

CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Board of Directors (the “Board”) is committed to the highest standards of corporate governance and to compliance with the UK Corporate Governance Code 2018 (the “Code”), which sets out the principles relating to the good governance of companies. In the event that the Board does not comply with the Code in the application of its Principles, an explanation as to the reasons why is provided, as permitted by the Code.

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

Corporate governance and culture start at the top of any company and the Board and the Executive Committee together are driving the values, behaviours and attitudes that support PCF Group plc’s strategy.

This Statement of Compliance with the UK Corporate Governance Code was reviewed and approved by the Board on 29th July 2020.

Board Leadership and Company Purpose

The Board’s role is to promote the long-term sustainable success of the Company by way of effective and entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed.

The Board sets the Company’s purpose, values and strategic aims and ensures that the necessary culture, financial resources and human resources are in place to meet these objectives and to review management performance.

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

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

- Reviewing and approving acquisitions and disposals of undertakings and properties of substantial value and major investments.
- Ensuring that the board leads by example and promotes and monitors the desired culture of PCF Group plc.

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

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

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

The Board maintains dialogue with shareholders by way of meetings, in particular the Annual General Meeting, when shareholders are invited to ask questions of any of the Board members. The Chairman ensures that the views of shareholders are communicated to the Board.

Division of Responsibilities

The Board consists of four independent non-executive directors, two non-executive directors and two executive directors and is chaired by Tim Franklin, an independent non-executive director. None of the independent non-executive directors participate in the day-to-day management of the Group or PCF Bank.

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

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

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

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

The Board is supported by and delegates specific powers to a number of established Board committees, namely the

- Executive Committee (“ExCo”);
- Audit Committee (“AuditCo”);
- Risk Committee (“RiskCo”);
- Nomination Committee (“NomCo”); and
- Remuneration Committee (“RemCo”).

In particular, the Board has delegated its day-to-day management duties to ExCo, which meets monthly to deliberate and take policy decisions on the effective and efficient management of the Group and to monitor its performance. It also serves as a processing forum for issues to be discussed at Board level. ExCo’s primary responsibility is to ensure the implementation of strategies approved by the Board, provide leadership to the senior management team and ensure efficient deployment of the Group’s resources, including capital and liquidity. ExCo meetings provide an avenue for the attendees, which comprise senior management of various departments, to engage and align to the strategy and policy as approved by the Board.

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

The Board meets no less than nine times a year and its primary responsibilities are to provide leadership, set strategic objectives and develop robust corporate governance, risk management practices and a healthy culture of fairness, openness and integrity.

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

The Board ensures that the Group has the policies, processes, information, time and resources which it needs to function effectively and efficiently. However, the business affairs of the Group are governed by the Group’s delegated authorities and its policy and procedures manuals. Any non-compliance issues are brought to the attention of the Executive Committee, Audit Committee, Risk Committee and/or the Board for effective supervisory decision-making and proper governance.

Board members are encouraged to attend relevant training courses as part of their continuing professional development programmes and additional business, compliance and regulatory updates are also arranged as appropriate. Specific training sessions covering topical compliance, regulation and corporate governance issues are organized on a regular basis.

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

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

All executive and non-executive directors have unrestricted and timely access to all relevant information necessary for informed decision-making. The Chairman encourages participation and

deliberation by the Board members to make best use of their collective wisdom and to promote consensus building.

Composition, Succession and Evaluation

The Board consists of four independent non-executive directors, two non-executive directors and two executive directors and is chaired by Tim Franklin, an independent non-executive director. The tenure of each of the four independent non-executive directors is less than nine years, which is in accordance with the Code.

The Board comprises of members with diverse professional backgrounds, skills, extensive experience and knowledge in the areas of banking, finance, marketing, information technology, business, general management and strategy required for the successful direction of the Group. With its diversity of skills, the Board is able to provide clear and effective collective leadership and brings informed and independent judgement to strategy and performance to ensure that the highest standards of conduct and integrity are always at the core of the Group.

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

The Nominations Committee ('NomCo') consists of two non-executive directors and four independent non-executive directors and is chaired by Tim Franklin (appointment awaiting regulatory approval).

NomCo reviews the structure and size of the Board, considers the appropriateness of the Board's composition and ensures that it has the appropriate mix of skills and experience to fulfil its responsibilities.

NomCo maintains a formal, rigorous and transparent procedure for appointments to the board and ensures that an effective succession plan is in place both for board directors and senior management.

NomCo makes independent recommendations for appointments to the Board. In making these recommendations, NomCo assesses the suitability of candidates, taking into account the required mix of skills, knowledge, expertise and experience, professionalism, integrity, gender diversity, competencies and other qualities, before recommending them to the Board for appointment.

A Board effectiveness review and evaluation is conducted annually, with the review and evaluation being carried out by an external party at least once every three years.

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

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

However, the Company complies with the provisions of the Code and each director is subject to annual re-election at the Company's AGM.

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

Audit, Risk and Internal Control

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. This primarily takes the form of the Annual and Interim Reports.

The Board is also responsible for the overall adequacy of the Group's policies and procedures, as well as its system of internal controls and risk management.

The Board has delegated to the Audit Committee ("AuditCo") the responsibility for oversight of the Group's financial statements, regulatory compliance and internal financial controls.

AuditCo monitors the effectiveness of the Group's financial reporting systems and the integrity of the Group's external and internal audit process.

AuditCo is comprised of three non-executive directors with Christine Higgins, an independent non-executive director, as the Chair of the committee.

AuditCo's role and responsibilities include, without limitation, the following

- Monitoring the integrity of the Group's financial statements and any formal announcements relating to the Group's financial performance, and reviewing significant financial reporting judgements contained in them
- Providing advice on whether the Group's Annual Report and Financial Statements and Interim Report, taken as a whole, are fair balanced and understandable, and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy
- Conducting the tender process and making recommendations to the board about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor.
- Reviewing and monitoring the external auditor's independence and objectivity
- Reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements.
- Developing and implementing policy on the engagement of the external auditor to supply non-audit services.
- Reviewing the Group's internal financial controls and internal control and risk management systems

- Monitoring and reviewing the effectiveness of the internal audit function and overseeing the internal audit relationship.
- Overseeing whistleblowing arrangements

RiskCo monitors and reviews the effectiveness of the Group's internal control and risk management.

RiskCo is comprised of three non-executive directors with Marian Martin, an independent non-executive director, as the Chair of the committee.

RiskCo's role and responsibilities include, without limitation, the following

- Overseeing of internal controls and risk management.
- Advising the Board on the Company's overall risk appetite, tolerance and strategy, including *inter alia*, credit risk, operational risk, liquidity risk and interest rate risk.
- Challenging the Group's assessment of current major risks to strategic objectives and reputation.
- Assessing and monitoring the activities and effectiveness of the Risk and Compliance function.
- Overseeing the procedures in place for detecting fraud and financial crime and preventing bribery and money laundering

Remuneration

The Remuneration Committee ('RemCo') consists of two non-executive directors and four independent non-executive directors and is chaired by David Titmuss.

RemCo's role is to determine the policy for the executive director remuneration and the setting of remuneration for the chair, executive directors and senior management. It also reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture. In addition, Remco appraises the performance of the executive directors.

Where appropriate, Remco consults external advisors on remuneration and regulatory issues in order to align with the strategic aims of the Group and regulatory compliance requirements.

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

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

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

The following guiding principles underpin the remuneration policy.

- Interests of our employees will be aligned with the interests of our customers, long-term interests of the Group, shareholders, and other stakeholders in the Group, as well as the public interest.
- Employees will not be rewarded for risks that are unwarranted.
- Principles of 'malus' and 'clawback' will be implemented where relevant.

As a level three firm under the Remuneration Code guidance on proportionality (SYSC 19D), the Group does not apply the following rules

- retained shares or other instruments (SYSC 19D.3.56R).
- deferral (SYSC 19D.3.59R).
- performance adjustment (SYSC 19D.3.61R – 62R).

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

- Basic salary;
- Benefits;
- Cash bonus; and
- Share options Relations with shareholders.