PCF Group plc

Pillar 3 Disclosures

30 September 2018

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Should you have any queries please contact us at https://pcf.bank/contact/ selecting 'Pillar 3 disclosures' in the "I'd like to discuss" dropdown.

1. Overview

1.1. Background

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. Basel 3 is a global regulatory capital and liquidity framework developed by the Basel Committee on Banking Supervision. It is composed of three parts, or pillars:

- **Pillar 1:** Defines the minimum capital requirements that institutions are required to hold for credit, market and operational risks.
- **Pillar 2:** This builds on Pillar 1 and incorporates the PCF Group plc and its subsidiaries ("Group") own assessment of additional capital resources needed in order to cover specific risks that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ('C-SREP') and is used to determine the overall capital resources required by the Group.
- **Pillar 3:** Aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management.

These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. CRD IV also made changes to rules on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU.

This document sets out the Pillar 3 disclosures on capital and risk management for the Group as at 30 September 2018. It has two principal purposes:

- to provide useful information on the capital and risk profile of the Group; and
- to meet the regulatory disclosure requirements under the CRR, Part 8 – Disclosure by institutions and the rules of the Prudential Regulation Authority ("PRA") set out in the Public Disclosure section of the PRA Rulebook and as the PRA has otherwise directed.

1.2. Scope

PCF Bank Limited (the 'Bank') is authorised by the PRA and regulated by the Financial Conduct Authority and the PRA, FRN number 747017. The Bank is registered in England and Wales, registration number 02794633 and is wholly owned by the Group, 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.

The PRA sets capital requirements separately for the Group on a consolidated basis, and the Bank on a solo basis. There are no differences between the basis of consolidation of the Group for accounting and regulatory purposes. Other than restrictions due to regulatory capital requirements for regulated entities, there are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities when due between the Group and its subsidiary undertakings. This document contains references to the Group's Annual Report & Financial Statements, and in particular its 'Principal and Emerging Risks'. These details can be found at: https://pcf.bank/investors/.

1.3. Pillar 3 policy and basis of disclosure

Disclosures will be issued as a minimum on an annual basis and are published on the Group's website. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Group's Annual Report.

The Pillar 3 disclosures have been prepared purely for explaining the basis on which the Group has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement about the Group.

All disclosures within this report have been prepared as at 30 September 2018, which is the Group's latest financial year-end, and include the 2018 audited profits which the Board approved on 5th February 2019. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Group's Annual Report and Financial Statements.

The Group is required to ensure that its external disclosures accurately and comprehensively describe its risk profile. The executive directors have considered the adequacy of the Pillar 3 disclosures and are satisfied that the disclosures are both accurate and comprehensive.

1.4. Regulatory developments

For the next accounting year ending 30 September 2019, the Group will adopt International Financial Reporting Standard 9 ("IFRS 9"). IFRS 9 will fundamentally change our loan loss impairment methodology. The Standard will replace the previous incurred loss approach with a forward-looking expected credit loss approach.

The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. The Group expects the impact to its impairment charge to be between 10-15% of current provisioning levels. Further analysis can be found in the Group's Financial Statements.

2. Risk management objectives and policies

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.

2.1. Risk strategy

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

- identify principal and emerging risks;
- define risk appetite and ensure that the strategic plans are consistent with it;
- avoid business activities that are not aligned to the Group's risk appetite or that do not provide the appropriate balance of risk and reward;
- manage risk within the business with independent effective oversight;
- ensure that the business lines are supported by effective risk controls, technology and technical competencies;
- manage the risk profile to ensure that the business strategy can withstand a range of adverse conditions;
- ensure a sound risk control environment and risk aware culture;
- ensure that remuneration practices take into account prudent risk taking;
- provide enhanced training and compliance awareness sessions to all employees; and
- aggregate and look at risk across the 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 focuses on the key risks that could prevent the achievement of strategic objectives. Risk management is integrated into the corporate framework and business planning with regular reporting to the Board and other committees, such as the Audit and Risk Committee ("ARC") and Executive Committee ("ExCo").

2.2. 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 to facilitate the collection, analysis and synthesis of risk management data for 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.

2.3. Assurance

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

- Business lines as the 'First Line of Defence' 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 and includes compliance monitoring and risk reviews.
- 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 are reported to management, with significant deficiencies reported to senior management and the Audit & Risk Committee.
- The Group utilises other forms of evaluation to obtain reasonable assurance about the effectiveness of its risk management functions as required.
- 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.

2.4. 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 are reported to ARC and the 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.

The Board held its first Annual Strategic Risk Review on 2 March 2018.

2.5. Principal risks

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

The Group has identified eight principal risks which could impact the delivery of its strategic objectives:

2.5.1. Strategic & business risk

Definition - Strategic and business risk is the risk which affects 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 achieve a consistent increase in profits and shareholders' return.

2.5.2. 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 on that borrower's account.

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.

2.5.3. 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 and CRDIV capital buffers as detailed in the Internal Capital Adequacy Assessment Process ("ICAAP"). The level

of surplus capital held will be formally reviewed by the Asset & Liability Committee ("ALCO"), Executive Committee ("ExCo") and the Board on at least an annual basis, with metrics produced for review by the Board.

2.5.4. Liquidity and 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. The Group will not tolerate liquidity risk that leads to it being unable to meet its liabilities as they fall due in a scenario consistent with its standard Pillar 1 and Pillar 2 ILAAP stress tests. The Group will maintain strong relationships with its banks for funding purposes, be active in the retail deposit taking market and will maintain a diversified funding strategy. The Group will align the tenor of its funding to the average effective life of its loan portfolio. The Group will continue to maintain wholesale debt and have at its disposal an appropriate level of facility headroom. The Group will operate a treasury function which will be responsible for the day-to-day management of its liquidity and funding position and its implementation of the Board approved funding plan.

2.5.5. Market and interest rate risk

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

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

2.5.6. 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 which is inherent to its business activities and to minimise the financial impact of operational risk arising from risks such as IT disruption, human error, a breakdown of procedures, non-compliance with policy and internal or external fraud.

2.5.7. Regulatory risk

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

Statement - The Group has put in place appropriate measures to avoid regulatory breaches, fines, censure, legal or enforcement action due to failing to comply with applicable laws, regulations and codes of conduct or legal obligations.

2.5.8. Conduct risk

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

Statement - The 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.

2.6. 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 for supporting 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 RAS 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 manage effectively all Group 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 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 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 that 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, undertakes compliance monitoring & risk review and promotes best practice.

The 'Second Line of Defence' reports systematically and promptly to the Board, ARC 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.

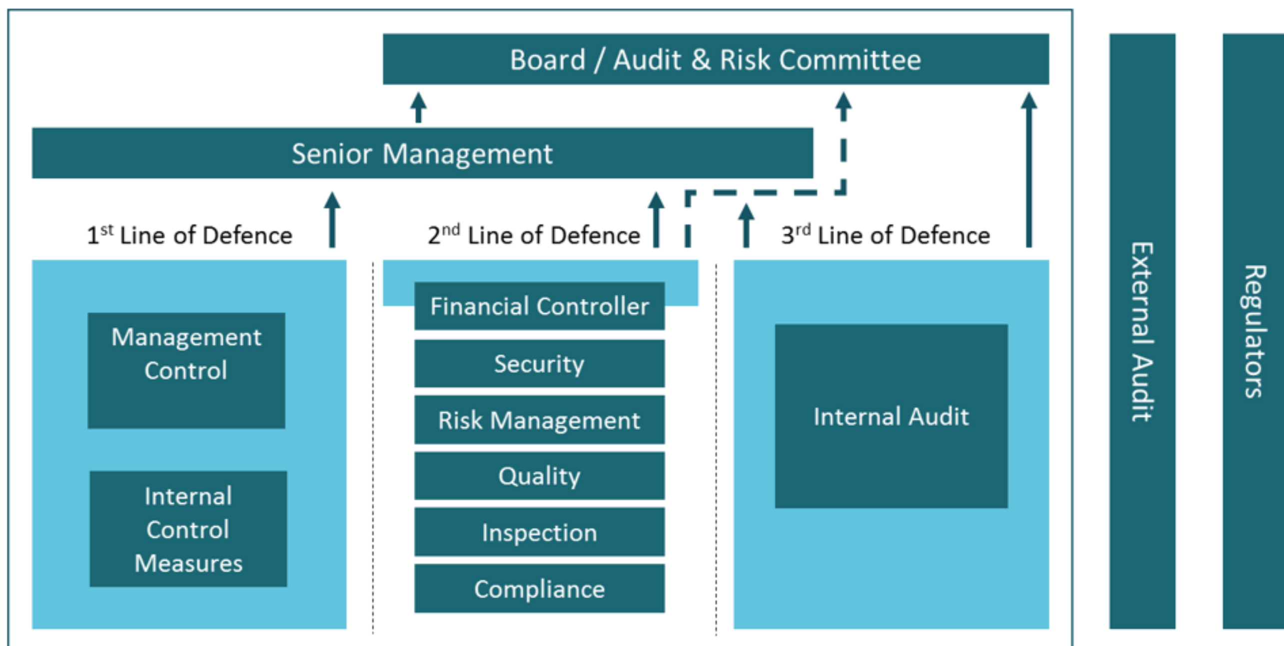
Approach to Assurance

The methods of assurance are:

- **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, including Risk Control Assessment ("RCA") 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 audit-** External audit 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 three lines of defence model is governed and controlled as described in the diagram below and is supplemented by independent external audit and regulators.



Each line of defence reports independently of the others to senior management. In addition, 'Second Line of Defence' has a 'dotted' reporting line to ARC, and 'Third Line of Defence' reports directly to ARC.

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 those risks.

ILAAP, ICAAP and Stress Testing

The Internal Capital Adequacy Assessment Process ('ICAAP'), Internal Liquidity Adequacy Process ("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. ARC is responsible for reviewing and approving assumptions and stress scenarios in the planning stages of the ICAAP and ILAAP, including substantive changes to the previous assessment. The ALCO will review, challenge, and recommend to the Executive Committee and Board, for approval, the Group's ICAAP and ILAAP.

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, market-wide 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.

The Group will conduct a review of the Recovery Plan on at least an annual basis and a review on the Resolution Pack on at least 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.

3. Key regulatory metrics

The table below summarises the key regulatory metrics as at 30 September 2018:

Key Metrics	30 September 2018 £'000	30 September 2017 £'000
Regulatory capital		
Common Equity Tier 1 ('CET 1') capital	39,594	35,957
Tier 1 capital	39,594	35,957
Total CET 1 regulatory capital	39,594	35,957
Total risk weighted assets ('RWAs')	204,522	136,805
Regulatory capital as a percentage of RWAs		
CET 1 capital ratio	19.3%	26.3%
Tier 1 capital ratio	19.3%	26.3%
Total capital requirement ('TCR')	9.5%	10.5%
Liquidity		
Liquidity coverage ratio ('LCR')	499.0%	181.0%
Funding		
Net stable funding ratio ('NSFR')	160.0%	128.0%

3.1. Regulatory capital framework

In 2010, the Basel Capital Accord was revised in response to the 2008 financial crisis. The updated regulation became known as Basel III and was implemented in the European Union on 1 January 2014 through the CRD and the CRR, which together are referred to as CRD IV.

CRD IV came into force in the European Union ('EU') on 1 January 2014. The Capital Regulations (as implemented in the UK by the PRA policy statement PS7/13) define a framework of regulatory capital resources and requirements. The rules include disclosure requirements known as 'Pillar 3' which apply to banks, building societies and investment firms. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. CRD IV also made changes to rules on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU.

On 23 November 2016, the European Commission launched a proposal to amend the Capital Requirement Directive ('CRD V'), Capital Requirement Regulation ('CRR II'), Banking Recovery and Resolution Directive ('CRRD') and the Single Resolution Mechanism ('SMR') Regulation. The proposed changes are expected to start entering into force in 2019 at the earliest and will have a significant impact on banks.

Pillar 3 complements the minimum risk-based capital requirements and other quantitative requirements ('Pillar 1') and the supervisory review process ('Pillar 2') and aims to promote market discipline by providing meaningful regulatory information to investors and other interested parties on a consistent and comparable basis. The guiding principles aim to provide a firm foundation for achieving transparent, high-quality Pillar 3 risk disclosures that will enable users to better understand and compare the Bank's business and its risks.

The 3 Pillars are as summarised below:

- **Pillar 1:** Defines the minimum capital requirements that institutions are required to hold for credit, market and operational risks.
- **Pillar 2:** This builds on Pillar 1 and incorporates the PCF Group plc and its subsidiaries ("Group") own assessment of additional capital resources needed in order to cover specific risks that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ('C-SREP') and is used to determine the overall capital resources required by the Group.
- **Pillar 3:** Aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management.

3.2. Capital requirements

The following table provides a summary of the capital requirements applicable to the Group, and brief details of the calculation method applied by the Group for each element of the requirements. Further details of each aspect can be found later in this document as highlighted.

Requirement	Calculation method	Description	Requirement	Further info.
Pillar 1				
Credit Risk	Standardised Approach	The Group applies the standardised method to the entire loan book and other assets. The standardised approach applies a standardised set of risk weightings to credit risk exposures.	Pillar 1 requirements (as per Article 92 of the CRR): • CET1 capital ratio of 4.5% of RWAs. • Tier 1 capital ratio of 6% of RWAs. • a total capital ratio of 8% of RWAs.	
Market Risk	Standardised Approach	The Group applies the standardised method to relevant assets.		
Operational Risk	Basic Indicator Approach ('BIA')	The Group applies the BIA for operational risk capital requirements in accordance with CRR Article 315.		
Pillar 2				
Pillar 2a	Calculated by the PRA, based on the ICAAP submission	Percentage of RWAs.	Set by the PRA and not disclosed.	N/A
Pillar 2b	Calculated by PRA, based on the ICAAP submission	Based on outputs of internal stress testing, PRA buffer assessment and PRA buffer requirement.	Set by the PRA and not disclosed.	N/A
Buffers				
Capital Conservation Buffer ('CCoB')	Expressed as a percentage of RWAs	CCoB is part of the CRD IV combined buffer. It is held in combination with the CCyB and the PRA Buffer to ensure the Group can withstand an adverse market stress. The combination of the PRA buffer and the CRD IV combined buffer replaced the Capital Planning Buffer ('CPB') effective 1 January 2016. All to be met by CET1 capital.	Commenced 1 January 2016, initially set at 0.625%, 1.875% for 2018, rising to 2.5% from 2019.	N/A
Counter-cyclical Capital Buffer ('CCyB')	Expressed as a percentage of total Pillar 1 RWAs		Set by the Financial Policy Committee ('FPC'), currently set at 0.5%, and due to increase to 1.0% from 2019.	N/A
PRA Buffer	Expressed as a percentage of total Pillar 1 RWAs	PRA buffer, in combination with the CRD IV combined buffer is held to ensure the Group can withstand an adverse market stress. The combination of the PRA buffer and the CRD IV combined buffer replaced the Capital Planning Buffer ('CPB') effective 1 January 2016. The PRA buffer needs to be fully met with CET1 capital by 2019.	PRA buffer is set by the PRA and is not disclosed.	N/A

3.3. Capital resources

As at 30 September 2018 the Group's main and only component of capital resource is Common Equity Tier 1 ('CET 1') capital which comprises ordinary share capital, share premium, and allowable reserves including retained earnings, after deducting intangible assets and investment in own shares. As at 30 September 2018, there are no additional Tier 1 and Tier 2 capital resources.

The Bank's component of CET 1 consists of ordinary share capital and allowable retained earnings, deducting intangible assets.

The table below summarises the composition of regulatory capital. The Group's individual regulated entity and the Group as a whole complied with all of the externally imposed capital requirements to which they were subject for the year ended 30 September 2018.

	30 September 2018 £'000	**30 September 2017 £'000**
CET 1 capital		
Called up share capital	10,611	10,611
Share premium account	8,527	8,524
Retained earnings	23,753	19,881
Other reserves recognised for CET 1 capital	15	-
Investment in own shares	(355)	(355)
Total equity per balance sheet	**42,551**	**38,661**
Deductions from CET 1 capital		
Intangible assets, net of associated deferred tax liabilities ('DTL')	(2,957)	(2,704)
Total CET 1 capital	**39,594**	**35,957**
Other capital		
Additional Tier 1 capital	-	-
Tier 2 capital	-	-
Total regulatory capital	**39,594**	**35,957**

The following table shows a reconciliation between equity and CET 1 capital after deductions:

	30 September 2018 £'000	**30 September 2017 £'000**
Equity	42,551	38,661
Regulatory deductions from equity:		
Intangible assets, net of associated DTL	(2,957)	(2,704)
Other reserves not recognised for CET 1 capital:		
Cash flow hedging reserve	-	-
CET 1 capital	**39,594**	**35,957**

The following table shows the movement in CET 1 capital during the year:

	30 September 2018 £'000	**30 September 2017 £'000**
CET 1 capital at beginning of the year	35,957	23,943
Profit in the period attributable to shareholders	4,192	2,786
Shares issued in the year	-	2,655
Dividends paid	(403)	(212)
Increase in intangible assets, net of associated DTL	(252)	(1,940)
Share premium less transactions costs	3	8,350
Other movements in reserves recognised for CET 1 capital	97	375
Other movements in deductions from CET1 capital	-	-
CET 1 capital at the end of the year	**39,594**	**35,957**

Intangible assets include goodwill and capitalised software.

Below shows the reconciliation of regulatory capital to the balance sheet.

Group	Balance sheet extract 30 Sept 2018 £'000	Balance sheet component 30 Sept 2018 £'000	Reference
Assets			
Intangible asset	2,957		
- of which deduction from CET 1 capital		2,957	A
Deferred tax asset			
- of which deferred tax liability – intangible assets	-	-	B
- of which deferred tax liability – pension related	-	-	C
Prepayments, accrued income and other assets	283,513		
- of which defined-benefit pension fund assets	-	-	D
Total assets	**286,470**		
Liabilities			
Subordinated loan capital			
- of which Tier 2 capital	-	-	E
Total liabilities	**243,919**		
Equity			
Called up share capital	10,611		
- of which amount eligible for Tier 1 capital		10,611	F
Share premium account	8,527		
- of which amount eligible for CET 1 capital		8,527	G
Retained earnings	23,753	23,753	H
Other reserves	(340)	(340)	I
- of which exchange movements reserve	-	-	J
- of which cash flow hedging reserve	-	-	K
- of which share based awards reserve	-	-	L
Total equity	**42,551**		
Total liabilities and Equity	**286,470**		
Non-balance sheet items	-	-	
Prudent valuation adjustment	-	-	M

The letters in the 'Reference' column in the table above are referenced to the Capital Table to show how the Group's regulatory capital is derived from the Group's balance sheet. The Bank's regulatory capital requirement is shown in Appendix 1.

Capital table - Group £'000	Balance sheet component 30 Sept 2018 £'000	Reference
Capital instruments and the related share premium accounts	18,798	F+G+I
Retained earnings	23,753	H
Accumulated other comprehensive income and other reserves	-	J+K+L
Intangible assets, net of DTL	(2,957)	A+B
Pension asset net of associated DTL	-	C+D
Cash flow hedging reserve not recognised	-	K
Prudent valuation adjustments	-	M
CET 1 capital	**39,594**	
Qualifying own funds instrument included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	**-**	E
Collective impairment provision	**-**	
Tier 2 capital	**-**	
Capital and total exposures	**39,594**	

4. Capital adequacy

The Group's capital planning process is forward looking and takes into account the types and distribution of capital over the 5-year planning horizon that the Group considers adequate to cover the level and nature of the risks to which the Group is or might become exposed. The Group has conducted stress testing and scenario analysis as part of this process and maintains a strong capital base to support the development of the business to ensure it meets the Pillar 1 Capital Requirements and Total Capital Requirement ("TCR") at all times.

The PRA requires the Group and Bank TCR to be met with at least 56% Common Equity Tier 1 (CET1) capital, no more than 44% Additional Tier 1 capital and no more than 25% Tier 2 capital

The Group currently maintains all its capital as CET 1 capital. The CET 1 capital ratio is at 30 September 2018 is 19.3% (2017: 26.3%).

4.1. ICAAP

The Group undertakes a group-wide internal capital adequacy assessment on an annual basis which is an integral part of the Group's risk management processes. The main output from the process is an assessment of all material risks faced by the Group, determination of the level of capital required to be held against each major source of risk and an analysis of a number of severe stress tests over a five-year time horizon, which is the Group's standard business planning timescale. The ICAAP is subject to detailed review and challenge by both the ALCO and the ExCo, before approval by the Board.

4.2. Pillar 1 capital requirements

The Group's Pillar 1 capital requirement is set out in the table below.

	Risk Weighted Assets (RWA's)		**Pillar 1 Capital Requirement**	
	2018	**2017**	**2018**	**2017**
Risk Category	**£'000**	**£'000**	**£'000**	**£'000**
Credit risk	175,438	117,017	14,035	9,361
Counterparty credit risk	-	-	-	-
Operational risk	29,084	19,788	2,327	1,583
Market risk	-	-	-	-
Total	**204,522**	**136,805**	**16,362**	**10,944**

The EBA guidance mandates 75% risk weighting for loans and advances to customer in the form of hire purchase loans and business loan financing where the amount outstanding is less than €1 million.

5. Regulatory capital buffers

The following regulatory capital buffers apply to the Group:

5.1. Capital Conservation buffer (‘CCB’)

The CCB applies to banks and has been developed to ensure capital buffers are available which can be drawn upon during periods of stress, if required. The buffer has been phased since 2016 at the rate of 0.625% p.a. to reach 2.5% in 2019. At 30 September 2018, the buffer was 1.875% (2017: 1.25%) of RWAs.

5.2. Countercyclical capital buffer (‘CCyB’)

On 27 June 2017, the UK Financial Policy Committee (‘FPC’) increased the UK CCyB rate from 0.0% to 0.5% of banks’ UK exposures, with an effective date of 27 June 2018. In November 2017, the FPC agreed to increase the rate to 1% effective November 2018. At 30 September 2018, the buffer was 0.5% (2017: 0.5%) of RWAs.

6. Credit risk

Credit risk is the risk that a borrower fails to pay the interest or to repay the capital on our loans and receivables, thereby giving rise to the Group incurring a financial loss. PCF has a comprehensive and robust risk management framework to monitor, control, mitigate and manage credit risk throughout the Group. The Credit Risk policy is set by the Board and its implementation delegated to the ExCo and Credit Committee whose terms of reference are reviewed and updated annually.

The Group uses the Standardised Approach to calculate Credit Risk for Pillar 1 purposes. The vehicle and asset finance lending of the Group is typically to small limited companies, sole traders and private individuals.

The EBA guidance mandates 75% risk weighting for loans and advances to customer in the form of hire purchase loans and business loan financing where the amount outstanding is less than €1 million.

6.1. Credit risk exposure

The following table shows the total exposure value, RWA's and Pillar 1 requirement by exposure class at 30 September 2018:

2018

Asset	Exposure value £'000	RWA £'000	Capital Requirement £'000
Central governments or central banks	39,902	0	0
Financial institutions	21,270	4,254	340
Financial institutions other	67	67	5
Loan receivables	211,732	158,798	12,704
Loan receivables > €1.0 million	7,590	7,590	607
Deferred tax asset	1,185	2,962	237
Other items	1,767	1,767	142
Total	**283,513**	**175,438**	**14,035**

2017

Asset	Exposure value £'000	RWA £'000	Capital Requirement £'000
Central governments or central banks	4,512	0	0
Financial institutions	17,018	3,404	272
Financial institutions other	-	-	-
Loan receivables	145,718	109,289	8,743
Loan receivables > €1.0 million	-	-	-
Deferred tax asset	1,206	3,013	241
Other assets	1,311	1,311	105
Total	**169,765**	**117,017**	**9,361**

The exposures are before applying risk weightings and include undrawn commitments after the application of the applicable credit conversion factors. The retail exposure class consists of loans to individuals and small and medium sized business entities with similar characteristics.

As at 30 September 2018, the Group's exposure to SMEs is £121 million (2017: £70 million). This excludes undrawn commitments.

The Group and the Bank operates solely in the United Kingdom and therefore the geographic distribution of exposures is contained in the United Kingdom. ***

*** The Bank acquired Azule Limited after 30 September 2018. Azule operates in the broadcast and media industry and provides funding and leasing services in the United Kingdom and Europe.

The following table shows a summary of contractual residual maturity at 30 September 2018.

2018

Asset	< 3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
Central governments or central banks	18,802	-	21,100	-	39,902
Financial institutions	21,270	-	-	-	21,270
Financial institutions other	67	-	-	-	67
Loan receivables	21,015	41,032	142,773	6,912	211,732
Loan receivables > €1.0 million	444	1,595	5,551	-	7,590
Deferred tax asset	-	-	1,185	-	1,185
Other items	-	-	1,767	-	1,767
Total	**61,598**	**42,627**	**172,376**	**6,912**	**283,513**

2017

Asset	< 3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
Central governments or central banks	4,512	-	-	-	4,512
Financial institutions	17,018	-	-	-	17,018
Financial institutions other	-	-	-	-	-
Loan receivables	16,538	30,898	97,164	1,118	145,718
Loan receivables > €1.0 million	-	-	-	-	-
Deferred tax asset	-	-	1,206	-	1,206
Other items	189	933	189	-	1,311
Total	**38,257**	**31,831**	**98,559**	**1,118**	**169,765**

6.2. Impairment of financial assets

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.

6.2.1. Loans and advances to customers

The Group reviews its loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. This 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 tables below analyse impaired loans as treated for accounting purposes and past due loans as treated for regulatory purposes at 30 September 2018.

Counterparty type analysis of gross impaired and past due loans, and impairment provisions at 30 September 2018:

2018	Gross impaired loans £'000	Gross past due loans £'000	Impairment provisions £'000	Charges for impairment provisions during the year £'000
Corporates	-	-	-	-
Retail	10,600	19,400	4,368	915
Total	**10,600**	**19,400**	**4,368**	**915**

2017	Gross impaired loans £'000	Gross past due loans £'000	Impairment provisions £'000	Charges for impairment provisions during the year £'000
Corporates	-	-	-	-
Retail	9,131	15,100	3,965	679
Total	**9,131**	**15,100**	**3,965**	**679**

Impairment provisions on loans and advances to customers:

	30 September 2018 £'000	30 September 2017 £'000
At beginning of the year	3,965	3,881
Charge for the year	915	679
Amounts written off net of recoveries	(512)	(595)
At the end of the year	**4,368**	**3,965**

6.2.2. Financial instruments classified as available for sale

For available-for-sale financial instruments, the Group assesses at each reporting date, whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment such as observable data regarding a decline in estimated future cash-flows and/or a decline in underlying collateral impacting the Group's ability to recover all cash flows. The amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss, and the interest income is recorded as part of interest and similar income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

7. Counterparty credit risk

Counterparty credit risk is the risk of financial loss resulting from the failure of a counterparty to meet its obligations in accordance with agreed terms. The Group will also be exposed to counterparty credit risk to the extent that swap contracts are used to hedge the interest rate risk in the Banking Book (IRRBB)

The Group uses the Standardised Method to calculate Counterparty Credit Risk for Pillar 1 purposes. The Group has a policy of managing sterling interest rate risk in the banking book (IRRBB) on balance sheet to the extent possible.

In February 2018, the Bank drew a total of £25m from the BoE's Term Funding Scheme (TFS). TFS is four-year fixed term funding with interest accrued daily at the BoE's Bank Rate. As with all BoE facilities, TFS is collateralised and initially the Bank has used very short dated gilts as collateral. The gilts and the funding are therefore a good interest rate match, so whilst TFS remains collateralised with these gilts there is no need to enter an interest rate swap to hedge.

From 2019 it is assumed that the Bank will have some interest rate mismatches that are hedged using swaps. These would occur due to the supply and demand for savings and loans of different maturities being mismatched due to market conditions

8. Operational risk

Operational risk is the risk of loss arising from inadequate or failed controls or processes, people and systems or from external events, and includes legal risk. Whilst the Group does not explicitly seek to take operational risk, it accepts it is inherent within the business and has a low risk appetite for operational risk. 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 & corruption, internal and external fraud

The Group has an established vehicle and asset finance loan business that has been operating successfully for 25 years. In July 2017, it entered the banking sector to diversify sources of funding and grow by utilising lower cost of funds to lend to higher quality credit. The Basic Indicator Approach (BIA) has been used to calculate Operational Risk for the purposes of Pillar 1. This approach uses an average of the last 3 years audited operating income to determine the Pillar 1 requirement. However, CRR Art 315 (2) sets out that where an institution, in this case the Banking operation of the Group, has been operating for less than 3 years, it may use forward-looking business estimates in calculating the relevant indicator, provided that it starts using historical data as soon as it is available.

As such, Operational Risk has been calculated based on 15% of the average of actual net operating income for 2017, and the forecast for years 2018 and 2019. From December 2018, the forecast for 2018 will be replaced by the actual audited net operating income.

9. Market risk

Market risk is the risk that the Group will experience losses due to factors that affect the overall performance of the financial markets. It is the Group's policy that no trading in financial instruments shall be undertaken, therefore, the Group is not exposed to Market Risk in the trading book. It does not carry out proprietary trading. It does however hold gilts and Treasury bills which are used for liquidity buffer purpose. The Group does not operate in, nor has exposure to, currencies other than Pounds Sterling.

10. Interest rate risk in the non-trading book

The Group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently.

The Group's policy is to match repricing characteristics of assets and liabilities naturally where possible or by using interest rate swaps where necessary to secure the margin on its loans and advances to customers.

At 30 September 2018, the Group did not have any open position in interest rate swaps.

The Board delegates the day-to-day monitoring and compliance with the approved liquidity risk and funding risk appetite and setting of operational policies to the ALCO. The ALCO is a sub-committee of Executive Committee.

The responsibilities of the ALCO are set out in written terms of reference which are approved by the Board and will include the following:

- Review, challenge, and recommend to the Executive Committee and Board, for approval, the Group's ICAAP and ILAAP.
- Review the monthly ALCO reporting pack that includes forward looking management information on liquidity;
- Monitor the effectiveness of liquidity and interest rate risk management framework in the Group;
- Review and approve liquidity, funding and interest rate policies and the framework to control liquidity, funding, and interest rate risks;
- Consider capital usage and efficiency;
- Ensure the Bank has the ability to continuously monitor its liquidity position and its compliance with the liquidity adequacy rule;
- Implement and monitor a suitable Funds Transfer Pricing mechanism within the Group.

The table below sets out the assessed impact on the Group's base case earnings at risk ('EaR') due to a parallel shift in interest rates at 30 September 2018.

	2018 £'000	**2017 £'000**
200 basis points increase – increase in earnings by	**159**	**163**
200 basis points decrease – decrease in earnings by	**159**	**163**

The table below sets out the assessed impact on the Group's base case economic value of equity ('EVE') due to a shift in interest rates at 30 September 2018:

	2018 £'000	**2017 £'000**
200 basis points increase – increase in EVE by	**76**	**155**
200 basis points decrease – decrease in EVE by	**122**	**196**

11. Leverage

The leverage ratio is a transparent, comparable measure which is not affected by risk weightings. It is calculated as tier 1 capital divided by adjusted balance sheet exposure. The level of leverage is actively monitored and regularly assessed alongside capital and capital ratios, as described in Section 4 'Capital adequacy'. The following Table LRSum and LRCom follow the formats that are prescribed by the EBA.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures:

	CRR leverage ratio exposure	2018 £'000	2017 £'000
1	Total assets as per published financial statements	286,470	172,468
4	Adjustments for derivative financial instruments	-	-
5	Adjustments for Securities Financing Transactions ('SFTs')	-	-
6	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-	-
7	Other adjustments	-	-
8	**Total leverage exposure**	**286,470**	**172,468**

Table LRCom: Leverage ratio common disclosure:

	CRR leverage ratio exposure	2018 £'000	2017 £'000
	On-balance sheet exposures (excluding derivatives and SFTs):		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	286,470	172,468
2	Asset amounts deducted in determining Tier 1 capital	(2,957)	(2,704)
3	Total on-balance sheet exposures (excluding derivatives and SFTs)	**283,513**	**169,764**
	Derivative exposures:		
11	Total derivative exposures	-	-
	Securities financing transaction exposures:		
16	Total securities financing transaction exposures	-	-
	Other off-balance sheet exposures:		
19	Other off-balance sheet exposures	-	-
	Capital and total exposures:		
20	Tier 1 capital	39,594	35,957
21	Total leverage ratio exposure	283,513	169,764
22	**Leverage ratio**	**13.9%**	**21.2%**

Table LRSpl: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures):

	CRR leverage ratio exposure	2018 £'000	2017 £'000
	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	**283,513**	**169,764**
	Banking book exposures, of which:		
	Exposures treated as sovereigns	39,902	4,511
	Institutions	21,338	17,018
	Retail exposures	219,322	145,718
	Deferred tax assets	1,185	1,205
	Other exposures (e.g. equity, securitisation, and other non-credit obligation assets)	1,766	1,312

12. Asset encumbrance

Asset encumbrance is the process by which assets are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.

The Pillar 3 asset encumbrance disclosure templates, shown below, have been compiled in accordance with PRA and EBA regulatory reporting requirements, specifically the PRA's supervisory statement SS11/14 ('CRD IV: Compliance with the EBA's Guidelines on the disclosure of encumbered and unencumbered assets'). In accordance with the threshold criteria under SS11/14, the Group is not required to report Template B on the fair value of encumbered and unencumbered collateral received. Table below shows the carrying and, where included in the regulatory templates, the fair value of encumbered and unencumbered assets by asset category and also the carrying value of encumbered assets and associated liabilities by sources of encumbrance. Volatility in the level of encumbered assets is not significant and the use of monthly data is not expected to result in materially different information compared to the data below.

As at September 2018:

Template A: Encumbered and unencumbered assets **2018**	**Carrying amount of encumbered assets £'000**	**Fair value of encumbered assets £'000**	**Carrying amount of unencumbered assets £'000**	**Fair value of unencumbered assets £'000**
Assets of the reporting institutions	**58,977**	**63,676**	**251,110**	**283,967**
Loans and advances to customers	33,804	38,503	236,381	269,238

Template C: Encumbered Assets, Collateral Received and Associated Liabilities **2018**	**Matching liabilities, contingent liabilities or securities lent £'000**	**Assets, collateral received, and own debt securities issued other than covered bonds and ABSs encumbered £'000**
Carrying amount of selected financial liabilities	-	-

As at September 2017:

Template A: Encumbered and unencumbered assets **2017**	**Carrying amount of encumbered assets £'000**	**Fair value of encumbered assets £'000**	**Carrying amount of unencumbered assets £'000**	**Fair value of unencumbered assets £'000**
Assets of the reporting institutions	**102,118**	**116,312**	**83,426**	**94,395**
Loans and advances to customers	102,118	116,312	78,915	89,884

Template C: Encumbered Assets, Collateral Received and Associated Liabilities **2017**	**Matching liabilities, contingent liabilities or securities lent £'000**	**Assets, collateral received, and own debt securities issued other than covered bonds and ABSs encumbered £'000**
Carrying amount of selected financial liabilities	-	-

Information on the importance of encumbrance

The Group reviews all asset types against the criteria of being able to finance them in a secured form (encumbrance), but certain asset types lend themselves more readily to encumbrance. The typical characteristics that support encumbrance are an ability to pledge those assets to another counterparty or entity through operation of law without necessarily requiring prior notification, homogeneity, predictable and measurable cash flows and a consistent and uniform underwriting process. Assets such as loans secured on equipment, plant and vehicles under conditional sale or hire purchase agreements and finance leases display many of these features.

The Group primarily encumbers assets through positioning loans as collateral to receive wholesale funding. The Group may also hold cash collateral received in relation to derivative transactions. The Group's main source of encumbrance is through its participation in the Bank of England TFS scheme.

The Group monitors the level of encumbrance to ensure it remains within approved Risk Appetite limits which are based on loan book and balance sheet encumbrance levels.

13. Remuneration

Full details of the Group's Executive Directors' remuneration can be found in the Nomination & Remuneration Committee ('RemCo') Report of the Annual Report & Financial Statements. Additional disclosures required under CRD IV in relation to the remuneration of Code staff are included in this section.

13.1. Overview of remuneration for Code staff

The FCA has defined certain requirements relating to remuneration, referred to as the Remuneration Code ('the Code'). Firms that fall within the scope of the Code (which includes banks) must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management.

A firm must maintain a record of its Code Staff (being those staff whose professional activities have a material impact on the firm's risk profile) and take reasonable steps to ensure Code Staff understand the implications of their status.

At 30 September 2018, the Group employed a total of 23 individuals who were classed as Code Staff. Of these, 8 individuals were Executive and Non-Executive Directors, and 15 individuals were classified as Other Code Staff. The remuneration for these employees is governed under the Group Remuneration Policy.

13.2. Approach to remuneration

The approach taken by the Group 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 proportionally to the principle (SYSC 19D.3.3R (2)) to ensure the practices and processes we promote are appropriate to size, internal organisation and the nature, scope and complexity of activities.

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 also 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.

13.3. 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, succession planning and remuneration of the directors and other senior executives. Membership of RemCo is limited to non-executive directors and chaired throughout the year by David Titmuss. Where appropriate, RemCo consults external advisers on remuneration and regulatory issues to align with the strategic aims of the Group and regulatory compliance requirements.

13.4. Guiding principles for remuneration

The Group's remuneration policy is applicable to all its employees and a review is undertaken on an annual basis to assess its implementation and compliance with the Dual-Regulated Firms 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 the creation of shareholder value. The policy further sets out the use of performance-based remuneration to motivate and reward high performers who strengthen long-term customer relations, generate income, demonstrate the required behaviours (teamwork, co-operation, customer focus, risk awareness), comply with regulation, create a control environment, deliver good customer outcomes and protect and enhance shareholder value.

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

The following guiding principles underpin the remuneration policy:

- Interests of our employees are aligned with the interests of our customers, long-term interests of the Group, shareholders and other stakeholders in the Group, as well as the public interest.
- Employees are not to be rewarded for taking 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.

13.5. Remuneration for the year

Fixed remuneration

Fixed remuneration comprises basic salaries and benefits including healthcare and life assurance cover. These are provided on the same basis for all employees. The Company has a workplace pension scheme with Standard Life, with a Company contribution rate based on 5% of qualifying earnings.

The Directors contribution rate is based on 10% of qualifying earnings. These are outside the workplace scheme and contributions are paid to a scheme of their choice or as a cash equivalent.

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 2018, 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.

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, including any additional duties undertaken during the year

Remuneration disclosures

The Group adheres to the requirements of the dual-regulated firm's Remuneration Code. The non-executive directors do not receive variable remuneration.

	Financial year ended 30 September 2018		
Remuneration Type	**Executive Directors (3) £'000**	**Non-Executive Directors (5) £'000**	**Code Staff (15)* £'000**
Total Fixed remuneration			
- Cash-based	550	263	905
- Other	3	-	-
Total Variable remuneration			
- Cash-based	441	-	165
- Long-term incentive	19	-	-
Pension and insurance	55	-	47
Total Remuneration	**1,068**	**263**	**1,117**

*Excludes interim management

The table below shows the amount and severance and guaranteed variable remuneration payments made to Code Staff during the financial year ended 30 September 2018, as well as any individual's remuneration over £1 million.

Remuneration Type	**Number of individuals**
Severance payments	0
Guaranteed variable remuneration payments	0
Individuals remunerated over £1 million	0

Appendix A: Disclosures for PCF Bank Limited (Company No: 02794633)

In accordance with Article 13 of the CRR, this Appendix sets out the reduced Pillar 3 disclosures of the Bank, the significant subsidiary of the Group. The differences between the Group and the Bank relate primarily to reserves held by entities that sit outside the scope of the Bank that are included in the Group consolidation.

Capital Composition at 30th September	**2018 £'000**	**2017 £'000**
CET 1 Capital		
Share capital	21,298	16,298
Retained Earnings	15,625	9,383
Other eligible reserves	15	-
Total equity per balance sheet	**36,938**	**25,681**
Deductions from CET 1 capital		
Intangible Assets, net of associated deferred tax liability	(2,560)	(2,307)
CET 1 Capital	**34,378**	**23,374**
Tier 2 Capital	-	-
Total Capital	**34,378**	**23,374**
CET 1 capital ratio	**20.77%**	**30.13%**
Tier 1 capital ratio	**20.77%**	**30.13%**
Total capital requirement ('TCR')	**9.79%**	**12.61%**

Reconciliation between equity and CET 1 capital after deductions: Bank	**2018 £'000**	**2017 £'000**
Equity	36,938	25,681
Regulatory deductions from equity:		
Intangible assets, net of associated deferred tax liability	(2,560)	(2,307)
CET 1 Capital	**34,378**	**23,374**

Movement in CET 1 capital during the year: Bank	**2018 £'000**	**2017 £'000**
CET 1 Capital at the beginning of the year	23,374	1,118
Profit in the year/period attributable to shareholders	6,242	8,563
Increase in share capital	5,000	16,000
Increase in other eligible reserves	15	-
Increase in intangible assets, net of associated deferred tax liability	(253)	(2,307)
CET 1 Capital at the end of the year	34,378	**23,374**

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures.

Bank: CRR Leverage Ratio Exposure	**2018 £'000**	**2017 £'000**
Total assets as per published financial statements	254,441	83,109
Adjustments for derivative financial instruments	-	-
Adjustments for Securities Financing Transactions ('SFTs')	-	-
Adjustments for off-balance sheet items	-	-
Other adjustments	(2,560)	(2,307)
Total leverage ratio exposure at 30th September	**251,881**	**80,802**

Table LRCom: Leverage ratio common disclosure.

Bank: CRR Leverage Ratio Common Exposure	**2018 £'000**	**2017 £'000**
On balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs but including collateral)	254,441	83,109
Assets amounts deducted in determining Tier 1 capital	(2,560)	(2,307)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**251,881**	**80,802**
Derivative exposures	-	-
Securities financing transaction exposures	-	-
Other off-balance sheet exposures	-	-
Capital and total exposures		
Tier 1 capital	34,378	23,374
Total leverage exposure	251,881	80,802
Leverage ratio	**13.6%**	**28.9%**

Appendix B: EBA Regulatory Capital Balance Sheet Reconciliation

Bank	Balance sheet extract 30 September 2018 £'000	Balance sheet components 30 September 2018 £'000	Reference
Assets			
Intangible asset	2,560		
- of which deduction from CET 1 capital		2,560	A
Deferred tax asset			
- of which deferred tax liability – intangible assets	-	-	B
- of which deferred tax liability – pension related	-	-	C
Prepayments, accrued income and other assets	251,881		
- of which defined-benefit pension fund assets	-	-	D
Total assets	**254,441**		
Liabilities			
Subordinated loan capital			
- of which Tier 2 capital	-	-	E
Total liabilities	**217,503**		
Equity			
Called up share capital	21,298		
- of which amount eligible for Tier 1 capital		21,298	F
Share premium account			
- of which amount eligible for CET 1 capital	-	-	G
Retained earnings	15,625	15,625	H
Other reserves	15	15	I
- of which exchange movements reserve	-	-	J
- of which cash flow hedging reserve	-	-	K
- of which share based awards reserve	-	-	L
Total equity	**36,938**		
Total liabilities and Equity	**254,441**		
Non-balance sheet items	-	**-**	
Prudent valuation adjustment	-	**-**	**M**

The letters in the 'Reference' column in the table above are referenced to the capital table on the following page to show how the Bank's regulatory capital is derived from the Bank's balance sheet. The Bank's regulatory capital requirement is shown in Appendix A.

Capital table - Bank	Balance sheet components 30 September 2018 £'000	Reference
Capital instruments and the related share premium accounts	21,298	**F+G+I**
Retained earnings	15,625	**H**
Accumulated other comprehensive income and other reserves	15	**J+K+L**
Intangible assets, net of DTL	(2,560)	**A+B**
Pension asset net of associated DTL	-	**C+D**
Cash flow hedging reserve not recognised	-	**K**
Prudent valuation adjustments	-	**M**
CET 1 capital	**34,378**	
Qualifying own funds instrument included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	-	**E**
Collective impairment provision	-	
Tier 2 capital	-	
Capital and total exposures	**34,378**	

Appendix C: EBA Capital Instruments Key Features

Capital Instruments main features template			
1	Issuer	PCF Group plc	PCF Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB0004189378	n/a
3	Governing law	English	English
Regulatory treatment			
4	Transitional CRR rules	CET 1	CET 1
5	Post-transitional CRR rules	CET 1	CET 1
6	Eligible at Group or Bank	PCF Group	PCF Bank Solo Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Ordinary shares
8	Regulatory capital value (£'000)	19,138	21,298
9	Nominal amount of instrument	5p	£1
9a	Issue price (£'000)	10,611	21,298
9b	Redemption price (£'000)	n/a	n/a
10	Accounting classification	Equity	Equity
11	Original date of issue	Various	Various
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	n/a	n/a
14	Issuer call subject to prior supervisory approval	n/a	n/a
15	First call date	n/a	n/a
16	Subsequent call dates, if applicable	n/a	n/a
Coupons / dividends			
17	Fixed or floating dividend/coupon	n/a	n/a
18	Coupon rate and any related index	n/a	n/a
19	Existence of a dividend stopper	n/a	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	n/a	n/a
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	n/a	n/a
24	If convertible, conversion triggers	n/a	n/a
25	If convertible, fully or partially	n/a	n/a
26	If convertible, conversion rate	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a
30	Write-down feature	n/a	n/a
31	If write-down, trigger(s)	n/a	n/a
32	If write-down, full or partial	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a
34	If write-down, description of write-up mechanism	n/a	n/a
35	Instrument type immediately sold	n/a	n/a
36	Non-compliant transitioned features	n/a	n/a
37	If yes, specify non-compliant features	n/a	n/a