5 June 2019

PCF BANK
Simple banking. At your service.

PCF Group plc
(“PCF”, the “Bank” or the “Group”)

Half Year Results for the Six Months Ended 31 March 2019

Continued strong profitability and capital in place for the next phase of growth

PCF Group plc, the AIM-listed specialist bank, today announces its results for the six months ended 31 March 2019. The Board is pleased to report that trading is strong, results are in line with market expectations and the Group’s strategic diversification of asset classes and routes to market is on track.

H1 2019 Financial Highlights:

- Operating income up 51% to £10.1 million (2018: £6.7 million)
- Statutory profit before tax up 57% to £3.3 million (2018: £2.1 million); strong portfolio growth delivered operational gearing and increased profitability
- Earnings per share up 50% at 1.2p (2018: 0.8p)
- Weighted after-tax return on equity up to 11.4% (2018: 8.7%), illustrating operational gearing and an efficient deployment of capital
- Impairment losses of £1.2m (2018: £0.6 million), including the adoption of IFRS 9
- Adoption of IFRS 9 as at 1 October 2018 resulted in a 13.8% increase to balance sheet impairment allowances. During the period a 0.1% increase in impairment charges in the income statement relates to the adoption of IFRS 9

H1 2019 Operational Highlights:

- On 11 March 2019 the Bank raised £10.75 million of new equity to support its next phase of growth
- Additionally, we are finalising a £15 million Tier 2 capital facility, to optimise the composition and cost of the Bank’s capital base and to support organic growth, eliminating the need for further capital in the medium-term. We expect this to be in place in June
- Portfolio growth of 54% to £276 million (2018: £179 million)
- Acquisition in the period of Azule Limited, the broadcast and media finance provider, which is performing to management expectation
- Bridging property finance commenced operations in January 2019
- Total new business origination up 75% to £121 million (2018: £69 million) comprising
    - New business origination for ‘own portfolio’ increased by 39% to £96 million (2018: £69 million); and
    - £25 million of new business origination (2018: NIL) generating broker commission income
- Total customer base is now over 19,000 (2018: 15,000)
- Awarded 2018 Top New Challenger Bank at the Leasing World industry awards
- Nominated for both 2019 Best Notice and Best Fixed Account Provider by savings specialist, Money Facts

Scott Maybury, CEO, commented: “This has been another highly successful period for the Group. We set ourselves ambitious targets and are on track to deliver these ahead of schedule. Profit before tax is up 57% to £3.3 million, with a similar increase in earnings per share. An acquisition and a new property lending initiative were announced in the period and organic growth in our established markets remains strong.

"Prudent capital management led us to increase the capital base and diversify the capital structure. This mitigates the potential risk of market volatility that may arise in these uncertain times and provides a strong base to support ongoing growth.

“We remain on track to meet market expectations and with the enhanced capital structure in place, we are well set to implement our 2019 objectives and medium-term plans. We look forward to reporting continued success as the year progresses.”

For further information, please visit https://pcf.bank/ or contact:

PCF Group plc	Tel: +44 (0) 20 7222 2426
Scott Maybury, Chief Executive Officer	
Robert Murray, Managing Director	
David Bull, Finance Director	
Tavistock Communications	Tel: +44 (0) 20 7920 3150
Jos Simson / Simon Hudson / Edward Lee	
Panmure Gordon (UK) Limited	Tel: +44 (0) 20 7886 2500
Atholl Tweedie – Corporate Finance	
Charles Leigh-Pemberton – Corporate Broking	
Stockdale Securities	Tel: +44 (0) 20 7601 6100
Robert Finlay / Richard Johnson – Corporate Finance	
Henry Willcocks – Corporate Broking	

There will be a dial-in facility available for an analyst and investor call today, Wednesday 5 June, at 1030h (BST). The details are:

United Kingdom Toll-Free: 0800 3589473
United Kingdom Toll: +44 333 3000804
PIN: 39243661#

About PCF Group plc (www.pcf.bank)

Established in 1994, PCF Group plc is the AIM-listed parent of specialist bank, PCF Bank Limited. Since commencing operations as a bank in 2017, the Group has increased its lending portfolio significantly, targeting an initial portfolio of £350 million by 2020 and growing to a £750 million portfolio by 2022. The Group will retain its focus on portfolio quality, lending increasingly to the prime segment of its existing finance markets. The Group has also recently diversified its lending products and asset classes through acquisition and by setting up new organic operations.

PCF Bank currently offers retail savings products for individuals and then deploys those funds through its four lending divisions:

- Business Finance which provides finance for vehicles, plant and equipment to SMEs;
- Consumer Finance which provides finance for motor vehicles to consumers;
- Azule Limited which provides finance to the broadcast and media industry; and
- Bridging Property Finance which provides loans to companies and sole traders investing in residential property

Inside information

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

Chairman’s Statement
for the six months ended 31 March 2019

I am pleased to present the half-year report for the period ended 31 March 2019. The first six months have gone well and we have made significant progress on profitability, strategic initiatives and capital planning. We diversified our business model with the acquisition of Azule Limited and the launch of a bridging property finance division. This augments the continued strong organic growth in our existing business lines of asset finance and consumer motor finance, which are focused on the prime end of the credit spectrum.

Profits and shareholder return

Profit before tax for the six months ended 31 March 2019 was up 57% to £3.3 million (2018: £2.1 million). This is an excellent performance, as strong portfolio growth delivered operational gearing and increased profitability. Earnings per share were up 50% in the period to 1.2p (2018: 0.8p) and the return on average equity increased to 11.4% (2018: 8.7%).

The net interest margin (‘NIM’) was 8.0% (2018: 8.4%) for the period and performed ahead of expectation, as we transition to a lower yielding but better-quality portfolio. We are seeing competitive pressures on prime lending margins in both our divisions and we expect our NIM to fall further in the short to medium-term. This decrease in NIM will be offset by operational gearing through continued growth of our portfolio. The cost-to-income ratio in the period was 35% (2018: 34%) which is a very pleasing result, given the significant costs associated with the recruitment of talent, banking governance and a robust risk framework. We are ahead of where we expected to be in terms of portfolio, so we will continue to invest in people and infrastructure to build scalable customer-facing systems as we advance towards our medium-term target of a £750 million portfolio by 2022.

The Group’s total funding cost fell to 2.4% (2018: 3.5%) as we improved the efficiency of the Bank’s treasury structure and continued to replace higher cost wholesale funding. The lending portfolio is now, in the main, funded by retail deposits of £204 million (2018: £108 million) and the support of over 4,500 savings customers.

2019 strategic objectives

The Board’s primary objective is to deliver increased profitability while investing for long-term sustainable growth alongside a robust risk framework. Our priorities in 2019 are to

1. grow the core businesses of asset finance and consumer motor finance by increased lending into the prime market;
2. diversify the balance sheet with new asset classes, either through acquisition or organically;
3. develop and launch a much-improved proposition to the broker-introduced consumer motor finance market by automating credit decision-making and delivering high levels of customer service;
4. continue to invest in people and infrastructure to build a bank that can support a significantly larger portfolio; and
5. review the capital structure to prepare for the next stage of growth, while continuing to grow earnings per share.

We have made significant progress in achieving these objectives. Our previously stated objective of a portfolio of £350 million by 2020 is within our sights, well ahead of schedule, while the acquisition of Azule and the new property finance division provides momentum for the next portfolio target of £750 million by 2022 and a target return on equity target of 15%.

Azule Limited and bridging property finance

On 30 October 2018 we completed the acquisition of Azule Limited. Azule is a UK market leader in providing specialist funding and leasing services direct to individuals and businesses in the broadcast and media industry. Azule has a strong market presence with a sales capability to place asset finance to a wide range of banks and lending institutions for a commission, as well as originating asset finance for its own portfolio. This ability to generate commission income is a diversification for PCF Bank. Azule has contributed five months trading to these results and £33 million (2018: £23 million, pre-acquisition) of new business origination. 76% of this origination generated broker commission income with the remainder for

‘own portfolio’. We expect this mix of brokered to own portfolio business to move in favour of own portfolio over time as the business is integrated into PCF Bank. The acquisition will also offer synergies with PCF’s existing operations, however, the first five months post acquisition have been firmly focussed on supporting the sales operations of the Azule business. We are pleased with the performance to date.

PCF Bank also commenced bridging property finance in the period. We have recruited a small team of experienced staff and the first transactions were closed at the end of January 2019. We are pleased with the first two months’ new business origination and we have a strong pipeline of approved transactions and enquiries. This division specialises in financing property professionals, who may be individuals or small companies, with a successful track record in property investment. The transactions are typically six to eighteen months in duration and secured by a first charge, with repayment coming from a third-party refinance or the sale of the property. This diversification complements our existing lines of business with a shorter average life as well as introducing the capital efficiencies inherent in property lending. This is a new market for PCF and there is cost in building the operating model. This cost has been absorbed in this period’s profit and we do not expect this business line to contribute at the profit before tax level until 2020.

Existing business lines and portfolio performance

New business originations in existing business lines increased by 23% to £85 million (2018: £69 million) in the period and we finished with a record month for originations in March 2019 of £21 million (March 2018: £14 million). The largest increase in new business originations came from our Business Finance Division, where new volumes increased by 36% to £56 million (2018: £41 million). The modest increase in Consumer Finance Division originations to £29 million (2018: £28 million) was expected and growth in this division is anticipated later in the year, when we have delivered the strategic initiative of improved automated credit-decision making and superior customer service. This is a standard capability for operating in the prime motor finance market.

The lending portfolio now stands at £276 million (2018: £179 million), an increase of 54%, and the operating income generated from the portfolio was up 51% to £10.1 million in the period (2018: £6.7 million). The portfolio is reported net of unearned finance income of £53 million (2018: £39 million). This unearned finance income will be attributed to accounting periods over the next four years and provides certainty of operating income in the future.

Impairment losses in the period were £1.2 million (2018: £0.6 million), which represents a charge of 0.9% (2018: 0.5%) of which 0.1% was attributable to IFRS 9. This charge is consistent with the underlying loss rates expected from the portfolio going forward. As previously reported, past accounting periods have benefited from significant recoveries from legacy customers that defaulted during the financial crisis, but these are now becoming immaterial to overall performance. The part of the portfolio reported as ‘past due’ deteriorated slightly in the period to 95% (2018: 96%) and we are seeing evidence in the market place to suggest that the high point in this credit cycle has passed. This will not come as a surprise when placed in the context of the broader backdrop of economic uncertainty, but we are seeing some unfavourable indicators including business failure, fraudulent practices and falling asset recovery values. However, by maintaining our proven, prudent underwriting standards in the quality of the business we write, we are confident that we will continue to be well positioned in this regard.

Capital management

The Group has a CET1 capital ratio of 19.7% (2018: 21.6%) and held 122% (2018: 157%) of what was needed to meet the Overall Liquidity Adequacy Rule. These comfortably exceed regulatory requirements and will support the next phase of growth. Net assets have increased by 40% to £56 million (2018: £40 million) after the recent capital raise.

The decision to raise the additional capital of £10.75 million in March was taken in the light of significant market uncertainty in early 2019 and a desire to de-risk our growth strategy against potential market volatility or economic downturn. This is consistent with our strategy when raising capital in March 2017, ahead of launching the banking operations. In addition, we are finalising the terms of a Tier 2 capital facility which we expect to be completed by the end of June 2019. Subject to the final contract, this facility may be drawn as required to support future growth and so delays the requirement for further equity. This will enhance earnings per share by optimising our cost of capital and with an after-tax cost of 6.4%, this an attractive additional capital resource.

Current trading and outlook

We are pleased with the quality of business we are originating, and this is consistent with our cautious risk outlook. By maintaining prudent and responsible lending practices, we are confident that we will continue to perform well.

Economic and political uncertainty is weighing heavily on the UK economy but, assuming there is an orderly exit from the European Union, the economic outlook is likely to improve and the Group is well placed to take advantage in both our existing and new marketplaces.

We remain on track to meet market expectations and, with the enhanced capital structure now in place, we are well set to implement our 2019 objectives and medium-term plans. We look forward to reporting continued success as the year progresses.

T A Franklin

Chairman

5 June 2019

INDEPENDENT REVIEW REPORT TO PCF GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 31 March 2019, which comprises Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related explanatory notes 1 to 11. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with International Accounting Standard 34, 'Interim Financial Reporting,' as adopted by the European Union.

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards ('IFRSs'), as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting'; as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 March 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union.

Ernst & Young LLP

London

5 June 2019

CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 31 March 2019 unaudited £'000	Six months ended 31 March 2018 unaudited £'000	Twelve months ended 30 September 2018 audited £'000
Interest and similar income		16,248	11,648	25,494
Interest and similar charges		(6,230)	(4,828)	(10,492)
Net interest income		**10,018**	**6,820**	**15,002**
Fees and commission income		605	248	492
Fees and commission expense		(501)	(379)	(844)
Net fees and commission income / (expense)		**104**	**(131)**	**(352)**
Net operating income		**10,122**	**6,689**	**14,650**
Personnel expenses		3,800	2,495	5,186
Depreciation of property and equipment		67	40	84
Amortisation of intangible assets		196	191	385
Other operating expenses		1,644	1,320	2,907
Impairment losses on financial assets		1,164	579	915
Total operating expenses		**6,871**	**4,625**	**9,477**
Profit before tax		**3,251**	**2,064**	**5,173**
Income tax expense	8	(658)	(413)	(981)
Profit after tax		**2,593**	**1,651**	**4,192**
Earnings per 5p ordinary share – basic and diluted	11	1.2p	0.8p	2.0p

Underlying adjustments

	Six months ended 31 March 2019 unaudited £'000	Six months ended 31 March 2018 unaudited £'000	Twelve months ended 30 September 2018 audited £'000
Profit before tax	**3,251**	**2,064**	**5,173**
Acquisition costs	61	-	270
Underlying profit before taxation	**3,312**	**2,064**	**5,443**
Income tax expense	(658)	(413)	(981)
Underlying profit after taxation, being total comprehensive income, attributable to owners	**2,654**	**1,651**	**4,462**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 March 2019 unaudited £'000	Six months ended 31 March 2018 unaudited £'000	Twelve months ended 30 September 2018 audited £'000
Profit after taxation	**2,593**	**1,651**	**4,192**
Other comprehensive income that will be reclassified to the income statement			
Fair value (loss)/gain on AFS financial instruments (see note 4.2.2)	-	(11)	18
Fair value loss on FVOCI financial instruments (see note 4.2.2)	(87)	-	-
Income tax expense	-	-	(3)
Total items that will be reclassified to the income statement	(87)	(11)	15
Total comprehensive income, net of tax	**2,506**	**1,640**	**4,207**

CONSOLIDATED BALANCE SHEET

	Note	*31 March 2019 unaudited £'000*	*31 March 2018 unaudited £'000*	*30 September 2018 audited £'000*
Assets				
Cash and balances at central banks		2,882	14,657	21,338
AFS financial instruments	9	-	25,091	39,902
Debt instruments at FVOCI	9	27,491	-	-
Loans and advances to customers		275,710	179,203	219,322
Property, plant and equipment		292	244	224
Goodwill and other intangible assets		5,437	3,031	2,957
Deferred tax assets		1,287	1,206	1,185
Other assets		5,856	757	1,542
Total assets		**318,955**	**224,189**	**286,470**
Liabilities				
Due to banks		52,028	72,198	48,881
Due to customers		203,754	108,276	191,139
Current tax liabilities		528	213	414
Other liabilities		7,065	3,201	3,485
Total liabilities		**263,375**	**183,888**	**243,919**
Equity				
Issued capital	10	12,509	10,611	10,611
Share premium	10	17,654	8,524	8,527
Other reserves		(72)	(11)	15
Own shares		(355)	(355)	(355)
Retained earnings		25,844	21,532	23,753
Total equity		**55,580**	**40,301**	**42,551**
Total equity and liabilities		**318,955**	**224,189**	**286,470**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders					
	Non-distributable				Distributable	
	Issued Capital £'000	Share premium £'000	Own shares £'000	Other Reserves £'000	Retained Earnings £'000	Total equity £'000
Balance at 1 October 2018	10,611	8,527	(355)	15	23,753	42,551
Impact on transition to IFRS9	-	-	-	-	(502)	(502)
Restated balance as at 1 October	10,611	8,527	(355)	15	23,251	42,049
Profit for the period	-	-	-	-	2,593	2,593
Issuance of new shares	1,898	9,127				11,025
Fair value loss on FVOCI financial instruments	-	-	-	(87)	-	(87)
Balance at 31 March 2019	**12,509**	**17,654**	**(355)**	**(72)**	**25,844**	**55,580**
Balance at 1 October 2017	10,611	8,524	(355)	-	19,881	38,661
Profit for the period	-	-	-	-	1,651	1,651
Fair value loss on FVOCI financial instruments	-	-	-	(11)	-	(11)
Balance at 31 March 2018	**10,611**	**8,524**	**(355)**	**(11)**	**21,532**	**40,301**

CONSOLIDATED STATEMENT OF CASH FLOWS

	31 March 2019 unaudited £'000	*31 March 2018 unaudited £'000*	*30 September 2018 audited £'000*
Operating activities			
Profit before tax	3,251	2,064	5,173
Other non-cash items included in profit/(loss) before tax			
Depreciation of property, plant and equipment	67	40	84
Amortisation of other intangible assets	196	191	385
Net change in AFS financial instruments	-	(11)	15
Net change in FVOCI financial instruments	(87)	-	-
Share-based payments	-	-	34
Impairment losses on financial assets	1,164	579	915
Income tax paid	(650)	(366)	(668)
Adjustment for change in operating assets			
Net change in loans and advances	(42,383)	(34,065)	(74,519)
Net change in other assets	(3,366)	284	(502)
Change in operating liabilities			
Net change in amounts due to customers	12,615	55,156	138,019
Net change in other liabilities	(85)	(253)	31
Net cash flows from / (used in) operating activities	**(29,278)**	**23,619**	**68,967**
Investing activities			
Proceeds from financial instruments	12,411	-	-
Purchase of financial instruments	-	(20,580)	(35,390)
Purchase of property and equipment	(27)	(13)	(36)
Cash outflow on acquisition	(2,394)	-	-
Purchase of intangible assets	(148)	(518)	(637)
Net cash flows from / (used in) investing activities	**9,842**	**(21,111)**	**(36,063)**
Financing activities			
Proceeds from share issue during the period	10,275	-	3
Proceeds from borrowings	-	-	1,006
Repayment of borrowings	(9,295)	(4,869)	(29,190)
Dividends paid to equity holders	-	-	(403)
Net cash flows from / (used in) financing activities	**980**	**(4,869)**	**(28,584)**
Net increase / (decrease) in cash and cash equivalents	**(18,456)**	**(2,361)**	**4,320**
Cash and cash equivalents brought forward	21,338	17,018	17,018
Cash and cash equivalents carried forward	**2,882**	**14,657**	**21,338**

NOTES TO THE INTERIM REPORT

1. Basis of preparation

The interim results are unaudited and do not constitute statutory accounts as defined by section 434 of the Companies Act 2006. The Group balance sheet comparative figures for the year ended 30 September 2018 are based on the statutory accounts of the Group for that year and have been reported on by the Group's auditor and delivered to the Registrar of Companies. The comparative figures for the Group statement of profit and loss and other comprehensive income are based on the unaudited interim report for six months ended 31 March 2018. The report of the auditors was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

2. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union.

The interim results have been prepared based on the accounting policies set out in the Annual Report & Financial Statements for the year ended 30 September 2018, except for the adoption of new standards effective as of 1 October 2018.

3. New standards, interpretations and amendments adopted by the Group

The Group applies, for the first time, IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments'. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group. All other accounting policies are unchanged from the last annual financial statements.

4. Changes in accounting policies and disclosures

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

- IFRS 15 'Revenue from Contracts with Customers' (see below)
- IFRS 9 'Financial Instruments' (see below)
- IFRIC 22: 'Foreign Currency Transactions and Advance Consideration'
- Amendments to IFRS 2: 'Classification and Measurement of Share-based Payment Transactions' (effective 2019 financial year)
- Amendments to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (effective 2019 financial year)

4.1 IFRS 15 'Revenue from contracts with customers'

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

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

The Group has assessed the impact of the above and concluded that there will not be any changes required due to the nature of its business.

4.2 IFRS 9 'Financial Instruments'

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

4.2.1 Transition

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

4.2.2 Classification and measurement

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

The measurement categories under IFRS 9 are

- Assets, primarily the Group's conditional sale, hire purchase and personal loan receivables, which are deemed to consist solely of payments of principal and interest ('SPPI') and are intended to be held and collected and not sold, which are held at amortised cost (see note 4.2.3.4).
- Instruments meeting the SPPI criteria but which may be sold, which are held at fair value through other comprehensive income (('FVOCI') (see note 4.2.3.4).
- Assets not meeting the SPPI criteria and not classified under FVOCI, such as derivatives, which are held at fair value through profit and loss ('FVTPL').

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

The Group's approach to the adoption of IFRS 9 and a reconciliation of the changes from IAS 39, are set out in note 4.2.3.7, which applied from 1 October 2018, and through retained earnings.

IFRS 9 was not adopted until 1 October 2018 and so did not affect the financial statements for the period ended 30 September 2018.

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 at 30 September 2018 £'000	New carrying amount under IFRS 9 at 1 October 2018 £'000
Financial assets				
Cash and balances at central banks	Loans and receivables	Amortised cost	21,338	21,338
Loans and advances to customers	Loans and receivables	Amortised cost	219,322	218,718
Quoted debt instruments	Available for sale	FVOCI	39,902	39,902
Total financial assets			**280,562**	**279,958**
Due to banks	Amortised cost	Amortised cost	48,881	48,881
Due to customers	Amortised cost	Amortised cost	191,139	191,139
Total financial liabilities			**240,020**	**240,020**

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

1 October 2018

Loan provisions	Under IAS 39	Increase under IFRS 9	PMA	Total provision	Day one adjustment
	£’000	£’000	£’000	£’000	£’000
Consumer Finance	2,286	77	14	2,377	91
Business Finance	2,084	498	15	2,597	513
	4,370	**575**	**29**	**4,974**	**604**

31 March 2019

Loan provisions	Under IAS 39	Increase under IFRS 9	PMA	Total provision	Total Increase
	£’000	£’000	£’000	£’000	£’000
Consumer finance	2,596	77	14	2,687	91
Business finance	2,786	498	15	3,299	513
Azule finance	197			197	
Bridging finance	14			14	
	5,593	**575**	**29**	**6,197**	**604**

4.2.3 Financial Instruments – initial recognition

4.2.3.1 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 on which the Group becomes a party to the contractual provisions of the instrument). This includes regular way trades, (i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place). Loans and advances to customers are recognised when funds are transferred to the customers’ accounts. The Group recognises balances due to customers when funds are transferred to the Group.

4.2.3.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in note 4.2.2. Financial instruments are initially measured at their fair value and except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

4.2.3.3 Measurement categories of financial assets and liabilities

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

- Amortised cost, as explained in note 4.2.2; or
- FVOCI, as explained in note 4.2.2

Financial liabilities are measured at amortised cost.

4.2.3.4 Financial assets and liabilities

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

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

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

The details of these conditions are outlined below

Business model assessment

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

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

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

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

The SPPI test

As a second step of its classification process, the Group assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

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

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

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

Debt instruments at FVOCI

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

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss. The calculation of Expected Credit Losses ('ECL') for debt instruments at FVOCI is explained in note 4.2.3.7. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Due to banks and due to customers

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

4.2.3.5 Reclassification of financial assets and liabilities

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

4.2.3.6 Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

4.2.3.7 Impairment of financial assets

From 1 October 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL.

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

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

Significant increase in credit risk

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

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

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

- Backstop criteria: IFRS 9 includes a rebuttable presumption that 30 days past due is an indicator of a significant increase in credit risk. The Group considers 30 days past due to be an appropriate backstop measure and does not rebut this presumption.

Definition of default and credit-impaired assets

The Group's definition of default is fully aligned with the definition of credit-impaired. The Group applies a series of quantitative and qualitative criteria to determine if an account meets the definition of default and should therefore be moved to Stage 3. These criteria include

- when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); and

- when the borrower is more than 90 days past due on any material credit obligation to the Group.

Forward economic guidance

The group considered forward economic indicators including Brexit, gross domestic product, unemployment, inflation and used car price index.

Expected credit losses ('ECL')

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

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

The calculation of ECLs

The Group calculates ECLs based on multiple economic scenarios.

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

- PD - The Probability of Default ('PD') is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD - The Exposure at Default ('EAD') is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The Loss Given Default ('LGD') is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Group considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the value of collateral or the amount that might be received for selling the asset.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to retained earnings.

Upon adoption of IFRS 9, the Group recognised additional impairment on its loans and receivables of £604,000.

Set out below is the reconciliation of the ending impairment allowances in accordance with IAS 39 to the opening loss allowances determined in accordance with IFRS 9.

	Allowance for impairment under IAS 39 as at 30 September 2018	Remeasurement	ECL Under IFRS 9 as at 1 October 2018	ECL Under IFRS 9 as at 31 March 2019
	£'000	£'000	£'000	£'000
Consumer lending	2,286	91	2,377	2,687
Business lending	2,084	513	2,597	3,299
Azule	-	-	-	197
Bridging loans	-	-	-	14
	4,370	**604**	**4,974**	**6,197**

	£'000
Remeasurement of ECL under IFRS 9	604
Deferred tax on remeasurement	(102)
Change in Equity due to impact on transition to IFRS 9	**502**

5. Standards issued but not yet effective

The Group is assessing the impact of the following standards, interpretations and amendments that are not yet effective. Except for IFRS 17, they have all been endorsed by the EU and these changes will be adopted on the effective dates noted.

- IFRS 16: 'Leases' (effective 2020 financial year)
- IFRS 17: 'Insurance contracts' (effective 2022 financial year, not yet endorsed by the EU)
- IFRIC 23: 'Uncertainty over Income Tax Treatments' (effective 2020 financial year)
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective 2020 financial year)
- Annual Improvements to IFRSs 2015-2017 (effective 2020 financial)
- Amendments to IAS 19: 'Plan Amendment, Curtailment or Settlement' (effective 2020 financial year)

The Group continues to assess the impact of IFRS 16. It requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases, operating and finance leases.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15.

The Group currently expects these standards to have a limited impact on the Group's results, but will provide fuller detail in the year end consolidated financial statements.

6. Business combinations

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

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

Assets acquired and liabilities assumed

The book value of the identifiable assets and liabilities of Azule Limited as at the date of acquisition were

	Book value recognised on acquisition
Assets	**£'000**
Property, plant and equipment	108
Cash and cash equivalents	900
Hire purchase, leasing and loans	15,693
Prepayment and other debtors	948
	17,649
Liabilities	
Due to banks	(12,442)
Current tax liabilities	(106)
Other liabilities	(2,085)
	(14,633)
Total identifiable net assets at carrying value	**3,016**
Purchase consideration	5,544
Goodwill	**2,528**
Net cash acquired with the subsidiary	900
Cash paid	(3,294)
Net cash flow on acquisition	**(2,394)**
Purchase consideration	
Issue of shares	750
Cash paid	3,294
Deferred consideration	1,500
	5,544

The Company issued 1,923,076 ordinary shares in PCF Group plc as part consideration of the 100% acquisition of Azule Group. The fair value of the shares was calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was £0.39 per share. The fair value of the consideration given in shares was, therefore, £750,000.

Transaction costs of £270,000 were expensed and are included in administrative expenses for the year ended 30 September 2018. A further £61,000 of costs were paid and included as an expense in the income statement for the period ended 31 March 2019.

Contingent consideration

As part of the purchase agreement with the previous owners of Azule Limited and its subsidiaries, a contingent consideration has been agreed. This consideration is subject to the level of aggregate new business originations upon the first and second anniversaries of the acquisition. The fair value of the

contingent consideration at the acquisition date and signing date was £1,500,000. This comprises of £750,000 at each anniversary. The contingent consideration is due for final measurement and payment at each anniversary.

Since the date of acquisition, Azule Group has contributed £960,000 of net operating income and £283,000 to the net profit before tax to the continuing operations of the Group. If the acquisition had taken place at the beginning of the period, revenue from continuing operations would have been £1,110,000 and the profit from continuing operations for the period before tax and dividends would have been £283,000.

Identification and valuation for all acquired assets and liabilities (including contingent liabilities) is currently being assessed which will impact the goodwill recognised at the date of acquisition. An assessment of intangible assets will be completed by the year ending 30 September 2019.

7. Segment Information

The Group operates in the principal areas of consumer finance for motor vehicles and business finance for vehicles, plant and equipment, specialist funding in the broadcast and media industry and bridging property finance.

For management purposes, the Group has been organised into four operating segments based on products and services.

Consumer finance
Consumer hire purchase, personal loan and conditional sale finance for motor vehicles.

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

Azule finance
Specialist funding and leasing services direct to individuals and businesses in the broadcast and media industry. Azule Group was acquired on 30 October 2018.

Bridging finance
Bridging property finance commenced operations in January 2019, for residential, semi-commercial and commercial properties.

The Group's Executive Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the consolidated financial statements. 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 six-month periods ended 31 March 2019 and 31 March 2018.

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

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

For the six months ended 31 March 2018, the profit for the period was allocated based on balance sheet size. For 31 March 2019, the profit for the period has been prepared on an actual profit centre basis, where income and expenses are allocated specifically.

Segment Information

	Consumer finance	Business finance	Azule finance	Bridging finance	Total segments
	£'000	£'000	£'000	£'000	£'000
Six months ended 31 March 2019					
Interest and similar income	7,505	7,958	771	14	16,248
Interest and similar expense	(2,766)	(3,223)	(238)	(3)	(6,230)
Net interest income	**4,739**	**4,735**	**533**	**11**	**10,018**
Fee and commission income	51	119	435	-	605
Fee and commission expense	(236)	(257)	(8)	-	(501)
Net fees and commission (expense)/income	**(185)**	**(138)**	**427**	**-**	**104**
Net operating income	**4,554**	**4,597**	**960**	**11**	**10,122**
Personnel expense	1,553	1,507	525	215	3,800
Depreciation of property and equipment	18	27	22	-	67
Amortisation of intangible assets	81	113	-	2	196
Other operating expenses	726	714	112	92	1,644
Impairment loss on financial instruments	602	530	18	14	1,164
Total operating expenses	**2,980**	**2,891**	**677**	**323**	**6,871**
Segment profit before tax	**1,574**	**1,706**	**283**	**(312)**	**3,251**
Income tax expense	(308)	(356)	(53)	59	(658)
Profit for the period	**1,266**	**1,350**	**230**	**(253)**	**2,593**
Assets					
Additions to property and equipment	11	16	-	-	27
Additions to other intangibles assets	61	86	-	1	148
Total assets	122,312	171,178	22,495	2,970	318,955
Total liabilities	104,344	146,030	10,468	2,533	263,375

	Consumer finance	Business finance	Azule finance	Bridging finance	Total segments
	£'000	£'000	£'000	£'000	£'000
Six months ended 31 March 2018					
Interest and similar income	5,501	6,147	-	-	11,648
Interest and similar expense	(2,280)	(2,548)	-	-	(4,828)
Net interest income	**3,221**	**3,599**	-	-	**6,820**
Fee and commission income	117	131	-	-	248
Fee and commission expense	(179)	(200)	-	-	(379)
Net fees and commission (expense)/income	**(62)**	**(69)**	-	-	**(131)**
Net operating income	**3,159**	**3,530**	-	-	**6,689**
Personnel expense	1,178	1,317	-	-	2,495
Depreciation of property and equipment	19	21	-	-	40
Amortisation of intangible assets	90	101	-	-	191
Other operating expenses	623	697	-	-	1,320
Impairment loss on financial instruments	274	305	-	-	579
Total operating expenses	**2,184**	**2,441**	-	-	**4,625**
Segment profit before tax	**975**	**1,089**	**-**	**-**	**2,064**
Income tax expense	(195)	(218)	-	-	(413)
Profit for the period	**780**	**871**	-	-	**1,651**
Assets					
Additions to property and equipment	6	7	-	-	13
Additions to other intangibles assets	245	273	-	-	518
Total assets	105,883	118,306	-	-	224,189
Total liabilities	86,849	97,039	-	-	183,888

8. Income tax

The income tax rate is 20%, representing the best estimate of the annual effective tax rate applied to operating profit before tax for the six months period.

9. Assets and liabilities by classification, measurement and fair value hierarchy

Unaudited	Amortised cost £'000	FVOCI £'000	Total £'000
31 March 2019			
Cash and balances at central banks	2,882	-	2,882
Loans and advances to customers	275,710	-	275,710
Debt instruments at FVOCI	-	27,491	27,491
Total financial instruments	**278,592**	**27,491**	**306,083**
Other non-financial assets			12,872
Total assets			**318,955**
Due to banks	52,028	-	52,028
Due to customers	203,754	-	203,754
Total financial liabilities	**255,782**	**-**	**255,782**
Other non-financial liabilities			7,593
Total liabilities			**263,375**

Unaudited	Amortised cost £'000	FVOCI £'000	Total £'000
31 March 2018			
Cash and balances at central banks	14,657	-	14,657
Loans and advances to customers	179,203	-	179,203
Available-for-sale financial instruments	-	25,091	25,091
Total financial assets	**193,860**	**25,091**	**218,951**
Other non-financial assets			5,238
Total assets			**224,189**
Due to banks	72,198	-	72,198
Due to customers	108,276	-	108,276
Total financial liabilities	**180,474**	**-**	**180,474**
Other non-financial liabilities			3,414
Total liabilities			**183,888**

Audited	Amortised cost £'000	FVOCI £'000	Total £'000
30 September 2018			
Cash and balances at central banks	21,338	-	21,338
Loans and advances to customers	219,322	-	219,322
Available-for-sale financial instruments	-	39,902	39,902
Total financial assets	**240,660**	**39,902**	**280,562**
Other non-financial assets			5,908
Total assets			**286,470**
Due to banks	48,881	-	48,881
Due to customers	191,139	-	191,139
Total financial liabilities	**240,020**	**-**	**240,020**
Other non-financial liabilities			3,899
Total liabilities			**243,919**

The Group holds certain financial assets at fair value grouped into Levels 1 to 3 of the fair value hierarchy, as explained below, but no liabilities at fair value.

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

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

Level 3 – These 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.

	Level 1	Level 2	Level 3	Carrying value	Fair value
	£'000	£'000	£'000	£'000	£'000
Financial instruments held at amortised cost 31 March 2019					
Cash and balances at central banks	2,882	-	-	2,882	2,882
Loans and advances to customers	-	-	275,710	275,710	319,094
	2,882	**-**	**275,710**	**278,592**	**321,976**
Due to banks	52,028	-	-	52,028	52,028
Due to customers	-	203,754	-	203,754	203,754
	52,028	**203,754**	**-**	**255,782**	**255,782**

	Level 1	Level 2	Level 3	Carrying value	Fair value
	£'000	£'000	£'000	£'000	£'000
Financial instruments held at amortised cost 31 March 2018					
Cash and balances at central banks	14,657	-	-	14,657	14,657
Loans and advances to customers	-	-	179,203	179,203	209,108
	14,657	**-**	**179,203**	**193,860**	**223,765**
Due to banks	72,198	-	-	72,198	72,198
Due to customers	-	108,276	-	108,276	108,276
	72,198	**108,276**	**-**	**180,474**	**180,474**

	Level 1	Level 2	Level 3	Carrying value	Fair value
	£'000	£'000	£'000	£'000	£'000
Financial instruments held at amortised cost 30 September 2018					
Cash and balances at central banks	21,338	-	-	21,338	21,338
Loans and advances to customers	-	-	219,322	219,322	255,922
	21,338	**-**	**219,322**	**240,660**	**277,260**
Due to banks	48,881	-	-	48,881	48,881
Due to customers	-	191,139	-	191,139	191,139
	48,881	**191,139**	**-**	**240,020**	**240,020**

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

	Level 1	Level 2	Level 3	Fair value
	£'000	£'000	£'000	£'000
Financial instruments at fair value though other comprehensive income (FVOCI) 31 March 2019				
Quoted debt instruments	**27,491**	**-**	**-**	**27,491**

	Level 1	Level 2	Level 3	Fair value
	£'000	£'000	£'000	£'000
Financial instruments at available for sale (AFS) 31 March 2018				
Quoted debt instruments	**25,091**	**-**	**-**	**25,091**

	Level 1	Level 2	Level 3	Fair value
	£'000	£'000	£'000	£'000
Financial instruments at available for sale (AFS) cost 30 September 2018				
Quoted debt instruments	**39,902**	**-**	**-**	**39,902**

Following the implementation of IFRS 9 effective from 1 October 2018, quoted debt instruments are now valued at FVOCI instead of previously being valued at available for sale.

Valuation techniques

Debt instruments at FVOCI

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.

10.Issued capital and reserves

Share capital

	31 March 2019 unaudited £'000	*31 March 2018 unaudited £'000*	*30 September 2018 audited £'000*
Ordinary shares issued and fully paid			
Brought forward	10,611	10,611	10,611
Issuance of new shares during the period	1,898	-	-
Carried forward	**12,509**	**10,611**	**10,611**

Share premium

	31 March 2019 unaudited £'000	31 March 2018 unaudited £'000	30 September 20188 audited £'000
Brought forward	8,527	8,524	8,524
Issuance of new shares during the period	9,127	-	-
Dividend reinvestment	-	-	3
Carried forward	**17,654**	**8,524**	**8,527**

Date of Issue		No. of shares	Issue Price	Change in share capital 5p @ share £'000	Change in share premium £'000
30 October 2018	Shares issued as part of the consideration on acquisition of Azule Limited	1,923,076	39.00p	96	654
11 March 2019	Shares issued to support increased lending	35,833,333	30.00p	1,792	8,958
	Fees relating to share issue				(536)
29 March 2019	Shares issued pursuant to Employee Share Scheme – Exercise of Options	195,000	31.26p	10	51
				1,898	**9,127**

11. Earnings per Share

The calculation of basic and diluted earnings per ordinary share for the six months ended 31 March 2019 is based on a profit of £2,593,000 for the period on 217,920,608 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The calculation of basic and diluted earnings per ordinary share for the six months ended 31 March 2018 is based on a profit of £1,651,000 for the period on 212,219,778 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

12. Communication

The 2019 Interim Report will be posted to all shareholders on 12 June 2019 or shortly thereafter. Further copies can be obtained from the Company Secretary at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER or can be downloaded from our website, www.pcf.bank.