophy is to

- Finance vehicle and assets which have strong collateral characteristics and readily identifiable second-hand markets. As such, the Group's preference is to finance assets such as motor cars, light and heavy commercial vehicles, coaches, buses, manufacturing equipment, engineering equipment and construction equipment;
- Have a wide spread of risk and avoid large concentrations of risk; and
- Ensure we understand our customers' needs and that they are creditworthy and can afford the monthly payments due to us.

Our growth strategy as a bank

Our strategy as a bank is to continue to operate in our existing chosen markets of consumer motor finance and SME asset finance, with scope to grow both these areas by utilising the cheaper cost of funds and more flexible nature of retail deposits rather than wholesale bank debt. This has three particular benefits for our growth strategy.

- The existing business which we write becomes more profitable because of the reduction in our cost of funds.
- We are able to compete in the prime segments of the market which we have been unable to do in the past.
- We are able to grow our portfolio at a faster rate than within the constraints of bank debt facilities.

The growth in the portfolio will continue to be based on prudent lending, with credit risk appetite focussing on increasing volumes by operating in the prime sector of both markets.

The Bank will also look to diversify its asset classes, through acquisition of companies or teams of specialist people.

Market

Vehicle and asset finance are commonly used sources of finance for consumers and business, providing significant cash flow benefits for those using them. The markets in the UK are mature and vast, with PCF Bank having a share of no greater than 0.5% in each.

The asset finance market has performed very strongly in recent years and, in the 12 months to September 2017, members of The Finance & Leasing Association ('FLA') reported new business lending of £30.6 billion, which represented a 6% increase on the previous year.

The consumer car finance market has performed equally strongly, although in recent months there has been a noticeable slowdown in the sale of new cars, a decrease in disposable incomes, adverse publicity surrounding the Personal Contract Purchase ('PCP') product and a reduction in the manufacturing of diesel cars. PCF Bank has traditionally financed used cars and so has not been as affected by this sharp slowdown nor does it offer, or intends to offer, PCP products. In the 12 months to September 2017, FLA members advanced £18.3 billion and £14.6 billion in respect of new and used cars respectively.

Competition

Due to the fact that both of our chosen markets are mature and vast, there is a significantly competitive nature to both of them. There are long established players who have sizeable market shares, but there are always new entrants coming into the sector, in particular in the business finance market. This is creating a downward pressure on rates and margins.

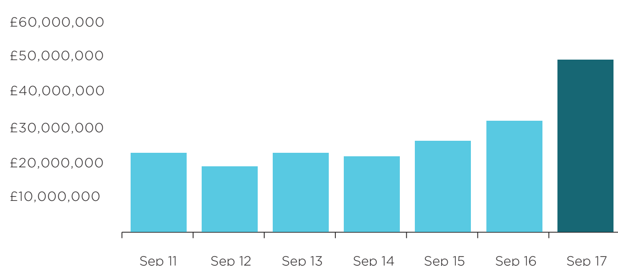
As a relatively small player, PCF Bank has never taken the approach of writing volume for volume's sake and has actively adopted a pricing policy of matching interest rate to risk. Our margins, therefore, have not been as adversely affected as others, although we have seen some compression in the asset finance sector.

Business Finance Division

The Business Finance Division provides hire purchase and finance lease agreements to sole traders, partnerships and limited companies to help them acquire vehicles, plant and equipment.

The division had an exceptionally strong year of growth, increasing new business originations to £45 million, which represented a 45% increase on the corresponding 12 month period to September 2016. A large part of the increase came in the second half of the year as the Bank started taking retail deposits from savers and was therefore able to implement its strategy for further growth.

New business volumes

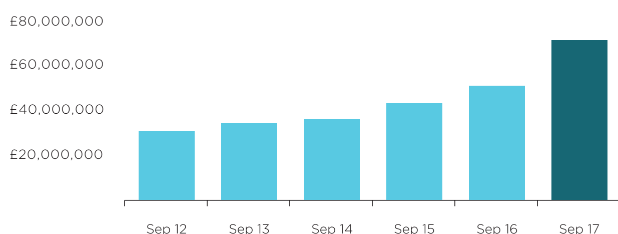


We started this growth with a trial between April and June, during which time we worked with selected introducers to help us gain access to the more rate sensitive and higher quality customers in the prime sector. The trial proved to be a success, with our new rates, together with our high levels of customer service, providing an attractive package to our introducers and customers.

Once the Bank was fully operational, the terms were made available to all our introducers, culminating in a record-breaking final quarter to the year.

Our Business Finance Division's portfolio increased during the year from £50 million to £70 million and it now represents 50% of the Group's portfolio of finance receivables. We expect the division's recent growth record to continue and for it to become the dominant part of our business in the coming year.

Portfolio



The portfolio is made up of over 3,000 individual agreements with an average size of approximately £21,500 and no customer having an aggregate exposure of more than 1% of the Group's total portfolio. Most of our largest customers are longstanding, with many of them having had agreements with PCF for more than 10 years.

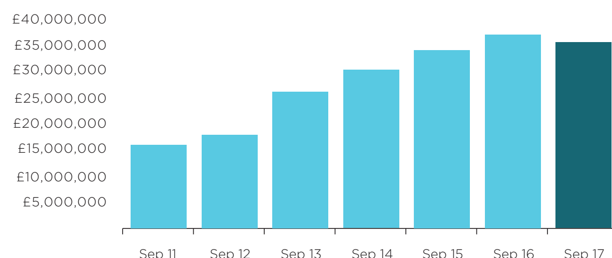
Consumer Finance Division

The Consumer Finance Division provides hire purchase and conditional sale agreements to retail customers to help them acquire vehicles. The vast majority of vehicles which we finance are used, so have suffered their initial depreciation and therefore represent good collateral to support our finance. Whilst the majority of finance we provide is in respect of motor cars, we also have specialist knowledge to enable us to finance classic cars, caravans, motorhomes and horseboxes.

During the year, we increased the maximum term over which we are willing to finance caravans, motorhomes and horseboxes from 5 to 10 years. This initiative was successful and produced £2 million of new business originations in the second half of the year.

Market conditions were less favourable for this division and new business originations did not grow at the rate we had anticipated and in fact decreased from £36 million in the previous 12 months to £35 million this year. We have taken steps to ensure that the division is restored to growing its levels of originations and have recently launched a major enhancement to *eQuote* which provides a superior level of credit information as well as automated solutions for assessing customer affordability and authenticating customer identification. This enhancement, together with our *eSign* product, will enable us to provide even faster service levels to our customers, dealers and introducers and access the prime sector. We expect similar success with our prime terms as we have already experienced in our Business Finance Division.

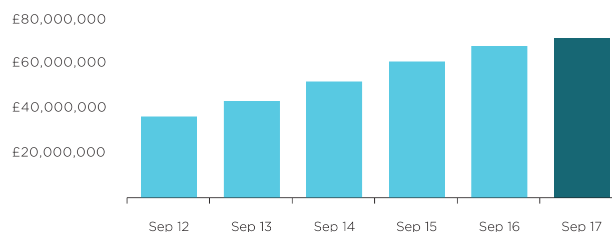
New business volumes



Our Consumer Finance Division's portfolio increased during the year from £67 million to £70 million.

The portfolio is made up of over 8,000 individual agreements with an average size of £8,250.

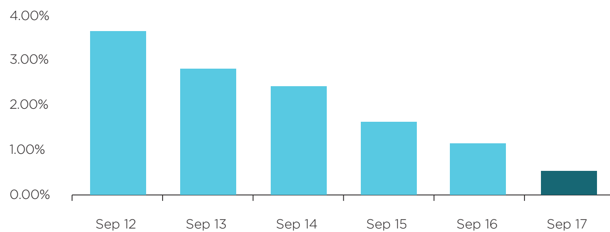
Portfolio



Portfolio performance

The portfolio performed beyond our expectations during the year, with our impairment charges falling to a record low of 0.5%. This is a testament to our prudent underwriting over a sustained period of time, which has led to impairment charges constantly falling over the last 5 years. In the current year, we have continued to collect successfully against fully provided accounts which defaulted during the global financial crisis. This has assisted with our low impairment charge. Our move into the prime segments of the market should enable us to maintain the quality of our portfolio, although we do recognise that there is greater uncertainty in economic conditions than there has been for some time.

Impairment charges



At 30 September 2017, over 96% of all customer's agreements were up to date.

Savings

The Bank's target savings market is UK-domiciled, middle to older aged savers, and is estimated to be worth approximately £154 billion.

Having been granted a banking licence in December 2016, we completed development of our IT platform for savings products and launched to the public at the end of July 2017, offering Term Deposit and Notice Accounts to retail customers. Terms range from 100 days to 7 years tenure with interest rates appropriate to each duration. Since the launch, PCF Bank has raised in excess of £60 million of deposits. The average deposit balance is approximately £46,000 with 94% of our deposit holdings in Term Deposit accounts which have an average term of 2¾ years and a blended rate of approximately 2%.

Research shows that 60% of the term deposit market is currently held in 1 and 2 year bonds. For this reason, we launched an 18 month account to specifically target a demographic we felt was not catered for. We also offered a 7 year bond to support the longer-term lending on niche vehicles in our Consumer Finance Division.

Customer feedback has been positive, with PCF Bank being one of the few banks that offer a postal application and accept cheques.

In December we were awarded *'Best New Provider 2018'* by independent savings specialist, *Savings Champion*.

Risk overview

Overview and culture

Managing risk effectively is important to the Group and is fundamental to its strategy. PCF is a low risk, UK focused, retail and commercial lending business whose success has been achieved by maintaining a conservative business model which embodies a risk culture founded on a prudent appetite for risk.

The Group's approach to risk is founded on an effective control framework and a strong risk management culture 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 strategy and is approved by the Board. Our risk appetite is then embedded within policies, authorities and limits across the Group.

The Board ensures that the Group 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 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 Group 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.

The RMF outlines the governance, policies, metrics, procedures, systems, tools, techniques and activities by which the Board and senior management establish and monitor PCF's risk appetite and effectively manage risk, and takes into account the strategic growth and business model changes of the Group. Risk management refers to the process of identification, managing, monitoring and reporting of risks to which the Group is exposed. Senior management ensures that the RMF is embedded in its day-to-day management and control activities.

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

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.

Risk strategy

PCF 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 business plans are consistent with it;
- Avoid business activities that are not aligned to our 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 plans are supported by effective risk controls, technology, and people capabilities;
- 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; and
- Aggregate and look at risk across the Group so that the business is sufficiently aware of its key vulnerabilities.

The Board focuses on the key risks with clear risk tolerance and accountability for risks. Risk management is integrated into the corporate framework and business planning with regular reporting to the Board and other committees, such as the Executive Committee. Risk management focuses on the key risks that could prevent the achievement of strategic objectives.

Principal risks

Principal risks are the primary risks that the business faces, which could impact the delivery of the Group's strategic objectives.

The Group has identified eight principal risks which could impact the delivery of PCF's strategic objectives and has defined a Board approved risk appetite for the following categories. The risks with key mitigating factors and controls are as follows.

Strategic & business risk

Definition - Strategic and business risk is the risk which can affect the Group's ability to achieve its corporate and strategic objectives.

Statement - In order to maintain investor confidence in the Group's AIM listing and market expectations, the Board operates the business in such a way as to maximise profits.

Strategic management - It is the risk to PCF's earnings and profitability arising from its strategic decisions, change in the business conditions, improper implementation of decisions or lack of responsiveness to industry changes. It is particularly important as the Group continues its growth strategy. Strategic risk can arise as a result of both internal and external factors.

Key mitigating factors and controls

- The Group does not intend to undertake any medium to long-term strategic actions within its business model which would put at risk its vision of being a leading, specialist lender in its chosen and target markets and being backed by a strong and dependable savings franchise.
- The Group will assess and evaluate its strategic initiatives in relation to the requirements and expectations of key stakeholders.
- The Group will monitor, review and challenge its performance against strategy using established key performance indicators.
- The Group 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 Group is going through a strategic change programme, as well as considering readiness and any risks to delivery, it will consider the impact of that change on the business in terms of customers, staff, the control environment and reputational impacts.
- 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 senior management to key strategic objectives.

Credit risk

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

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

Strategic management - The Group's risk and underwriting philosophy is centred on three fundamental principles.

- The customer's ability to afford the monthly payments.
- The collateral value of the asset being financed. As such, all assets financed have strong collateral characteristics and a readily available and liquid market for re-selling.
- Low average deal sizes so that there is a wide spread of risk with no unduly high exposure to any single customer.

The successful management of credit risk is central to the Group's business. The majority of the Group's lending is secured and amortised over the life of the assets. The credit risk from concentration is limited due to the relatively low value of each customer's debt and to the Group's large and diverse customer base. In order to ensure that arrears are minimised, emphasis is placed on retaining a diversified portfolio, using prudent underwriting methods and resisting the inclination to increase credit risk in the quest for increased volumes of new business.

Key mitigating factors and controls

- The Group will focus its lending on its specific areas of expertise.
- The Group will limit lending to the UK.
- The Group will embed clear lending policies in all business areas.
- The Group will review performance against risk appetite.
- The Group will hold credit committee meetings.
- The Group will stress test the portfolio to test resilience.

Capital risk

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

Statement - The Group aims to maintain a sufficient level of capital above the total regulatory capital requirement 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') and by the Board on an annual basis.

Strategic management - PCF faces potential capital risk, including the business having insufficient capital to support business growth. A capital exposure arises when PCF has insufficient capital resources to support its strategic objectives and plans. This could arise due to the depletion of PCF's capital resources as a crystallisation of any risk to which it is exposed or an inability to raise capital.

Key mitigating factors and controls

- The Group will conduct a review of the ICAAP on at least an annual basis.
- The Group will monitor closely and regularly its capital and leverage ratios to ensure that it meets current and future regulatory requirements.
- The Group is able to accumulate additional capital through profits and by raising new equity.
- The Group is able to manage the demand for capital through management actions including adjusting its lending strategy.
- The Group will regularly conduct stress tests and sensitivity analysis.
- The Group will regularly conduct forecasting and scenario planning.

Liquidity & funding risk

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

Statement - The Group 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. PCF 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 Internal Liquidity Adequacy Assessment Process ('ILAAP') stress tests. The Group will maintain strong relationships with its banks for funding purposes and will diversify its funding through sourcing retail deposits. PCF will align the tenor of its funding to the average effective life of its loan portfolio. In diversifying, the Group will continue to maintain wholesale debt and have at its disposal an appropriate level of committed facility headroom.

Strategic management - These risks can manifest as a result of PCF specific risk (idiosyncratic) events, market-wide (systemic) events or a combination of both. Given the nature of the Group's current and planned future business, liquidity and funding risks are considered most likely to manifest in the following scenarios.

- Higher than expected levels of deposit withdrawals.
- An inability to replace maturing funding (typically retail deposits but also wholesale debt facilities) at an acceptable cost and maturity duration.
- A higher than expected growth in finance receivables without a corresponding increase in stable funding.
- An inability to liquidate marketable or other assets.

Key mitigating factors and controls

- The Group will at all times adhere to the Overall Liquidity Adequacy Rule ('OLAR') and operate within its risk tolerance.
- The Group will ensure compliance with the OLAR and liquidity risk tolerance and that regular liquidity stress testing is conducted as part of the ILAAP.
- The Group will maintain its liquidity resources in the form of high quality liquid assets ('HQLA'). The amount of these will at all times exceed the minimum required by the OLAR and liquidity risk tolerance.
- The Group will carry out forward modelling to identify mismatches.

Market & 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 Group's banking and trading books, as well as from foreign exchange and other risk positions.

Statement - The Group aims to minimise the adverse impact on net interest margin caused by increased cost of variable rate borrowings and to fix the cost of borrowing through the use of interest rate swaps.

Strategic management - Group market risk arises exclusively from interest rate mismatches in the banking book, although other potential market risks are also considered, such as foreign exchange risk.

Key mitigating factors and controls

- The Group does not seek to take or expose itself to market risk and does not carry out proprietary trading.
- The Group does not trade wholesale financial instruments and so does not have a trading book.
- The Group currently operates exclusively in Sterling and there are no plans to change this, so it has no foreign exchange risks.
- The Group manages its Interest Rate Risk in the Banking Book ('IRRBB') by first 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 Group 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 arising from inadequate or failed controls or processes, people and systems or from external events.

Statement - The Group will maintain a strong internal control environment to mitigate operational risk that is inherent to its business activities and to minimise the financial impact of operational risk arising from risks such as IT disruption, human error, bribery and corruption, internal and external fraud.

Strategic management - The principal operational risks include

- The risk that the Group is unable to provide services to customers as a result of IT systems failure and inadequate delivery of services to customers;
- Cyber risks associated with malicious attacks on the confidentiality or integrity of electronic data, or the availability of systems;
- Internal or external fraud arising from the act of deception or omission; and
- Risks resulting from either a process design failure or through having insufficient capacity within the process to manage business volumes.

Key mitigating factors and controls

- The Group will 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 Group will implement actions from internal and external IT assurance reviews to enhance the resilience of systems supporting the processes most critical to customers.
- The Group will adopt policies and procedures to detect and prevent the use of its business for operational risk, money laundering, bribery and activities prohibited by legal and regulatory requirements.
- The Group will maintain competitive working practices to attract, retain and engage high quality people.
- The Group will invest in enhanced protection of customer information, including limiting access to key systems and enhancing the security, durability and accessibility of critical information.
- The Group will manage effectively change projects so that they do not cause serious disruption or create processing inefficiencies to the business during or post their implementation.
- The Group will maintain a strong internal control environment.

Regulatory risk

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

Statement - The Group 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.

Strategic management - The Group has no risk appetite for regulatory breaches. The regulatory risk appetite is reviewed and approved by the Board on an annual basis. To achieve this, the Group has policies, processes and standards which provide the framework for the business and employees to operate in accordance with applicable laws, regulations, codes of conduct and legal obligations.

Key mitigating factors and controls

- The Group engages with industry bodies, such as UK Finance, and seeks external advice from auditors and consultants.
- Group policies and procedures set out the principles and key controls that should apply across the business and which are aligned to the Group's risk appetite. Business units assess and implement policy and regulatory requirements and establish controls to ensure compliance. There is mandatory training for staff.
- Risk & Compliance provide oversight and 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.
- Regulatory reporting to the Prudential Regulation Authority ('PRA'), FCA and senior management.

Conduct risk

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

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

Strategic management - The Group will not tolerate any failure to deliver fair outcomes for its customers. However, it is realistic and acknowledges that human and operational errors may lead to isolated incidents which result in customer detriment. In these instances, the Board require that this be rectified for its customers as soon as reasonably possible.

Key mitigating factors and controls

- Customer focused policies and procedures.
- Conduct risk appetite established at Bank and business area level.
- Customer needs explicitly considered within business and product level planning and strategy.
- Enhanced product governance framework and new Marketing & New Product Approval Committee to ensure products continue to offer fair value and meet the needs of the relevant target market throughout their life cycle.
- Enhanced recruitment and training, and a focus on how the Group manages employee performance with clearer customer accountabilities.
- Product approval, review processes and monitoring supported by conduct management information.
- Learning from past mistakes, including root cause analysis.
- Clear customer accountabilities for staff, with rewards and customer centric feedback built into performance appraisals.

Emerging risks

Emerging risks are those future risks which have been identified and may have an impact on the Group's future performance, compromise its existing strategy or threaten its business model.

Interest rate environment

Risk - The low interest rate environment, introduced to stimulate growth following the financial crisis, has persisted for longer than first expected. Interest rates have increased since the year end and if rates continue to increase, or growth slows, unemployment may rise and loan servicing costs may increase, which could cause an increase in credit losses.

Mitigation - The Group has monitored these risks, and the UK economy has remained robust in the face of domestic and EU headwinds. As a UK business, the Group has not felt any adverse consequences to date.

Future direction - Market consensus is that the short-term outlook for the UK will see one ¼% interest rate increase during 2018.

Brexit and economic environment

Risk - The Group 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 Group has no business and no plans to expand outside the UK. However, there is broad consensus among economists that Brexit will likely reduce the UK's real per-capita income level through changes to interest rates, employment, household income and indebtedness. Management believes that Brexit's potential effect on the Group would be indirect and confined to the events identified above.

Mitigation - The Group has monitored these risks but, as a UK business, it has not felt any adverse consequences to date

Future direction - The Group will continue to monitor the situation and will decide whether internal scenario planning is required if the situation develops other than expected.

Cyber crime

Risk - Cyber crime is a significant threat and exposes all businesses and financial services companies to financial and reputational damage. The Group's growing customer base increases the profile of PCF to potential cyber attackers.

Mitigation - During 2017, PCF strengthened its defences against cyber crime. The Group has a Cyber Security Strategy in place and a cyber risk response plan. PCF is accredited under the Government's Cyber Essentials framework and performs an on-going risk management assessment process to assess the threats from cyber attacks. This includes

- Conducting external penetration testing for Payment Card Industry Data Security Standard ('PCI DSS') purposes on a quarterly basis;
- Providing regular staff awareness training throughout the year to mitigate the risk; and
- Reviewing on an annual basis core systems and processes, IT general controls, management of changes, IT operation and logical access.

Future direction - As with the FCA's Business Plan 2017/18, the prevention of cyber crime is a key priority for PCF. The Group will work with an external assurance provider to complete the FCA's Cyber Risk Assessment and will determine targets and thresholds and implement additional measures, where appropriate.

Technological and competitive changes to the motor vehicle market

Risk - The Group has a substantial lending portfolio in motor vehicles that equates to over 50% of total loans and receivables. Technical obsolescence could result in a concentrated exposure to the diesel sector and may lead to a diminution of vehicle values if defensive action is not taken. Competitors are positioning to prime markets and aggressive pricing has an impact on new business origination.

Mitigation - The sector risks are mitigated by collateral backed lending, low average lending balances, a wide range of models and marques for residual diversification, and an increased focus on prime motor finance.

Future direction - Continued successful involvement requires a good understanding of the sector and its regulation, prudent lending criteria and sensible lending practices. The Group will monitor its portfolio and the market 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 Group has over 20 years experience of the consumer motor finance sector.

IFRS 9

Risk - New reporting requirements under IFRS 9 introduce forward-looking credit loss models which will lead to changes in the timing of impairment recognition. The reporting standard, which comes into effect for annual periods beginning on or after 1 January 2018, requires the development of new risk models. The risk is that the Group is unable to deliver these before the new regulation takes effect.

Mitigation - The Group has initiated a Working Committee to oversee the IFRS 9 project plan. This committee, led by the Finance Director, will assess the implications to financial statements, systems, processes and controls. The committee will include external consultants and assurance providers and regularly report to the chair of the Audit & Risk Committee.

Future direction - The Group is on track with enhancements to its systems and credit risk models and expects to be able to disclose the full extent of IFRS 9 on the financial statements in September 2018. The Group expects to be fully compliant with the new accounting standard from 1 October 2018.

By order of the Board

Scott Maybury

2 February 2018

Corporate Governance Report

UK Corporate Governance Code 2016 ('the Code') – Statement of Compliance

The Board is committed to the highest standards of corporate governance and confirms that, during the year under review, the Group complied with the main principles of the Code, which sets out principles relating to the good governance of companies. The Chairman with effect from 6 December 2016 is Tim Franklin.

The Board has not appointed a Senior Independent Director. Given the size of the Group and the policy of active dialogue being maintained with institutional shareholders by the executive directors, the Board is of the opinion that the appointment of a Senior Independent Director is not necessary at this time. The Board will continually appraise the size and complexity of the Group and will review, at least annually, if a Senior Independent Director should be appointed.

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

This Corporate Governance Report describes how the Board has applied the principles of the Code and provides a clear and comprehensive description of the Group's governance arrangements.

Chairman's introduction

Dear shareholder,

As the Chairman of PCF Group, I am delighted to introduce our Corporate Governance Report for the year ended 30 September 2017. This is my first Corporate Governance Report following my appointment on 6 December 2016.

In terms of other Board changes, we welcomed Christine Higgins and David Titmuss as non-executive directors during the year. Both of them joined the Board as part of bank mobilisation to incorporate the skills and independence required of a dual-regulated bank entity.

As part of those Board changes, we accepted the resignations of Anthony Nelson and Andrew Brook as non-executive directors. We would like to extend our gratitude to both of them for their significant contribution during their respective tenures.

The Board consists of eight directors and the majority shareholder currently has two representatives on the Board. As part of its preparation for authorisation as a bank, the Group built a strong governance framework. The following pages describe how we comply with the main principles of the Code, how the Board and Committee structures operate and the key areas of focus for both the Board and its committees during the year. The governance highlights for the current year were the constitution of the new Bank Board and Committees, strengthening of our Risk Management Framework, overseen by the Audit & Risk Committee, and the establishment of an Internal Audit function.

The Board recognises that one of the keys to the Group's long-term success is the development of a healthy corporate culture. As we continue to execute our strategy, the Group's size and complexity will continue to increase and the Board is cognisant that the Group's culture has to evolve alongside this. Culture starts at the top, and the Board and the Executive Committee together are driving the values, behaviours and attitudes that support our strategy.

Tim Franklin
Chairman

2 February 2018

Board of Directors

Tim Franklin

Non-executive chairman,
appointed on 6 December 2016

Tim has a financial services background and has worked in banking for a number of organisations for over 30 years. He is currently a non-executive director at the Post Office, which is the UK's largest financial services retailer by number of outlets. Tim sits on the Audit Committee at the Post Office and also chairs the Post Office Advisory Council. He is also a director of Topaz Finance Limited. Tim is an Institute of Leadership & Management ('ILM') qualified Level 7 Coach and works extensively with senior executives across many industries both in the UK and internationally.

Tim is a member of the Nomination & Remuneration Committee.

David Morgan

Non-executive director,
appointed on 9 July 2012

David was appointed as a non-executive director in July 2012. He has over 35 years' experience in international banking, building his career at Standard Chartered Bank in Europe and the Far East. Since leaving Standard Chartered in 2003, he has been involved in a range of business advisory and non-executive roles. He is currently a non-executive director of Somers Limited, Bermuda Commercial Bank Limited and Waverton Investment Management Limited. He is also Chairman of Harlequin FC, the Premiership rugby club.

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

Mark Brown

Non-executive director,
appointed on 1 December 2015

Mark has been Chairman of Stockdale Securities since November 2014. He was previously Chief Executive of Collins Stewart Hawkpoint and brings a wealth of experience and leadership in both small and large financial services business. Having worked as Global Head of Research for ABN AMRO and HSBC and as Chief Executive of ABN's UK equities business, Mark led the successful turnaround of Arbuthnot Securities followed by Collins Stewart Hawkpoint.

Mark is a member the Nomination & Remuneration Committee.

Christine Higgins

Independent non-executive director,
appointed on 13 June 2017

Christine is a chartered accountant with over 25 years' experience in financial services, working for UK and international banks. After leaving university, Christine worked as an accountant in public practice and in financial services before moving into corporate finance. Over the last 7 years she has served as a non-executive director on a number of boards in the health, housing, leisure and finance sectors, including as chair of the audit committee. She is currently a non-executive director at the Buckinghamshire Building Society and at CSMA Boundless.

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

David Titmuss

Independent non-executive director,
appointed on 11 July 2017

David has over 25 years' experience in both large and small financial services organisations, with a particular emphasis on customer acquisition and database management. His corporate background includes working at a senior level in public and privately backed businesses. He has also led companies both as CEO and as a board director. Latterly, David headed the marketing function of *webuyanycar.com* and is recognised as an expert in digital marketing and advises businesses on cost-effective customer acquisition and marketing in the digital space.

David is the Chairman of the Nomination & Remuneration Committee.

Scott Maybury

Chief Executive ('CEO'),
appointed on 12 January 1994

Scott holds a degree in business studies and is a qualified accountant. He spent 6 years with BHP Billiton, Australia's largest multi-national corporation and 5 years with McDonnell Douglas Bank. He is one of the founding directors of PCF Group plc and was previously Finance Director until October 2008.

Robert Murray

Managing Director ('MD'),
appointed on 19 October 1993

Robert holds the ACIB Banking Diploma and has over 35 years' banking and finance experience. He heads both the Business and Consumer Finance Divisions and has extensive experience in lending to personal, corporate and international customers. He is one of the founding directors of PCF Group plc.

David Bull

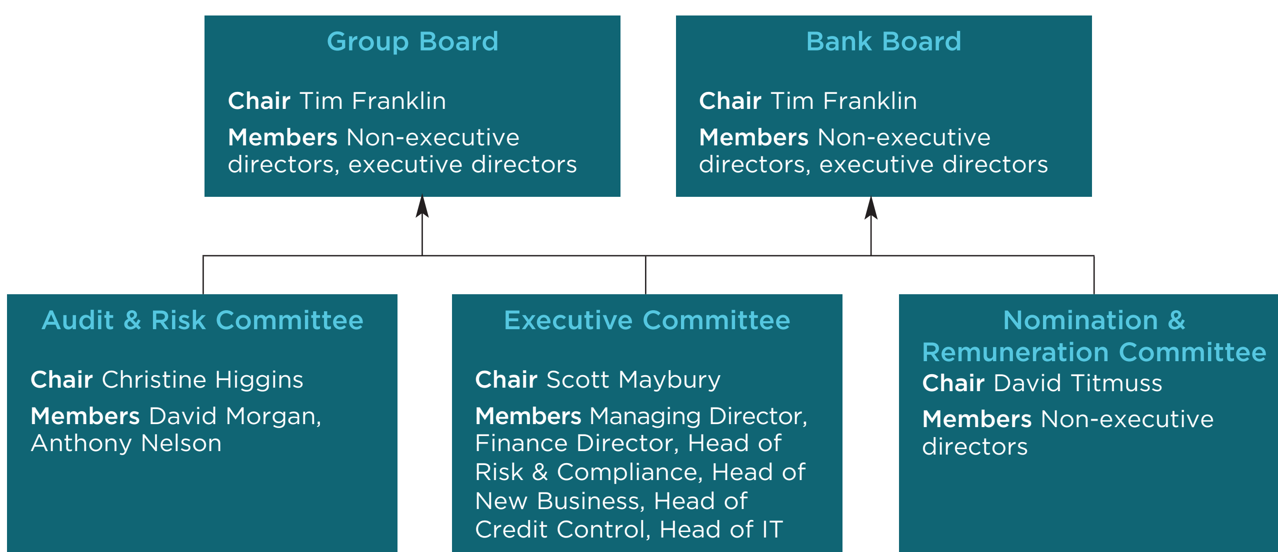
Finance Director ('FD'),
appointed on 3 August 2015

David holds a first-class degree in Mathematics and Statistics and is a qualified chartered accountant. After qualifying in 1996, he has worked in the banking sector across a number of institutions, including KPMG, Deutsche Bank and was interim Chief Financial Accountant at the Bank of England. Before joining PCF Group, David was a Director of Finance and Company Secretary at Hampshire Trust Bank plc, the specialist challenger bank, where he was instrumental in setting up their banking operations.

Resignation of directors during the year

- David Anthony resigned as a non-executive director with effect from 8 December 2016
- Andrew Brook resigned as a non-executive director with effect from 13 June 2017
- Anthony Nelson resigned as a non-executive director with effect from 11 July 2017

Corporate Governance Structure



The Board is replicated at Group and PCF Bank Limited (the 'Bank') and the composition of both Boards is identical.

The Boards meet no less than nine times a year and their primary responsibilities are to provide leadership, set strategic objectives and develop robust corporate governance and risk management practices. The Boards delegate specific powers to other committees, as shown in the chart above.

The Boards are supported by a number of established Board committees, namely the Executive Committee, Audit & Risk Committee and Nomination & Remuneration Committee.

Each committee has a set of clearly defined Terms of Reference. Responsibility for the implementation of Group's strategies and day-to-day business are delegated to management. The organisation structure sets out clear segregation of roles and responsibilities, lines of accountability and levels of authority to ensure effective and independent stewardship.

Board balance and independence

The Group Board and Bank Board consist of three independent non-executive directors, two non-executive directors and three executive directors and are chaired by Tim Franklin, an independent non-executive director. The profiles of the members of the Board are provided on pages 22 to 23 in the Annual Report. The tenure of each of the three independent non-executive directors is less than nine years, which is in accordance with Provision B.1.1 of the Code.

The Boards comprise of members with diverse professional backgrounds, skills, extensive experience and knowledge in the areas of banking, finance, marketing, information technology, business, general management and strategy required for the successful direction of the Group and the Bank.

With their diversity of skills, the Boards have been able to provide clear and effective collective leadership and have brought informed and independent judgement to strategy and performance to ensure that the highest standards of conduct and integrity are always at the core of the Group. None of the independent non-executive directors participate in the day-to-day management of the Group or the Bank.

The presence of the independent non-executive directors is essential in providing unbiased and independent opinions, advice and judgements to ensure that the interests, not only of the Group, but also of shareholders, employees, customers, suppliers and other communities in which the Group conducts its business are well represented and considered.

The Audit & Risk Committee ('ARC') monitors the effectiveness of the Group's financial reporting systems, internal control and risk management and the integrity of the Group's external and internal audit process.

The Nomination & Remuneration Committee ('RemCo') reviews the structure and size of the Board and appraises the performance and remuneration of the executive directors and other senior executives. The committee considered the appropriateness of the Board's composition during the year and concluded that it has the appropriate mix of skills and experience to fulfil its responsibilities.

The Bank Board holds separate board meetings immediately following the meetings of the Group Board. The Boards are collectively responsible for the success of the Group and the Bank.

Roles and responsibilities

The Board's role is to provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the strategic aims and ensures that the necessary financial and human resources are in place to meet objectives and review management performance.

The Board's roles and responsibilities include, without limitation, the following

- Reviewing and adopting the strategic business plan for the Group's effective business performance;
- Overseeing the conduct of the Group's business to evaluate whether the business is being effectively managed;
- Identifying principal risks and ensuring the implementation of appropriate systems to effectively manage and monitor identified risks;
- Ensuring that all candidates appointed to the senior management positions are of sufficient calibre and that there are programmes in place to enable orderly succession of senior management;
- Ensuring effective communication with the shareholders and other stakeholders;
- Reviewing the efficacy of internal control and of management information, including systems for compliance with applicable laws, regulations, rules, directives and guidelines;
- Developing corporate objectives, policies and strategies;
- Approval of risk management framework, insurance and mitigation; and
- Reviewing and approving acquisitions and disposals of undertakings and properties of substantial value and major investments.

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

The Board sets the Group's values and standards and ensure that its obligations to its shareholders and other stakeholders are understood and met.

The Board ToR also sets out the independence, duties and responsibilities that the members of the Board must observe in the performance of their duties. The Board ToR is subject to review on at least an annual basis.

Roles and responsibilities of the Chairman and Chief Executive

The Code recommends that there should be clear division of responsibilities at the head of the company to ensure that there is proper balance of power and authority.

All executive and non-executive directors have unrestricted and timely access to all relevant information necessary for informed decision-making. The Chairman encourages participation and deliberation by the Board members to make best use of their collective wisdom and to promote consensus building.

Matters which are reserved for the Board's approval and delegation of powers to the Board Committees are expressly set out in an approved framework on limits of authority.

The business affairs of the Group are governed by the Group's delegated authorities and its policy and procedures manuals. Any non-compliance issues are brought to the attention of the Executive Committee, Audit & Risk Committee and/or the Board for effective supervisory decision-making and proper governance.

As the Group is expanding and its business growing, the division of authority is constantly reviewed to ensure that management's efficiency and performance remain at its level best.

Chairman

Tim Franklin has served as Chairman since 6 December 2016. The Chairman is responsible for the leadership of the Board and ensuring the effective running and management of the Board. He is also responsible for the Board's oversight of the Group's affairs, which includes ensuring that the directors receive accurate, timely and clear information, and the effective contribution of the non-executive directors. He has overall responsibility for leading the development of the Group's culture by the governing body as a whole.

Chief Executive

Scott Maybury served as Chief Executive throughout the year. He is responsible for the day-to-day management and executive leadership of the business. His other responsibilities include the progress and development of objectives for the Group, managing the Group's risk exposure, implementing the decisions of the Board and ensuring effective communication with all stakeholders and regulatory bodies. He has overall responsibility for the Group's performance of its obligations under the Senior Managers and Certification Regime.

Board meetings and supply of information

Before each Board meeting, the directors receive, on a timely basis, comprehensive papers and reports on the issues to be discussed at the meeting. In addition to Board papers, directors are provided with relevant information between meetings.

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

The directors also have direct access to the advice and services of the outsourced Internal Audit function in addition to other members of the senior management team. There is an agreed audit plan and the Internal Audit function reports directly to the Audit & Risk Committee.

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

Attendance at meetings

The attendance of the directors at Board and the principal committee meetings that took place during the year are shown below.

Number of meetings attended/(eligible)	Board	Audit & Risk Committee	Nomination & Remuneration Committee(6)	Executive Committee
Number of meetings held	9	4	4	22
Chairman				
Tim Franklin	7(7)	2(2)	3(3)	–
David Anthony (1)	0(2)	0(1)	–	–
Chief Executive				
Scott Maybury (5) (6)	9(9)	4(4)	4(4)	17(22)
Non-executive directors				
David Morgan	9(9)	4(4)	4(4)	–
Mark Brown	9(9)	2(3)	4(4)	–
Andrew Brook (2)	5(5)	2(2)	2(2)	–
Anthony Nelson (3)	5(5)	4(4)	2(2)	–
Independent non-executive directors				
Christine Higgins (4)	2(3)	1(1)	1(2)	–
David Titmuss (4)	2(2)	–	1(1)	–
Executive Directors				
Robert Murray (5)	7(9)	2(2)	–	17(22)
David Bull (5)	9(9)	4(4)	–	22(22)

(1) Served as a director until his resignation on 8 December 2016.

(2) Served as a director until his resignation on 13 June 2017.

(3) Served as a director and acting Chairman until his resignation on 11 July 2017.

(4) Attended one or more meetings during the year as an invitee prior to being appointed as a director.

(5) Attended as standing attendee or secretary for Audit & Risk Committee meetings.

(6) Attended as standing attendee at Nomination & Remuneration Committee meetings.

(7) During the year, certain members of the Board undertook a number of duties that would normally have been undertaken by the Nomination & Remuneration Committee.

Board effectiveness

No Board effectiveness review took place during the year due to the newness of its composition. However, throughout the year the Board reviewed issues such as board composition, meeting structures, strategic oversight and risk management.

The performance of the Chief Executive is appraised annually by the Chairman and the other members of the Nomination & Remuneration Committee.

Appointments to the Board

The Nomination & Remuneration Committee ('RemCo') consists of two non-executive directors and three independent non-executive directors and is chaired by David Titmuss. RemCo makes independent recommendations for appointments to the Board. In making these recommendations, RemCo assesses the suitability of candidates, taking into account the required mix of skills, knowledge, expertise and experience, professionalism, integrity, gender diversity, competencies and other qualities, before recommending them to the Board for appointment. RemCo will take steps to ensure that diversity in candidates is sought for appointment to the Board.

Appointment and re-appointment

The Code requires that all directors should stand for re-appointment at regular intervals, subject to continued satisfactory performance.

The Company's Articles of Association provide that directors shall retire and shall be eligible for re-appointment if they were not appointed or re-appointed at one of the preceding two Annual General Meetings ('AGM') or if they were initially appointed during the period following the most recent AGM. Directors that are subject to retirement are eligible for re-appointment at the same AGM.

No person other than a director retiring at the AGM shall be eligible for appointment or re-appointment as a director at any general meeting unless he is recommended by the directors or if the resolution to propose the person for appointment or re-appointment as a director has been requisitioned by a member in accordance with the Companies Act 2006.

RemCo's role is to assess the performance, time commitments and independence of each non-executive director and makes a recommendation to the Board in this regard. In addition, the performance of executive directors is appraised. Giving consideration to the balance of skills, knowledge and experience on the Board as a whole, the Board approved the recommendation that David Morgan, Christine Higgins and David Titmuss should be proposed for re-appointment at the 2018 AGM.

Training and development of directors

Professional development

During the year, specific training sessions were held covering compliance, regulation and corporate governance issues. Topics covered included General Data Protection Regulation ('GDPR') and IFRS 9. Board members are encouraged to attend relevant training programmes as part of their continuing professional development programmes and additional business, compliance and regulatory updates are also arranged as appropriate.

Company Secretary

The Company Secretary is responsible for ensuring that board procedures and applicable rules and regulations are observed. He is responsible for advising the Board, through the Chairman, on all governance matters. All directors have direct access to the services and advice of the Company Secretary. Directors are able to take independent external professional advice to assist with the performance of their duties at the Company's expense.

Governance structure and delegated committee

The Board has established a number of committees to which responsibility for certain matters has been delegated. The board committee structure is shown in the diagram on page 25. Each committee has written Terms of Reference setting out the committee's role and responsibilities and the extent of the authority delegated by the Board. Minutes of each committee are circulated to the Board on a regular basis.

Reports of certain Board's committees are set out later in this Report and provide further detail on their roles, responsibilities and the activities they have undertaken during the year.

Meetings of the Board

At each scheduled meeting, the Board receives reports from the Chief Executive and Finance Director on the performance and results of the Group. The Managing Director updates the Board on performance, strategic developments and the legal and regulatory affairs of the Group and the Bank. In addition, the Board receives regular updates from the Executive Committee ('ExCo') which collates updates from the Credit Committee, Risk, Compliance & Operations Committee ('RCO'), Marketing & New Products Approval Committee ('MNPC') and Asset & Liability Committee ('ALCO').

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. Meetings are structured to ensure that there is sufficient time for consideration and debate of all matters. In addition to scheduled or routine items, the Board also considers key issues that impact the Group and the Bank as they arise.

Executive Committee

The Board has delegated its day-to-day management duties to ExCo, which meets twice monthly to deliberate and take policy decisions on the effective and efficient management of the Group and to monitor its performance. It also serves as a processing forum for issues to be discussed at Board level. ExCo's primary responsibility is to ensure the implementation of strategies approved by the Board, provide leadership to the senior management team and ensure efficient deployment of the Group's resources, including capital and liquidity.

ExCo meetings provide an avenue for the attendees, which comprise Senior Management of various departments, to engage and align to the strategy and policy as approved by the Board.

Scott Maybury (Chief Executive), Robert Murray (Managing Director) and David Bull (Finance Director) are members of ExCo. Their profiles can be found on page 23. The other members of ExCo are as follows.

Andrew Barber

Head of IT ('HoIT')

Joined PCF Group in June 2002. Andrew is responsible for developing and implementing IT strategy within the Group as well as overseeing the effective and efficient operation of all technology solutions within the Group. Andrew also provides project management expertise to the Group using PRINCE2 to ensure all projects adhere to best practice.

Dan Kench

Head of Credit Control ('HoCC')

Joined PCF Group in October 2000. Dan is responsible for the overall management of the Collections, Recoveries & Legal Departments, where his primary objective is to manage the effective performance of credit agreements, while also ensuring, through effective training, policies and procedures, that customers are treated fairly and professionally.

Peter Larcombe

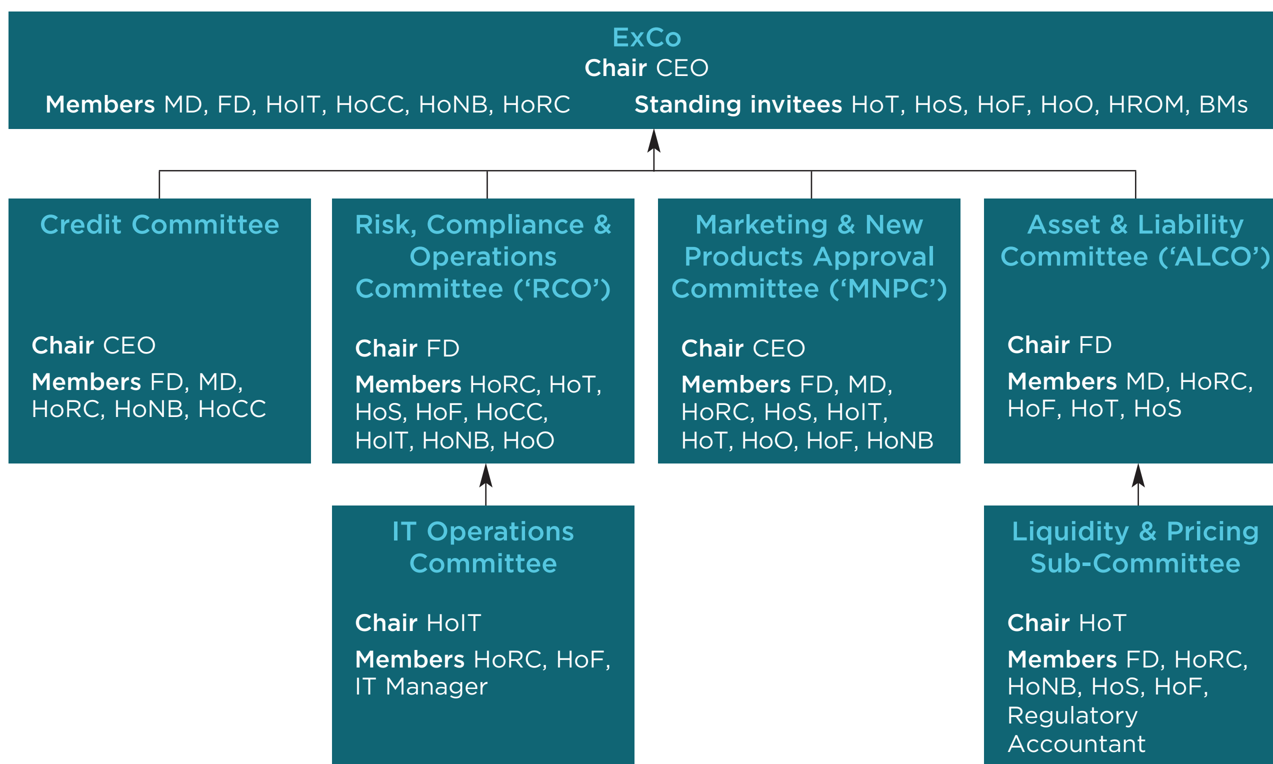
Head of New Business ('HoNB')

Joined PCF Group in July 2002. Peter is responsible for the management of the vehicle and asset finance operations. His primary objective is to manage the effective performance of the new business team, ensuring prudent and consistent underwriting, good productivity and efficiency and high standards of customer service.

Jason McCabe

Head of Risk & Compliance ('HoRC')

Joined PCF Group in October 2016, Jason is responsible for the Second Line of Defence at the Bank. This includes reinforcing and embedding the risk, compliance and financial crime frameworks across the business.



Glossary of terms

Chief Executive ('CEO')

Managing Director ('MD')

Financial Director ('FD')

Head of IT ('HoIT')

Head of Credit Control ('HoCC')

Head of New Business ('HoNB')

Head of Risk & Compliance ('HoRC')

Head of Savings ('HoS')

Head of Treasury ('HoT')

Head of Finance ('HoF')

Head of Operations ('HoO')

Human Resources & Office Manager ('HROM')

Business Managers ('BMs')

Audit & Risk Committee Report

Committee members
Christine Higgins *(Chair from July 2017), Non-executive director*
David Morgan, *Non-executive director*
Anthony Nelson

Former committee members
Tim Franklin *(Chair to July 2017), Non-executive Chairman*
David Anthony *(Chair of Audit Committee to November 2016), Non-executive director*
Mark Brown, *Non-executive director*
Andrew Brook, *Non-executive director*

Standing invitees
Scott Maybury, *Chief Executive*
David Bull, *Finance Director*
Jason McCabe, *Head of Risk & Compliance*
Grant Thornton LLP representatives *(internal auditor)*
Ernst & Young LLP representatives *(external auditor)*

Responsibilities of the Audit & Risk Committee

- Monitor the integrity of the Group's financial statements and oversee the external audit relationship.
- Consider whether the Group has adopted appropriate accounting policies and made appropriate estimates and judgements.
- Oversight of internal controls and risk management.
- Monitor the work and effectiveness of the internal audit function and oversee the internal audit relationship.
- Advise the Board on the Company's overall risk appetite, tolerance and strategy, including liquidity management strategy and interest rate risk.
- Challenge the Group's assessment of current major risks to strategic objectives and reputation.
- Assess and monitor the activities and effectiveness of the Risk and Compliance function.
- Oversight of whistleblowing arrangements and procedures in place for detecting fraud and financial crime and preventing bribery and money laundering.

Audit & Risk Committee governance
The Committee held four meetings during the year. A verbal report was made to the Board following each meeting and the approved minutes were subsequently provided.

Dear shareholder,

I am pleased to present my first report to you as Chair of the Audit & Risk Committee ('ARC'/the 'Committee') and I have set out below an overview of the key areas which the Committee focussed on this year. In 2017/18 we will continue to focus on these areas as well as the new accounting standard IFRS 9, emerging risks that could have a material impact on the Group and the impact of changes in the external environment on our risk appetite.

The Audit & Risk Committee was formed earlier this year from the existing Audit Committee as part of the governance changes to support the Group's banking application. It was initially chaired by the Group Chairman, Timothy Franklin, and I took over the Chair from July 2017.

During the year, the Group appointed Grant Thornton LLP as outsourced internal auditors and a key aspect of the ARC work has been to oversee the development of the internal audit plan, ensuring it is aligned to the key risks of the business.

Grant Thornton also undertook work earlier in the year in relation to our banking licence application. This, together with the internal audit work undertaken to date, has provided an independent view of processes, policies and controls in the areas reviewed, together with actions to further strengthen the effectiveness of those controls across the business. The internal control environment and the risk management framework will continue to develop with the increasing size, scale and complexity of the business.

Members
The ARC members comprise two non-executive directors and one adviser, Anthony Nelson. Anthony is a former Chief Executive and non-executive director of the Group, a Fellow of the Association of Corporate Treasurers ('FCT') and former solicitor with specialist legal knowledge. David Morgan is a non-executive director and an experienced international banker. He is also a non-executive director of the Company's major shareholder. I am the Chair of ARC and am a chartered accountant. I was appointed as a non-executive director on 13 June 2017 and over the last 7 years have been a non-executive director on a number of boards in the health, housing, leisure and finance sectors. All members of the ARC have extensive experience of corporate financial matters in the banking and financial services industry.

Meetings
ARC met four times during the year. The Chief Executive, Finance Director, Head of Risk & Compliance, internal audit and the external auditor are standing invitees at these meetings. Invitations were made for each meeting and were accepted.

Areas of focus
During its inaugural year, the areas of focus for the ARC were as follows.

Financial reporting
During the year, ARC considered the Group's interim and annual financial statements. In reviewing the annual financial statements, the Committee discussed management's analysis and the external auditor's report and also reviewed and considered a number of significant issues and areas of material judgement as follows.

- Loan Loss Provisioning – reviewed the assumptions underlying impairment provisions for loans and receivables.
- Effective Interest Rate ('EIR') – reviewed key assumptions used in the EIR calculations.
- Financial Close – discussed the financial close process and the implementation of the new General Ledger,
- Lease Receivables – discussed the testing done to verify lease receivables.

- Impact of Banking Licence – reviewed the impact of additional accounting and reporting considerations, including the presentation of the financial statements as a bank, and other considerations such as governance and controls subsequent to being granted a banking licence in December 2016 by the PRA and FCA, and the banking platform and new deposit-taking systems which went live at the end of July 2017.
- Going concern – assessed the appropriateness of the going concern basis of accounting and the statement that the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due.

In addition, ARC reviewed the content of the 2017 Annual Report and Financial Statements for the year ended 30 September 2017 for clarity and completeness of disclosure.

The Committee concluded that the Annual Report and Financial Statements as a whole were 'fair, balanced and understandable' and therefore recommended the Annual Report and Financial Statements to the Board for approval.

Internal audit

In response to the growth of the Group and the granting of a banking licence, PCF Bank established a Third Line of Defence to provide senior management with independent assurance over the adequacy and effectiveness of the internal controls and risk management systems. To benefit from experienced and knowledgeable subject matter experts, the Board decided to outsource the internal audit function to Grant Thornton LLP from July 2017. ARC oversees the internal audit function, approving its plans and scope, its resources and considers the reports produced.

The internal audit function reports directly to the Chair of ARC and also liaises directly with the Chief Executive Officer and Finance Director as appropriate. Internal audit attends and reports on progress and issues at each ARC meeting. The ARC Chair meets with internal audit regularly and the Committee meets with internal audit at least once a year, without management present. The effectiveness of the internal audit function will be evaluated on an annual basis.

Risk management, compliance and internal controls

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

In reviewing the adequacy of internal controls, ARC received and discussed a number of internal and external reports during the year, including

- Internal audit reports - This year there have been two reports completed by Grant Thornton ('Financial Crime' and 'Information Security') and they were presented and discussed at ARC meeting in November 2017. Management have already implemented a number of the recommendations made, with timely plans in place to address those remaining;
- External audit reports - The external auditors, Ernst & Young LLP ('EY'), provided the Committee with an update on the implementation of their 2015/16 recommendations and their risk assessment for 2016/17. The Committee also met privately with EY during the year, which provided an opportunity for relevant issues to be discussed directly; and
- Compliance - ARC considers reports from the Head of Risk and Compliance at its meetings which include performance against risk appetite, complaints, financial crime and anti-money laundering compliance, the fraud register, upcoming regulatory changes and emerging risks. A Compliance Monitoring Plan and Methodology was approved by ARC in July 2017.

A revised Risk Management Framework was approved by the Board during the year as part of the banking licence application process as well as a number of revised risk-related Group policies.

In addition, Grant Thornton undertook assurance reviews for the Board early in the year on the Group's Internal Capital Adequacy Assessment Process ('ICAAP'), its Recovery and Resolution Plan, its Compliance and Financial Crime arrangements, its Risk Management Framework and its IT processes and controls, including cyber security. Management actions to remediate identified risks were tracked and followed up to validate that the actions were completed.

External audit

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

Ernst & Young LLP was appointed as the Company's auditor in 1998. The current audit partner is Michael-John Albert and he has been in place since 2015.

ARC discussed and approved the planning of the external audit, including risk evaluation, scope and the materiality applied. The execution of the audit changed to reflect an increased level of materiality (due to the higher revenues). The audit did not give rise to any material financial adjustments, but did highlight some areas where management should consider improvements in processes. Importantly, the auditor considered the appropriateness of material judgements and concluded that the balance was appropriate and consistent with previous years, where applicable.

Independence

ARC and Ernst & Young LLP have longstanding safeguards to avoid the possibility that the auditor's objectivity and independence could be compromised. These safeguards include the auditor's report to the Committee on the actions they take to comply with professional, ethical and regulatory requirements and best practice, designed to ensure their independence.

The annual appointment of the auditor by shareholders at the Annual General Meeting is a fundamental safeguard to auditor independence, but, beyond this, the Committee considers critically what additional work is provided by the auditor. There are areas that the Committee has prohibited work by the auditor, including where

- The provision of the services would contravene any relevant regulation or ethical standard;
- The auditors are not considered to be expert providers of the non-audit service;
- The provision of such services by the auditor creates a conflict of interest; and
- The services are considered likely to inhibit the auditor's independence or objectivity.

Non-audit services
ARC has approved a policy for the pre-approval of permitted non-audit services and set thresholds for the value of those services in line with current regulations. ARC also gives due consideration to appointing other firms where it is felt that the impact of an assignment may compromise the independence of the auditor. The level of audit fees charged by the Group's auditor is set out in note 16 to the financial statements. During the year there were no payments to the auditor for non-audit services.

Performance
ARC evaluates the performance of the external auditor annually, taking into account fees and the engagement letter, a review of the external audit plan, the objectivity and effectiveness of the audit, the quality of formal and informal communications with the ARC and the views of management. ARC again evaluated the auditor's performance as good and the relationship with management to be sound. The lead partner and senior team are well qualified and have expertise in the Group's business areas and associated regulatory framework.

The ARC Chair had private discussions with the auditor during the year on the conduct of the audit and the relationship with management.

Following its review of the 2016/17 external audit process, ARC concluded that it was effective.

Re-appointment
The Group last tendered its external audit in March 2006 and appointed Ernst & Young LLP as its auditor. Based on the performance since appointment, ARC has recommended to the Board that Ernst & Young LLP be re-appointed as auditor for the coming year. The Board has agreed and the re-appointment will be proposed to shareholders at the Annual General Meeting.

The current auditor appointment falls under the transitional arrangements for mandatory audit firm rotation under the EU Audit Reforms and a change of auditor is not required at this point. However, during the 2017/18 financial year ARC will be considering the most appropriate timing for the next audit tender.

ARC effectiveness
ARC will undertake an annual review of its own effectiveness during 2018.

This report was approved by the Audit & Risk Committee on 21 November 2017.

Christine Higgins
Chair of the Audit & Risk Committee

2 February 2018

Nomination & Remuneration Committee Report

Dear shareholder,

I am pleased to present my first report to you as Chairman of the Nomination & Remuneration Committee.

Introduction

The Nomination & Remuneration Committee ('RemCo') has delegated responsibility from the Board for reviewing the structure, size and composition of the Board, the performance of the executive directors, and succession planning and remuneration of the directors and other senior executives. Membership of RemCo is limited to non-executive directors and chaired from July 2017 by myself and previously by Anthony Nelson. Where appropriate, RemCo consults external advisers on remuneration and regulatory issues so as to align with the strategic aims of the Group and regulatory compliance requirements.

Approach to remuneration

The approach taken by PCF Group plc ('Group' or 'PCF') in respect of remunerating its staff emanates from a combination of regulatory guidance and, in particular, the dual-regulated firm's Remuneration Code (SYSC 19D), as appropriate for Level 3 firms, the rules on remuneration as published by the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') as amended from time to time, and its own best judgement. These guidelines assist with the design of awards and incentive packages which are effective in not only recruiting and retaining staff, but also in meeting the risk appetite and long-term interests of the Group. Fundamentally, our approach to remuneration is based on promoting and rewarding the right behaviours which ensure that the interests of our customers and stakeholder value are at the forefront of everything we do.

Due to the size of our business, the Group applies the proportionally principle (SYSC 19D.3.3R(2)) to ensure the practices and processes we promote are appropriate to size, internal organisation and the nature, the scope and the complexity of activities.

In applying PRA and FCA guidance, the Group classifies its employees as either Code or Non-Code Staff. Code staff are comprised of executive and non-executive directors, and other Code Staff includes Senior Managers covered by the Senior Managers Regime. No staff have been classified as Material Risk Takers. Other key individuals are covered under the scope of the Conduct Regime.

Remuneration policy

The Group's remuneration policy is applicable to all its employees and a review will be undertaken on an annual basis to assess its implementation and compliance with the Remuneration Code.

The objective of the policy is to recruit and retain high calibre talent capable of achieving the Group's objectives and to encourage and reward superior performance and creation of shareholder value. The policy further sets out the use of performance-based remuneration to motivate and only reward high performers who strengthen long-term customer relations, generate income, demonstrate the required behaviours (teamwork, co-operation, customer focus, risk awareness), comply with regulation, create a control environment, deliver good customer outcomes and protect/enhance shareholder value.

The Group's remuneration policy does not encourage taking risks that exceed the risk appetite of the Group. The remuneration policy enables incentives to be provided with the purpose of meeting the Group's long-term strategic objectives and general goals in areas of risk management, positive customer outcomes, regulatory and statutory compliance and other key stakeholder expectations.

The following guiding principles underpin the remuneration policy.

- Interests of our employees will be aligned with the interests of our customers, long-term interests of the Group, shareholders, and other stakeholders in the Group, as well as the public interest.
- Employees will not be rewarded for risks that are unwarranted.
- Principles of 'malus' and 'clawback' will be implemented where relevant.
- As a level three firm under the Remuneration Code guidance on proportionality (SYSC 19D), the Group does not apply the following rules
  - retained shares or other instruments (SYSC 19D.3.56R).
  - deferral (SYSC 19D.3.59R).
  - performance adjustment (SYSC 19D.3.61R – 62R).

The Group seeks to combine various remuneration and incentive components to ensure an appropriate and balanced remuneration package that reflects responsibilities, the employee's role in a professional activity as well as market practice. The four remuneration components that every employee may be eligible to receive include

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

Remuneration for the year

Fixed remuneration

Fixed remuneration comprises basic salaries, which are set at a relatively moderate level, and benefits including healthcare and life assurance cover. These are provided on the same basis for all employees. The Company has a workplace pension scheme with Standard Life with a Company contribution rate based on 5% (10% for executive directors) of qualifying earnings. Robert Murray's pension is paid into a Clerical Medical scheme, The Group does not operate or contribute to any other pension scheme on behalf of its employees or directors.

Variable remuneration

The annual performance award is a significant variable component of the overall remuneration and is at the discretion of RemCo. In determining the level of award paid to the Chief Executive, Managing Director and Finance Director, consideration was given not only to the financial performance of the Group (including returns to shareholders and the Group's profitability) in 2017, but also to their individual performance, based on a number of personal objectives. In respect of the Chief Executive, these included the strategic development of the Group, leadership and culture, operational performance, risk management and regulatory compliance. RemCo, in determining both the general level of the bonus pool and the awards to the executive directors, also reviewed risk factors.

PCF GROUP

Table of directors' remuneration

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

	Salary and fees £'000	Bonus £'000	Taxable benefits in kind £'000	Pension contributions £'000	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Executive directors						
Scott Maybury*	175	175	1	18	369	435
Robert Murray	150	68	1	15	234	318
David Bull**	155	78	1	16	250	279
Zane Kerse	–	–	–	–	–	55
Non-executive directors						
Tim Franklin	62	–	–	–	62	–
David Morgan	26	–	–	–	26	29
Mark Brown	26	–	–	–	26	17
Christine Higgins	19	–	–	–	19	–
David Titmuss	17	–	–	–	17	–
David Anthony	8	–	–	–	8	43
Andrew Brook	16	–	–	–	16	17
Anthony Nelson	19	–	–	–	19	32
Nicholas Winks	–	–	–	–	–	12

* Pension was received in cash
** Part of the pension amounting to £7,000 was received in cash.

Non-executive directors

Non-executive directors are engaged under letters of appointment. Non-executive directors are subject to retirement by rotation every three years, or if appointed during the year are subject to retirement at the next AGM. Non-executive directors who are subject to retirement at the AGM are eligible for re-appointment. Non-executive directors participate in decisions concerning their own fees together with the recommendation of the executive directors, taking into account comparisons with peer group companies, their overall experience and knowledge and the time commitment required for them to undertake their duties and if the non-executive director has undertaken any additional duties during the year.

Remuneration disclosures

The Group adheres to the requirements of the Remuneration Code as defined by the Regulator. The non-executive directors do not receive variable remuneration. Information on the Group's Remuneration Code is set out in the Pillar 3 disclosures and will be published on our website *www.pcf.bank*.

This report was approved by the Nomination & Remuneration Committee on 21 November 2017.

David Titmuss
Chairman of the Nomination & Remuneration Committee

2 February 2018

Directors' Report
for the year ended 30 September 2017

The directors present their report and audited financial statements for the year ended 30 September 2017.

Results and dividends

The consolidated results for the year are set out in the Consolidated Income Statement on page 44.

The directors recommend the payment of a final dividend of 0.19p per share in respect of the year ended 30 September 2017 (18 months period ended 30 September 2016 – final dividend of 0.10p per share). Subject to approval at the Annual General Meeting to be held on 2 March 2018, the final dividend will be paid on 6 April 2018 to shareholders on the register at 16 March 2018.

Principal activities

The Group's principal activities are the purchase, hire, financing and sale of vehicles and equipment, the provision of retail savings products and the provision of related fee-based services. The Group will continue to administer its portfolio of financial assets to improve profitability for both its Consumer Finance and Business Finance Divisions.

Directors and their interests

The directors of the Company during the year were those listed on page 2.

The directors' interests in the shares of the Company, all of which were beneficial interests, at 30 September 2017 are listed below.

	At 30 September 2017 No. of ordinary shares of 5p each	At 30 September 2016 No. of ordinary shares of 5p each
Scott Maybury	1,717,653	1,600,006
Robert Murray	998,340	998,340
David Bull	230,568	165,038
David Morgan	500,000	–
Tim Franklin	82,810	–
Mark Brown	80,000	–

The following directors also held options in the Company share option plans as listed below. Further details are provided in the Nomination & Remuneration Committee Report on page 33 and in note 15 to the financial statements.

	At 30 September 2017 No. of ordinary shares of 5p each	At 30 September 2016 No. of ordinary shares of 5p each
Scott Maybury	1,140,000	1,140,000
Robert Murray	770,000	770,000
David Bull	400,000	400,000

The Company's Articles of Association permit it to indemnify directors in accordance with the Companies Act.

Substantial shareholdings

At 30 September 2017, the Company had been notified of the following interests of 3% or more in its issued ordinary share capital.

	Percentage
Bermuda Commercial Bank Limited	54.45
Somers Limited	10.93
Hof Hoorneman Bankiers	6.24
Miton Asset Management	4.20
Beleggingsclub 'T Stockpaert	3.06

Statement of directors' responsibilities
The directors are responsible for preparing the Strategic Report, Directors' Report and the Group 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 Group financial statements unless they are satisfied they present fairly the financial position, financial performance and cash flows of the Group for that period. 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Going Concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. The Group's policies and processes for managing its capital are described in the Strategic Report. Details of the Group's financial risk management objectives, its financial instruments and hedging activities and its exposures to credit risk and liquidity risk are also set out in the notes to the financial statements.

The directors have completed a formal assessment of the Group's financial resources, including forecasts. Based on this review, the directors believe that the Group is well placed to manage its business risks successfully within the expected economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group 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.

Corporate governance
The Corporate Governance section provides disclosure of the Group's corporate governance arrangements. The Group has complied with the provisions of the UK Corporate Governance Code 2016 during the year.

Disclosure of information to the 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 Group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors
A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

Robert Murray
Director and Secretary

2 February 2018

Risk Management

for the year ended 30 September 2017

The management of risk is based on an understanding of the risks that the Group faces, an assessment of these risks and establishing an appropriate control environment. Risks are assessed at the inherent level (before being mitigated by controls) and at the residual level (once controls have been considered). Controls include risk appetite statements, defined limits to risk exposures, policies, procedures, mandates, oversight and reporting. The design and effectiveness of controls is key and an assessment of these is performed by all Three Lines of Defence.

Risk policies and procedures are the formal documentation of the methods used to manage, control, oversee and govern each principal risk. They articulate the limits, operating standards and procedures by which risks are identified, assessed and managed at all stages of the business and risk life cycle.

Risk accountability

The Risk Management Framework ('RMF') articulates individual and collective accountabilities for risk management, risk oversight and risk assurance and supports the discharge of responsibilities to customers, shareholders and regulators. It establishes a common risk language which assigns risks to which the Group is exposed, to categories which are used consistently to support risk aggregation and reporting. The framework is continually evolving and is periodically updated to reflect changes in the business and the external environment.

Governance is maintained through delegation of authority from the Board, down through the management hierarchy to individuals, and is supported by a committee-based structure designed to ensure that risk appetite, policies, procedures, controls and reporting are fully in line with regulations, law, corporate governance and industry best practice.

Board-level engagement, coupled with the direct involvement of senior management in Group-wide risk issues at Executive Committee level, ensures that issues are promptly escalated and remediation plans are initiated where required.

The interaction of the executive and non-executive governance structures relies upon a culture of transparency and openness that is encouraged by both the Board and senior management. A strong control framework remains a priority for the Group and is the foundation for the delivery of effective risk management.

Line management is directly accountable for identifying and managing any risks inherent or consequential in their individual businesses. A key objective is to ensure that business decisions strike an appropriate balance between risk and reward, consistent with the Group's risk appetite.

Assurance

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

- Business lines as the First Line of Defence which hold the primary responsibility for risk decisions, identifying, measuring, monitoring and controlling risks within areas of accountability.
- The Second Line of Defence encompasses the risk oversight function, which is independent of the business and other functions.
- The use of independent compliance monitoring and risk reviews will provide additional support to the integrated assurance programme.
- The Third Line of Defence is provided by Internal Audit.
- The Group's Internal Audit function performs independent audits of the risk management functions, on a periodic basis, to ensure that objectives are achieved. Any deficiencies noted are reported to management with significant deficiencies reported to senior management and the Audit & Risk Committee.
- The Group utilises other types of evaluation to obtain reasonable assurance about the effectiveness of its risk management functions as required, such as external business forums.
- The Group may also periodically use independent consultants to assess the risk management governance structure and management processes.

Information technology and data risk management annual independent assurance reviews include

- Cyber Essential Standards Assessment and Penetration Test;
- External Information Technology Risk Assurance Review;
- Payment Card Industry Data Security Standard ('PCI DSS') Compliance; and
- Somers Limited Cyber Security Review.

Risk appetite and culture

The Risk Appetite Statement ('RAS') provides an articulation of the Group's tolerance for risk in both quantitative measures and qualitative terms. It has been created following discussions among the Group's executive management and the members of ARC and the Board. It is used in mapping key risks, assessing their materiality and ultimately for underpinning the Group's overall risk management framework.

Throughout the year, all aspects of the risk appetite statements and metrics were reported to ARC and Board by the Head of Risk and Compliance ('HoRC'). The HoRC is responsible for assessing the impact on the Group's risk appetite of any changes in circumstances (internal or external) that may warrant a change to the RAS and recommending any such changes to ARC and the Board ahead of the scheduled annual review.

The Board sets the risk appetite and culture and ensures that this is cascaded into day-to-day operations through policies, qualitative statements, risk appetite metrics, limits, Board and committee review, monitoring and assurance, recruitment of competent employees, training and aligning remuneration to risk appetite.

Risk governance and oversight

The Group's business model is shaped by the assessment of risk and return together with the management of those risks. The Group recognises the importance of embedding a framework within the organisation that puts in place controls to manage those risks on a continuous basis. Management of risk entails the identification and monitoring of risk regularly and testing that the business operates within the agreed limits.

The Group operates a 'Three Lines of Defence' model which defines clear responsibilities and accountabilities and ensures effective independent oversight and assurance activities take place covering key decisions. This model is summarised in the diagram below.

All three Lines of Defence are responsible for supporting and developing a culture of risk awareness and to support each other in creating the best outcome for the business and its customers. In this way, risk management responsibilities are understood at all levels, ownership and accountability is clear and control and oversight is established throughout the Group.

Management establishes, with Board oversight, structures, reporting lines and appropriate authorities and responsibilities in the pursuit of the business objectives.

It is the aim of the Risk and Compliance function to co-ordinate the management and reporting of the Group's risks, ensuring that risk management is fully integrated into the day-to-day activities of the business. The Group's approach to managing risk within the business is governed by the Board approved Risk Appetite Statements and the Group's RMF. The Group will continually enhance, design and implement a system of operational monitoring and internal controls to monitor and manage business risk. At the operational level, it is the responsibility of each business function to adhere to and effectively manage all Group mandated risk management processes and standards. The business provides periodic feedback to Group risk functions on the adequacy of risk management processes and standards in relation to their particular business function.

First Line of Defence (Risk management by business functions)

The First Line of Defence encompasses the controls that the Group has in place to deal with day-to-day business and manages risks in the business, to pre-agreed tolerances or limits. It identifies, manages and monitors risk within each area of the business, reporting and escalating issues as necessary and evidences control.

Business lines (first line) have primary responsibility for risk decisions, identifying, measuring, monitoring and controlling risks within areas of accountability. They are required to establish effective governance, and control frameworks for their business areas which are compliant with Group policy requirements, to maintain appropriate risk management skills and processes to act within the Group's risk appetite parameters set and approved by the Board.

Second Line of Defence (Independent risk control)

The Second Line of Defence encompasses the risk oversight function, which is independent of the business and other functions. The second line supports a structured approach to risk management by maintaining and implementing the RMF and Group-wide risk policies and monitoring their proper execution by the First Line of Defence. It also provides independent advice and oversight on risks relevant to the Group's strategy and activities, maintains an aggregate view of risk, monitors performance in

relation to the Group's risk appetite, monitors changes in and compliance with external regulation and promotes best practice.

The Second Line of Defence reports systematically and promptly to the Board and senior management about risk management, in particular about perceived new risks or failures of existing controls.

Third Line of Defence (Audit & governance)

Internal Audit will provide independent assurance to the Board through ARC that the First and Second Lines of Defence are both effective in discharging their respective responsibilities. The use of independent compliance monitoring and risk reviews will provide additional support to the integrated assurance programme and ensures that the Group is effectively identifying, managing and reporting its risks.

The methods of assurance are summarised as follows

- Self-review - Line management periodically review processes, systems and activities to ensure that all risk management processes continue to be effective and appropriate;
- Risk review and compliance monitoring - The purpose is to confirm the continued effectiveness of the management of risk within the business. This includes identification of potential control failures;
- Internal Audit - As part of an agreed audit programme, internal audit will provide the Group with risk based and timely assurance on important aspects of the group's risk management control frameworks and practices. It is the responsibility of all business heads to provide responses to audit findings that focus on addressing root causes within the agreed timescales; and
- External reviews - External and assurance reviews provide stakeholders, the Board, the Audit & Risk Committee, business heads, staff and the risk function with an independent assurance over financial reporting.

Risk identification, measurement and control

The process of identifying risk exposures is key to the success of the risk management process as all other elements of the process flow from this initial step. It is crucial, therefore, that a thorough process of risk identification is accomplished on a regular basis.

The process for risk identification, measurement and control is integrated into the overall framework for risk governance. Risk identification processes are forward-looking to ensure emerging risks are identified. Risks are captured in a comprehensive risk register and measured using robust and consistent quantification methodologies. The measurement of risks includes the application of sound stress testing and scenario analysis and considers whether relevant controls are in place before risks are incurred.

When risks have been identified and assessed, the relevant business areas determine an appropriate method for addressing the risks which have been identified.

ILAAP, ICAAP and stress testing

The ICAAP, ILAAP and associated stress testing exercises represent important elements of the Group's ongoing risk management processes. The results of the risk assessment contained in these documents are embedded in the strategic planning process and risk appetite to ensure that sufficient capital and liquidity are available at all times to support the Group's growth plans, as well as to cover its regulatory requirements at all times and under varying circumstances.

The ICAAP and ILAAP are reviewed on at least an annual basis and more often in the event of a material change in capital or liquidity. Ongoing stress testing and scenario analysis outputs are used to inform the formal assessments and determination of required buffers, the strategy and planning for capital and liquidity management and the setting of risk appetite limits.

The Board and senior management have engaged in a number of exercises which have considered and developed stress-test scenarios. The output analysis enables management to evaluate the Group's capital and funding resilience in the face of severe but plausible risk shocks. In addition to the UK variant test on capital prescribed by the PRA, the stress tests have included a range of Group-wide, multi-risk category stress tests, generic and idiosyncratic financial shocks, and operational risk scenario analyses. Stress testing is an integral part of the adequacy assessment processes for liquidity and capital, and the setting of tolerances under the annual review of Group risk appetite.

The Group also performed reverse stress tests to help management understand the full continuum of adverse impact and therefore the level of stress at which the Group would breach its individual capital and liquidity guidance requirements as set by the PRA under the ICAAP and ILAAP processes.

Recovery Plan and Resolution Pack

The Group has prepared and submitted a Recovery Plan and Resolution Pack ('RP&RP') in accordance with PRA Supervisory Statements SS18/13 and SS19/13 and submitted it to the PRA following Board approval.

The plan represents the Group's *'Living Will'* and examines in detail

- The consequences of severe levels of stress (i.e. beyond those in the ICAAP) impacting the Group at a future date;
- The state of preparedness and contingency plan to respond to and manage through such a set of circumstances; and
- The options available to management to withstand and recover from such an environment.

RP & RP is prepared on a bi-annual basis, or more frequently in the event of a material change in the Group's status, capital or liquidity position. The Board and senior management are fully engaged in considering the scenarios and options available for remedial actions to be undertaken.

The Board considers that the Group's public status, its business model and the diversified nature of its business markets provide it with the flexibility to consider selective business or portfolio disposals, loan book run-off, equity-raising or a combination of these actions. The Group would invoke the Recovery Plan and Resolution Pack if required.

Independent Auditor's Report

to the members of PCF Group plc (formerly known as Private & Commercial Finance Group plc) for the year ended 30 September 2017

Our opinion on the financial statements

In our opinion

- the PCF Group plc Group financial statements and the Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs at 30 September 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The PCF Group plc financial statements comprise

Group

- Consolidated Income Statement for the year ended 30 September 2017;
- Consolidated Statement of Comprehensive Income for the year ended 30 September 2017;
- Consolidated Balance Sheet at 30 September 2017;
- Consolidated Statement of Changes in Equity for the year ended 30 September 2017;
- Consolidated Statement of Cash Flows for the year ended 30 September 2017; and
- Related notes 1 to 36 to the financial statements, covering both Group and parent Company, including a summary of significant accounting policies.

Company

- Company Balance Sheet at 30 September 2017;
- Company Statement of Changes in Equity for the year ended 30 September 2017; and
- Company Statement of Cash Flows for the year ended 30 September 2017.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union and, as regards to the Company financial statements, as applied in accordance with the provisions 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 Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard as applied to listed 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.

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

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 whether we have anything material.

- 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 Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters

- Misstatement of loans and advances to customers.
- Fraudulent revenue recognition through inappropriate Effective Interest Rate ('EIR') recognition.
- Impact of banking licence on taking deposits, financial reporting and internal controls.

Audit scope

- We performed an audit of the complete financial information of the Group and Company.
- Our group audit scope included all PCF Group plc subsidiaries.

Materiality

- Overall materiality of £183,577 which represents 5% of profit before tax.

Key audit matters

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

Misstatement of loans and advances to customers

Description of the risk

The Group's lending portfolio relates to small and medium sized enterprises (SMEs) leasing commercial vehicles and individual consumers leasing cars.

Estimating the Group's collective and specific provisioning is subjective, requires the directors to exercise significant judgement and incorporates the use of various assumptions.

Given the level of judgement and subjectivity involved, there is a risk that the impairment provision could be materially misstated.

Refer to the Audit & Risk Committee Report on page 30, note 6.3 and note 21.

Our response to the risk

Our approach focused on

- assessing the design effectiveness and testing the operating effectiveness of key controls over the loan and credit related processes;
- reviewing the key assumptions in any overlays applied to impairment calculation;
- performing back-testing on the key assumptions used by management in impairment calculation;
- recalculating the arithmetical accuracy of the impairment calculation; and
- reviewing the profile and ageing of the reserve ledger.

Our approach included the use of our own valuation specialists to independently review the loan loss provisioning methodology and key assumptions.

Key observations communicated to the Audit & Risk Committee

We concluded to the Audit & Risk Committee that the impairment models and assumptions employed by the Group were reasonable at 30 September 2017.

Our testing concluded that the controls were designed and operating effectively, and the provisioning methodology was in line with IAS 39.

No material differences between the results of our back-testing and the assumptions management had used in their impairment calculation were identified as a results of our testing.

We also concluded that the disclosures presented were in compliance with IFRS.

Fraudulent revenue recognition through inappropriate EIR recognition

Description of the risk

For certain product fees, the Group operates a model to recognise fee income (included within interest income) under the EIR method. The EIR 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.

There is a risk that management could amend the EIR assumptions in order to alter the recognition of revenue and therefore impact overall financial performance.

Refer to the Audit & Risk Committee Report on page 30 and note 6.6.1.

Our response to the risk

Our approach focused on

- testing key controls around the effective interest rate model; and
- testing the key assumptions used in the EIR calculation and how changes made to the EIR model are validate and approved by management.

We have utilised an independent leasing valuation expert to recalculate the value and income recognition of a sample of leases.

Key observations communicated to the Audit & Risk Committee

We concluded to the Audit & Risk Committee that the EIR adjustments recognised in interest income were appropriately derived.

Impact of banking licence on taking of deposits, financial reporting and internal controls

Description of the risk

The Bank was granted permission by the PRA to accept external deposits from 24 July 2017. This resulted in the Bank implementing a new IT platform *(T-24)*, and associated systems and controls to operate as a bank.

New accounting policies and procedures were developed, including expanded disclosures in the Annual Report.

This fundamental change to the business may increase the risks relative to the systems or processes not operating as designed to meet the requirements of a regulated bank. In addition, the interpretation of new accounting policies and disclosures may not be appropriate for a regulated bank.

Refer to corporate information in note 1 to the financial statements and the Market and Business Overview of the Strategic Report on page 10.

Our response to the risk

Our approach focused on

- testing of key IT general controls in *T-24*;
- testing of key application controls in *T-24* over the interest expense calculations;
- assessing the design adequacy and operating effectiveness of new controls operating over the banking system;
- reviewing and assessing the appropriateness of accounting policies and disclosures in the financial statements; and
- confirming the existence of external deposits at year end.

Key observations communicated to the Audit & Risk Committee

During our testing we identified control deficiencies in *T-24* relative to the IT general controls around logical access and change management. These weaknesses have subsequently been remediated by management which we concurred were sufficient and adequate.

As a result of these findings, we had to change our audit approach, extending our testing and sample sizes over the due to customer and interest expense balances to ensure we were satisfied with the completeness, measurement and valuation of these balances.

We reported no adverse findings as a result of this additional testing.

Our procedures over appropriate accounting policy choices and incremental disclosures within the financial statements noted no material matters.

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 each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements.

All the Group's subsidiary entities were subject to a full scope audit.

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 Group to be £183,577 (2016 – £201,050) which is 5% (2016 – 5%) of profit before tax. We have used profit before tax as this is one of the most important considerations for shareholders of the Group in assessing the financial performance of the Group.

During the course of our audit, we re-assessed initial materiality and made adjustments based on the final financial performance of the Company.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016 – 75%) of our planning materiality, namely £137,683 (2016 – £150,787). 75% is at the upper end of the normal range we use which is 50% to 75%. We have set our threshold at 75% based on our previous experience as auditors of the Group and no history of material misstatements have arisen during the course of our audit procedures.

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 £9,179 (2016 – £10,052), which is set at 5% (2016 – 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 set out on pages 2 to 39, including the Strategic Report (set out on pages 3 to 19), Corporate Governance Report (set out on pages 21 to 29), Directors' Report (set out on pages 35 to 36) and Risk Management statement (set out on pages 37 to 39) 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.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions.

Fair, balanced and understandable

- (set out on page 36) the statement given by the directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

Audit & Risk Committee reporting

- (set out on page 30) the section describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the audit; or

Directors' statement of compliance with the UK Corporate Governance Code

- (set out on page 21) the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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 Company 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 statement of directors' responsibilities set out on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our 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.

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

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 Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We understood how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also: reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and the Audit & Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's risk management framework ('RMF') and internal control processes.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of executive management and focused testing, as referred to in the Key Audit Matters section above.
- The Group operates 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 to ensure that the team had the appropriate competence and capabilities.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

6 February 2018

PCF GROUP

Consolidated Income Statement

for the year ended 30 September 2017

	Note	Year ended 30 September 2017 £'000	Reformatted 18 month period ended 30 September 2016 £'000
Interest and similar income	9	**19,970**	27,165
Interest and similar expense	10	**(8,906)**	(12,972)
Net interest income		**11,064**	14,193
Fee and commission income		**512**	677
Fee and commission expense		**(702)**	(847)
Net fees and commission expense	11	**(190)**	(170)
Fair value (loss)/gain on financial instruments	12	**(4)**	2
Net operating income		**10,870**	14,025
Personnel expenses	14	**3,903**	4,262
Depreciation of property and equipment	23	**71**	57
Amortisation of intangible assets	24	**275**	285
Other operating expenses	16	**2,309**	2,708
Impairment loss on financial assets	13	**679**	1,586
Total operating expenses		**7,237**	8,898
Profit before tax		**3,633**	5,127
Income tax expense	17	**(847)**	(1,106)
Profit after tax		**2,786**	4,021
Earnings per 5p ordinary share - basic	18	**1.5**	3.2
Earnings per 5p ordinary share - diluted	18	**1.5**	2.6

Consolidated Comprehensive Income

for the year ended 30 September 2017

	Note	Year ended 30 September 2017 £'000	Reformatted 18 month period ended 30 September 2016 £'000
Profit after taxation		**2,786**	4,021
Fair value gain/(loss) on cash flow hedges		**459**	(311)
Income tax (expense)/credit relating to cash flow hedges		**(72)**	91
Total comprehensive income, net of tax		**3,173**	3,801

The accounting policies and notes on pages 49 to 79 form part of, and should be read in conjunction with, these financial statements.

Consolidated Balance Sheet

for the year ended 30 September 2017

		Group		Company	
	Note	30 September 2017 £'000	30 September 2016 £'000	30 September 2017 £'000	30 September 2016 £'000
Asset					
Cash and balances at central banks	19	**17,018**	5,904	**18**	769
Available-for-sale financial investments	20	**4,511**	–	**–**	–
Loans and advances to customers	21	**145,718**	121,960	**7,765**	12,568
Investment in subsidiary undertakings	22	**–**	–	**17,000**	1,000
Property, plant and equipment	23	**271**	147	**–**	147
Goodwill and other intangible assets	24	**2,704**	764	**–**	367
Deferred tax assets	25	**1,205**	1,424	**163**	89
Other assets	26	**1,041**	503	**830**	462
Total assets		**172,468**	130,702	**25,776**	15,402
Liabilities					
Due to banks	27	**77,067**	102,349	**–**	–
Debt securities in issue	28	**–**	956	**–**	956
Derivative financial instruments	29	**–**	491	**–**	–
Due to customers	30	**53,120**	–	**–**	–
Current tax liabilities		**166**	291	**–**	–
Other liabilities	31	**3,454**	1,908	**1,075**	967
Total liabilities		**133,807**	105,995	**1,075**	1,923
Equity					
Issued share capital	32	**10,611**	7,956	**10,611**	7,956
Share premium	32	**8,524**	174	**8,524**	174
Other reserves	32	**–**	(373)	**–**	–
Own shares	32	**(355)**	(305)	**(355)**	(305)
Retained earnings	32	**19,881**	17,255	**5,921**	5,654
Total equity		**38,661**	24,707	**24,701**	13,479
Total liabilities and equity		**172,468**	130,702	**25,776**	15,402

The Company reported a profit for the year ended 30 September 2017 of £427,000 (18 month period ended 30 September 2016 – loss of £20,000).

The financial statements were approved and authorised for issue by the Board on 2 February 2018.

On behalf of the Board

Scott Maybury
Director

David Bull
Director

The accounting policies and notes on pages 49 to 79 form part of, and should be read in conjunction with, these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 September 2017

Group	Note	Issued capital £'000	Share premium £'000	Own shares £'000	Capital reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
		Attributable to equity holders of the Company						
		Non-distributable					Distributable	
Balance at 1 October 2016		7,956	174	(305)	–	(373)	17,255	24,707
Profit for the year		–	–	–	–	–	2,786	2,786
Issuance of new shares		2,655	8,805	–	–	–	–	11,460
Fair value gain on cash flow hedges recognised in other comprehensive income		–	–	–	–	373	–	373
Exercise of convertible debt option		–	–	(50)	–	–	–	(50)
Share based payments		–	–	–	–	–	52	52
Transaction costs	32	–	(455)	–	–	–	–	(455)
Cash dividends		–	–	–	–	–	(212)	(212)
Balance at 30 September 2017		10,611	8,524	(355)	–	–	19,881	38,661
Balance at 1 April 2015		2,656	4,398	(305)	3,873	(127)	1,363	11,858
Profit for the year		–	–	–	–	(2)	4,021	4,019
Issuance of new shares		–	3,711	–	–	–	–	3,711
Fair value gain on cash flow hedges recognised in other comprehensive income		–	–	–	–	(244)	–	(244)
Capital restructure - transfer to retained earnings		–	(7,935)	–	(3,873)	–	11,808	–
Exercise of convertible debt option		5,300	–	–	–	–	–	5,300
Share based payments		–	–	–	–	–	63	63
Balance at 30 September 2016		7,956	174	(305)	–	(373)	17,255	24,707

Company	Note	Issued capital £'000	Share premium £'000	Own shares £'000	Capital reserve £'000	Retained earnings £'000	Total equity £'000
		Attributable to equity holders of the Company					
		Non-distributable				Distributable	
Balance at 1 October 2016		7,956	174	(305)	–	5,654	13,479
Profit for the year		–	–	–	–	427	427
Issuance of new shares		2,655	8,805	–	–	–	11,460
Exercise of convertible debt option		–	–	(50)	–	–	(50)
Share based payments		–	–	–	–	52	52
Transaction costs	32	–	(455)	–	–	–	(455)
Cash dividends		–	–	–	–	(212)	(212)
Balance at 30 September 2017		10,611	8,524	(355)	–	5,921	24,701
Balance at 1 April 2015		2,656	4,398	(305)	3,873	(6,197)	4,425
Loss for the year		–	–	–	–	(20)	(20)
Issuance of new shares		–	3,711	–	–	–	3,711
Capital restructure - transfer to retained earnings		–	(7,935)	–	(3,873)	11,808	–
Exercise of convertible debt option		5,300	–	–	–	–	5,300
Share based payments		–	–	–	–	63	63
Balance at 30 September 2016		7,956	174	(305)	–	5,654	13,479

The accounting policies and notes on pages 49 to 79 form part of, and should be read in conjunction with, these financial statements.

Consolidated Statement of Cash Flows

at 30 September 2017

	Note	Group 30 September 2017 £'000	Group 30 September 2016 £'000	Company 30 September 2017 £'000	Company 30 September 2016 £'000
Operating activities					
Profit/(loss) before tax		**3,633**	5,127	**569**	(4)
Adjustment for					
Change in operating assets					
Net change in loans and advances		**(24,615)**	(23,743)	**4,803**	530
Net change in other assets		**(318)**	631	**-**	(227)
Transfer of property, plant and equipment to subsidiary		**-**	–	**2,056**	–
Change in operating liabilities					
Net change in amounts due to customers		**53,120**	–	**-**	–
Net change in derivative financial instruments		**(119)**	–	**-**	–
Net change in debt securities in issue		**-**	–	**(935)**	–
Net change in other liabilities		**1,547**	279	**-**	110
Other non-cash items included in profit/(loss) before tax					
Depreciation of property, plant and equipment	23	**71**	57	**71**	57
Amortisation of other intangible assets	24	**275**	285	**275**	284
Amortisation of share issue costs		**-**	204	**-**	204
Share-based payments		**52**	63	**52**	63
Impairment losses on financial assets	13	**679**	1,586	**-**	–
Fair value movement on derivative financial instrument		**4**	(2)	**-**	–
Income tax paid		**(825)**	(640)	**-**	–
Net cash flows from/(used in) operating activities		**33,504**	(16,153)	**6,891**	1,017
Investing activities					
Investment in subsidiary	22	**-**	–	**(16,000)**	–
Purchase of available-for-sale financial instruments	20	**(4,511)**	–	**-**	–
Purchase of property, plant and equipment	23	**(195)**	(99)	**(195)**	(99)
Purchase of intangible assets	24	**(2,215)**	(138)	**(2,215)**	(138)
Net cash flows used in investing activities		**(6,921)**	(237)	**(18,410)**	(237)
Financing activities					
Proceeds from capital during the year		**11,005**	–	**11,005**	–
Purchase of own shares	32	**(50)**	–	**(50)**	–
Proceeds from borrowings		**69,451**	51,608	**-**	–
Repayments of borrowings		**(95,688)**	(28,750)	**-**	–
Dividends paid to equity holders of the parent company		**(187)**	–	**(187)**	–
Net cash flows (used in)/from financing activities		**(15,469)**	22,858	**10,768**	–

The accounting policies and notes on pages 49 to 79 form part of, and should be read in conjunction with, these financial statements.

PCF GROUP

Consolidated Statement of Cash Flows

at 30 September 2017

	Note	Group		Company	
		30 September 2017 £'000	30 September 2016 £'000	30 September 2017 £'000	30 September 2016 £'000
Net increase/(decrease) in cash and cash equivalents		**11,114**	6,468	**(751)**	780
Cash and cash equivalents at 1 January		**5,904**	(564)	**769**	(11)
Cash and cash equivalents at 30 September		**17,018**	5,904	**18**	769
Operational cash flows from interest and dividends					
Interest paid		**5,002**	7,511	**–**	–
Interest received		**5**	–	**–**	–

The accounting policies and notes on pages 49 to 79 form part of, and should be read in conjunction with, these financial statements.

Notes to the Financial Statements

for the year ended 30 September 2017

1 Corporate information

PCF Group plc (formerly known as Private & Commercial Finance Group plc) ('the Company') is a public company, limited by shares, registered in England, domiciled in the United Kingdom and together with its subsidiaries is referred to as the 'Group'. The Company's ordinary shares are listed on the Alternative Investment Market ('AIM') of the London Stock Exchange. The Company's registered office is at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.

The principal activities of the Company are investment holding and support services to the subsidiary undertakings. The Company's wholly-owned subsidiary, PCF Bank Limited (formerly known as PCF Group Holdings Limited) (the 'Bank'), was granted a banking licence on 6 December 2016. The Bank is a specialist banking group engaged in the provision of finance for vehicles, plant and equipment for consumers and businesses. The Bank also provides retail savings products.

The Group's consolidated financial statements for the year ended 30 September 2017 were authorised for issue in accordance with a resolution of the Board on 2 February 2018.

2 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments and derivative financial instruments, both of which have been measured at fair value. The consolidated financial statements are presented in Pound Sterling (£) and all values are rounded to the nearest thousand (£'000), except where otherwise indicated.

3 Statement of compliance

The consolidated financial statements of the Group 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.

4 Presentation of financial statements

The Group and the Company present their financial statements for the first time in the banking format with the main differences in the presentation being

- gross profit is reported as 'interest income and similar income';
- banking facilities fees and broker commission fees are moved from administration expenses to 'interest and similar expense';
- impairment losses are disclosed separately from administration expenses; and
- new notes have been incorporated in the financial statements in line with the banking status. These include notes on financial instruments and financial risk management.

The comparatives for the 18 month period ended 30 September 2016 are reformatted to be presented under the banking format.

The balance sheet is presented in order of liquidity. An analysis regarding recovery or settlement within 12 months of the reporting date (current) and more than 12 months of the reporting date (non-current) is presented in note 34.

Financial assets and financial liabilities are generally reported gross in the consolidated balance sheet. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances

- normal course of business.
- the event of default.
- the event of insolvency or bankruptcy of the Group, the Company or the Bank and/or its counterparties.

5 Basis of consolidation

The consolidated financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings, of which there were 10 at 30 September 2017 (11 at 30 September 2016). The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions which are recognised in assets or liabilities, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases.

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. Of the profit for the financial year, a profit of £427,000 (18 month period ended 30 September 2016 – loss of £20,000) was attributable to the Company.

6 Summary of significant accounting policies

6.1 Financial instruments - initial recognition and subsequent measurement

6.1.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, (i.e. the date that the Group becomes a party to the contractual provisions of the instrument). This includes regular 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 customer's account. The Group recognises 'due to customers' balances when funds are received by the Group.

6.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and management's intention when acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

6.1.3 The effective interest rate method

The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change is recorded as 'interest and similar income' for financial assets and 'interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instrument and are further explained in notes

- 6.1.4 for 'available-for-sale instruments';
- 6.1.5 for 'loans and advances to customers';
- 6.3 for 'impairment of financial assets'; and
- 6.6 for 'recognition of income and expenses'.

6.1.4 Available-for-sale financial instruments

Available-for-sale investments include debt securities. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions.

The Group has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value and recognised in other comprehensive income.

Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method, which takes into account any discount/premium and qualifying transaction costs that are an integral part of the instrument's yield.

6.1.5 Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market.

Conditional sale agreements, hire purchase contracts and finance are initially recognised at the lower of fair value of the asset or the present value of the minimum term payments. These loans and receivables are subsequently measured at an amount equal to the net investment in the contract, less any provision for impairment. Other loans and receivables, including personal loans, are initially recognised at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the EIR method, less any provision for impairment.

6.2 De-recognition of financial assets and financial liabilities

6.2.1 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 when the rights to receive cash flows from the asset have expired. The Group also de-recognises the assets if it has both transferred the asset and the transfer qualifies for de-recognition.

A transfer only qualifies for de-recognition if either

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In relation to the above, the Group considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

6.2.2 Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. 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. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

6.3 Impairment of financial asset

The Group assesses on an on-going basis whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred), discounted at the financial asset's original EIR. The carrying amount of the asset is reduced through the use of a loan loss provision. The amount of the loss is recognised in the income statement as a loan loss provisioning charge.

The Group first assesses whether objective evidence of impairment exists individually for financial assets which are individually significant and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Future cash flows for a group of loan assets that are collectively evaluated for impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with similar credit characteristics.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

6.3.1 Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on default of financial assets. The collateral is assets subject to financing. The fair value of collateral is generally assessed, as a minimum, at inception and based on the Group's quarterly reporting schedule.

6.3.2 Collateral repossessed

The Group's policy is to sell repossessed assets. Repossessed assets are immediately sold through various auction houses and, should the asset generate a surplus over the outstanding debt, this is returned to the borrower.

6.4 Derivative financial instrument and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its exposure to interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the period which do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by way of a discounted cash model analysis with reference to relevant market interest rates and yield curves.

The Group uses cash flow hedges when hedging exposure to variability in cash flows which is attributable to a particular risk associated with a recognised asset or liability. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows

- the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst any ineffective portion is recognised immediately in the income statement;
- amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs; and
- if the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

6.5 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 the asset.

6.5.1 Group as a lessee

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

6.5.2 Group as a lessor

Leases where the Group does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

6.6 Recognition of income and expenses

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

6.6.1 Interest and similar income and expense

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income or expense is recorded using the EIR. 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.

6.6.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories.

- Secondary lease income arising from finance leases that completed the 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.

6.7 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

6.8 Property plant and equipment

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

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

Computer hardware	–	3 to 10 years
Office equipment, fixtures and fittings	–	5 years
Operating lease equipment	–	1 to 10 years

Property and equipment are de-recognised on disposal or when no future economic benefits are expected from their 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.

6.9 Goodwill

Goodwill arising on acquisition represents the excess of the cost of a business combination over the fair values of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised but is reviewed at least annually for impairment. For the purpose of impairment testing, goodwill is allocated to each Cash Generating Unit ('CGU'). Each CGU is consistent with the Group's primary reporting segments. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

6.10 Intangible assets

The Group's other intangible assets include the value of computer software and 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 Group.

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 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.

6.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For all non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Impairment losses relating to goodwill are not reversed in future periods. The Group did not need to record impairment for its non-financial assets over the reported periods. Disclosures of the assumptions used to test for impairment are given in note 24.

6.12 Share-based payment transactions

The Company operates an approved and an unapproved equity-settled share option plan for its employees. For awards granted after 7 November 2002 (and not vested by 1 January 2006) and in accordance with IFRS 2 'Share-based payment', an expense is recognised in respect of the fair value of employee services received in exchange for the grant of share options. A corresponding amount is recorded as an increase in equity within retained earnings. The expense is spread over the relevant vesting period and is calculated by reference to the fair value of the share options granted.

In arriving at fair values, the Black-Scholes pricing model is used and estimates are made of dividend yields, share price volatility, risk-free rates and the expected life of the share options.

6.13 Pension benefits

The Group operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under personnel expenses. Unpaid contributions are recorded as a liability. The Group does not operate a defined benefit plan.

6.14 Provisions

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

6.15 Taxes

6.15.1 Current tax

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Detailed disclosures are provided in note 17.

6.15.2 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.

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 available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to other comprehensive income. These exceptions are subsequently reclassified from other comprehensive income to the income statement together with the respective deferred loss or gain. The Group also recognises the tax consequences of payments and issuing costs related to financial instruments that are classified as equity, directly in equity.

The Group only offsets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Group's intention to settle on a net basis.

6.15.3 Value Added Tax ('VAT')

Revenues, expenses and assets are recognised net of the amount of recoverable 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.

6.16 Own shares

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

6.17 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

6.18 Short-term benefits

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

6.19 Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either the termination of employment or an offer of voluntary redundancy.

6.20 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

6.20.1 IFRS 9 Financial Instruments

IFRS 9

The impact of adoption of IFRS 9 'Financial Instruments' is still being assessed. IFRS 9 was issued in July 2014 (and endorsed for adoption in the EU in November 2016) and will be adopted by the Group with effect from 1 October 2018. The primary changes that IFRS will introduce are in relation to the classification, measurement and impairment of financial assets.

Classification and Measurement

IFRS 9 changes the classification of financial assets by reducing the number of categories to just three (amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVTPL')). The final classification is based on a combination of the business model under which the financial asset is held and the contractual cash flow characteristics of the instruments. The Group is currently undertaking an assessment to determine the potential impact of these changes. These are unlikely to result in significant changes to existing measurement bases. However, the final impact will be dependent on the circumstances prevailing on 1 October 2018.

Impairment

IFRS 9 changes the basis on which financial assets are assessed for impairment and moves this from an incurred credit loss methodology to an expected credit loss ('ECL') methodology. The Standard requires a 12 month ECL calculation to be performed on financial assets where there has not been a significant increase in credit risk since initial recognition. Where a significant increase in credit risk has been identified, a lifetime ECL calculation is required. The Group is currently assessing the potential impact of the impairment changes introduced by IFRS 9.

6.20.2 IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued 'IFRS 15 Revenue from Contracts with Customers', effective for periods beginning on 1 January 2018, with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g. IFRS 9 and IFRS 16).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adoption of IFRS 15 and is currently evaluating its impact.

6.20.3 IFRS 16 Leases

The IASB issued the new standard for accounting for leases, IFRS 16 Leases, in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group does not anticipate early adoption of IFRS 16 and is currently evaluating its impact.

6.20.4 Amendments to IAS 12 income taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Group is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

6.20.5 Amendments to IAS 7 Statements of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to understand better the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g. gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

7 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions, if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to the judgements/estimates involved.

7.1 Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement.

The detailed approach for this is explained in note 6.3 which includes an element of management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

Additionally, judgements around the inputs and calibration of the collective impairment models include the criteria for the identification of smaller homogenous portfolios, the effect of concentrations of risks and economic data (including levels of unemployment, repayment trends, collateral values of assets under financing, the performance of different individual groups, and bankruptcy trends), and for determination of the emergence period. The methodology and assumptions are reviewed regularly in the context of actual loss experience.

The impairment methodology and its application are disclosed in more detail in note 6.3.

7.2 Effective Interest Rate ('EIR') method

The Group's EIR methodology, as explained in note 6.1.3, 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 life cycle of the instruments, as well as expected changes to the Bank's base rate and other fee income/expense that are integral parts of the instrument.

8 Segment information

The Group has been organised into two reportable segments with the addition of its retail deposit-taking function being grouped into the existing consumer finance segment from July 2017, subsequent to the banking licence being granted in December 2016. For management purposes, the Group has been organised into two operating segments based on products and services, as follows.

Consumer finance — Individual customer deposits and consumer hire purchase finance for motor vehicles.

Business finance — Business hire purchase and lease finance for vehicles, plant and equipment.

The Executive Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the consolidated financial statements. However, income taxes are managed on a group basis and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue for the 18 month period ended 30 September 2016 or year ended 30 September 2017.

Segment assets include cash and balances at central banks, loans and advances to customers, available-for-sale financial instruments and tax assets. Segment liabilities comprise of amounts due to banks, amount due to customers, derivative financial instruments and tax liabilities, but exclude certain borrowings that are for general corporate purposes.

No geographical analysis is presented because the Group only operates within the United Kingdom.

The following table presents income and profit and certain asset and liability information for the Group's operating segments.

Group **Year ended 30 September 2017**	Consumer finance £'000	Business finance £'000	Total £'000
Interest and similar income	11,292	8,678	19,970
Interest and similar expense	(5,298)	(3,608)	(8,906)
Net interest income	5,994	5,070	11,064
Fee and commission income	115	397	512
Fee and commission expense	(397)	(305)	(702)
Net fees and commission (expense)/income	(282)	92	(190)
Net loss on financial assets and liabilities designated at fair value through profit or loss	(4)	–	(4)
Net operating income	5,708	5,162	10,870
Personnel expenses	2,207	1,696	3,903
Depreciation of property and equipment	40	31	71
Amortisation of intangible assets	156	119	275
Other operating expenses	1,306	1,003	2,309
Impairment loss on financial instruments	384	295	679
Total operating expenses	4,093	3,144	7,237
Segment profit before tax	1,615	2,018	3,633
Income tax expense	(479)	(368)	(847)
Profit for the year	1,136	1,650	2,786
Assets			
Additions to property and equipment	110	85	195
Additions to other intangible assets	1,253	962	2,215
Total assets	85,821	86,647	172,468
Total liabilities	93,177	40,630	133,807

Group 18 months ended 30 September 2016	Consumer finance £'000	Business finance £'000	Total £'000
Interest and similar income	16,515	10,650	27,165
Interest and similar expense	(7,979)	(4,993)	(12,972)
Net interest income	8,536	5,657	14,193
Fee and commission income	108	569	677
Fee and commission expense	(515)	(332)	(847)
Net fees and commission (expense)/income	(407)	237	(170)
Net loss on financial assets and liabilities designated at fair value through profit or loss	2	–	2
Net operating income	8,131	5,894	14,025
Personnel expenses	2,591	1,671	4,262
Depreciation of property and equipment	35	22	57
Amortisation of intangible assets	173	112	285
Other operating expenses	1,646	1,062	2,708
Impairment loss on financial instruments	964	622	1,586
Total operating expenses	5,409	3,489	8,898
Segment profit before tax	2,722	2,405	5,127
Income tax expense	(672)	(434)	(1,106)
Profit for the year	2,050	1,971	4,021
Assets			
Additions to property and equipment	61	39	100
Additions to other intangible assets	84	54	138
Total assets	95,565	35,137	130,702
Total liabilities	77,545	28,450	105,995

9 Interest and similar income

Group	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Cash and short-term funds	**4**	–
Loans and advances to customers	**19,965**	27,165
Financial investments - available-for-sale	**1**	–
	19,970	27,165

Included in the interest income of loans and advances to customers is £5m (2016 – £15m), with a corresponding adjustment to the amounts recorded in the balance sheet, reflecting the changes to the Group's EIR assumptions, incorporating the characteristics and expected behaviour of the balances.

10 Interest and similar expense

Group	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Due to banks	**4,951**	8,226
Due to customers	**124**	–
Credit-related fees and commission forming part of EIR	**3,831**	4,746
	8,906	12,972

11 Net fee and commission expense

Group	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Fees and commission income		
Secondary lease income	**348**	519
Other fees not forming part of EIR	**164**	158
	512	677
Fees and commission expenses		
Debt recovery and valuation fees	**(334)**	(487)
Creditworthiness due diligence costs	**(368)**	(360)
	(702)	(847)
Net fee and commission expense	**(190)**	(170)

12 Fair value (loss)/gain on financial instruments

This relates to derivative financial instrument in the form of interest rate swaps that were used by the Group as cash flow hedging instruments. At 30 September 2017, there were no outstanding positions (30 September 2016 – £491,000). Movements in the amounts are recognised in other reserves. Once the position has been closed, the reserves will be recognised in the income statement.

13 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 34. The charge during the year was as follows.

Group	Instalment credit £'000	Finance lease £'000	Total £'000
30 September 2017			
Impairment charge for the year on loans and advances to customers	608	71	679
30 September 2016			
Impairment charge for the 18 month period ended 30 September on loans and advances to customers	1,253	333	1,586

Movements in impairment charge and amounts written off are further detailed in note 21.

14 Personnel expenses

The aggregate payroll costs of the Group (including directors and Chairman) were as follows.

Group	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Salaries and fees	**3,350**	3,597
Social security cost	**405**	473
Pension costs - defined contribution plan	**111**	155
Share-based payments	**37**	37
	3,903	4,262

The average monthly number of persons employed by the Group during the year was 60 (18 month period ended 30 September 2016 – 49).

15 Directors' remuneration and staff costs

Group	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Directors' remuneration		
Directors' emoluments	**997**	1,180
Payments in respect of personal pension plans	**49**	57
Long-term incentive schemes	**28**	33
	1,074	1,270

There are three directors receiving company contributions to personal pension schemes (30 September 2016 – three).

Directors' remunerations are disclosed in the Nomination & Remuneration Committee Report on page 33.

Share-based payments

Company equity-settled share option plans

The grant price is determined by reference to the average mid-market price of the Company's ordinary shares for the three days immediately preceding the date of the grant. The options are conditional on continued employment and have a minimum vesting period of three years. If options remain unexercised after a period of ten years from the date of the grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest. The weighted average remaining contractual life is 7 years (30 September 2016 – 8 years).

	Company at 30 September 2017 £'000	Weighted average exercise price (pence)	Company at 30 September 2016 £'000	Weighted average exercise price (pence)
Outstanding at the beginning of the year/period	**2,610**	**15**	1,700	9
Granted during the year/period	**350**	**23**	1,410	20
Expired during the year/period	**–**	**–**	(500)	9
Outstanding at the end of the year/period	**2,960**	**16**	2,610	15
Exercisable at the end of the year/period	**1,200**	**9**	–	–

The fair value was measured at the grant date using the Black-Scholes model. The inputs were as follows.

During the year ended 30 September 2017

Grant date	7 June 2017
Share price at grant date	22.6p
Exercise price	22.6p
Shares under option	350,000
Vesting period	3 – 10 years
Expected volatility	30%
Expected life	6.5 years
Risk-free rate	0.3%
Expected dividends	nil
Fair value per model at grant date	6.9p

During the 18 month period ended 30 September 2016

Grant date	22 June 2015	4 August 2015	25 January 2016	15 July 2016	28 September 2016
Share price at grant date	18.5p	17.6p	21.2p	25.9p	26.6p
Exercise price	18.5p	17.6p	21.2p	25.9p	26.6p
Shares under option	600,000	300,000	510,000	210,000	50,000
Vesting period	3–10 years	3–10 years	3–10 years	3–10 years	3–10 years
Expected volatility	30%	30%	30%	30%	30%
Expected life	6.5 years	6.5 years	6.5 years	6.5 years	6.5 years
Risk-free rate	0.5%	0.5%	0.5%	0.5%	0.3%
Expected dividends	nil	nil	nil	nil	nil
Fair value per model at grant date	5.7p	5.5p	6.6p	8.0p	8.1p

The expected volatility is based on historical volatility over a period consistent with the expected option life. The risk-free rate is based on UK Government bonds.

16 Other operating expenses

Group	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Advertising and marketing	**45**	23
Administrative expenses	**648**	816
Information technology and systems	**461**	521
Professional fees	**626**	833
Rental charges payable under operating lease	**430**	361
Expenses relating to banking services and licences	**99**	154
	2,309	2,708

Professional fees include fees payable to the auditor of £181,000 (18 month period ended 30 September 2016 – £172,000), as analysed below.

Group	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Statutory audit of the Company	**72**	68
Statutory audit of the Company's subsidiaries	**75**	70
Tax services paid to a firm other than Ernst & Young LLP	**34**	34
	181	172

17 Income tax

(a) **The components of income tax expense for the year ended 30 September 2017 and its comparative**

Group	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Current tax		
UK Corporation Tax on profit for the year/period	**(558)**	(776)
Adjustments in respect of prior periods	**(143)**	1
Total current tax	**(701)**	(775)
Deferred tax		
Origination and reversal of temporary differences	**(129)**	(261)
Adjustments in respect of prior periods	**138**	–
Change in tax rate	**(155)**	(71)
	(146)	(332)
Total tax charge for the year/period	**(847)**	(1,107)

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

Group	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Relating to cash flow hedges	**-**	60
Relating to share-based payments	**-**	26
Change in tax rate	**14**	(5)
	14	91

(c) **Factors affecting current tax charge for the year/period**

The tax assessed for the period differs from the standard rate of Corporation Tax in the UK of 19.5% (18 month period ended 30 September 2016 – 20%). The differences are explained below.

The Finance (No.2) Act 2015 enacted a reduction in the main rate of Corporation Tax (for all profits except ring fence profits) at 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.

Group	Year ended 30 September 2017 £'000	18 months ended 30 September 2016 £'000
Accounting profit before tax	**3,633**	5,127
Corporation Tax in the UK of 19.5% (18 month period ended 30 September 2016 – 20%)	**(708)**	(1,024)
Effects of		
Expenses not deductible for taxation purposes	**(6)**	(13)
Adjustments in respect of prior years/periods	**(6)**	1
Change in tax rate	**(127)**	(71)
Utilisation of previously unrecognised losses	**–**	1
Income tax expense as reported in the consolidated income statement	**(847)**	(1,106)
Effective tax rate for the year/period ended	**23%**	22%

18 Earnings per share

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

Diluted EPS is calculated by dividing the net profit attributable to ordinary equity holders of the Group (after adjusting for interest on the convertible loan notes, in each case, net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

Company	30 September 2017 £'000	30 September 2016 £'000
Net profit attributable to the equity holders of the Company	**2,786**	4,021
Effect of dilution-interest on convertible loan notes	**–**	446
Net profit attributable to equity holders of the Company adjusted for the effect of dilution	**2,786**	4,467

	30 September 2017 '000 units	30 September 2016 '000 units
Basic weighted average number of shares	**190,409**	124,289
Effect of dilutive convertible loan notes	**123**	46,090
Dilutive weighted average number of shares	**190,532**	170,379
Basic earnings per 5p ordinary share	**1.5**	3.2
Diluted earnings per 5p ordinary share	**1.5**	2.6

19 Cash and balances at central banks

	Group		Company	
	30 September 2017 £'000	30 September 2016 £'000	30 September 2017 £'000	30 September 2016 £'000
Cash and demand deposits	**1,455**	5,904	**18**	769
Money market funds	**15,563**	–	**–**	–
	17,018	5,904	**18**	769

The Group and the Company do not have monies held in trust for clients at the reporting date.

20 Available-for-sale financial investments

Group	30 September 2017 £'000	30 September 2016 £'000
UK Government debt securities	**4,511**	–

UK Government debt securities at year end had a maturity of within one year. There are no allowances for impairment losses on available-for-sale financial investments during the year and at the year end.

21 Loans and advances to customers

Group	30 September 2017 £'000	30 September 2016 £'000
Consumer lending - gross	**93,218**	90,440
Business lending - gross	**87,815**	63,597
	181,033	154,037
Allowance for impairment losses	**(3,965)**	(3,881)
Unearned future finance income	**(31,350)**	(28,196)
	145,718	121,960

Impairment allowance for loans and advances to customers.

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

Group	Consumer finance £'000	Business finance £'000	Total £'000
At 1 October 2016	2,179	1,702	3,881
Charge for the year (note 13)	384	215	679
Recoveries	(330)	(265)	(595)
At 30 September 2017	2,233	1,732	3,965
Made up of			
Individual impairment	2,058	1,645	3,703
Collective impairment	175	87	262
Total impairment	2,233	1,732	3,965

Group	Consumer finance £'000	Business finance £'000	Total £'000
At 1 April 2015	2,147	2,039	4,186
Charge for the period (note 13)	1,036	550	1,586
Recoveries	(1,004)	(887)	(1,891)
At 30 September 2016	2,179	1,702	3,881
Made up of			
Individual impairment	2,051	1,622	3,673
Collective impairment	128	80	208
Total impairment	2,179	1,702	3,881

Loans and advances at Company level relates to subsidiary undertakings and are eliminated at Group level. These balances arose mainly from daily operations, payments on behalf and subordinated loan to subsidiary undertakings. Loans and advances to subsidiary undertakings are unsecured, interest-free and repayable on demand.

22 Investment in subsidiary undertakings

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings. All the subsidiaries are incorporated and operate in the United Kingdom and are registered in England and Wales. The Company does not have any joint ventures or associates. The subsidiaries of the Company were as follows.

Name of company	Nature of business	Percentage of equity interest 30 September 2017	Percentage of equity interest 30 September 2016
PCF Bank Limited (formerly known as PCF Group Holdings Limited) (the 'Bank')	Banking, leasing & hire purchase	100	100
AMC Trust Limited	Holding company	100*	100*
PCF Finance Group Limited (formerly known as PCF Group Limited)	Holding company	100*	100*
Private and Commercial Finance Company Limited	Instalment credit	100*	100*
PCF Asset Finance Limited	Hire purchase	100*	100*
PCF Business Finance Limited	Hire purchase	100*	100*
PCF Leasing Limited	Leasing	100*	100*
PCF Credit Limited	Leasing & hire purchase	100*	100*
PCF Portfolio Management Limited**	Dissolved	-	100*
PCF Equipment Leasing Limited	Dormant	100*	100*
PCF Financial Leasing Limited	Dormant	100*	100*

*Held by a subsidiary of the Company
**The dormant company was dissolved on 27 December 2016

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

All companies have an Accounting Reference Date of 30 September.

Company	30 September 2017 £'000	30 September 2016 £'000
Cost and net book value		
At beginning of the year/period	**1,000**	1,000
Addition during the year/period	**16,000**	–
At 30 September	**17,000**	1,000

The Company has an investment in PCF Bank Limited (formerly known as PCF Group Holdings Limited) (the 'Bank'). The net asset value of the Bank at 30 September 2017 was £25,710,000 (30 September 2016 – £1,118,000). If the investment had been sold at this valuation, any potential capital gains arising on the sale would have been exempt under the substantial shareholdings legislation. If the disposal had given rise to a loss, the loss would not be an allowable loss for tax purposes. There was an additional investment of £16,000,000 in the Bank during the year (2016 – £nil).

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

23 Property, plant and equipment

Group	Leasehold improvement 30 September 2017 £'000	Office equipment 30 September 2017 £'000	Total 30 September 2017 £'000
Cost			
At 1 October 2016	26	254	280
Additions during the year	195	–	195
Disposals during the year	–	(42)	(42)
At 30 September	221	212	433
Accumulated depreciation			
At 1 October 2016	9	124	133
Disposals during the year	–	(42)	(42)
Depreciation during the year	6	65	71
At 30 September	15	147	162
Net book value at 30 September	206	65	271

Group	Leasehold improvement 30 September 2016 £'000	Office equipment 30 September 2016 £'000	Total 30 September 2016 £'000
Cost			
At 1 April 2015	26	154	180
Additions during the period	–	100	100
At 30 September	26	254	280
Accumulated depreciation			
At 1 April 2015	3	73	76
Depreciation during the period	6	51	57
At 30 September	9	124	133
Net book value at 30 September	17	130	147

The majority of the property, plant and equipment is computer hardware and office machinery.

During the year, the Company's property, plant and equipment which includes leasehold improvements, computer hardware and office machinery with a net book value amounting to £271,000 (30 September 2016 – £nil) was transferred to the Bank following a reorganisation of the Group's assets and liabilities. The movements of the property, plant and equipment are as detailed below.

Company	Leasehold improvement 30 September 2017 £'000	Office equipment 30 September 2017 £'000	Total 30 September 2017 £'000
Cost			
At 1 October 2016	26	254	280
Additions during the year	195	–	195
Disposals during the year	–	(42)	(42)
Transferred during the year	(221)	(212)	(433)
At 30 September	–	–	–
Accumulated depreciation			
At 1 October 2016	9	124	133
Disposals during the year	–	(42)	(42)
Depreciation during the year	6	65	71
Transferred during the year	(15)	(147)	(162)
At 30 September	–	–	–
Net book value at 30 September	–	–	–

Company	Leasehold improvement 30 September 2016 £'000	Office equipment 30 September 2016 £'000	Total 30 September 2016 £'000
Cost			
At 1 April 2015	26	154	180
Additions during the period	–	100	100
At 30 September	26	254	280
Accumulated depreciation			
At 1 April 2015	3	73	76
Depreciation during the period	6	51	57
At 30 September	9	124	133
Net book value at 30 September	17	130	147

24 Goodwill and other intangible assets

Goodwill relates entirely to the Group's Consumer Finance Division and arises from the acquisition of a subsidiary company, TMV Finance Limited ('TMV'), in November 2000. Subsequently, a corporate reorganisation resulted in the assets and business model of TMV being transferred to its related companies in the Group, PCF Credit and the Bank.

The rationale for the acquisition was to increase market share and adopt the business model for new business generation which involved contractual relationships with broker introductory sources. As the business model was new to the Group at the time of acquisition and continued to be the primary source of new business and introductory sources for the Group until present time, the management believe that the underlying net assets from PCF Credit and the Bank are sufficient to cover the carrying value of the goodwill.

Group	30 September 2017 £'000	30 September 2016 £'000
Cost and net book value		
At 1 October 2016 and 30 September 2017	**397**	397

Impairment testing of goodwill

Goodwill relates entirely to the Group's Consumer Finance Division and arises from the acquisition of a subsidiary Company in November 2000. There has been no impairment to goodwill in the current or prior year as underlying net assets of Private and Commercial Finance Company Limited and the Consumer Finance Division business in PCF Credit Limited are sufficient to cover the carrying value of the goodwill, and there is no indication of impairment.

Intangible assets

Intangible assets comprised solely of computer software and capitalised expenses relating to the project of applying to become and becoming a bank.

During the year, the Company's intangible assets with a net book value amounting to £2,307,000 (30 September 2016 – £nil) were transferred to the Bank following a reorganisation of the Group's assets and liabilities. The movements of the intangible assets are as detailed below.

	Group		Company	
	30 September 2017 £'000	30 September 2016 £'000	30 September 2017 £'000	30 September 2016 £'000
Cost				
At 1 October 2016/1 April 2015	**2,396**	2,258	**2,396**	2,258
Additions during the year/period	**2,215**	138	**2,215**	138
Transfers during the year	**–**	–	**(4,611)**	–
At 30 September	**4,611**	2,396	**–**	2,396
Accumulated depreciation				
At 1 October 2016/1 April 2015	**2,029**	1,744	**2,029**	1,744
Amortisation during the year/period	**275**	285	**275**	285
Transfers during the year	**–**	–	**(2,304)**	–
At 30 September	**2,304**	2,029	**–**	2,029
Net book value at 30 September	**2,307**	367	**–**	367

	Group		Company	
	30 September 2017 £'000	30 September 2016 £'000	30 September 2017 £'000	30 September 2016 £'000
Net book value of combined goodwill and other intangible assets, as presented in the Consolidated Balance Sheet	**2,704**	764	**–**	367

25 Deferred tax assets

	Group		Company	
	30 September 2017 £'000	30 September 2016 £'000	30 September 2017 £'000	30 September 2016 £'000
Accelerated capital allowances	**(94)**	–	**–**	–
Decelerated capital allowances	**1,239**	1,240	**103**	–
Derivative financial instruments	**–**	86	**–**	–
Other temporary differences	**60**	98	**60**	89
	1,205	1,424	**163**	89
At 1 October/1 April	**1,424**	1,694	**89**	60
Recognised in income	**(146)**	(332)	**51**	7
Adjustment in respect of prior year timing difference	**(87)**	(19)	**9**	–
Recognised in equity	**14**	81	**14**	22
At 30 September	**1,205**	1,424	**163**	89

In the Summer Budget 2015, the UK Government announced legislation setting the main rate of Corporation Tax from 20% to 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. The deferred tax asset has been calculated based on a rate of 19% to the extent that it is expected to reverse in future years.

There is an unrecognised deferred tax asset of £1,839 (30 September 2016 – £2,431). This asset relates to tax losses arising in prior years, which are unutilised at the reporting date.

26 Other assets

	Group		Company	
	30 September 2017 £'000	30 September 2016 £'000	30 September 2017 £'000	30 September 2016 £'000
Prepayments	**871**	211	**736**	202
Other receivables	**170**	292	**94**	260
	1,041	503	**830**	462

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

27 Due to banks

Group	30 September 2017 £'000	30 September 2016 £'000
Current		
Secure loans and borrowings	**62,234**	12,978
Non-current		
Secure loans and borrowings	**–**	89,372
	14,833	102,349

Bank overdrafts
The Company had no bank overdraft facility at 30 September 2017.

Interest bearing loans and borrowings
£12.0 million block discounting facility granted to PCF Asset Finance Limited
This loan has a fixed interest rate and maturity dates of up to four years. The facility is secured by both a charge over the loans and receivables and a debenture over the assets of the Group undertaking to which it applies and the guarantee of the Company.

£8.0 million term loan facility granted to PCF Leasing Limited
This loan has fixed interest rates and maturity dates of up to four years. The loan is secured by both a charge over the loans and receivables and a debenture over the assets of the Group undertaking to which it applies and the guarantee of the Company.

£60 million block discounting facilities granted to PCF Credit Limited
These loans have fixed interest rates and maturity dates of up to five years. The facilities are secured by charges over the loans and receivables of the Group undertaking to which they apply.

£83.0 million term loan facility granted to PCF Credit Limited by a related party to the shareholders
This loan has a fixed interest rate and a maturity date of 30 June 2021. The loan is secured by a charge over the loans and receivables and the guarantee of the Company.

28 Debt securities in issue

During the year, the remaining convertible debt brought forward from the previous period ended 30 September 2016 was converted partially to equity and the remainder was settled in cash. The movements at 30 September 2017 were as follows.

Group and Company	£'000
At 1 April 2015	9,763
Conversion of convertible loan notes to equity during the period	(8,807)
At 30 September 2015/1 October 2016	956
Conversion of convertible loan notes to equity during the year	(935)
Partial settlement of convertible loan notes by cash	(21)
At 30 September 2017	–

29 Derivative financial instruments

Derivative financial instruments relates to cash flow hedging instruments utilised by the Group for the purpose of managing its exposure to interest rate fluctuations as the Group borrows at both fixed and floating interest rates. The derivatives used for this hedge are interest rate swaps where the Group pays fixed rate interest on a quarterly basis. Further details are explained in the section on financial risk management in note 34.

At 30 September 2017, there were no outstanding open contracts of cash flow hedge in place (30 September 2016 – £491,000).

30 Due to customers

Group	30 September 2017 £'000	30 September 2016 £'000
Retail customers		
Notice account	**3,245**	–
Term deposit	**49,875**	–
	53,120	–

In July 2017, the Group's subsidiary, PCF Bank Limited, commenced its banking operations, having been granted a banking licence on 6 December 2016. Included in amounts due to customers at the reporting date are accrued interest amounting to £5,000 (30 September 2016 – £nil) and £118,000 (30 September 2016 – £nil) for notice accounts and term deposits respectively.

31 Other liabilities

	Group		Company	
	30 September 2017 £'000	30 September 2016 £'000	30 September 2017 £'000	30 September 2016 £'000
Other payables	**691**	1,451	**294**	322
Accruals	**2,763**	457	**781**	645
	3,454	1,908	**1,075**	967

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

32 Issued capital and reserves

Company	30 September 2017 '000 units	30 September 2016 '000 units	30 September 2017 £'000	30 September 2016 £'000
Authorised ordinary shares of 5p each	**250,000**	250,000	**12,500**	12,500
Ordinary shares issued and fully paid				
At 1 October 2016/1 April 2015	**159,127**	53,113	**7,956**	2,656
Issuance of new shares during the year/period	**42,000**	–	**2,100**	–
Dividend reinvestment	**96**	–	**5**	–
Exercise of convertible debt options	**10,997**	106,014	**550**	5,300
At 30 September	**212,220**	159,127	**10,611**	7,956

Share premium

	£'000
At 1 April 2015	4,398
Share premium arising from conversion of convertible loan notes during the period	3,711
Transfer of share premium to retained earnings for the purpose of dividend payment	(7,935)
At 30 September 2015/1 October 2016	174
Share premium arising from issuance of new shares during the year	8,400
Share premium arising from conversion of convertible loan notes during the year	385
Dividend reinvestment	20
Transaction costs for issued share capital	(455)
At 30 September 2017	8,524

From 1 April 2017, the Group adopted hedge accounting for the existing and any new derivative financial instruments. The hedging reserve includes the effective portion of the cumulative net change in fair value of hedging instruments relating to the hedged transactions which have not yet accrued. The hedging reserve appears in other reserves. Further information on derivative financial instruments and hedging is contained in note 6.9.

Dividend

At the forthcoming Annual General Meeting, a final dividend of 0.19 pence per share in respect of the year ended 30 September 2017 (18 month period ended 30 September 2016 – 0.1 pence per share), amounting to a dividend payable of £403,000 (18 month period ended 30 September 2016 – £212,000), will be proposed for shareholder approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 30 September 2018.

Own shares (Employee Share Option Plans)

Own shares represent 1,237,925 (30 September 2016 – 645,015) ordinary shares held by the Company's Employees Benefits Trust 2003 ('EBT') to meet obligations under the Company's Share Option Plans. The shares are stated at cost and their market value at 30 September 2016 was £352,809 (30 September 2016 – £164,479). If they had been sold at this value, there would have been a capital gain of £117,603 (30 September 2016 – capital loss of £90,521) arising on the sale.

	£'000
At 1 April 2015, 30 September 2016 and 1 October 2016	(305)
Purchase of own shares during the year	(50)
At 30 September 2017	(355)

33 Financial instruments

The Group uses financial instruments to invest liquid asset balances and raise wholesale funding. The Group also uses derivative financial instruments (derivatives) to manage the risks arising from its operations. The risk associated with financial instruments represents a significant component of those faced by the Group 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 6.

33.1 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 33.3.

33.2 Valuation governance

The Group's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives (including their valuation methodologies) are subject to approvals by various functions of the Group, Company and the Bank, including the Risk and Finance functions. The responsibility of ongoing measurement resides with the business and product line divisions.

Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions. The independent price verification process for financial reporting is ultimately the responsibility of the independent price verification team within the Finance function, which reports to the Finance Director.

33.3 Assets and liabilities by classification, measurement and fair value hierarchy

The following table summarises the classification of the carrying amounts of the Group's financial assets and liabilities.

Group	Amortised cost £'000	Held at fair value as available-for-sale assets £'000	Fair value through profit or loss £'000	Total £'000
30 September 2017				
Cash and balances at central banks	17,018	–	–	17,018
Loan and advances to customers	145,718	–	–	145,718
Available-for-sale financial investments	-	4,511	–	4,511
Total financial assets	162,736	4,511	–	167,247
Other non-financial assets				5,221
Total assets				172,468
Due to banks	77,067	–	–	77,067
Derivative financial instruments	–	–	–	–
Due to customers	53,120	–	–	53,120
Total financial liabilities	130,187	–	–	130,187
Other non-financial liabilities				3,620
Total liabilities				133,807
30 September 2016				
Cash and balances at central banks	5,904	–	–	5,904
Loan and advances to customers	121,960	–	–	121,960
Available-for-sale financial investments	–	–	–	–
Total financial assets	127,864	–	–	127,864
Other non-financial assets				2,838
Total assets				130,702
Due to banks	102,349	–	–	102,349
Debt securities in issue	956	–	–	956
Derivative financial instruments	–	–	491	491
Due to customers	–	–	–	–
Total financial liabilities	103,305	–	491	103,796
Other non-financial liabilities				2,199
Total liabilities				105,995

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

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

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

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, similar market products, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's-length.

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

Group	Level 1 £'000	Level 2 £'000	Level 3 £'000	Carrying value £'000	Fair value £'000
Financial instruments held at amortised cost					
30 September 2017					
Cash and balances at central banks	17,018	–	–	17,018	17,018
Loans and advances to customers	–	–	145,718	145,718	165,984
	21,529	–	145,718	162,736	183,002
Due to banks	77,067			77,067	77,067
Due to customers	–	53,120	–	53,120	53,120
	77,067	53,120	–	130,187	130,187

Group	Level 1 £'000	Level 2 £'000	Level 3 £'000	Carrying value £'000	Fair value £'000
Financial instruments held at amortised cost					
30 September 2016					
Cash and balances at central banks	5,904	–	–	5,904	5,904
Loans and advances to customers	–	–	121,960	121,960	140,218
	5,904	–	121,960	127,864	146,122
Debt securities in issue	–	956	–	956	956
Due to banks	102,349	–	–	102,349	102,349
	102,349	956	–	103,305	103,305

The carrying value of amounts due to customers are considered to approximate the fair value as it would be impractical to determine the fair value due to a lack of historical data available.

	Group	
	Carrying value £'000	Fair value £'000
Financial instruments held at fair value through profit or loss		
30 September 2017		
Available-for-sale financial investments	4,511	4,511
Financial instruments held at fair value through profit or loss		
30 September 2016		
Derivative financial investments	491	491

33.4 Valuation techniques

Available-for-sale financial instruments

Government debt securities are financial instruments issued by sovereign governments and include both long-term bonds and short-term bills with fixed or floating rate interest payments. 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 Group uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future index levels and extrapolating yields outside the range of active market trading, in which instances the Group classifies those securities as Level 2. The Group does not have Level 3 government securities where valuation inputs would be unobservable.

Government debt securities

Whilst most of these instruments are standard fixed or floating rate securities, some may have more complex coupon or embedded derivative characteristics. The Group uses active market prices when available, or other observable inputs in discounted cash flow models to estimate the corresponding fair value including CDS data of the issuer to estimate the relevant credit spreads. Municipal bonds and bonds issued by financial institutions are generally Level 1 and corporate bonds are generally Level 2 instruments as well as convertible bonds where usually there is not sufficient third party trading data to justify Level 1 classification. Level 3 instruments are those where significant inputs cannot be referenced to observable data and, therefore, inputs are adjusted for relative tenor and issuer quality.

Loans and advances to customers

For loans and receivables carried at amortised cost, a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. The element of fair value attributable to the credit risk is calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics. All loans and advances to customers are classified as Level 3.

Debt securities in issue

Debt securities in issue is carried at Level 2. A discounted cash flow model is used based on an assumption of market rates of interest and remaining maturity. Fair value of debt securities in issue is derived from the weighted average funding rate and its remaining maturity.

34 Financial risk management

The Group is based with its operations solely in the United Kingdom, as explained in note 8. 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 Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to liquidity risk, market risk and credit risk.

34.1 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Bank also has 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 deposit for banks and other issued securities and borrowings due to mature within the next month. The ratios during the year were as follows.

(a) Liquidity ratios

Advances to deposit ratios

Group	30 September 2017 £'000	30 September 2016 £'000
Year end/period end	**2.7**	–
Average	**1.3**	–

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

(b) Contractual maturities

Group	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
At 30 September 2017						
Financial assets						
Cash and balances at central banks	1,455	15,563	–	–	–	17,018
Loans and advances to customers	8,481	16,016	40,880	114,273	1,383	181,033
Available-for-sale financial investments	4,511	–	–	–	–	4,511
Total undiscounted financial assets	14,447	31,579	40,880	114,273	1,383	202,562
Financial liabilities						
Due to banks	–	5,068	57,166	14,833	–	77,067
Due to customers	–	305	17,360	32,703	2,752	53,120
Other liabilities	3,454	–	–	–	–	3,454
Total undiscounted financial liabilities	3,454	5,373	74,526	47,536	2,752	133,641
Surplus/(shortfall)	10,993	26,206	(33,646)	66,737	(1,369)	68,291

Group	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
At 30 September 2016						
Financial assets						
Cash and balances at central banks	5,904	–	–	–	–	5,904
Loans and advances to customers	8,879	13,540	35,658	95,941	19	154,037
Available-for-sale financial investments	–	–	–	–	–	–
Total undiscounted financial assets	14,783	13,540	35,658	95,941	19	159,941
Financial liabilities						
Due to banks	–	4,001	8,976	89,372	–	102,349
Debt securities in issue	–	–	956	–	–	956
Derivative financial instruments	–	52	–	439	–	491
Other liabilities	1,908	–	–	–	–	1,908
Total undiscounted financial liabilities	1,908	4,053	9,932	89,811	–	105,704
Surplus	12,875	9,487	25,726	6,130	19	54,237

The Group's policy on funding capacity is to ensure there is always sufficient long-term funding in place. The Group endeavours to have committed borrowing facilities in place in excess of its forecast gross borrowing requirements for a minimum of the next twelve months. At 30 September 2017, the Group's principal committed borrowing facilities totalled £163 million (30 September 2016 – £173.9 million) of which 53% (30 September 2016 – 41%) was undrawn. In addition, it is the Group's policy to maintain uncommitted facilities for its working capital requirements.

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

Company	On demand £'000	Over 5 years £'000	Total £'000
At 30 September 2017			
Financial assets			
Cash and balances at central banks	18	–	18
Amounts due from related companies	5,265	2,500	7,765
Total undiscounted financial assets	5,265	2,500	7,783
Financial liabilities			
Other liabilities	1,075	–	1,075
Total undiscounted financial liabilities	1,075	–	1,075
Surplus	4,208	2,500	6,708

Company	On demand £'000	Over 5 years £'000	Total £'000
At 30 September 2016			
Financial assets			
Cash and balances at central banks	769	–	769
Amounts due from related companies	9,068	3,500	12,568
Total undiscounted financial assets	9,837	3,500	13,337
Financial liabilities			
Debt securities in issue	956	–	956
Other liabilities	967	–	967
Total undiscounted financial liabilities	1,923	–	1,923
Surplus	7,914	3,500	11,414

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

Group	Encumbered £'000	Unencumbered Available as collateral £'000	Other £'000	Total £'000
At 30 September 2017				
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	83,918	60,025	5,250	149,193
Unsecured loans	–	–	420	420
Finance leases of equipment, plant and vehicles	18,200	10,698	2,522	31,420
Gross loans and advances to customers	102,118	70,723	8,192	181,033

Group	Encumbered £'000	Unencumbered Available as collateral £'000	Other £'000	Total £'000
At 30 September 2016				
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	78,652	40,359	5,643	124,654
Unsecured loans	–	–	697	697
Finance leases of equipment, plant and vehicles	25,101	797	2,788	28,686
Gross loans and advances to customers	103,753	41,156	9,128	154,037

Company

The loans and advances as shown on the Company balance sheet comprise of amounts due from subsidiary undertakings of £5,265,000 (30 September 2016 – £9,068,000) which are repayable on demand and £2,500,000 (30 September 2016 – £3,500,000) of amounts due from subsidiary companies with repayment terms of 5 years or more respectively. The amounts due from subsidiary undertakings are interest free.

34.2 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 Group, the Group's market risk is primarily of interest rate risk. The Group borrows at fixed rates and at 30 September 2017 the proportion of the Group's borrowings at fixed rates was 100% (30 September 2016 – 100%), fixed for an average period of 3 years (30 September 2016 – 3 years).

Based on the exposure to interest rate risk, an increase in LIBOR by ½% for the whole financial year would have had no adverse effect on profit for the year (30 September 2016 – favourable impact £2,000) and no impact on equity (30 September 2016 – favourable impact £168,000).

34.3 Credit risk

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

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

34.3.1 Impairment assessment

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed as defined in note 6.3 of the Summary of significant accounting policies.

34.3.2 Analysis of maximum exposure to credit risk and collateral

	Group		Company	
	30 September 2017 £'000	30 September 2016 £'000	30 September 2017 £'000	30 September 2016 £'000
Financial assets				
Cash and balances at central banks				
Cash and demand deposits	**1,455**	5,904	**18**	769
Money market funds	**15,563**	–	**-**	–
Loans and advances to customers				
Consumer lending (net)	**90,985**	88,261	**-**	–
Business lending	**86,083**	61,895	**-**	–
Intercompany balances	**-**	–	**7,765**	12,568
Available-for-sale financial investments	**4,511**	–	**-**	–
	198,597	156,060	**7,783**	13,337
Other non-financial assets	**5,221**	2,838	**17,993**	2,065
	203,818	158,898	**25,776**	15,402

35 Commitments and guarantees

(a) **Operating lease commitments - Group or Company as lessee**

The Company has entered into commercial leases for premises and equipment. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases (e.g. such as those concerning dividends, additional debt and further leasing). Future minimum lease payments under non-cancellable operating leases at 30 September are, as follows.

Group and Company	30 September 2017 £'000	30 September 2016 £'000
Within one year	**243**	243
After one year but not more than five years	**223**	466
	466	709

(b) **Operating lease commitments - Group or Company as lessor**

Future minimum rentals receivable under non-cancellable operating leases are £nil (30 September 2016 – £nil).

36 Events after the balance sheet date

There have been no events after the balance sheet date that require disclosure in these financial statements.

PCF GROUP

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of PCF Group plc (the 'Company') will be held at 1 Cornhill, London EC3V 3ND at 10.00 a.m. on Friday 2 March 2018 to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 8 will be proposed as ordinary resolutions and resolution 9 as a special resolution.

Ordinary Business

1 To receive and approve the Report of the Directors and the audited financial statements of the Company for the year ended 30 September 2017.

2 To receive and approve the Report on the Directors' Remuneration as set out in the audited financial statements for the year ended 30 September 2017.

3 To re-appoint David Morgan, who is retiring as a director by rotation pursuant to Article 91 of the Company's Articles of Association, as a director of the Company.

4 To re-appoint Christine Higgins, who was appointed as a director pursuant to Article 93 of the Company's Articles of Association, as a director of the Company.

5 To re-appoint David Titmuss, who was appointed as a director pursuant to Article 93 of the Company's Articles of Association, as a director of the Company.

6 To re-appoint Ernst & Young LLP as auditors of the Company and to authorise the directors to determine their remuneration.

7 To declare a final dividend of 0.19 pence per ordinary share in respect of the year ended 30 September 2017.

Special Business

8 To consider and, if thought fit, pass the following as an ordinary resolution

'That the directors be and are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares and grant rights to subscribe for or to convert into shares in the Company ('relevant securities') up to an aggregate nominal amount of £2,500,000 provided that such authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next annual general meeting of the Company, save that the Company may prior to the expiry of such authority make an offer, agreement or other arrangement under which the relevant securities would be or might fall to be allotted after such expiry and the directors may allot such relevant securities pursuant to any such offer, agreement or other arrangement as if the authority conferred by this resolution had not expired.'

9 To consider and, if thought fit, pass the following as a special resolution

'That the directors be and are hereby empowered, pursuant to Section 571 of the Companies Act 2006 (the 'Act'), to allot equity securities for cash pursuant to the authority conferred by Resolution 9 set out in the notice of annual general meeting of the Company dated 6 February 2018, as if Section 561 (1) of the Act did not apply to such allotment, provided that any such allotment shall be limited to

(a) the allotment of equity securities for cash where such securities have been offered (by rights issue, open offer or otherwise) to holders of equity securities in proportion (as nearly as may be) to their holdings of ordinary shares of 5 pence each of the Company but subject to the directors having the right to make such exclusions or other arrangements in connection with such offer as they deem necessary or expedient to deal with fractional entitlements and legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange or otherwise; and

(b) any allotment (otherwise than pursuant to sub-paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £500,000, and shall expire (unless previously renewed, varied or revoked) at the conclusion of the next annual general meeting of the Company but so that the directors shall be entitled to make, at any time prior to the expiry of the power hereby conferred, any offer, agreement or other arrangement under which the relevant securities would be or might fall to be allotted after such expiry and the directors may allot securities pursuant to such offer, agreement or other arrangement as if the powers conferred by this resolution had not expired'.

By order of the Board

Robert Murray
Secretary

6 February 2018

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

Notes

1 A member entitled to attend and vote at the above Annual General Meeting is entitled to appoint a proxy to attend and vote on their behalf. Members may appoint more than one proxy provided that each proxy is appointed to exercise rights attached to different shares. A proxy need not be a member of the Company.

2 A Form of Proxy is enclosed. To be valid, the Form of Proxy must be lodged with the Company's Registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY not less than 48 hours before the time appointed for the holding of the Annual General Meeting.

3 Completion of a Form of Proxy will not prevent a member from attending and voting in person at the Annual General Meeting, if the member so wishes.

4 The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members registered in the Register of Members of the Company at 10.00 a.m. on Wednesday 28 February 2018 shall be entitled to vote at the meeting in respect of the number of ordinary shares registered in their name at the relevant time. Changes to entries in the Register of Members after 10.00 a.m. on Wednesday 28 February 2018 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed (a) voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

6 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('EUI') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments specified in the notice of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

7 CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

8 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Avocette Limited, London

PCF BANK

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