PCF BANK

PCF Group plc

Interim Report
2021

PCF GROUP

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

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

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

Contents

Company Information	2
Interim Chief Executive Officer's Statement	4
Consolidated Income Statement	8
Consolidated Statement of Comprehensive Income	9
Consolidated Balance Sheet	10
Consolidated Statement of Changes in Equity	11
Consolidated Statement of Cash Flows	12
Notes to the Interim Report	13

PCF GROUP

Company Information

Directors

Tim Franklin *Non-executive Chairman*
Simon Moore *Non-executive Chairman designate (appointed 9 January 2022)*
Mark Brown *Non-executive*
Christine Higgins *Non-executive*
David Morgan *Non-executive*
Caroline Richardson *Chief Financial Officer (appointed 5 October 2021)*
Mark Sismey-Durrant *Non-executive Senior Independent Director designate (appointed 9 January 2022)*
Garry Stran *Interim Chief Executive Officer (appointed 5 October 2021)*
David Titmuss *Non-executive*

Marian Martin *Non-executive (resigned 23 December 2021)*
Scott Maybury *Chief Executive Officer (resigned 21 May 2021)*
Robert Murray *Managing Director (resigned 26 March 2021)*

Company Secretary

Robert Murray *(resigned 31 March 2021)*
LDC Nominee Secretary Limited *(appointed 31 March 2021)*

Registered Office

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

Registered Number

02863246

Auditors

MHA Macintyre Hudson *(appointed 23 December 2021)*
2 London Wall Place
Barbican
London EC2Y 5AU

Nominated Adviser & Broker ('NOMAD')

Peel Hunt LLP
100 Liverpool Street
London EC2M 2AT

Joint Broker

Shore Capital Limited
Cassini House
57 St. James's Street
London SW1A 1LD

Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Media & Investor Relations

Tavistock Communications Limited
1 Cornhill
London EC3V 3ND

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

The following summary of the consolidated interim financial statements should be read in conjunction with PCF Group plc's Annual Report & Financial Statements 2020, notably the emerging risks and uncertainties outlined in the Risk Overview.

Garry Stran, Interim Chief Executive Officer, commented:

'The Group delivered a statutory profit after tax of £1.0 million. The reduction on the prior year (2020: £2.0 million) predominantly reflects higher operating expenses as a result of the focus on remediation activities and the need to invest in order to ensure that the business can support automation and future growth. New business origination was lower in the period and net loans reduced slightly as a result.

The first six months of the 2021 financial year were challenging as a result of the general ongoing pandemic related difficulties facing all businesses and individuals and the specific difficulties that the Group has experienced.

The suspension of trading in the Group's shares on 19 May 2021 followed the identification of accounting errors and misstatements as well as a failure to properly report certain exposures under the Prudential Regulation Authority's Large Exposure reporting framework between December 2018 and June 2019 as set out in the Group's announcement on 28 June 2021. I am pleased to announce that the suspension is expected to be lifted today, allowing trading in the Group's shares to recommence.

Once again, I thank all my colleagues for their commitment and support during this difficult period. It's through their efforts and diligence that we have been able to continue to operate in an effective manner and I am confident we will return to our strategy of controlled and prudent growth, having learned the lessons from this period, as soon as possible.

Whilst the necessary actions have been taken to remediate our core Finance processes, which culminated in an update to the Group's FPPP (Financial Position and Prospects Procedures) memorandum, further work will continue to enhance our processes and develop the foundations to support the future strategy of the Group which will be centred around an enhanced, more robust risk management framework and underpinned by higher levels of automation and self-service.

I look forward to sharing more updates in the future about the status of these activities and the progress towards delivering our strategic priorities.'

Business highlights

- Net loans and advances reduced slightly to £425.8 million (September 2020: £427.3 million).
- Total new business originations were 20% lower at £122.9 million (2020: £153.3 million).
- Focus remains on writing high quality business, with 93% (2020: 80%) of originations in our top four credit grades.[1]
- Customer savings balances of £338.3 million (September 2020: £341.8 million) with over 8,050 customers (September 2020: over 7,950).
- Portfolio forbearance has reduced significantly since the introduction of lockdowns in the United Kingdom ('UK'). At March 2021, less than 4% of the portfolio was in forbearance (September 2020: 9%).

Financial highlights

- Net operating income increased by 4% to £14.7 million (2020: £14.2 million).
- Net interest margin decreased slightly to 6.7% (2020: 6.8%).
- Cost to income ratio increased to 66.3% (2020: 49.2%).[2]
- Credit impairment charge of £3.8 million (2020: £4.7 million) largely driven by a change to the provision estimates for defaulted receivables.
- Impairment charge as a percentage of average gross loans was 1.7% (2020: 2.5%).
- Statutory profit after tax of £1.0 million (2020: £2.0 million), with the reduction driven by higher expenses.
- Post-tax return on equity of 3.6% (2020: 6.8%).
- Earnings per share of 0.4p (2020: 0.8p).
- Total Capital Ratio of 16.7% (September 2020: 16.8%).
- Leverage ratio of 11.5% (September 2020: 11.5%).[3]
- Liquidity Coverage Ratio of 488% (September 2020: 673%).

[1] Top four credit grades refer to internal credit grades 1 to 4. Refer to the Risk Management Report in the PCF Group Annual Report & Financial Statements 2020 for further details.

[2] Cost to income ratio excludes impairment of goodwill and impairment losses on financial assets.

[3] Leverage ratio - transitional definition of Tier 1 capital.

PCF GROUP

Interim Chief Executive Officer's Statement

for the six months ended 31 March 2021

I begin by acknowledging the uncertainty and concern that the delayed publication of our financial results has caused for our stakeholders, and thanking you all for your patience and understanding during this challenging time.

As announced in our Annual Report & Financial Statements 2020, accounting errors and misstatements were identified, which resulted in trading in the Group's shares being suspended on 19 May 2021.

In response to these events, the Group is progressing with a number of restorative actions. These actions are focused on significant improvements to culture, governance and controls, and technology.

Culture, governance and controls, and technology

During the period, PCF was delighted to welcome Caroline Richardson to the executive team as Chief Financial Officer. Caroline brings with her a wealth of experience and has been instrumental in implementing our strengthened control environment.

As part of the Group's wider assessment of culture and governance, an extensive culture improvement programme has been launched within the Bank where everybody understands their personal responsibility for risk. The programme will also ensure colleagues feel comfortable to speak up and challenge if they have concerns.

One of the key areas of focus for the Group is continuing our investment in IT systems and infrastructure to develop a technologically advanced, digital, and modern operating platform where we can leverage economies of scale and move towards our ultimate goal of a zero marginal cost operating model.

Economic environment and COVID-19

The first half of the 2021 financial year has been significantly impacted by the ongoing social and economic effects of COVID-19. We have continued to support customers and colleagues and remained focused on the strength of our balance sheet.

Throughout the various lockdowns and restrictions we continued to receive requests for COVID-19 related payment deferrals and other requests for assistance. We have accommodated customers' requests wherever possible, and whilst we continued to receive these requests the percentage of customers benefitting from these plans has reduced significantly since the initial earlier stage of the COVID-19 pandemic.

Business and financial performance

New business origination in the period was lower at £122.9 million (2020: £153.3 million). Origination levels were impacted by the pandemic, particularly in the Business Finance Division where demand remained low as sole traders and small businesses deferred investment decisions and continued to make use of the Government's support schemes.

Origination increased in the Consumer Finance Division, as demand for used vehicles remained robust although we adopted a cautious approach to origination levels given the unusual dynamics witnessed in respect of the pricing of used vehicles as a result of the shortage of supply of new vehicles. The Group's continued diversification into Bridging Finance has been successful, with significantly higher originations in the first half of the 2021 financial year.

The quality of new business increased with 93% of lending written in our top four credit grades. This compares favourably with 80% in the first half of 2020.

Net operating income increased 4% to £14.7 million in the period largely driven by a 12% increase in net interest income which reflects a broadly stable margin of 6.7% (2020: 6.8%) on a higher average balance sheet.

Operating expenses, excluding impairment of goodwill and credit impairment charges, increased to £9.8 million (2020: £7.0 million) as we continued to scale to support remediation and capability enhancements to our operating and governance models.

The Group's cost to income ratio increased to 66.3% (2020: 49.2%), with the higher expenses more than offsetting the increased net operating income.

The credit impairment charge of £3.8 million (2020: £4.7 million) includes an additional £3.2 million provision increase for defaulted receivables (receivables that were either seriously in arrears or where the asset which acted as security for the receivable had been sold and a balance of the receivable remained outstanding), resulting from revisions to recovery expectations against those exposures. Besides this, the incremental credit impairment charge in the first half of 2021 was lower than in 2020, reflecting the broadly flat gross loan book in the six months to March 2021.

The Group generated a profit after tax of £1.0 million (2020: £2.0 million) which represents a return on equity of 3.6% (2020: 6.8%) and an earnings per share of 0.4 pence (2020: 0.8 pence).

Capital, funding and liquidity management

The Group remains extremely focused on ensuring it maintains sufficient levels of capital and liquidity. At 31 March 2021, the Group had a total capital ratio of 16.7% (September 2020: 16.8%) and a liquidity coverage ratio of 488% (September 2020: 673%).

The Group's diversified funding model comprises both retail deposits, wholesale funding and drawings from the Bank of England's Term Funding Schemes. At 31 March 2021, we held £338.3 million in deposits and had drawings of £59.6 million against the Term Funding Schemes. This is in addition to the £7.2 million of Tier 2 capital from the facility that we have with British Business Investments Limited.

Changes to the Board

As announced on 23 December 2021, the Group's Chairman Tim Franklin has notified the Board that he will retire as director and Chairman, effective no later than 31 January 2022. Marian Martin has also resigned as a director. Tim and Marian were both valued members of the Board.

As Chairman, Tim oversaw significant change in the business during his tenure and in recent months provided calm and considered leadership against what was an extremely challenging backdrop. His contribution to the Group has been significant and I thank him for his contributions and wish him the very best for the future.

We announced on 10 January 2022 that following a thorough search process, Simon Moore and Mark Sismey-Durrant were appointed as non-executive directors to the Board with effect from 9 January 2022.

Subject to regulatory approvals, Simon Moore will take up the role of the Chair of the Board and Board Nominations Committee and Mark Sismey-Durrant will take up the role of Senior Independent Director and interim Chair of the Board Risk Committee. Both bring a wealth of executive and non-executive experience, including within financial services, and we are extremely pleased to be welcoming them to PCF.

Financial targets

Published financial targets were withdrawn in June 2020 in response to the uncertainty caused by COVID-19. We are determined to return to providing targets and we now believe the most suitable time to reintroduce these will be with, or shortly after, the publication of our Annual Report & Financial Statements 2021. At this stage, our new auditor Macintyre Hudson will have completed their first annual audit and we will have more certainty in respect of performance for the first six months of the 2022 financial year; given this we anticipate being in a position to share details of our full year forecast for the 2022 financial year and how we expect profitability and the size of the balance sheet to develop over the duration of our planning horizon.

Outlook

Financial performance of the Group in the period was impacted by the ongoing economic and social effects of the pandemic, the initial costs associated with the commencement of remediation activity and our IT investment.

Furthermore, in the second half of the 2021 financial year the Group continued with the remediation and enhancement activities discussed herein. We will manage new business volumes to ensure the Group remains well capitalised throughout but before we return to normalised origination levels it is anticipated that there will be a temporary reduction in the overall size of the Group's loan book. Although these factors will continue to have a negative impact on capital generation and profitability in the near-term, it is absolutely necessary that we invest and manage the business appropriately for the future success of the Group.

The Board is confident that this investment coupled with the improvements in culture, governance and controls, and technology will allow the Group to overcome the current challenges and prepare the business to execute against its growth strategy which will be underpinned by a data-driven and digitalised approach to lending and loan origination. I will share more details of our future plans in the Annual Report & Financial Statements 2021.

G G Stran
Interim Chief Executive Officer

24 January 2022

Consolidated Income Statement

	Note	Half-year to 31 March 2021 unaudited £'000	31 March 2020[4] unaudited £'000
Interest income calculated using the effective interest method	6	**21,680**	20,364
Interest expense calculated using the effective interest method	7	**(7,517)**	(7,717)
Net interest income		**14,163**	12,647
Fees and commission income[4]	8	**1,307**	2,430
Fees and commission expense	8	**(928)**	(813)
Net fees and commission income	8	**379**	1,617
Net profit/(loss) on financial instruments classified at fair value through profit or loss		**207**	(25)
Net operating income		**14,749**	14,239
Personnel expenses		**(5,731)**	(4,331)
Depreciation of office equipment, motor vehicles and right-of-use assets		**(575)**	(122)
Amortisation of intangible assets		**(319)**	(268)
Impairment loss on software		**(14)**	–
Other operating expenses		**(3,135)**	(2,280)
Impairment losses on financial assets[4]	9	**(3,755)**	(4,686)
Total operating expenses		**(13,529)**	(11,687)
Profit before tax		**1,220**	2,552
Income tax	10	**(255)**	(509)
Profit after tax		**965**	2,043
Earnings per 5p ordinary share - basic and diluted	17	**0.4p**	0.8p

Consolidated Statement of Comprehensive Income

	Half-year to 31 March 2021 unaudited £'000	Half-year to 31 March 2020 unaudited £'000
Profit after taxation	**965**	2,043
Other comprehensive income that will be reclassified to the Income statement		
Fair value loss on FVOCI financial instruments	**(62)**	(460)
Deferred tax	**12**	–
Total items that will be reclassified to the Income statement	**(50)**	(460)
Total comprehensive income net of tax	**915**	1,583

PCF GROUP

Consolidated Balance Sheet

	Note	At 31 March 2021 unaudited £'000	At 30 September 2020 audited £'000
Assets			
Cash and balances at central banks		**25,858**	24,936
Debt instruments at FVOCI		**2,594**	9,095
Derivative financial instruments		**18**	–
Loans and advances to customers	11	**425,795**	427,297
Office equipment, motor vehicles and right-of-use assets		**2,652**	3,144
Goodwill and other intangible assets	13	**4,346**	4,327
Deferred tax assets		**1,822**	1,810
Current tax assets		**1,341**	–
Other assets		**3,349**	2,051
Total assets		**467,775**	472,660
Liabilities			
Due to customers		**338,336**	341,784
Due to banks		**59,615**	62,620
Derivative financial instruments		**–**	80
Lease liabilities		**1,332**	1,604
Current tax liabilities		**–**	125
Other liabilities		**6,358**	5,446
Subordinated liabilities	15	**7,224**	7,126
Total liabilities		**412,865**	418,785
Equity			
Issued capital	16	**12,550**	12,512
Share premium	16	**17,679**	17,625
Other reserves		**3**	53
Own shares		**(147)**	(147)
Retained earnings		**24,825**	23,832
Total equity		**54,910**	53,875
Total equity and liabilities		**467,775**	472,660

The interim financial statements were approved and authorised for issue by the Board on 24 January 2022.

On behalf of the Board

G G Stran
Director

C Richardson
Director

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Group					
	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 2020	12,512	17,625	(147)	53	23,832	53,875
Profit for the period	–	–	–	–	965	965
Issuance of new shares/scrip dividend	38	54	–	–	–	92
Fair value gain/(loss) on FVOCI financial instruments	–	–	–	(50)	–	(50)
Share-based payments	–	–	–	–	28	28
Cash dividends	–	–	–	–	–	–
Balance at 31 March 2021	12,550	17,679	(147)	3	24,825	54,910

	Attributable to equity holders of the Group					
	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 2019	12,510	17,619	(355)	7	28,974	58,755
Profit for the period	–	–	–	–	2,043	2,043
Issuance of new shares/scrip dividend	–	–	–	–	–	–
Fair value gain/(loss) on FVOCI financial instruments	–	–	–	(460)	–	(460)
Share-based payments	–	–	–	–	(79)	(79)
Cash dividends	–	–	–	–	–	–
Balance at 31 March 2020	12,510	17,619	(355)	(453)	30,938	60,259

	Attributable to equity holders of the Group					
	Non-distributable			Distributable		
	Issued capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2020	12,510	17,619	(355)	(453)	30,938	60,259
Loss for the period	–	–	–	–	(6,301)	(6,301)
Issuance of new shares/scrip dividend	2	6	–	–	(8)	–
Reclassification to cash	–	–	208	–	–	208
Fair value gain/(loss) on FVOCI financial instruments	–	–	–	506	–	506
Share-based payments	–	–	–	–	196	196
Cash dividends	–	–	–	–	(993)	(993)
Balance at 30 September 2020	12,512	17,625	(147)	53	23,832	53,875

Consolidated Statement of Cash Flows

	Half-year to	
	31 March 2021 unaudited £'000	31 March 2020[4,5] unaudited £'000
Operating activities		
Profit before tax	**1,220**	2,552
Other non-cash items included in profit before tax		
Depreciation of office equipment, motor vehicles and right-of-use assets	**575**	122
Loss on sale of motor vehicles	**2**	–
Amortisation of other intangible assets	**319**	268
Interest on lease liabilities	**21**	–
Accrued finance costs	**15**	–
Impairment loss on software	**14**	–
Share-based payments	**28**	(79)
Impairment losses on financial assets[4]	**3,755**	4,686
Income tax (paid)/due	**(1,733)**	(1,788)
Adjustment for change in operating assets		
Net change in loans and advances[4]	**(2,253)**	(67,039)
Net change in other assets	**(1,298)**	1,641
Change in operating liabilities		
Net change in derivative financial instruments	**(98)**	(7)
Net change in amounts due to customers	**(3,448)**	72,783
Net change in other liabilities	**912**	4,621
Net cash flows from/(used in) operating activities	**(1,969)**	17,760
Investing activities		
Net sale/(purchase) of debt instruments at FVOCI[5]	**6,451**	(950)
Purchase of office equipment and motor vehicles	**(85)**	(2,711)
Purchase of intangible assets	**(352)**	(295)
Net cash flows from/(used in) investing activities	**6,014**	(3,956)
Financing activities		
Proceeds from share issue during the period	**92**	–
Proceeds from subordinated borrowings	**98**	5,000
Repayment of capital element of leases	**(293)**	–
Net proceeds from borrowings	**(3,020)**	(13,929)
Net cash flows used in financing activities	**(3,123)**	(8,929)
Net increase in cash and cash equivalents	**922**	4,875
Cash and cash equivalents brought forward	**24,936**	7,371
Cash and cash equivalents carried forward	**25,858**	12,246

Notes to the Interim Report

1 Basis of preparation

The consolidated interim financial statements for the half-year to 31 March 2021 have been prepared in accordance with the UK adopted IAS 34 'Interim Financial Reporting'. They should be read in conjunction with PCF Group plc Annual Report & Financial Statements 2020 (hereinafter referred to as the 'Annual Report & Financial Statements 2020') which were prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and delivered to the Registrar of Companies. The auditor's report for those accounts did not express an opinion on the financial statements of PCF Group plc (disclaimer of opinion) and contained a statement under 498(2) and (3) of the Companies Act 2006.

The consolidated interim financial statements have not been audited or subject to review by the Group's auditor.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report section of the Annual Report & Financial Statements 2020. In particular, this going concern statement should be read in conjunction with the Emerging risks and uncertainties section of the Strategic Report which sets out those risks and mitigations.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities at 30 September 2020 are set out in the Annual Report & Financial Statements 2020 and updated in the consolidated interim financial statements for the half-year to 31 March 2021.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next twelve months. Accordingly, they continue to adopt the going concern basis in preparing these consolidated interim financial statements.

The directors have assessed the appropriateness of the going concern assumption taking into account all matters set out in the Strategic Report section of the Annual Report & Financial Statements 2020 and a detailed review of the Group's medium-term plan which includes increased remediation costs alongside a consideration of capital, funding and liquidity requirements. This consideration also included other business and emerging risks.

The Group made a £(4.8) million statutory loss before tax for the year ended 30 September 2020 and a £1.2 million profit before tax for the half-year to 31 March 2021. The Board has approved a medium-term plan in which the Group returns to profitability, but this is dependent on building scale to support an increased cost base. Remediation costs are expected to be incurred for at least the next twelve months. The growth in the medium-term plan requires capital to be raised. However, given the delay to the Annual Report & Financial Statements 2020, the disclaimer of auditor opinion and the temporary suspension of trading in the Group's shares, there are risks associated with our ability to raise capital and fund the planned future balance sheet growth.

Group performance, and the return to profitability in the medium-term plan, is underpinned by a number of key inputs and assumptions which cover:

- The raising of external capital.
- The funding of new business through retail deposits and other wholesale funding.
- New business origination levels.
- Net interest margin on new business originations.
- The expected date of completion of the Group's remediation activities and the impact on the Group's expenses.
- The level of impairment losses on financial assets.
- Capital requirements, both from a regulatory and internal management perspective.
- Dividends, which have been assumed at zero in the medium-term plan.

This indicates that the Group's ability to operate as a going concern is subject to material uncertainties. As with any medium-term planning process, there is a risk that these assumptions do not materialise. As part of the review of the medium-term plan, the Board was presented with a severe but plausible scenario downside in which the Group is unable to raise external capital, and a number of sensitivities to the medium-term plan in which the Group's net interest margin, impairment losses and business volumes were subject to materially adverse performance. Even under the severe but plausible scenario, it was demonstrated that the Group would continue to operate and meet current regulatory requirements for at least the next twelve months, albeit at the expense of balance sheet growth.

The Board has concluded, based on the items below, that the going concern basis of accounting was deemed appropriate:

- Planned performance, including a medium-term plan which returns the Group to profitability.
- The assessment of downside risk to the medium-term plan.

2 Accounting policies

The accounting policies adopted by the Group in the preparation of these consolidated interim financial statements, and those which the Group currently expects to adopt in the Annual Report & Financial Statements 2021, are consistent with those disclosed in the Annual Report & Financial Statements 2020.

Significant accounting judgements, estimates and assumptions

The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition are those relating to impairment losses on financial assets, effective interest rate and goodwill impairment. These significant accounting judgements, estimates and assumptions are referenced in note 1.7 of the Annual Report & Financial Statements 2020. Estimation uncertainty has been affected by the COVID-19 pandemic. Management's consideration of this source of uncertainty is outlined in the relevant sections of the Annual Report & Financial Statements 2020.

Information used for significant estimates

The COVID-19 pandemic has continued to cause significant economic and social disruption. Key financial estimates are based on a range of anticipated future economic conditions described by internally developed scenarios. Measurement of expected credit losses, effective interest rate and goodwill are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. Refer to the Emerging risks and uncertainties section in the Annual Report & Financial Statements 2020.

3 Standards issued but not yet effective

Minor amendments to IFRSs effective for the Group from 1 October 2020 have been issued by the International Accounting Standards Board ('IASB'). These amendments are expected to have no or an immaterial impact on the Group's financial statements.

4 Amendments to prior year comparatives

4.1 Fee income on credit impaired accounts

Amendments to the previously reported 2020 disclosures have been made relating to the treatment of other account charges and income on termination in respect of defaulted agreements.

Amounts in the profit and loss account have been reclassified with the recognition of other fees and commissions of £1.5 million and a corresponding increase in impairment losses on financial assets for the same amount. Amounts on the balance sheet have been reclassified with a reduction in loans and advances to customers of £1.2 million and a corresponding reduction in allowance for impairment losses for the expected non-recoverable amount of fees outstanding as at the reporting period charged and capitalised on credit impaired accounts. These adjustments have no impact on the previously reported profit before or after tax, or on the net assets of the Group for the half-year to, and at, 31 March 2020.

4.2 Cash flows arising on debt instruments at FVOCI

Amendments to the previously reported 2020 Consolidated statement of cash flows have been made relating to the treatment of unrealised losses on debt instruments at FVOCI.

Amounts in the cash flow statement within Other non-cash items included in profit/(loss) before tax relating to the net change in FVOCI financial instruments of £(460,000) have been reclassified to Investing activities as net purchase of debt instruments at FVOCI. These adjustments have no impact on the previously reported Cash and cash equivalents of the Group at 31 March 2020.

5 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 Finance.

For management purposes, the Group has been organised into four operating segments based on products and services: Consumer Finance; Business Finance; Azule Finance; and Bridging Finance.

The following table presents income and profit and certain asset and liability information for the Group's operating segments. All of the operating segments are materially based in the UK. Non-UK based operations are not considered material to the Group and therefore no additional geographical information is disclosed.

Segmental allocations were revised for the year ended 30 September 2020. Comparatives for the half-year to, and at, 31 March 2020 have been re-presented in accordance with IFRS 8, paragraph 29.

	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Adjustment at Group level £'000	Total segments £'000
Half-year to 31 March 2021						
Interest income calculated using the effective interest method	9,863	7,599	729	3,489	–	21,680
Interest expense calculated using the effective interest method	(3,693)	(2,995)	(112)	(717)	–	(7,517)
Net interest income	6,170	4,604	617	2,772	–	14,163
Fee and commission income	(131)	942	372	124	–	1,307
Fee and commission expense	(557)	(348)	(15)	(8)	–	(928)
Net fees and commission (expense)/income	(688)	594	357	116	–	379
Net profit/(loss) on financial instruments classified at fair value through profit or loss	87	79	9	32	–	207
Net operating income	5,569	5,277	983	2,920	–	14,749
Personnel expenses	(2,070)	(1,924)	(775)	(962)	–	(5,731)
Depreciation of office equipment, motor vehicles and right-of-use assets	(202)	(184)	(116)	(73)	–	(575)
Amortisation of intangible assets	(135)	(122)	(14)	(48)	–	(319)
Impairment loss on software	(6)	(5)	(1)	(2)	–	(14)
Other operating expenses	(1,018)	(1,136)	(815)	(166)	–	(3,135)
Impairment losses on financial assets	(417)	(3,083)	(282)	27	–	(3,755)
Total operating expenses	(3,848)	(6,454)	(2,003)	(1,224)	–	(13,529)
Segment profit/(loss) before tax	1,721	(1,177)	(1,020)	1,696	–	1,220
Income tax credit/(charge)	(360)	246	213	(354)	–	(255)
Profit/(loss) after tax	1,361	(931)	(807)	1,342	–	965
At 31 March 2021						
Total assets	195,888	178,199	22,208	70,333	1,147	467,775
Total liabilities	173,652	157,973	18,890	62,350	–	412,865
At 30 September 2020						
Total assets	181,209	197,855	27,063	65,386	1,147	472,660
Total liabilities	160,759	175,694	23,671	58,661	–	418,785

Re-presentation	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Adjustment at Group level £'000	Total segments £'000
Half-year to 31 March 2020						
Interest income calculated using the effective interest method	8,284	10,227	918	935	–	20,364
Interest expense calculated using the effective interest method	(3,128)	(4,158)	(262)	(169)	–	(7,717)
Net interest income	5,156	6,069	656	766	–	12,647
Fee and commission income[4]	447	1,430	553	–	–	2,430
Fee and commission expense	(472)	(327)	(11)	(3)	–	(813)
Net fees and commission (expense)/income	(25)	1,103	542	(3)	–	1,617
Net profit/(loss) on financial instruments classified at fair value through profit or loss	(9)	(13)	(1)	(2)	–	(25)
Net operating income	5,122	7,159	1,197	761	–	14,239
Personnel expenses	(1,314)	(1,786)	(874)	(357)	–	(4,331)
Depreciation of office equipment, motor vehicles and right-of-use assets	(37)	(52)	(26)	(7)	–	(122)
Amortisation of intangible assets	(98)	(136)	(16)	(18)	–	(268)
Other operating expenses	(1,111)	(908)	(142)	(119)	–	(2,280)
Impairment losses on financial assets[4]	(1,298)	(3,179)	(201)	(8)	–	(4,686)
Total operating expenses	(3,858)	(6,061)	(1,259)	(509)	–	(11,687)
Segment profit/(loss) before tax	1,264	1,098	(62)	252	–	2,552
Income tax credit/(charge)	(300)	(171)	12	(50)	–	(509)
Profit/(loss) after tax	964	927	(50)	202	–	2,043

PCF GROUP

6 Interest income calculated using the effective interest method

	Half-year to 31 March 2021 unaudited £'000	Half-year to 31 March 2020 unaudited £'000
Cash and short-term funds	**1**	42
Loans and advances to customers	**21,599**	20,195
Financial instruments – FVOCI	**80**	127
Total interest and similar income	**21,680**	20,364

7 Interest expense calculated using the effective interest method

	Half-year to 31 March 2021 unaudited £'000	Half-year to 31 March 2020[6] unaudited £'000
Paid and accrued to banks	**426**	576
Paid and accrued to customers	**3,016**	3,349
Credit related fees and commission	**4,055**	3,792
Interest expense on lease liabilities	**20**	–
Total interest and similar expense	**7,517**	7,717

8 Net fees and commission income

	Half-year to 31 March 2021 unaudited £'000	Half-year to 31 March 2020[4] unaudited £'000
Fees and commission income		
Secondary lease income	**178**	60
Other fees not forming part of EIR[4]	**716**	1,728
Other fees and commission	**413**	642
	1,307	2,430
Fees and commission expenses		
Debt recovery and valuation fees	**(129)**	(383)
Credit assessment costs	**(799)**	(430)
	(928)	(813)
Net fee and commission income	**379**	1,617

9 Impairment losses on financial assets

Impairment losses on financial assets relates to impairment losses on loans and advances to customers. The charge during the six month periods was as follows:

	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Total £'000
Half-year to 31 March 2021 - Unaudited					
Impairment charge for the six month period on loans and advances to customers	417	3,083	282	(27)	3,755
Half-year to 31 March 2020 - Unaudited					
Impairment charge for the six month period on loans and advances to customers[4]	1,298	3,179	201	8	4,686

10 Income tax

The income tax rate is 21% (31 March 2020: 20%), representing the best estimate of the annual effective tax rate applied to operating profit before tax for the six months period ended 31 March 2021.

11 Loans and advances to customers

	At 31 March 2021 unaudited £'000	At 30 September 2020 audited £'000
Consumer lending – gross	**186,172**	171,854
Business lending – gross	**175,346**	190,462
Azule lending – gross	**19,300**	23,001
Bridging lending – gross	**64,987**	60,612
	445,805	445,929
Allowance for impairment losses	**(20,010)**	(18,632)
Total Loans and advances to customers	**425,795**	427,297

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

Unaudited	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Total £'000
At 1 October 2020	6,921	10,319	912	480	18,632
Charge for the period (note 9)	417	3,083	282	(27)	3,755
(Recoveries)/write-offs	(658)	(1,578)	(141)	–	(2,377)
At 31 March 2021	6,680	11,824	1,053	453	20,010
Made up of					
Individual impairment	40	1,582	263	–	1,885
Collective model provisions including overlays and PMAs	6,640	10,242	790	453	18,125
Total impairment	6,680	11,824	1,053	453	20,010

Unaudited	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Total £'000
At 1 October 2019[4]	2,571	4,142	121	6	6,840
Charge for the period (note 9)[4]	1,298	3,179	201	8	4,686
(Recoveries)/write-offs[4]	(381)	(933)	92	–	(1,222)
At 31 March 2020	3,488	6,388	414	14	10,304
Made up of					
Individual impairment	1,136	1,563	360	14	3,073
Collective model provisions including overlays and PMAs[4]	2,352	4,825	54	–	7,231
Total impairment	3,488	6,388	414	14	10,304

Unaudited	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Total £'000
At 1 April 2020	3,488	6,388	414	14	10,304
Charge for the period	3,632	5,228	419	466	9,745
(Recoveries)/write-offs	(199)	(1,297)	79	–	(1,417)
At 30 September 2020	6,921	10,319	912	480	18,632

Audited	Consumer Finance £'000	Business Finance £'000	Azule Finance £'000	Bridging Finance £'000	Total £'000
At 30 September 2020					
Made up of					
Individual impairment	776	1,642	767	180	3,365
Collective model provisions including overlays and PMAs	6,145	8,677	145	300	15,267
Total impairment	6,921	10,319	912	480	18,632

12 Investment in subsidiary undertakings

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings. The Company does not have any joint ventures or associates. Subsidiaries of the Company were as follows:

Name of company	Incorporated	Nature of business	Percentage of equity interest 31 March 2021	Percentage of equity interest 30 September 2020
PCF Bank Limited	UK	Banking, hire purchase, leasing & bridging	100	100
PCF Credit Limited	UK	Leasing & hire purchase	100*	100*
Azule Limited	UK	Leasing & hire purchase	100*	100*
Azule Finance Limited	Ireland	Leasing & hire purchase	100*	100*
Azule Finance GMBH	Germany	Leasing & hire purchase	100*	100*

*Held by a subsidiary of the Company.

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

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

The registered office of Azule Finance GMBH is Kirchtruderinger Straße 17, 81829 München, Germany.

All companies have an accounting reference date of 30 September, except for Azule Finance GMBH which is 31 December.

Azule Limited, which owns 100% of Azule Finance Limited and Azule Finance GMBH, was acquired by PCF Bank Limited on 5 November 2018.

13 Goodwill and other intangibles assets

Goodwill relates partly to the Group's Consumer Finance Division which arises from the acquisition of a subsidiary company, TMV Finance Limited ('TMV'), in November 2000, and the remainder from the acquisition of Azule Limited ('Azule') on 5 November 2018.

In performing the bi-annual impairment test, the Group assesses the economic performance of acquisitions, the future of the business acquired and their useful economic lives. The assessment ensures that growth and profitability are at least the same value as the amount that was paid in excess of the fair value of the assets and liabilities acquired. To assess this, the Board approved forecast (adjusted by the Board's current view of the impact of COVID-19 on the Group) has been used and discounted back to present value.

Both of the cash generating units ('CGUs') acquired are expected to continue to perform, but forecasting is only over the next 5 years. There is, therefore, requirement to capture expected growth and cash flows beyond these dates. To complete this there is a terminal valuation that is required to be performed to assess whether goodwill has been impaired or not. Terminal value often comprises a large percentage of the total assessed value.

The recoverable amount of the TMV and Azule CGU's at 31 March 2021 has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by the Board covering a five year period, and a terminal valuation based on the previous year's adjusted forecast. The projected cash flows have been updated to reflect the increased business over this current year which is aligned with recent demand and future expected growth in its products and services. The pre-tax discount rate applied to cash flow projections is 12.97% per annum over a five year period and, for the period beyond, a terminal growth rate of 1% is used, being the expected long-term average growth rate for the Group within the economies in which it operates. It has been concluded that the values in use for TMV and Azule exceed their carrying value in use and the goodwill at 31 March 2021 remains appropriate for the carrying value for the TMV and Azule acquisitions.

The key assumptions used in the value in use calculations and the sensitivity to changes in assumptions are set out in the Annual Report and Financial Statements note 17.

Goodwill

	At	
	31 March 2021 unaudited £'000	**30 September 2020 audited £'000**
TMV Finance Limited acquisition	**397**	397
Azule Limited acquisition	**750**	750
	1,147	1,147

	Half-year to		
	31 March 2021 unaudited £'000	31 March 2020 unaudited £'000	30 September 2020 unaudited £'000
Cost and net book value			
Opening balance	**1,147**	2,897	2,897
Write-offs	**–**	–	(1,750)
Closing balance	**1,147**	2,897	1,147

Other intangible assets

The Group's other intangible assets consist solely of computer software and capitalised expenses incurred in the project regarding the Company's application to become a bank.

	Half-year to		
	31 March 2021 unaudited £'000	31 March 2020 unaudited £'000	30 September 2020 unaudited £'000
Cost			
Opening balance	**6,800**	6,149	6,444
Additions during the period	**290**	295	192
Write-off - impairment loss on software	**(45)**	–	(88)
Software in development	**62**	–	252
Closing balance	**7,107**	6,444	6,800
Accumulated depreciation			
Opening balance	**3,620**	3,105	3,373
Amortisation during the period	**319**	268	284
Write-off - impairment loss on software	**(31)**	–	(37)
Closing balance	**3,908**	3,373	3,620
Net book value	**3,199**	3,071	3,180

	At	
	31 March 2021 unaudited £'000	30 September 2020 audited £'000
Net book value of combined goodwill and other intangible assets	**4,346**	4,327

14 Financial instruments

14.1 Valuation techniques

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

	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
At 31 March 2021 - unaudited				
Cash and balances at central banks	25,858	–	–	25,858
Loans and advances to customers	425,795	–	–	425,795
Debt instruments at FVOCI	–	–	2,594	2,594
Derivative financial instruments	–	18	–	18
Other assets	2,251	–	–	2,251
Total financial assets	453,904	18	2,594	456,516
Due to banks	59,615	–	–	59,615
Due to customers	338,336	–	–	338,336
Subordinated liabilities	7,224	–	–	7,224
Other liabilities	3,149	–	–	3,149
Total financial liabilities	408,324	–	–	408,324

	Amortised cost £'000	FVTPL £'000	FVOCI £'000	Total £'000
At 30 September 2020 - audited				
Cash and balances at central banks	24,936	–	–	24,936
Loans and advances to customers	427,297	–	–	427,297
Debt instruments at FVOCI	–	–	9,095	9,095
Other assets	1,264	–	–	1,264
Total financial assets	453,497	–	9,095	462,592
Due to banks	62,620	–	–	62,620
Due to customers	341,784	–	–	341,784
Derivative financial instruments	–	80	–	80
Subordinated liabilities	7,126	–	–	7,126
Other liabilities	3,979	–	–	3,979
Total financial liabilities	415,509	80	–	415,589

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

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

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

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 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.

	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments held at at amortised cost					
At 31 March 2021 - unaudited					
Cash and balances at central banks	25,858	25,858	–	–	25,858
Loans and advances to customers	425,795	–	–	425,795	479,810
Total	451,653	25,858	–	425,795	505,668
Due to banks[7]	59,615	59,615	–	–	59,615
Subordinated liabilities	7,224	–	–	7,224	8,346
Due to customers[7]	338,336	–	–	338,336	338,336
Total	405,175	59,615	–	345,560	406,297

	Carrying value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments held at at amortised cost					
At 30 September 2020 - audited					
Cash and balances at central banks	24,936	24,936	–	–	24,936
Loans and advances to customers	427,297	–	–	427,297	485,880
	452,233	24,936	–	427,297	510,816
Due to banks[7]	62,620	62,620	–	–	62,620
Subordinated liabilities	7,126	–		7,126	8,289
Due to customers[7]	341,784	–	–	341,784	341,784
	411,530	62,620	–	348,910	412,693

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000
Financial instruments at fair value through other comprehensive income ('FVOCI')				
At 31 March 2021 - unaudited				
Quoted debt instruments	2,594	–	–	2,594
At 30 September 2020 - audited				
Quoted debt instruments	9,095	–	–	9,095

The following table shows an analysis of financial instruments recorded at FVTPL by level of the fair value hierarchy:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair value £'000	Notional £'000
Derivative financial instruments					
At 31 March 2021 - unaudited					
Derivative financial assets	–	18	–	18	2,500
Derivative financial liabilities	–	–	–	–	–
At 30 September 2020 - audited					
Derivative financial assets	–	–	–	–	–
Derivative financial liabilities	–	80	–	80	15,770

14.2 Impairment allowance for loans and advances to customers

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

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 March 2021 - unaudited				
Gross carrying amounts				
Performing				
High grade	318,058	31,368	942	350,368
Standard grade	32,508	4,367	–	36,875
Sub-standard grade	25,181	5,222	–	30,403
Non-performing				
Individually impaired	–	1,056	2,251	3,307
Collectively impaired	–	6,623	18,229	24,852
Total	375,747	48,636	21,422	445,805
Allowance for impairment loss	(2,715)	(3,947)	(13,348)	(20,010)
Net total	373,032	44,689	8,074	425,795
Undrawn commitments	4,125	–	–	4,125

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2020 - audited				
Gross carrying amounts				
Performing				
High grade	276,241	60,360	896	337,497
Standard grade	40,436	7,110	–	47,546
Sub-standard grade	33,034	7,273	–	40,307
Non-performing				
Individually impaired	–	643	2,458	3,101
Collectively impaired	–	1,285	16,193	17,478
Total	349,711	76,671	19,547	445,929
Allowance for impairment loss	(3,179)	(3,300)	(12,153)	(18,632)
Net total	346,532	73,371	7,394	427,297
Undrawn commitments	17,270	–	–	17,270

An analysis of changes in the gross carrying amount and the corresponding expected credit losses ('ECLs') is as follows:

Gross carrying amounts	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2020 - unaudited	349,711	76,671	19,547	445,929
New assets originated or purchased	99,759	992	–	100,751
Assets de-recognised or matured	(17,660)	(75,334)	(5,504)	(98,498)
Transfers to Stage 1	565	(553)	(12)	-
Transfers to Stage 2	(49,146)	49,517	(371)	-
Transfers to Stage 3	(7,482)	(2,657)	10,139	-
Amounts written-off	–	–	(2,377)	(2,377)
At 31 March 2021	375,747	48,636	21,422	445,805

ECL allowance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2020 - unaudited	3,179	3,300	12,153	18,632
New assets originated or purchased	393	17	–	410
Assets de-recognised or matured and remeasurements	1,784	(1,116)	2,677	3,345
Transfers to Stage 1	11	(11)	–	-
Transfers to Stage 2	(1,974)	2,078	(104)	-
Transfers to Stage 3	(678)	(321)	999	-
Amounts written-off	–	–	(2,377)	(2,377)
At 31 March 2021	2,715	3,947	13,348	20,010

Gross carrying amounts	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2019[4] - unaudited	307,294	22,424	15,625	345,343
New assets originated or purchased	138,923	–	–	138,923
Assets de-recognised or matured[4]	(68,025)	(2,242)	(1,223)	(71,490)
Transfers to Stage 1	1,615	(1,615)	-	-
Transfers to Stage 2	(23,857)	23,857	-	-
Transfers to Stage 3	(1,885)	(3,579)	5,464	-
Amounts written-off	–	–	(1,616)	(1,616)
At 31 March 2020[4]	354,065	38,845	18,250	411,160

ECL allowance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 October 2019[4] - unaudited	1,576	1,458	3,806	6,840
New assets originated or purchased	763	–	–	763
Assets de-recognised or matured and remeasurements[4]	1,911	803	1,209	3,923
Transfers to Stage 1	19	(19)	–	–
Transfers to Stage 2	(1,360)	1,360	–	–
Transfers to Stage 3	(509)	(1,067)	1,576	–
ECL transfers	–	–	–	–
Amounts written-off[4]	–	–	(1,222)	(1,222)
At 31 March 2020[4]	2,400	2,535	5,369	10,304

Gross carrying amounts	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 April 2020 - unaudited	354,065	38,845	18,250	411,160
New assets originated or purchased	80,870	–	–	80,870
Assets de-recognised or matured	(18,794)	(17,647)	(8,637)	(45,078)
Transfers to Stage 1	2,651	(2,650)	(1)	–
Transfers to Stage 2	(61,584)	61,584	–	–
Transfers to Stage 3	(7,497)	(3,461)	10,958	–
Amounts written-off	–	–	(1,023)	(1,023)
At 30 September 2020	349,711	76,671	19,547	445,929

ECL allowance	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 April 2020 - unaudited	2,400	2,535	5,369	10,304
New assets originated or purchased	1,513	–	–	1,513
Assets de-recognised or matured and remeasurements	(1,345)	(780)	4,757	2,632
Impact on ECL transfers	(158)	1,714	4,044	5,600
Transfers to Stage 1	205	(205)	–	–
Transfers to Stage 2	477	(477)	–	–
Transfers to Stage 3	87	513	(600)	–
Amounts written-off	–	–	(1,417)	(1,417)
At 30 September 2020	3,179	3,300	12,153	18,632

Forborne and modified loans

The following tables provide a summary of the Group's forborne assets:

		Gross carrying amount of forborne loans				
	Gross Carrying Amount £'000	Stage 1 Performing forborne loans £'000	Stage 2 Performing forborne loans £'000	Stage 3 Performing forborne loans £'000	Total forborne loans £'000	Forbearance ratio
At 31 March 2021 - unaudited						
Due from banks	–	–	–	–	–	–
Loans and advances to customers						
CFD	186,172	2,151	1,181	178	3,510	1.89%
BFD	175,346	4,468	5,376	424	10,268	5.86%
Azule	19,300	2,444	114	304	2,862	14.83%
Bridging	64,987	–	–	–	–	0.00%
Total loans and advances to customers	445,805	9,063	6,671	906	16,640	3.73%
At 30 September 2020 - audited						
Due from banks	–	–	–	–	–	–
Loans and advances to customers						
CFD	171,854	4,512	1,664	68	6,244	3.63%
BFD	190,462	11,290	13,634	197	25,121	13.19%
Azule	23,001	6,662	2,223	166	9,051	39.35%
Bridging	60,612	–	–	–	–	0.00%
Total loans and advances to customers	445,929	22,464	17,521	431	40,416	9.06%

ECLs on forborne loans

	Stage 1 Individual £'000	Stage 1 Collective £'000	Stage 2 Individual £'000	Stage 2 Collective £'000	Stage 3 Individual £'000	Stage 3 Collective £'000	Total £'000
At 31 March 2021 - unaudited							
Due from banks	–	–	–	–	–	–	–
Loans and advances to customers							
CFD	4	20	34	73	–	63	194
BFD	19	45	90	528	–	176	858
Azule	146	8	22	64	–	174	414
Bridging	–	–	–	–	–	–	–
Total loans and advances to customers	169	73	146	665	–	413	1,466
At 30 September 2020 - audited							
Due from banks	–	–	–	–	–	–	–
Loans and advances to customers							
CFD	62	14	117	–	16	–	209
BFD	151	66	392	407	–	47	1,063
Azule	278	22	103	–	–	36	439
Bridging	–	–	–	–	–	–	–
Total loans and advances to customers	491	102	612	407	16	83	1,711

PCF GROUP

15 Subordinated liabilities

	At 31 March 2021 unaudited £'000	At 30 September 2020 audited £'000
Subordinated liabilities	**7,224**	7,126
	7,224	7,126

£7.0 million subordinated notes issued by PCF Bank Limited
At 31 March 2021, PCF Bank Limited had a £15.0 million subordinated note facility from British Business Investments Limited (30 September 2020: £15.0 million). The notes may be issued once per quarter in tranches of between £1.0 million and £5.0 million, and each tranche has a fixed coupon of 8% per annum, a final maturity ten years from the date of issue and is callable by the issuer five years from the date of issue. These notes meet the conditions for Tier 2 capital and at 31 March 2021 £7.0 million of notes had been issued (30 September 2020: £7.0 million).

16 Issued capital and reserves

	31 March 2021 unaudited '000 units	30 September 2020 audited '000 units	31 March 2021 unaudited £'000	30 September 2020 audited £'000
Ordinary shares issued and fully paid				
Opening balance at 1 October	**250,240**	250,197	**12,512**	12,510
Issuance of new shares during the period	**750**	–	**38**	–
Dividend reinvestment	**-**	43	**-**	2
Closing balance	**250,990**	250,240	**12,550**	12,512

Share premium	31 March 2021 unaudited £'000	30 September 2020 audited £'000
Opening balance at 1 October	**17,625**	17,619
Issuance of new shares during the period	**54**	6
Closing balance	**17,679**	17,625

Date of issue	Number of shares	Issue price	Change in share capital at 5p per share £'000	Change in share premium £'000
9 April 2020				
Dividend reinvestment	43,499	5.0p	2	6

17 Earnings per share

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

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

	At	
	31 March 2021 unaudited £'000	**31 March 2020 unaudited £'000**
Net Company profit attributable to ordinary shareholders adjusted for the effect of dilution	**965**	2,043

	At	
	31 March 2021 unaudited '000 units	**31 March 2020 unaudited '000 units**
Basic and diluted weighted average number of shares	**250,335**	250,197
Basic and diluted earnings per 5p ordinary share	**0.4p**	0.8p

18 Commitments, contingent liabilities, and contingent assets

At 31 March 2021, the Group had undrawn commitments to lend to customers of £4.13 million (30 September 2020: £17.27 million).

The Group's subsidiary, PCF Bank Limited, operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. The Group and the Bank have formal controls and policies for managing legal claims. Based on professional legal advice, the Group provides and/or discloses amounts in accordance with its accounting policies described in note 1 of the Annual Report & Financial Statements 2020. From time to time the Group and the Bank receive legal claims relating to its business activities. The total value of claims at 31 March 2021, assessed to have a greater than remote likelihood of economic outflow, is £nil (30 September 2020: £135,000).

The Group has begun to seek recovery of remuneration related payments and other consequential losses suffered in relation to the events that led to the delay of the Annual Report & Financial Statements 2020 and the shares being suspended from trading on AIM. The amount of any recoveries cannot currently be quantified.

19 Related parties

The non-executive directors held a total of £105,471 in savings accounts in the Group at 31 March 2021 (30 September 2020: £167,932).

Key management personnel of the Group are the Board Directors.

20 Non adjusting events after the balance sheet date

COVID-19

As the COVID-19 pandemic evolves, the UK Government is implementing additional measures to address the resulting public health issues and the economic impact. The Group continues to monitor the COVID-19 pandemic situation and will take further action as necessary in response to economic disruption. There may be further adverse effects on revenue and impairments depending on severity and duration of the additional measures.

Brexit

Along with COVID-19 economic impacts, there remains the continued uncertainty of the implications for the UK economy by reason of leaving the EU. Although a trade deal was agreed on 24 December 2020, the Group continues to monitor Brexit and the potential economic impact on credit risk.

Sale of credit impaired loans

On 30 September 2021, the Group sold £12.4 million of gross credit impaired loans (£1.7 million net of ECL impairments) for £2.8 million, realising a profit on disposal of £1.1 million.

£30.0 million revolving credit facility granted to PCF Bank by Leumi ABL Limited

This facility, when drawn as a loan, has a variable rate linked to overnight LIBOR plus a margin and a maturity date of up to five years. The facility is secured by a charge over specified loans and receivables and the guarantee of the Company. At 31 March 2021 this facility was undrawn (30 September 2020: £nil) and the facility was terminated on 21 December 2021.

[4] Comparatives for: the recoverable amount of fees charged within the Income statement on credit impaired accounts have been re-presented from Impairment losses on financial assets to Fees and commission income; and the recoverable amount of accrued fees charged on credit impaired accounts have been re-presented from Allowance for Impairment losses to Loans and advances to customers. These re-presentations were adopted to make the Income Statement, segmental analysis, net fee and commission income note, and Loans and advances to customers disclosure notes more relevant following a review of the disclosures and accounting policies applied (please see note 4).

[5] Comparatives for the net change in FVOCI financial instruments included in Other non-cash-items have been re-presented to Net sale/(purchase) of debt instruments at FVOCI within Investing activities to make the consolidated statement of cash flows more relevant following a review of the disclosure and accounting policies applied (please see note 4).

[6] Comparatives for credit related fees and commission have been re-presented from Paid and accrued to customers to make the Total interest and similar expense note more relevant following a review of the disclosure.

[7] Carrying value is assessed to approximate fair value.

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Lending Consumer Finance 020 7227 7506 Business Finance 020 7227 7560
Azule Finance 01753 580 500 Bridging Finance 020 3848 7802

Savings 020 7227 7577 **Credit Control** 020 7227 7517 **Switchboard** 020 7222 2426