

PCF Group plc

Pillar 3 Disclosures
30 September 2021



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Abbreviations

In the section that follows, the following abbreviations are used on numerous occasions:

| | |
|---------------------|--|
| ALCO | Assets & Liabilities Committee |
| AT1 | Additional Tier 1 |
| Bank | PCF Bank Limited and its subsidiaries |
| BCBS | Basel Committee on Banking Supervision |
| BoE | Bank of England |
| BRC | Board Risk Committee |
| CCB | Capital Conservation Buffer |
| CCF | Credit Conversion Factor |
| CCR | Counterparty Credit Risk |
| CCyB | Countercyclical Capital Buffer |
| CEO | Chief Executive Officer |
| CET1 | Common Equity Tier 1 |
| CRD | Capital Requirements Directive |
| CRM | Credit Risk Mitigation |
| CRO | Chief Risk Officer |
| CRR | Capital Requirements Regulation |
| CRR II/CRD V | Revisions to the CRD IV package |
| CSA | Credit Support Annex |
| CVA | Credit Valuation Adjustment |
| EBA | European Banking Authority |
| ECAI | External Credit Assessment Institutions |
| ECL | Expected Credit Losses |
| EIR | Effective Interest Rate |
| EU | European Union |
| FCA | Financial Conduct Authority |
| FHC | Financial Holding Company |
| FPC | Financial Policy Committee |
| FPPP | Financial Position and Prospects Procedures |
| Group | PCF Group plc and its subsidiaries |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFRS | International Financial Reporting Standards |
| ILAA | Internal Liquidity Adequacy Assessment |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| IRRBB | Interest Rate Risk in the Banking Book |
| ISDA | International Swaps and Derivatives Association Master Agreement |
| MRTs | Material Risk Takers |
| PRA | Prudential Regulation Authority |
| RAS | Risk Appetite Statement |
| RemCo | Remuneration Committee |
| RMF | Risk Management Framework |
| RWA | Risk-weighted Asset |
| SA | Standardised Approach |
| SME | Small and medium-sized enterprise |
| SMFs | Senior Manager Functions |
| SREP | Supervisory Review and Evaluation Process |
| TC | Total Capital |
| TFSME | Term Funding Scheme with additional incentives for SMEs |
| T1 | Tier 1 Capital |

1 Overview

1.1 Background

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. The prudential regulatory framework established by the Basel Committee on Banking Supervision and implemented by the PRA within the UK is structured around three pillars that are designed to promote sound risk and capital management:

- **Pillar 1** – Defines the minimum capital requirements that institutions are required to hold for credit, market and operational risks.
- **Pillar 2** – This builds on Pillar 1 and incorporates the PCF Group plc and its subsidiaries ('Group') own assessment of additional capital resources needed, in order to cover specific risks that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the Prudential Regulation Authority ('PRA') during its Supervisory Review and Evaluation Process ('C-SREP') and is used to determine the overall capital resources required by the Group.
- **Pillar 3** – Aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management. The provision of meaningful information about common key risk metrics to market participants is a fundamental tenet of a sound banking system and helps promote comparability of institutions' risk profiles within and across jurisdictions.

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

This document sets out the Pillar 3 disclosures on capital and risk management for the Group as at 30 September 2021. It has two principal purposes:

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

1.2 Scope

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.

At the end of 2021 PCF Group Plc was recognised by the PRA as a Financial Holding Company (FHC). This moves the formal responsibility for meeting the requirements of the Capital Requirements Regulation (CRR) from the Bank to the Group. In reality, the Group continued to approach risk management on a consolidated basis, so the change had limited impact.

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

1.3 Basis of disclosure

The Pillar 3 disclosures are published in a standalone disclosure report and is available to view on the PCF website www.pcf.bank. These disclosures are published annually and are released, simultaneously with the Annual Report & Financial Statements.

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

All disclosures within this report have been prepared as at 30 September 2021, which is the Group's latest financial year-end, and include the 2021 audited accounts which the Board approved on 30 May 2022. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Group's Annual Report & Financial Statements.

Where Pillar 3 requirements are included in other disclosure reports, references are provided to the relevant pages and or location.

1.4 Regulatory Developments

Under the terms of the UK withdrawal agreement, the UK transitional period came to an end at 11pm on 31 December 2020. The EU rules which were in force at that date (including binding technical standards) have been on-shored and now form part of domestic law in the UK.

The remaining elements of CRR II came into force in the EU in June 2021. As the amendments had not come into force at the date of the UK's withdrawal from the EU, CRR II was not automatically transposed into UK law and these measures required implementation by UK regulators. The PRA published its final policy statement on the Implementation of Basel Standards with a target implementation date of 1 January 2022.

Regulatory measures announced by the EU in light of Covid-19 accelerated the implementation of certain CRR II amendments, including the revised small and medium-sized enterprises ("SME") supporting factor. The benefit of the SME discount factor and CRR 'Quick Fix' have been recognised in the Group's capital ratios for the year ended 30 September 2021.

In December 2020, the Financial Policy Committee (FPC) updated its Countercyclical Buffer (CCyB) guidance and confirmed it expected the UK CCyB rate to remain at 0% until early December 2022. The FPC announced that from 13 December 2022, this will increase to 1%.

The Group recognises the major threat that climate change poses to global social and economic development. We are committed to reducing our carbon footprint and broader environmental impact, whilst also adapting our strategy and managing the climate change risks associated with our portfolio.

The Group developed and approved a Climate Risk Management Framework to ensure that the risks associated with climate change are considered across our organisation, including at the most senior levels of our business. The framework embeds a governance approach to climate change credit risk management, with appropriate oversight by the Board and the senior management, and roles and responsibilities across the Group. The Board has ultimate oversight of climate-related matters and received training with regards to the implications of climate change risk on the Group.

The Group's approach to managing climate-related financial risks and its scope 1 and scope 2 emissions are shown within the Sustainability Report of the Group's Annual Report & Financial Statements.

The Group's individual regulated entity and the Group as a whole complied with all of the externally imposed capital requirements to which they were subject for the year ended 30 September 2021.

Table 1: Capital structure

| | 30 September 2021 £'000 | 30 September 2020 [#] £'000 |
|---|-------------------------------|--|
| Equity | | |
| Issued capital | 12,550 | 12,512 |
| Share premium | 17,679 | 17,625 |
| Other reserves recognised for CET 1 capital | 9 | 60 |
| Investment in own shares | (147) | (147) |
| Retained earnings | 18,771 | 21,777 |
| Total equity | 48,862 | 51,827 |
| Regulatory Adjustments to the accounting basis | | |
| Goodwill and intangible assets | (3,075) | (4,327) |
| Adjustment for prudent valuation | (16) | (9) |
| IFRS 9 transitional adjustment | 4,340 | 5,186 |
| Total deductions | 1,249 | 850 |
| Common Equity Tier 1 Capital | 50,111 | 52,677 |
| Other Capital | | |
| Additional Tier 1 Capital | - | - |
| Subordinated Debt Tier 2 Capital | 6,136 | 6,065 |
| Total Regulatory Capital | 56,247 | 58,742 |

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

The Group adopted the regulatory transitional arrangements for International Financial Reporting Standards (IFRS 9) 'Financial Instruments', article 473a of the Capital Requirements Regulation from 1st October 2018. These transitional arrangements permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The impact of IFRS 9 on loan loss allowances is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; and
- any subsequent increase in expected credit losses ('ECL') in the non-credit-impaired book thereafter.

1.5 Basis of consolidation

The regulatory basis of consolidation follows the basis of consolidation used for financial reporting purposes. The regulatory consolidation includes all financial sector subsidiaries, all of which are wholly owned by the relevant parent company.

Table 2: Outline of the differences in the scopes of consolidation

| Name of the entity | Method of accounting consolidation | Method of prudential consolidation | Description of the entity |
|-----------------------|--|--|---------------------------------|
| PCF Group Plc | Full consolidation | Full consolidation | Mixed financial holding company |
| PCF Bank Limited | Full consolidation | Full consolidation | Credit Institution |
| PCF Credit Limited | Full consolidation | Full consolidation | Financial leasing |
| Azule Limited | Full consolidation | Full consolidation | Financial leasing |
| Azule Finance Limited | Full consolidation | Full consolidation | Financial leasing |
| Azule GMBH | Full consolidation | Full consolidation | Financial leasing |

The consolidated Financial Statements of the Group and the separate Financial Statements of the Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

1.6 Mapping of financial statement categories with regulatory risk categories

The below table shows how the financial statement categories map to the regulatory risk categories.

Table 3: Reconciliation to the Balance Sheet

| | | | Carrying values of items* | | | |
|----------------------|---|--|---|---|---------------------------------------|---|
| Ref | | Carrying values as reported in published financial statements £'000 | Carrying values under scope of prudential cosolidation £'000 | Subject to the credit risk framework £'000 | Subject to the CCR framework £'000 | Not subject to own funds requirements or subject to deduction from own funds £'000 |
| At 30 September 2021 | | | | | | |
| 1 | Cash and balances at central banks | 56,126 | 56,126 | 56,126 | - | - |
| 2 | Debt instruments at FVOCI | 16,155 | 16,155 | 16,155 | - | - |
| 3 | Loans and advances to customers | 363,992 | 363,992 | 363,992 | - | - |
| 4 | Office equipment, fixtures, fittings and motor vehicles | 2,350 | 2,350 | 2,350 | - | - |
| 5 | Goodwill and other intangible assets | 3,075 | 3,075 | - | - | 3,075 |
| 6 | Current tax assets | 1,675 | 1,675 | 1,675 | - | - |
| 7 | Other assets | 5,169 | 5,169 | 5,169 | - | - |
| 8 | Derivative Financial Asset | 209 | 209 | - | 209 | - |
| 9 | Total assets | 448,751 | 448,751 | 445,467 | 209 | 3,075 |
| 1 | Due to banks | 59,630 | 59,630 | - | - | 59,630 |
| 2 | Due to customers | 327,166 | 327,166 | - | - | 327,166 |
| 3 | Derivative financial instruments | - | - | - | - | - |
| 4 | Other borrowed funds | 7,127 | 7,127 | - | - | 7,127 |
| 5 | Lease liabilities | 1,037 | 1,037 | - | - | 1,037 |
| 6 | Current tax liabilities | - | - | - | - | - |
| 7 | Other liabilities | 4,929 | 4,929 | - | - | 4,929 |
| 8 | Total liabilities | 399,889 | 399,889 | - | - | 399,889 |
| 9 | Issued capital | 12,550 | 12,550 | - | - | 12,550 |
| 10 | Share premium | 17,679 | 17,679 | - | - | 17,679 |
| 11 | Own shares | (147) | (147) | - | - | (147) |
| 12 | Other reserves | 9 | 9 | - | - | 9 |
| 13 | Retained earnings | 18,771 | 18,771 | - | - | 18,771 |
| 14 | Total equity | 48,862 | 48,862 | - | - | 48,862 |
| 15 | Total liabilities and equity | 448,751 | 448,751 | - | - | 448,751 |

| Ref | | Carrying values as reported in published financial statements £'000 | Carrying values under scope of prudential cosolidation £'000 | Carrying values of items | | |
|-----|---|---|--|---|---|--|
| | | | | Subject to the credit risk framework £'000 | Subject to the CCR framework £'000 | Not subject to own funds requirements or subject to deduction from own funds £'000 |
| | At 30 September 2020# | | | | | |
| 1 | Cash and balances at central banks | 24,936 | 24,936 | 24,936 | - | - |
| 2 | Debt instruments at FVOCI | 9,095 | 9,095 | 9,095 | - | - |
| 3 | Loans and advances to customers | 427,003 | 427,003 | 427,003 | - | - |
| 4 | Office equipment, fixtures, fittings and motor vehicles | 3,144 | 3,144 | 3,144 | - | - |
| 5 | Goodwill and other intangible assets | 4,327 | 4,327 | - | - | 4,327 |
| 6 | Current tax assets | - | - | - | - | - |
| 7 | Other assets | 2,051 | 2,051 | 2,051 | - | - |
| 8 | Derivative Financial Asset | - | - | - | - | - |
| 9 | Total assets | 470,556 | 470,556 | 466,229 | - | 4,327 |
| 1 | Due to banks | 62,620 | 62,620 | - | - | 62,620 |
| 2 | Due to customers | 342,046 | 342,046 | - | - | 342,046 |
| 3 | Derivative financial instruments | 80 | 80 | - | 80 | - |
| 4 | Other borrowed funds | 7,126 | 7,126 | - | - | 7,126 |
| 5 | Lease liabilities | 1,604 | 1,604 | - | - | 1,604 |
| 6 | Current tax liabilities | 69 | 69 | - | - | 69 |
| 7 | Other liabilities | 5,184 | 5,184 | - | - | 5,184 |
| 8 | Total liabilities | 418,729 | 418,729 | - | 80 | 418,649 |
| 9 | Issued capital | 12,512 | 12,512 | - | - | 12,512 |
| 10 | Share premium | 17,625 | 17,625 | - | - | 17,625 |
| 11 | Own shares | (147) | (147) | - | - | (147) |
| 12 | Other reserves | 60 | 60 | - | - | 60 |
| 13 | Retained earnings | 21,777 | 21,777 | - | - | 21,777 |
| 14 | Total equity | 51,827 | 51,827 | - | - | 51,827 |
| 15 | Total liabilities and equity | 470,556 | 470,556 | - | 80 | 470,476 |

*The carrying value is the accounting balance reported in the regulatory risk types and excludes off-balance sheet items.

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

2 Risk management overview

Risk is a natural consequence of the Group's business activities and the environment in which it operates. Managing risk is therefore essential to the Group and is fundamental to the successful implementation of its strategy.

As previously disclosed, significant remediation work has been, and continues to be, undertaken to improve the effectiveness of the Group's risk management and to put a strong culture of risk awareness, listening and speaking up at the heart of PCF and its Risk Management Framework (RMF). Strong culture and frameworks guide colleagues' approach to their work, the way they behave and the decisions they make, and make clear the type and level of risk that the business is prepared to tolerate in pursuit of its business objectives.

Through its culture programme, the Board seeks to ensure that the Group actively embraces a culture of risk awareness, where colleagues are accountable for assessing, controlling and mitigating risks; where colleagues are encouraged to speak-up if they see something that does not look or feel right, and where any concerns will be listened to. Colleague performance management and reward practices all have key risk inputs and a focus on risk management in their design. The Group aims for colleagues to be risk aware and to strike the right balance between delivering on objectives, individual accountability and maintaining a safe and secure business.

Risk within the Group is managed using a 'Three Lines of Defence' model, separating risk management (First Line) from risk oversight (Second Line) and internal audit (Third Line). Controls and expertise are being further, strengthened across the two internal lines of defence (First & Second), with additional Third Line assurance provided by an externally sourced internal audit function.

Further information can be found in the Group's Annual Report & Financial Statements 2021, section 'Risk Overview' on page 18.

2.1 Risk strategy

The Group has defined its risk management objectives and strategy and is further building a culture of risk awareness. Its risk strategy is intended to support a sustainable and resilient business through a proportionate approach to risk management, which is there to ensure that risks taken are suitably compensated for; that the needs of all stakeholders are considered; and that the total amount of risk under management is appropriate for a firm of PCF's size, capabilities, resources, and long-term aspirations. Ongoing activities that continue to support the strategy include:

- Strengthening the RMF and control environment through enhanced governance which includes the embedding of a new risk committee structure and Risk and Compliance team structure, additional experienced Risk hires and an enhanced Risk and Compliance team structure with additional resources.
- Ensuring the Group's risk profile, including principal and emerging risks are fully identified, owned, managed, with a proportionate risk appetite set for each.
- Ensuring there is an appropriate return for risks taken within product pricing.
- Enhancement of the Group's stress testing and credit analytics capabilities.
- Reviewing remuneration practices to ensure these are congruent with the Group's risk culture and RMF.
- Providing enhanced risk and compliance awareness sessions to all employees.

The Board focuses on the principal risks that could prevent the Group from achieving its strategic objectives.

2.2 Risk appetite and culture

The Risk Appetite Statement ('RAS') provides an articulation of the Group's tolerance for risk in both quantitative measures and qualitative terms. A clearly defined RAS allows the setting of detailed risk appetite and reporting metrics for principal risks. The RAS sets out the level of risk that the Group is willing to take in pursuit of its business objectives.

Throughout the year to 30 September 2021, compliance with risk appetite was reported to the Board Risk Committee (BRC) and the Board by the Chief Risk Officer (CRO). The CRO is responsible for assessing the impact on the Group's performance to risk appetite from changes in circumstance (internal or external).

The Board sets the risk appetite and culture and cascades this into day-to-day operations through policies, qualitative statements, risk appetite metrics, limits, Board and committee reviews, monitoring, assurance, recruitment and training.

2.3 Information on number of directorships

In addition to their roles within the Group, the number of external directorships held by members of the management body are detailed in the table below, as at 30 September 2021.

Table 4: Directorships

| Name | Position | Directorships ¹ |
|-----------------------------------|------------------------------------|----------------------------|
| T A Franklin* | Chairman | 7 |
| S D Maybury** | Chief Executive | 1 |
| R J Murray*** | Executive Director | 1 |
| D Titmuss | Independent Non-executive Director | 3 |
| C A Higgins | Independent Non-executive Director | 4 |
| M Martin**** | Independent Non-executive Director | 8 |
| D J Morgan | Non-executive Director | 13 |
| M F Brown | Non-executive Director | 5 |
| Garry Stran [^] | Chief Executive Officer | - |
| Caroline Richardson [^] | Chief Financial Officer | - |
| Simon Moore ^{^^} | Independent Non-executive Chair | - |
| Mark Sismey-Durrant ^{^^} | Independent Non-executive Director | - |

¹ External directorships held within the same PCF Group of companies count as a single directorship.

* Resigned 31 January 2022.

** Resigned 21 May 2021.

*** Resigned 26 March 2021.

**** Resigned 23 December 2021.

[^] Appointed as directors on 5 October 2021.

^{^^} Appointed as directors on 9 January 2022.

2.4 Principal risks

Principal risks are the inherent risks faced by the Group in pursuit of its strategic objectives.

The Group has identified nine principal risks that could impact the delivery of its strategic objectives, each with a Board approved risk appetite, and the RMF identifies ownership, responsibilities, management approaches, mitigants and controls. These risks are defined and considered within the Risk Management Report on page 54 of the Group's Annual Report & Financial Statements.

2.4.1 ICAAP, ILAAP, Recovery and Stress Testing

The Internal Capital Adequacy Assessment Process (ICAAP) is governed through the Internal Capital Adequacy Assessment (ICAA) section of the PRA rulebook, which, beyond capital, sets out the PRA's expectations regarding firm's coverage of the underlying principal risks including, credit, operational, market & interest rate risk, strategic & business, and climate change risks. It also covers the PRA's expectations on stress testing including reverse stress testing. The Group identifies the major sources of risk and carries out stress testing appropriate to the nature, scale, and complexity of both the risk and the Group. In doing so it considers both acute threats and those of a more chronic nature, with scenarios reflecting a mixture of the two. The stress testing (referred to internally as the Pillar 2b assessment) is used by the Group to assess the adequacy of the capital plan, and externally to determine whether any PRA buffer is needed to compensate for a modelled decline in the gap between Common Equity Tier 1 (CET1) capital and the hurdle rate once eligible buffers and excess CET1 are taken into consideration.

The Internal Liquidity Adequacy Assessment Process (ILAAP) is governed through the Internal Liquidity Adequacy Assessment (ILAA) section of the PRA rule book along with CRR and the European Commission Delegated Act ('Delegated Act') with regards to the liquidity coverage requirement for credit institutions. The ILAAP documents the Group's overall liquidity adequacy against a range of stress tests covering systemic factors (e.g. macroeconomic and market driven events) as well as internally driven (idiosyncratic) factors. The tests are intended to cover both near-term liquidity threats and longer-term risks to funding plans and associated funding concentrations. The production of the ILAAP document is undertaken annually and signed off by the Board, but the LCR and the Group's assessment of the overall liquidity adequacy requirement (OLAR) are determined daily.

Scenario analysis within the Recovery Plan is governed through Supervisory Statement SS9/17 (Recovery Planning) as well as the Recovery Plan section of the PRA rulebook, which requires firms to contemplate a range of scenarios of severe macroeconomic and financial stress relevant to the firm's specific conditions, including systemic and idiosyncratic events. The scenario testing is intended to identify the specific recovery options that provide the optimal response to each stress identified, assessing the impacts of each on capital, liquidity, profitability, reputation and franchise. The invocation of the Recovery Plan would be recommended to the Board by the Recovery Committee.

Stress testing is a major part of the Group's assessment of its capital and liquidity positions and ensures the Group is resilient to a range of stresses including the ability to continue to meet regulatory requirements even under a severe, but plausible stress.

2.4.2 Governance and oversight

Governance is maintained through delegation of authority from the Board, down to Board sub-committees and lower-level management and risk committees. The committee-based structure has been enhanced to ensure that risk appetite, policies, procedures, controls and reporting are all fully in line with regulations, law, good corporate governance standards and industry best practice.

The interaction of the executive and non-executive governance structures requires a culture of transparency and openness. A risk-centric culture is seen by the Group as the foundation for effective risk management.

The structure of committees and role of the key executive committees is set out in the Corporate Governance Structure section of the Corporate Governance Report on page 25 of the Group's Annual Report & Financial Statements.

2.5 Internal control and effectiveness of risk management arrangements

The Board is responsible for the Group's risk management and system of internal controls and is committed to ensuring that a suitable internal control framework is maintained to deliver effective risk management. Owing to the limitations inherent in any internal control framework as evidenced by the events and issues that have come to the attention of the Board since the 2020 year-end, the Board is particularly focused on reviewing and improving that framework to ensure more effective corporate governance and oversight including the improvement in the internal controls systems and risk frameworks set out in the Board Audit and Board Risk Committee reports.

The effectiveness of the Risk Management Framework ('RMF') and internal control systems is and will continue to be reviewed by the Board Risk Committee and Board Audit Committee. The Board Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures. The Board Audit Committee assists the Board in discharging its responsibilities regarding financial reporting, oversight of external and outsourced internal audit activities, internal controls, compliance and whistleblowing.

The Board has taken steps to improve the Group's financial controls, continues to monitor the effectiveness of its RMF and internal controls systems and carefully scrutinised the Financial Position and Prospects Procedures (FPPP). In relation to the scrutiny of the FPPP, this included reviewing and challenging the Finance function's risk assessment and ensuring mitigating actions to the risks identified are appropriately documented, managed and reviewing the findings from the FPPP gap assessment and RMF assurance review undertaken by our third-party advisers. Ultimately as a result of this scrutiny, the Board approved the FPPP.

3 Capital adequacy

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

Table 5: Summary of capital requirements

| Requirement | Calculation method | Description | Requirement |
|--|--|---|--|
| Credit Risk | Standardised Approach | The Group applies the standardised method to the entire loan book and other assets. The standardised approach applies a standardised set of risk weightings to credit risk exposures. | Pillar 1 requirements (as per Article 92 of the CRR): |
| Counterparty Credit Risk | Standardised Approach | The Group applies the 'Mark-to-Market' method to relevant assets. | <ul style="list-style-type: none"> ● CET1 capital ratio of 4.5% of RWAs. |
| Market Risk | Standardised Approach | The Group applies the standardised method to relevant assets. | <ul style="list-style-type: none"> ● Tier 1 capital ratio of 6% of RWAs. |
| Operational Risk | Basic Indicator Approach ('BIA') | The Group applies the BIA for operational risk capital requirements in accordance with CRR Article 315. | <ul style="list-style-type: none"> ● a total capital ratio of 8% of RWAs. |
| Pillar 2A | Calculated by the PRA, based on the ICAAP submission | Percentage of RWAs. | Set by the PRA and not disclosed. |
| Pillar 2B | Calculated by PRA, based on the ICAAP submission | Based on outputs of internal stress testing, PRA buffer assessment and PRA buffer requirement. | Set by the PRA and not disclosed. |
| Capital Conservation Buffer ('CCoB') | Expressed as a percentage of RWAs | CCoB is part of the CRD IV combined buffer. It is held in combination with the CCyB and the PRA Buffer to ensure the Group can withstand an adverse market stress. The combination of the PRA buffer and the CRD IV combined buffer replaced the Capital Planning Buffer ("CPB") effective 1 January 2016. | Commenced 1 January 2016, initially set at 0.625%, 1.875% for 2018, rising to 2.5% from 2019. |
| Counter-cyclical Capital Buffer ('CCyB') | Expressed as a percentage of total Pillar 1 RWAs | All to be met by CET1 capital. | Set by the Financial Policy Committee ('FPC'). This buffer changes from 1% to 2% on 16th December 2020. However, on 11 March 2020 this buffer was reduced to 0%. |
| PRA Buffer | Expressed as a percentage of total Pillar 1 RWAs | PRA buffer, in combination with the CRD IV combined buffer is held to ensure the Group can withstand an adverse market stress. The combination of the PRA buffer and the CRD IV combined buffer replaced the CPB, effective 1 January 2016. The PRA buffer needs to be fully met with CET1 capital from 2019. | PRA buffer is set by the PRA and is not disclosed. |

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

The PRA requires the Group and the Bank TSCR to be met with at least 56% of CET1 capital, no more than 44% of Additional Tier 1 (AT1) capital and no more than 25% of Tier 2 capital.

The Group's CET1 capital ratio increased to 15.6% (2020: 14.7%) and its total capital ratio increased to 17.5% (2020: 16.4%).

Table 6: Key metrics

| Ref [^] | | 30 September 2021 £'000 | 30 September 2020 [#] £'000 |
|------------------|---|-------------------------------|--|
| | Available own funds (amounts) | | |
| 1 | Common Equity Tier 1 (CET1) capital | 50,111 | 52,677 |
| 2 | Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 45,771 | 47,491 |
| 3 | Tier 1 capital | 50,111 | 52,677 |
| 4 | Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 45,771 | 47,491 |
| 5 | Total capital | 56,247 | 58,742 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 52,272 | 53,771 |
| | Risk-weighted exposure amounts | | |
| 7 | Total risk-weighted assets | 321,203 | 357,300 |
| 8 | Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 316,863 | 352,114 |
| | Capital ratios (as a percentage of risk-weighted exposure amount) | | |
| 9 | Common Equity Tier 1 ratio (%) | 15.6% | 14.7% |
| 10 | Common Equity Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 14.4% | 13.4% |
| 11 | Tier 1 ratio (%) | 15.6% | 14.7% |
| 12 | Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 14.4% | 13.5% |
| 13 | Total capital ratio (%) | 17.5% | 16.4% |
| 14 | Total capital ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 16.5% | 15.3% |
| | Leverage ratio | | |
| 15 | Total exposure measure | 450,976 | 474,005 |
| 16 | Leverage ratio (%) | 11.1% | 11.1% |
| 17 | Leverage ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 10.2% | 10.1% |

[^] The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

[#] The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

Table 7: Own funds disclosure

| Ref [^] | | 30 September 2021 £'000 | 30 September 2020 [#] £'000 |
|------------------|--|-------------------------------|--|
| | Common Equity Tier 1 (CET1) capital: instruments and reserves | | |
| 1 | Capital instruments and the related share premium accounts of which: Ordinary shares | 30,082 30,082 | 29,990 29,990 |
| 2 | Retained earnings | 18,771 | 21,777 |
| 3 | Accumulated other comprehensive income (and other reserves) | 9 | 60 |
| 6 | Common Equity Tier 1 (CET1) capital before regulatory adjustments | 48,862 | 51,827 |
| | Common Equity Tier 1 (CET1) capital: regulatory adjustments | | |
| 7 | Additional value adjustments (negative amount) | (16) | (9) |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (3,075) | (4,327) |
| | Other transitional adjustments to CET1 Capital | 4,340 | 5,186 |
| 28 | Total regulatory adjustments to Common Equity Tier 1 (CET1) | 1,249 | 850 |
| 29 | Common Equity Tier 1 (CET1) capital | 50,111 | 52,677 |
| | Additional Tier 1 (AT1) capital: regulatory adjustments | | |
| 44 | Additional Tier 1 (AT1) capital | - | - |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 50,111 | 52,677 |
| | Tier 2 (T2) capital: instruments | | |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | 6,136 | 6,065 |
| 58 | Tier 2 (T2) capital | 6,136 | 6,065 |
| 59 | Total capital (TC = T1 + T2) | 56,247 | 58,742 |
| 60 | Total risk weighted assets | 321,203 | 357,300 |
| | Capital ratios and requirements including buffers | | |
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 15.6% | 14.7% |
| 62 | Tier 1 (as a percentage of total risk exposure amount) | 15.6% | 14.7% |
| 63 | Total capital (as a percentage of total risk exposure amount) | 17.5% | 16.4% |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount) | 7.00% | 7.00% |
| 65 | of which: capital conservation buffer requirement | 2.50% | 2.50% |
| 66 | of which: countercyclical capital buffer requirement | 0.00% | 0.00% |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 8.6% | 7.7% |

[^] The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

[#] The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

3.1 Regulatory Capital Instruments

The Group's regulatory capital is divided into two main categories, namely CET1 and Tier 2 (T2) capital and comprise the following:

- CET1 capital comprises shareholders' equity after giving effect to deductions for disallowed items (for example, goodwill and intangible assets) and other adjustments;
- T2 capital comprises qualifying subordinated debt.

The table below provides a description of the terms and conditions of all capital instruments.

Table 8: Capital instruments' main features

| Ref^ | | Ordinary shares | Ordinary shares | Subordinated fixed rate medium-term note |
|------|---|----------------------|----------------------------|---|
| 1 | Capital instruments' main features template | | | |
| | Issuer | PCF Group plc | PCF Bank Limited | British Business Investments Ltd |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | GB0004189378 | n/a | n/a |
| 3 | Governing law(s) of the instrument | English | English | English |
| | Regulatory treatment | | | |
| 4 | Transitional CRR rules | CET 1 | CET 1 | Tier 2 |
| 5 | Post-transitional CRR rules | CET 1 | CET 1 | Tier 2 |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | PCF Group | PCF Bank Solo Consolidated | PCF Bank Solo Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary shares | Ordinary shares | Unsecured subordinated notes |
| 8 | Amount recognised in regulatory capital (Currency in million, as of most recent reporting date) | £30m | £31.3m | £6.1m |
| 9 | Nominal amount of instrument | 5p | £1 | £7m |
| 9a | Issue price | £12.5m | £31m | £7m |
| 9b | Redemption price | n/a | n/a | Payment of the principal amount and all accrued interest on the notes |
| 10 | Accounting classification | Shareholders' Equity | Shareholders' Equity | Liability - amortised cost |
| 11 | Original date of issuance | Various | Various | Various |
| 12 | Perpetual or dated | Perpetual | Perpetual | Dated |
| 13 | Original maturity date | n/a | n/a | Various |
| 14 | Issuer call subject to prior supervisory approval | n/a | n/a | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | n/a | n/a | Callable at 5 years since issuance |
| 16 | Subsequent call dates, if applicable | n/a | n/a | n/a |

| Ref [^] | | Ordinary shares | Ordinary shares | Subordinated fixed rate medium-term note |
|---|--|---------------------|---------------------|---|
| Capital instruments' main features template | | | | |
| Coupons/dividends | | | | |
| 17 | Fixed or floating dividend/coupon | n/a | n/a | Fixed |
| 18 | Coupon rate and any related index | n/a | n/a | 8% |
| 19 | Existence of a dividend stopper | n/a | n/a | n/a |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | Fully discretionary | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | Fully discretionary | Mandatory |
| 21 | Existence of step up or other incentive to redeem | n/a | n/a | n/a |
| 22 | Noncumulative or cumulative | Non-cumulative | Non-cumulative | Cumulative |
| 23 | Convertible or non-convertible | n/a | n/a | Non-convertible |
| 24 | If convertible, conversion trigger(s) | n/a | n/a | n/a |
| 25 | If convertible, fully or partially | n/a | n/a | n/a |
| 26 | If convertible, conversion rate | n/a | n/a | n/a |
| 27 | If convertible, mandatory or optional conversion | n/a | n/a | n/a |
| 28 | If convertible, specify instrument type convertible into | n/a | n/a | n/a |
| 29 | If convertible, specify issuer of instrument it converts into | n/a | n/a | n/a |
| 30 | Write-down features | n/a | n/a | n/a |
| 31 | If write-down, write-down trigger(s) | n/a | n/a | n/a |
| 32 | If write-down, full or partial | n/a | n/a | n/a |
| 33 | If write-down, permanent or temporary | n/a | n/a | n/a |
| 34 | If temporary write-down, description of write-up mechanism | n/a | n/a | n/a |
| 35 | Position in subordination | n/a | n/a | Subordinated to payments of any amounts due and payable to senior creditors |
| 36 | Non-compliant transitioned features | n/a | n/a | n/a |
| 37 | If yes, specify non-compliant features | n/a | n/a | n/a |

[^] The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed

3.2 Overview of RWAs

The PCF Group uses the standardised approach (SA) to calculate its credit and counterparty credit risk (CCR) and the basic indicator approach for operational risk capital requirements.

RWA decreased by 10% or £36 million to £321 million over the period, predominantly within credit risk RWAs.

Credit risk RWAs, decreased by 14% or £44 million mainly driven by the £63m (15%) reduction in the balance sheet for loans and advances to customers.

Operational risk RWAs increased by 18% or £7 million, due to an increase in the three year average operating income used to determine the capital requirement.

Table 9: Overview of RWAs

| Ref [^] | | RWAs | | Minimum capital requirements | |
|------------------|------------------------------------|----------------------------|---|------------------------------|---|
| | | 30 September 2021 £'000 | 30 September 2020 [#] £'000 | 30 September 2021 £'000 | 30 September 2020 [#] £'000 |
| 1 | Credit risk (excluding CCR) | 273,218 | 316,832 | 21,857 | 25,346 |
| 2 | Of which the standardised approach | 273,218 | 316,832 | 21,857 | 25,346 |
| 6 | CCR | 173 | 35 | 14 | 3 |
| 7 | Of which mark to market | 64 | 16 | 5 | 1 |
| 12 | Of which CVA | 109 | 19 | 9 | 2 |
| 23 | Operational risk | 47,812 | 40,433 | 3,825 | 3,235 |
| 24 | Of which basic indicator approach | 47,812 | 40,433 | 3,825 | 3,235 |
| 29 | Total (1+6+23) | 321,203 | 357,300 | 25,696 | 28,584 |

[^] The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed

[#] The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

4 Regulatory capital buffers

The following regulatory capital buffers apply to the Group:

4.1 Capital Conservation buffer ('CCB')

The CCB was introduced to ensure that banks have an additional layer of usable capital that can be drawn down when losses are incurred. The buffer was implemented in full as of 2019 and is set at 2.5% of total risk-weighted assets.

At 30 September 2021, the buffer was 2.5% (2020: 2.5%) of RWAs.

4.2 Countercyclical Capital Buffer ('CCyB')

The CCyB is a tool that enables the FPC to adjust the resilience of the banking system. The FPC increases the CCyB when it judges that risks are building up. This means that banks are required to have an additional cushion of capital with which to absorb potential losses, enhancing their resilience and contributing to a stable financial system.

At 30 September 2021, the CCyB buffer was 0% (2020: 0%) of RWAs.

The Group's approach to reporting CCyB is discussed in Appendix B.

5 Credit risk

Credit risk is the risk of a borrower or wholesale counterparty failing to meet its obligations in accordance with agreed terms, leading to a financial loss on that borrower or counterparty's account.

The successful management of credit risk is central to the Group's business. The Group therefore regularly reviews its lending criteria as well as its credit exposure to all customers. However, default risk may arise from events which are outside the Group's control, primarily customer behaviour changes due to factors such as loss of employment, family circumstances, illness, business failure, adverse economic conditions or fraud. In order to ensure that arrears are minimised, emphasis is placed on retaining a diversified portfolio, using prudent underwriting methods.

The Group uses the SA to calculate Credit Risk for Pillar 1 purposes. In the UK, banks are required to meet minimum capital requirements as prescribed by CRD IV for Pillar 1, namely a CET1 capital requirement of 4.5% of RWAs, a Tier 1 capital requirement of 6% of RWAs and a Total capital requirement of 8% of RWAs.

Credit risk RWAs make up the majority of the Group's total RWAs balance. Fully loaded ratios, which include the impact of IFRS 9, are provided for transparency in line with PRA recommendations. Credit Risk RWAs at 30 September 2021 were £321 million (30 September 2020: £357 million).

5.1 Credit Risk: Definition of Default

The definition of default for the purpose of determining ECLs has been aligned to the CRR article 178 definition of default to maintain a consistent approach with IFRS 9. When exposures are identified as credit impaired, such interest income is calculated on the carrying value, net of the impaired allowance.

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 more than 90 days past due on any material credit obligation to the Group.
- Significant financial difficulty of the issuer or the borrower.
- A breach of contract, such as default or past due event.
- It is becoming probable that the borrower will enter bankruptcy or liquidation, other forms of insolvency or financial reorganisation.

5.2 Credit Risk Standardised Approach

Across the Group exposure RWA values are derived using the standardised approach. This categorises exposures using the following defined risk weights:

| Asset | CRR Article References | Risk Weight (pre SME-supporting factor) |
|---|----------------------------|---|
| Central governments or central banks | CRR Article 114 | Risk weights range from 0% to 150% depending on ECAI rating |
| Financial institutions | CRR Article 119, 120 & 121 | Risk weights range from 20% to 150% depending on ECAI rating |
| Loan receivables bridging finance | CRR Article 125, 126 | For residential property backed performing loans, risk weight is 35%. For commercial property backed performing loans, risk weight is 100%. For speculative property backed loans, risk weight is 150%. |
| Loan receivables - Consumers | CRR Article 123 | 75% |
| Loan receivables - SMEs (exposure ≤ €1.0m) | CRR Article 123 | 75% |
| Loan receivables - SMEs (exposure > €1m) | CRR Article 122 | 100% |
| Defaulted Exposures | CRR Article 127 | Risk weights range from 100% to 150% dependent on credit mitigation. |

5.3 External Credit Assessments Institutions (ECAI)

The Group has nominated Fitch, Standard and Poor's and Moody's as eligible ECAs for the purposes of determining external credit ratings. No changes to nominated ECAs has taken place during the year.

5.4 SME Discount Factor

For the SME exposure class, and pursuant to CRR Article 501 the Group applies the SME supporting factor of 76.19% to initial risk weights. On 27 June 2020, a set of targeted “quick fix” amendments were adopted in Europe, which resulted in the accelerated implementation of certain CRR II rules, which were only due to take effect in June 2021. These amendments, which have been applied by the Group, has allowed the application of the revised supporting factor for exposures to small and medium-sized enterprises, to be advanced by one year.

5.5 Credit risk exposure

Table 10: Total and average net amount of exposures

| Ref [^] | | Net value of exposures* | Average net exposures** | Net value of exposures* | Average net exposures** |
|------------------|---|-------------------------------|-------------------------------|--|--|
| | | 30 September 2021 £'000 | 30 September 2021 £'000 | 30 September 2020 [#] £'000 | 30 September 2020 [#] £'000 |
| 16 | Central governments or central banks | 55,564 | 39,304 | 23,101 | 16,911 |
| 19 | Multilateral development banks | 16,155 | 5,819 | – | – |
| 21 | Institutions | 2,546 | 3,683 | 1,927 | 1,913 |
| 22 | Corporates | 9,038 | 14,916 | 20,416 | 22,843 |
| 23 | Of which: SMEs | 3,849 | 7,265 | 8,502 | 19,517 |
| 24 | Retail | 283,236 | 313,049 | 327,051 | 334,157 |
| 25 | Of which: SMEs | 130,054 | 150,314 | 179,061 | 174,178 |
| 26 | Secured by mortgages on immovable property | 50,749 | 61,452 | 69,975 | 39,894 |
| 27 | Of which: SMEs | 31,241 | 38,362 | 22,788 | 22,954 |
| 28 | Exposures in default | 6,660 | 11,117 | 5,246 | 11,615 |
| 29 | Items associated with particularly high risk | 13,554 | 11,968 | 7,036 | 7,036 |
| 30 | Covered bonds | – | – | 9,095 | 17,668 |
| 34 | Other exposures | 21,716 | 21,573 | 25,630 | 12,611 |
| 35 | Total standardised approach | 459,218 | 482,881 | 489,477 | 464,648 |
| 36 | Total | 459,218 | 482,881 | 489,477 | 464,648 |

[^] The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

* The net value of exposures is the gross carrying value of the exposure less impairment allowances or provisions

** Average net exposure values are calculated based on the last four quarters.

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

Table 11: Maturity of exposures

| | | Net exposure value* | | | | | Total £'000 |
|------|---|---------------------|---------------------|----------------------------------|--------------------|--------------------------------|----------------|
| | | On demand £'000 | < = 1 year £'000 | > 1 year < = 5 years £'000 | > 5 years £'000 | No stated maturity £'000 | |
| Ref^ | | | | | | | |
| | 30 September 2021 | | | | | | |
| 7 | Central governments or central banks | 53,887 | 1,677 | - | - | - | 55,564 |
| 10 | Multilateral development banks | - | 4,005 | 12,150 | - | - | 16,155 |
| 12 | Institutions | 2,546 | - | - | - | - | 2,546 |
| 13 | Corporates | - | 392 | 8,503 | 143 | - | 9,038 |
| 14 | Retail | - | 14,524 | 191,594 | 77,118 | - | 283,236 |
| 15 | Secured by mortgages on immovable property | - | 40,700 | 10,049 | - | - | 50,749 |
| 16 | Exposures in default | - | 2,061 | 4,405 | 194 | - | 6,660 |
| 17 | Items associated with particularly high risk | - | 13,554 | - | - | - | 13,554 |
| 18 | Covered bonds | - | - | - | - | - | - |
| 22 | Other exposures | - | - | - | - | 21,716 | 21,716 |
| 23 | Total standardised approach | 56,433 | 76,913 | 226,701 | 77,455 | 21,716 | 459,218 |
| 24 | Total | 56,433 | 76,913 | 226,701 | 77,455 | 21,716 | 459,218 |

[^]The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

*The net value of exposures is the gross carrying value of the exposure less impairment allowances or provisions, reported by residual contractual maturity.

contractual maturity.

| Ref^ | | On demand £'000 | < = 1 year £'000 | Net exposure value* | | No stated maturity £'000 | Total £'000 |
|------|--|--------------------|---------------------|----------------------------------|--------------------|--------------------------------|----------------|
| | | | | > 1 year < = 5 years £'000 | > 5 years £'000 | | |
| | 30 September 2020# | | | | | | |
| 7 | Central governments or central banks | 23,039 | 62 | - | - | - | 23,101 |
| 10 | Multilateral development banks | - | - | - | - | - | - |
| 12 | Institutions | 1,927 | - | - | - | - | 1,927 |
| 13 | Corporates | 704 | 1,205 | 16,926 | 1,581 | - | 20,416 |
| 14 | Retail | - | 23,986 | 237,009 | 66,056 | - | 327,051 |
| 15 | Secured by mortgages on immovable property | - | 44,751 | 25,224 | - | - | 69,975 |
| 16 | Exposures in default | - | 3,957 | 1,225 | 64 | - | 5,246 |
| 17 | Items associated with particularly high risk | - | 6,075 | 961 | - | - | 7,036 |
| 18 | Covered bonds | - | - | 9,095 | - | - | 9,095 |
| 22 | Other exposures | - | - | - | - | 25,630 | 25,630 |
| 23 | Total standardised approach | 25,670 | 80,036 | 290,440 | 67,701 | 25,630 | 489,477 |
| 24 | Total | 25,670 | 80,036 | 290,440 | 67,701 | 25,630 | 489,477 |

[^]The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

*The total disclosed is the net value i.e. gross carrying value of the exposure less impairment allowances or provisions.

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

Table 12: Concentration of exposures by counterparty type

| Ref [^] | 30 September 2021 | | | 30 September 2020 [#] | | |
|---|---------------------------|-------------------------------|-----------------|--------------------------------|-------------------------------|-----------------|
| | Financial sector £'000 | Non-financial sector £'000 | Total* £'000 | Financial sector £'000 | Non-financial sector £'000 | Total* £'000 |
| 7 Central governments or central banks | 55,564 | - | 55,564 | 23,101 | - | 23,101 |
| 10 Multilateral development banks | 16,155 | - | 16,155 | - | - | - |
| 12 Institutions | 2,546 | - | 2,546 | 1,927 | - | 1,927 |
| 13 Corporates | - | 9,038 | 9,038 | - | 20,416 | 20,416 |
| 14 Retail | - | 283,236 | 283,236 | - | 327,051 | 327,051 |
| 15 Secured by mortgages on immovable property | - | 50,749 | 50,749 | - | 69,975 | 69,975 |
| 16 Exposures in default | - | 6,660 | 6,660 | - | 5,246 | 5,246 |
| 17 Items associated with particularly high risk | - | 13,554 | 13,554 | - | 7,036 | 7,036 |
| 18 Covered bonds | - | - | - | 9,095 | - | 9,095 |
| 22 Other exposures | - | 21,716 | 21,716 | - | 25,630 | 25,630 |
| 23 Total standardised approach | 74,265 | 384,953 | 459,218 | 34,123 | 455,354 | 489,477 |

[^]The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

*The net value of exposures is the gross carrying value of the exposure less impairment allowances or provisions, reported by residual contractual maturity.

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

5.6 Credit Risk Mitigation (CRM)

Credit risk mitigation (CRM) techniques can be defined as all methods by which the Bank seeks to decrease the credit risk associated with an exposure. The Bank considers CRM techniques as part of the credit assessment of a potential client or business proposal and not as a separate consideration of mitigation of risk. Credit risk mitigants can include any collateral item over which the Bank has a charge over assets, netting and margining agreements, covenants, or terms and conditions imposed on a borrower with the aim of reducing the credit risk inherent to that transaction.

For regulatory reporting purposes, CRM is used to reduce credit risk associated with an exposure, which may reduce potential losses in the event of a client default or other credit event. CRM that meets certain regulatory criteria may be used to reduce the RWAs held against a given client. Collateral that meets the regulatory conditions is referred to as 'eligible' collateral. Collateral eligibility rules are specified in the CRR. Under the SA, CRM can be achieved through either funded or unfunded credit protection.

Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued and ultimately allowing the Group to recover any outstanding exposures.

For property-backed lending, the following characteristics of the property are also considered; the type of property; its location; and the ease with which the property could be re-let and/or resold. Residential and commercial property valuations will continue to form part of our ongoing focus on collateral assessment. It is our policy to obtain a formal valuation via panel managers of every commercial property offered as collateral for a lending facility before advancing funds. Residential properties are valued by a physical inspection.

The majority of lending (bridging finance) is on a secured basis with residential and commercial real estate collaterals that are readily identifiable, recoverable and marketable. The Group does not make use of on balance sheet netting for its loan receivables.

Table 13: Credit risk mitigation techniques

| Ref [^] | | Exposures unsecured carrying amount £'000 | Exposures secured carrying amount £'000 |
|--------------------------------------|--------------------|---|---|
| 30 September 2021 | | | |
| 7 | Loans | 3 | 354,277 |
| 2 | Debt securities | 16,155 | - |
| 3 | Total | 16,158 | 354,277 |
| 4 | Of which defaulted | - | 7,618 |
| 30 September 2020[#] | | | |
| 1 | Loans | 16 | 412,578 |
| 2 | Debt securities | - | 9,095 |
| 3 | Total | 16 | 421,673 |
| 4 | Of which defaulted | - | 5,962 |

[^]The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

Table 14: Standardised Approach

| Ref^ | | Risk weight^^ | | | | | | | | | Total* |
|------|--|---------------|--------------|--------------|---------------|--------------|----------------|---------------|---------------|---------------|----------------|
| | | 0% £'000 | 10% £'000 | 20% £'000 | 35% £'000 | 50% £'000 | 75% £'000 | 100% £'000 | 150% £'000 | 250% £'000 | |
| | 30 September 2021 | | | | | | | | | | |
| 1 | Central governments or central banks | 55,564 | - | - | - | - | - | - | - | - | 55,564 |
| 4 | Multilateral development banks | 16,155 | - | - | - | - | - | - | - | - | 16,155 |
| 6 | Institutions | - | - | 2,239 | - | 127 | - | - | - | - | 2,366 |
| 7 | Corporates | - | - | - | - | - | - | 9,038 | - | - | 9,038 |
| 8 | Retail exposures | - | - | - | - | - | 283,236 | - | - | - | 283,236 |
| 9 | Exposures secured by mortgages on immovable property | - | - | - | 18,777 | - | - | 23,015 | - | - | 41,792 |
| 10 | Exposures in default | - | - | - | - | - | - | 6,660 | - | - | 6,660 |
| 11 | Exposures associated with particularly high risk | - | - | - | - | - | - | - | 13,554 | - | 13,554 |
| 12 | Covered bonds | - | - | - | - | - | - | - | - | - | - |
| 16 | Other items | 1 | - | - | - | - | - | 21,716 | - | - | 21,717 |
| 17 | Total | 71,720 | - | 2,239 | 18,777 | 127 | 283,236 | 60,429 | 13,554 | - | 450,082 |

| Ref^ | | Risk weight | | | | | | | | | Total* |
|------|--|---------------|--------------|--------------|--------------|--------------|----------------|---------------|---------------|---------------|----------------|
| | | 0% £'000 | 10% £'000 | 20% £'000 | 35% £'000 | 50% £'000 | 75% £'000 | 100% £'000 | 150% £'000 | 250% £'000 | |
| | 30 September 2020# | | | | | | | | | | |
| 1 | Central governments or central banks | 23,101 | - | - | - | - | - | - | - | - | 23,101 |
| 4 | Multilateral development banks | - | - | - | - | - | - | - | - | - | - |
| 5 | International organisations | - | - | - | - | - | - | - | - | - | - |
| 6 | Institutions | - | - | 1,896 | - | 32 | - | - | - | - | 1,928 |
| 7 | Corporates | - | - | - | - | - | - | 19,853 | - | - | 19,853 |
| 8 | Retail exposures | - | - | - | - | - | 327,051 | - | - | - | 327,051 |
| 9 | Exposures secured by mortgages on immovable property | - | - | - | 8,534 | - | - | 44,874 | - | - | 53,408 |
| 10 | Exposures in default | - | - | - | - | - | - | 4,170 | 1,076 | - | 5,246 |
| 11 | Exposures associated with particularly high risk | - | - | - | - | - | - | - | 7,036 | - | 7,036 |
| 12 | Covered bonds | - | 9,095 | - | - | - | - | - | - | - | 9,095 |
| 16 | Other items | 1 | - | - | - | - | - | 25,629 | - | - | 25,630 |
| 17 | Total | 23,102 | 9,095 | 1,896 | 8,534 | 32 | 327,051 | 94,526 | 8,112 | - | 472,348 |

[^] The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

^{^^} The above table does not take into account the impact of the small and medium-sized enterprise (SME) and infrastructure reducing factor set out in Article 501 and 501(a) of CRR II.

* The total disclosed is the exposure value after provisions and credit conversion factors.

[#] The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

The exposures are before applying risk weightings and include undrawn commitments after the application of the applicable credit conversion factors. The retail exposure class consists of loans under €1m to individuals and small and medium sized business entities with similar characteristics.

5.7 Credit Risk adjustment

Under IFRS 9, the Group calculates impairment provisions on loans and advances to customers on an ECL basis. ECL provisions are based on an assessment of probability of default, loss given default and exposure at default in a range of forward-looking scenarios.

IFRS 9 requires the Group to categorise customer loans into one of three stages at the balance sheet date. Assets that are 'performing' are shown in stage 1; assets where there has been a significant increase in credit risk ('SICR') since initial recognition or 'deteriorating' assets are in stage 2; and accounts which are credit impaired or in 'default' are in stage 3.

Additional relevant information can be found in the 2021 PCF Group Annual Report & Financial Statements, including:

- Significant accounting policies – impairment of financial assets;
- Details of impairment allowances (credit risk adjustments);
- Details of the loans and advances impairment allowances at the reporting date and a reconciliation of the opening and closing allowances, including the charge to the income statement;
- Details of impaired exposures by stage; and
- Information on the Group's forbearance approach.

5.8 Impairment of financial assets

The Group is required to recognise ECLs based on unbiased forward-looking information for all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

The Group uses the three-stage model for determination of expected credit losses:

- 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 (stage 1);
- 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 the segment (stage 2); and
- For loans that are in Stage 3, the Group undertakes a specific impairment assessment.

For loans classified as 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 ('LGD').
- Forward-looking information.

In addition to the above, the Group undertakes a review of the recoverability of the exposure for loans that are in Stage 3.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's original effective interest rate (EIR).

For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and

For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Table 15: Credit quality of exposures by exposure class and instruments

| Ref [^] | | Gross carrying values of | | | | Net values* £'000 |
|--------------------------------|--|------------------------------|----------------------------------|---|---------------------------------|----------------------|
| | | Defaulted exposures £'000 | Non-defaulted exposures £'000 | Specific credit risk adjustments £'000 | Accumulated write-offs £'000 | |
| 30 September 2021 | | | | | | |
| 16 | Central governments or central banks | - | 55,564 | - | - | 55,564 |
| 19 | Multilateral development banks | - | 16,155 | - | - | 16,155 |
| 21 | Institutions | - | 2,546 | - | - | 2,546 |
| 22 | Corporates | - | 9,329 | 291 | - | 9,038 |
| 23 | Of which: SMEs | - | 3,948 | 99 | - | 3,849 |
| 24 | Retail | - | 289,079 | 5,843 | 6,544 | 283,236 |
| 25 | Of which: SMEs | - | 134,341 | 4,287 | 4,227 | 130,054 |
| 26 | Secured by mortgages on immovable property | - | 50,959 | 210 | - | 50,749 |
| 27 | Of which: SMEs | - | 31,398 | 157 | - | 31,241 |
| 28 | Exposures in default | 12,601 | - | 5,941 | - | 6,660 |
| 29 | Items associated with particularly high risk | 958 | 12,659 | 63 | - | 13,554 |
| 30 | Covered bonds | - | - | - | - | - |
| 34 | Other exposures | - | 21,716 | - | - | 21,716 |
| 35 | Total standardised approach | 13,559 | 458,007 | 12,348 | 6,544 | 459,218 |
| 36 | Total | 13,559 | 458,007 | 12,348 | 6,544 | 459,218 |
| 37 | Of which: Loans | 13,559 | 362,026 | 12,348 | 6,544 | 363,237 |
| 38 | Of which: Debt securities | - | 16,155 | - | - | 16,155 |
| 39 | Of which: Off-balance-sheet exposures | - | 8,958 | - | - | 8,958 |
| 30 September 2020 [#] | | | | | | |
| 16 | Central governments or central banks | - | 23,101 | - | - | 23,101 |
| 19 | Multilateral development banks | - | - | - | - | - |
| 21 | Institutions | - | 1,927 | - | - | 1,927 |
| 22 | Corporates | - | 20,536 | 120 | - | 20,416 |
| 23 | Of which: SMEs | - | 8,610 | 108 | - | 8,502 |
| 24 | Retail | - | 333,391 | 6,340 | 3,073 | 327,051 |
| 25 | Of which: SMEs | - | 183,398 | 4,337 | 3,072 | 179,061 |
| 26 | Secured by mortgages on immovable property | - | 70,243 | 268 | - | 69,975 |
| 27 | Of which: SMEs | - | 22,903 | 115 | - | 22,788 |
| 28 | Exposures in default | 16,850 | - | 11,604 | - | 5,246 |
| 29 | Items associated with particularly high risk | 896 | 6,352 | 212 | - | 7,036 |
| 30 | Covered bonds | - | 9,095 | - | - | 9,095 |
| 34 | Other exposures | - | 25,630 | - | - | 25,630 |
| 35 | Total standardised approach | 17,746 | 490,275 | 18,544 | 3,073 | 489,477 |
| 36 | Total | 17,746 | 490,275 | 18,544 | 3,073 | 489,477 |
| 37 | Of which: Loans | 17,746 | 430,521 | 18,544 | 3,073 | 429,723 |
| 38 | Of which: Debt securities | - | 9,095 | - | - | 9,095 |
| 39 | Of which: Off-balance-sheet exposures | - | 17,270 | - | - | 17,270 |

[^] The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

* The net value is equal to the gross carrying value (including defaulted and non-defaulted exposures) less specific credit adjustments.

[#] The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

5.8.1 Impairment allowance for loans and advances to customers

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

For more information, please refer to Note 29.5 'Impairment allowance for loans and advances to customers' in the Annual Report & Financial Statements on page 118.

The Group's internal rating and Probability of Default (PD) estimation process

The Group is on the standardised approach for credit risk but operates an internal credit grading model and Probability of Default estimation process to support its capital assessment and to determine risk grades associated with each lending decision through a scorecard. 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.

The Group assesses its customers and rates them from AAA to D using an internal credit classification model. Collateral is also considered when grouping credit grades together. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These information sources are first used to determine the original probability of defaults for each segment. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward-looking information and the IFRS 9 Stage classification of the exposure.

As well as using the PD information to support the Group's capital assessment and scorecards, the information is used to provide information on Expected Credit Losses ('ECLs'). ECLs are used within International Financial Reporting Standards (IFRS 9) to determine the credit stage of borrowers; from which impairments are derived along with the level of required provision. The ongoing redevelopment of the IFRS 9 model is considered necessary in order to enhance the granular focus of credit risk under a more standardised statistical basis and thereby allow the model to better support the Group's ICAAP analysis.

Forborne and modified loans

Forbearance occurs when a customer is experiencing difficulty in meeting their financial commitments and a concession is granted by providing them a temporary payment plan based on their ability to meet the contractual obligations. The unprecedented COVID-19 global pandemic has led to a significant increase in customers seeking COVID-19 related payment deferrals within the Group's lending portfolio. The Group has introduced a range of additional forbearance measures to support its customers during this difficult period.

Forbearance analysis

At 30 September 2021, the gross carrying amount of exposures with forbearance measures was £2.9 million (2020: £40.4 million). This relates to 89 agreements (2020: 1,711) in forbearance that are COVID-19 related, with temporary modifications to terms and conditions. At 30 September 2021, there were no loans that have had a refinancing or permanent modification to terms and conditions (2020: nil).

For more information, please refer to Note 30.3.1 'Forborne and modified loans' in the Annual Report & Financial Statements on page 127.

6 Counterparty credit risk (CCR)

Wholesale credit risk is governed by the Wholesale Credit Risk Policy which limits exposure to large UK and international money-centre banks operating in London and sets maximum credit risk exposure limits for each bank. The Group uses the Mark to Market Method to calculate CCR for Pillar 1 purposes. The Group is exposed to a very limited number of banking counterparties, namely:

- Barclays Bank: agency bank, Bank and subsidiary nostro accounts.
- U.S. Bank Global Corporate Trust Services: Securities custodian (treasury assets).
- NatWest: Bank and subsidiary nostro accounts, wholesale funding, repo, interest rate swaps.
- Funders: wholesale funding.

The banking counterparties have been selected due to their size, systemic importance, diversity of business and creditworthiness. The Group monitors its credit and operational risk exposures to banking and wholesale counterparties to ensure that it operates within risk appetite.

With regards to funders, the risk is that lines are withdrawn, and new lending is compromised. However, the Group's exposure to funders is limited to the UK government-owned British Business Investments Limited (BBI) in respect of the Bank's subordinated note facility and to the Bank of England in respect of sterling monetary framework facilities. These funding counterparty risks are therefore considered to be negligible.

The Group currently has no derivatives exposure to any exchange or central counterparty clearing (CCP). At present all of its derivative transactions have been executed on a bilateral basis with NatWest Markets and are subject to an ISDA Credit Support Annex that provides for daily revaluations and cash collateral with a minimum transfer amount of £100,000. The Group uses derivatives exclusively to hedge Interest Rate Risk in the Banking Book (IRRBB) and so transacts sterling interest rate swaps only.

At 30 September 2021, the Group carried one interest rate swap derivative trade with Natwest, with a positive mark-to-market ('MTM') of £209K resulting in an RWA of £64K for CCR and £109K for Credit Valuation Adjustment ('CVA') risk.

7 Interest rate risk in the non-trading book

IRRBB is the risk that the Group will be adversely affected by changes in the absolute level of interest rates, the spread between different variable rates (e.g., SONIA, Libor and Bank Rate), the shape of the yield curve, or in any other interest rate relationship. The Group manages IRRBB by first identifying and quantifying interest rate risk gaps due to mismatches between assets, liabilities and existing interest rate swaps using the Group's specialist asset and liability management system, ALMIS. This calculation is repeated at least monthly or more frequently if balance sheet growth or market conditions change materially.

In the first instance, the Group aims to manage exposure to the absolute level of interest rates and the shape of the yield curve by anticipating such interest rate risk gaps and filling them by appropriate management of fixed rate deposits and loans. Where a significant interest rate gap is identified and such matching is not possible, Treasury will execute an interest rate swap to hedge the position. However, interest rate swap facilities are currently withdrawn pending publication of the Group's Annual Report & Financial Statements 2021 and the readmission to trading of the Group's shares when we expect that our bankers will, on review, reinstate these facilities.

The Group assesses IRRBB primarily through earnings at risk (EaR) plus a series of economic value (EV) measures which included a +/-200 basis points parallel yield curve shift, and other prescribed yield curve shocks. The Group also applies the full suite of Supervisory Outlier Tests using economic value of equity (EVE) and Net Interest Income (NII) measures.

Basis Risk is that part of IRRBB that arises due to exposure to the spread between rates and is managed within risk appetite by ensuring that the net balance of assets, liabilities and swaps on which SONIA/Bank Rate is payable or receivable is maintained within policy limits. The Group has no exposure to Libor.

The BRC delegates responsibility to Assets & Liabilities Committee (ALCO) for oversight of the management of IRRBB and gives day to day responsibility for the management of the residual IRRBB position, including the purchase of swaps for the purpose of managing the Group's interest rate risk, to the Treasury team. IRRBB risk appetite has been set to reflect the Group's relatively low appetite for such risks but with sufficient capacity to allow for the risks that arise due to the nature of the assets and liabilities described above.

The Group has a small portfolio of loan assets denominated in euros that are held on the balance sheet of its Irish subsidiary, Azure Finance Limited. Together with other euro exposures such as operational cash balances, the Group's total euro assets are less than €1,000,000. This FX risk is managed by setting exposure limits to an immediate change in the sterling/euro exchange rate of 15%.

The Group does not have a trading book, so there are no risks associated with trading wholesale financial instruments, equities, currencies, commodities or similar.

Overall, the total market risk limit for a severe but plausible stress for IRRBB and FX is £1m.

Table 16: Economic value sensitivity

As outlined, non-trading interest rate risk is measured and monitored using an economic value sensitivity approach. The table below reflects our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention.

| | EV Sensitivity September 2021 | | | EV Sensitivity September 2020 | | |
|-------------|----------------------------------|--------------|--------------------|----------------------------------|--------------|--------------------|
| | GBP £'000 | EUR €'000 | All (GBP) £'000 | GBP £'000 | EUR €'000 | All (GBP) £'000 |
| 200bps down | (455) | 8 | (448) | (503) | 12 | (492) |
| 200bps up | 411 | (8) | 405 | 358 | (12) | 347 |

8 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

The Group actively identifies, assesses and manages the operational risks to which it is exposed in order to minimise the financial impact arising from risks such as IT disruption, lack of operational resilience, cyber-attacks, human error, a breakdown of procedures, non-compliance with policy, failure to comply with legal requirements, and internal or external fraud.

This qualitative statement is supported by quantitative metrics and thresholds that help the Group to monitor and manage its exposure to operational risk.

The Group uses the Basic Indicator Approach for the calculation of Pillar 1 Operational Risk capital requirements. In accordance with Supervisory Statement SS31/15, the Group in its ICAAP provides at least the following operational risk data information:

- forecast operational risk losses, broken down between conduct and non-conduct losses and by future year; and
- information on the operational risk scenarios considered in the ICAAP, covering a description of such scenarios and an assessment of their impact and likelihood.

In December 2017, the Basel Committee on Banking Supervision introduced the Standardised Measurement Approach (SMA) for calculating the operational risk capital charge, which is intended to replace the operational risk approaches under Basel II, including the Basic Indicator Approach. The new approach will be adopted in the UK through the PRA's Basel 3.1 regulatory framework, which is currently expected to go live from 1 January 2025.

The Group considers a range of operational tail-risk events through its Pillar 2a assessment, with the aggregation of scenarios to a 1-in-1000-year confidence level over a 12-month period to assess operational risk capital requirements. Further, the Group assesses its Pillar 2B capital requirements with stress testing scenarios that include severe but plausible operational risk events, calibrated at a 1-in-25-year severity over 3-5 years.

Through this mechanism, as well as through the ILAAP and Recovery Plan, these prudential processes contemplate the impacts of such occurrences in the profitability, liquidity, and solvency positions of the entity, as well as the capacity of management actions to remediate and, effectively manage unexpected losses surged by an operational risk event.

The Group continues to evolve its operational risk framework in preparation for the SMA and will develop robust loss data collection and operational control activities to embed the practices.

9 Leverage

The leverage ratio is calculated using the CRR definition of leverage which was adopted by the European Commission via a delegated Act in October 2014 and came into force on 1 January 2015. Subsequently, a leverage ratio of 3% was agreed upon at both the European and international level.

As with the governance of capital management, the Group is responsible for ensuring that the impact of any regulatory changes on the leverage ratio is calculated, analysed and understood at all reporting levels. The level of leverage is actively monitored and regularly assessed alongside capital and capital ratios.

The leverage ratio is a transparent, comparable measure which is not affected by risk weightings. It is calculated as Tier 1 capital divided by adjusted balance sheet exposure.

Risk of excessive leverage is defined as the risk resulting from a bank's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in calculation adjustments to its remaining assets.

The Group is not formally a part of the UK Leverage Ratio Framework, as it has less than £50 billion in retail deposits. However, its risk appetite is aligned to the regulatory expectations of ensuring that Tier 1 leverage ratio exceeds 3.25% in a business as usual environment.

The nature of the Group's loan book and its use of a standardised, rather than modelled credit risk assessments ensures a leverage ratio that significantly exceeds the 3.25% expectation. The measure is monitored and managed by the ALCO.

The leverage ratio remained stable at 11.1% for 30 September 2021. The decrease of £2.5 million in Tier 1 Capital mainly driven by retained earnings was offset by the decrease of £23m in leverage exposure measure due to the reduction in the balance sheet for loans and advances to customers.

Table 17: Summary reconciliation of accounting assets and leverage ratio exposures

| Ref [^] | 30 September 2021 £'000 | 30 September 2020 [#] £'000 |
|--|-------------------------------|--|
| 1 Total assets as per published financial statements | 448,751 | 470,556 |
| 4 Adjustments for derivative financial instruments | 98 | 32 |
| 6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 896 | 1,797 |
| 7 Other adjustments | 1,231 | 1,620 |
| 8 Total leverage ratio exposure | 450,976 | 474,005 |

[^] The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

[#] The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

Table 18: Leverage ratio common disclosure

| Ref [^] | | CRR leverage ratio exposures | |
|------------------|--|------------------------------|---|
| | | 30 September 2021 £'000 | 30 September 2020 [#] £'000 |
| | On-balance sheet exposures (excluding derivatives and SFTs) | | |
| 1 | On-balance sheet items (excluding derivatives, but including collateral) | 448,704 | 471,326 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | 1,249 | 850 |
| 3 | Total on-balance sheet exposures (excluding derivatives) | 449,953 | 472,176 |
| | Derivative exposures | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 29 | - |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 98 | 32 |
| 11 | Total derivative exposures | 127 | 32 |
| | Other off-balance sheet exposures | | |
| 17 | Off-balance sheet exposures at gross notional amount | 8,958 | 17,270 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (8,062) | (15,473) |
| 19 | Other off-balance sheet exposures | 896 | 1,797 |
| | Capital and total exposures | | |
| 20 | Tier 1 capital | 50,111 | 52,677 |
| 21 | Total leverage ratio exposures | 450,976 | 474,005 |
| | Leverage ratio | | |
| 22 | Leverage ratio | 11.1% | 11.1% |
| | Choice on transitional arrangements and amount of derecognised fiduciary items | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | T1 transitional | T1 transitional |

[^]The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

Table 19: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

| Ref [^] | | CRR leverage ratio exposures | |
|------------------|---|------------------------------|---|
| | | 30 September 2021 £'000 | 30 September 2020 [#] £'000 |
| EU-1 | Total on-balance sheet exposures (excluding derivatives and exempted exposures), of which: | 448,704 | 471,326 |
| EU-3 | Banking book exposures, of which: | 448,704 | 471,326 |
| EU-4 | Covered bonds | - | 9,095 |
| EU-5 | Exposures treated as sovereigns | 55,564 | 23,101 |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns | 16,155 | - |
| EU-7 | Institutions | 2,239 | 1,896 |
| EU-8 | Secured by mortgages of immovable properties | 41,792 | 53,409 |
| EU-9 | Retail exposures | 283,236 | 327,051 |
| EU-10 | Corporate | 9,038 | 19,712 |
| EU-11 | Exposures in default | 6,660 | 5,246 |
| EU-12 | Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 34,000 | 31,816 |

[^]The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements

10 Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is unable to fund new business originations or meet cash flow or collateral obligations as they fall due, without access to viable alternatives and without adversely affecting its deposit franchise, daily operations or financial health. The Group maintains a diversified funding strategy, with close relationships to its wholesale counterparties and is an active participant in the retail deposit taking market. This is supported with prudent levels of high-quality liquid assets, in excess of that needed to withstand a severe but plausible stress.

The Group assesses its liquidity position through both an internal set of measures which assess adherence to the Overall Liquidity Adequacy Rule ('OLAR') and through the regulatory defined LCR. The Group maintains the entirety of its Liquid Asset Buffer (LAB) in the form of high-quality liquid assets ('HQLA'). The amount of these has been significantly in excess of the 100% LCR minimum requirement through the year. Within both the LCR and OLAR assessments, the Group sets an intra-day limit to ensure that sufficient funds are held over and above daily requirements to account for volatility in intra-day cash flows.

Table 20: Liquidity Coverage Ratio

| Ref [^] | 30 September 2021 £'000 | 30 September 2020 £'000 |
|--|-------------------------------|-------------------------------|
| 21 Total high-quality liquid assets (HQLA) (Weighted value -average) | 53,886 | 31,499 |
| 22 Total net cash outflows | 5,962 | 4,679 |
| 23 Liquidity coverage ratio | 904% | 673% |

[^] The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

11 Asset encumbrance

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

Some of the Group's assets are used to support collateral requirements for secured funding, central bank operations or third-party repurchase transactions. The assets used in this way are referred to as encumbered. Encumbrance provides cheaper and more stable funding, but it also creates the risk that some creditors may be unable to benefit from the liquidation of encumbered assets in the unlikely event that the Group was to become insolvent. While these risks are remote, limits on encumbrance are set by the Board and encumbrance levels are managed within these limits.

The Group primarily encumbers assets through positioning loans as collateral to receive wholesale funding. The Group may also hold cash collateral received in relation to derivative transactions. The Group's main source of encumbrance is through its participation in the Bank of England Term Funding Scheme with additional incentives for SMEs (TFSME).

The Pillar 3 asset encumbrance disclosure templates, shown below, have been compiled in accordance with regulatory reporting requirements. The Group is not required to report Template B on the fair value of encumbered and unencumbered collateral received.

Below is a summary of the Group's encumbered and unencumbered assets that would be available to obtain additional funding as securities.

Table 21: Encumbered and unencumbered assets

| | | Carrying amount of encumbered assets | | Fair value of encumbered assets | | Carrying amount of unencumbered assets | | Fair value of unencumbered assets | |
|-----|---|--|--------|--|--------|--|--------|---|-------|
| | | of which notionally eligible EHQLA and HQLA £'000 | | of which notionally eligible EHQLA and HQLA £'000 | | of which EHQLA and HQLA £'000 | | of which EHQLA and HQLA £'000 | |
| Ref | | | | | | | | | |
| | 30 September 2021 | | | | | | | | |
| 010 | Assets of the disclosing institution | 86,663 | 13,807 | - | - | 362,088 | 56,237 | - | - |
| 040 | Debt securities | 13,807 | 13,807 | 13,807 | 13,807 | 2,348 | 2,348 | 2,348 | 2,348 |
| 080 | of which: issued by financial corporations | 13,807 | 13,807 | 13,807 | 13,807 | 2,348 | 2,348 | 2,348 | 2,348 |
| 120 | Other assets | 72,856 | - | - | - | 359,740 | 53,889 | - | - |
| | 30 September 2020# | | | | | | | | |
| 010 | Assets of the disclosing institution | 103,182 | - | - | - | 367,374 | 32,134 | - | - |
| 040 | Debt securities | - | - | - | - | 9,095 | 9,095 | 9,095 | 9,095 |
| 080 | of which: issued by financial corporations | - | - | - | - | 9,095 | 9,095 | 9,095 | 9,095 |
| 120 | Other assets | 103,182 | - | - | - | 358,279 | 23,039 | - | - |

[#] The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements

12 Remuneration (RemCo)

The Pillar 3 qualitative and quantitative disclosures are included in the PCF Group's 2021 Annual Report & Financial Statements. The information can be found in the Directors' remuneration report on pages 38 to 41.

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

12.1 Overview of remuneration for Code employees

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

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

Remuneration Code Employees, also known as Material Risk Takers (MRTs), consist of Executive Directors, Non-Executive Directors and certain senior managers, including senior manager functions (SMFs) who could have a material impact on the firm's risk profile. At 30 September 2021, the Group employed a total of 29 MRTs (referred to as Code Employees in table 22) in accordance with PS28/21 (Remuneration: Identification of material risk takers). Of these, 9 individuals were Executive and Non-Executive Directors, and 20 individuals were internally certified by the firm and classified as 'Other Code Employees' in table 22. The remuneration for these employees is governed under the Group Remuneration Policy.

12.2 Approach to remuneration

The approach taken by the Group in respect of remunerating colleagues emanates from a combination of regulatory guidance and, in particular, the Dual-Regulated Firms Remuneration Code (SYSC 19D), as appropriate for Level 3 firms, the rules on remuneration as published by the PRA and FCA as amended from time to time, and its own best judgement. These guidelines assist with the design of awards and incentive packages which aim to support the recruitment and retention of colleagues, align with risk appetite and the long-term interests of the Group.

Fundamentally, our approach to remuneration aims to promote and reward the right behaviours to ensure that the interests of our customers and stakeholder value are at the forefront of everything we do. The level of expertise and experience of the executive team also requires the committee to benchmark remuneration and rewards to a peer group of similar companies.

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

More information on remuneration committee and guiding principles for remuneration can be found on the Annual Report & Financial Statements, section 'Remuneration Committee Report' on page 38.

12.3 Remuneration for the year

12.3.1 Fixed remuneration

Fixed remuneration comprises basic salaries and benefits including healthcare and life assurance cover. These are provided on the same basis for all colleagues. The Company has a workplace pension scheme with Aegon (Standard Life, up to 30 September 2021), with a Company contribution rate based on 7% of basic salary.

The Executive Directors' contribution rate is based on 10% of basic salary. These are outside the workplace scheme and contributions are paid to a scheme of their choice or as a cash equivalent where annual or lifetime pension allowances have been reached.

The Company's contribution to the pension schemes of the Directors and other colleagues are not aligned in accordance with the provisions of the 2018 UK Corporate Governance Code. Remco will review this matter during the financial year 2022 (with a view to developing a plan to or future appointments of directors and senior executives' contributions to align with those of the majority of the work force for new senior Executive hires).

12.3.2 Variable remuneration

The annual performance award is a significant variable component of the overall remuneration and is at the discretion of RemCo. In determining the level of award paid to the Chief Executive and Chief Financial Officer, consideration was given not only to the financial performance of the Group (including returns to shareholders and the Group's profitability) in 2021, but also to their individual performance, based on a number of personal objectives. As a result of the financial performance of the Group in the year to 30 September 2021, no annual bonuses were paid to the executive directors.

12.3.3 Remuneration disclosures

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

Table 22: Remuneration awarded for the financial year

| Remuneration Type | Financial year ended 30 September 2021 | | | |
|---|--|--|--|---------------------------------------|
| | Executive Directors (3) £'000 | Non- Executive Directors*** (6) £'000 | Subsequent Executive Directors* (2) £'000 | Other code employees*** (20) £'000 |
| Financial year ended 30 September 2021 | | | | |
| Total Fixed remuneration | | | | |
| - Cash-based | 323 | 349 | 263 | 1,649 |
| - Taxable benefits | | - | 10 | - |
| - Other | | - | - | - |
| Total Variable remuneration | | | | |
| - Cash-based | | - | - | - |
| - Long-term incentive | | - | - | - |
| - Other | 71^ | - | 256 | 163** |
| Pension and insurance | 5 | - | 22 | 98 |
| Total Remuneration | 399 | 349 | 551 | 1,910 |

* Senior executives subsequently appointed as directors after 30 September 2021.

** Includes £80,000 payment for loss of office.

*** MRTs (29) exclude Directors that started after 30 September 2021.

^ Retired and resigned from the business on 21 May 2021. Pension received in cash and 'Other' amount represents a payment for loss of office.

The table below shows the number of individuals with regards to severance and guaranteed variable remuneration payments made to Code Employees during the financial year ended 30 September 2021, as well as any individual's remuneration over £1 million.

Table 23: Severance and guaranteed variable remuneration payments

| Remuneration Type | Number of individuals |
|---|-----------------------|
| Severance payments | 2 |
| Guaranteed variable remuneration payments | 0 |
| Individuals remunerated over £1 million | 0 |

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

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

Table 24: Capital structure

| | 30 September 2021 £'000 | 30 September 2020 [#] £'000 |
|---|-------------------------------|--|
| Equity | | |
| Issued capital | 31,298 | 31,298 |
| Other reserves recognised for CET 1 capital | 9 | 58 |
| Retained earnings | 18,045 | 21,131 |
| Total equity | 49,352 | 52,487 |
| Regulatory Adjustments to the accounting basis | | |
| Intangible assets | (3,075) | (3,180) |
| Adjustment for Prudent valuation | (16) | (9) |
| IFRS 9 transitional adjustment | 4,123 | 4,396 |
| Total deductions | 1,032 | 1,207 |
| Common Equity Tier 1 Capital | 50,384 | 53,694 |
| Other capital | | |
| Subordinated Debt Tier 2 Capital | 7,000 | 7,000 |
| Total Regulatory Capital | 57,384 | 60,694 |

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

Table 25: Key metrics

| Ref [^] | 30 September 2021 £'000 | 30 September 2020 [#] £'000 |
|---|-------------------------------|--|
| Available own funds (amounts) | | |
| 1 Common Equity Tier 1 (CET1) capital | 50,384 | 53,694 |
| 2 Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 46,261 | 49,298 |
| 3 Tier 1 capital | 50,384 | 53,694 |
| 4 Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 46,261 | 49,298 |
| 5 Total capital | 57,384 | 60,694 |
| 6 Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 53,261 | 56,298 |
| Risk-weighted exposure amounts | | |
| 7 Total risk-weighted assets | 306,054 | 337,239 |
| 8 Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 301,931 | 332,843 |
| Capital ratios (as a percentage of risk-weighted exposure amount) | | |
| 9 Common Equity Tier 1 ratio (%) | 16.5% | 15.9% |
| 10 Common Equity Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 15.3% | 14.8% |
| 11 Tier 1 ratio (%) | 16.5% | 15.9% |
| 12 Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 15.3% | 14.8% |
| 13 Total capital ratio (%) | 18.7% | 18.0% |
| 14 Total capital ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 17.6% | 16.9% |
| Leverage ratio | | |
| 15 Total exposure measure | 434,946 | 450,734 |
| 16 Leverage ratio (%) | 11.6% | 11.9% |
| 17 Leverage ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 10.7% | 11.0% |

[^]The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

Table 26: Leverage ratio common disclosure

| | | CRR leverage ratio exposure | |
|------------------|--|-----------------------------|--------------------------------|
| | | 30 September 2021 | 30 September 2020 [#] |
| Ref [^] | | £'000 | £'000 |
| | On-balance sheet exposures (excluding derivatives and SFTs) | | |
| 1 | On-balance sheet items (excluding derivatives and exempt items, but including collateral) | 432,891 | 447,838 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | 1,032 | 1,207 |
| 3 | Total on-balance sheet exposures (excluding derivatives) | 433,923 | 449,045 |
| | Derivative exposures | | |
| 4 | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 29 | 32 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 98 | - |
| 11 | Total derivative exposures | 127 | 32 |
| | Other off-balance sheet exposures | | |
| 17 | Off-balance sheet exposures at gross notional amount | 8,958 | 16,566 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (8,062) | (14,909) |
| 19 | Other off-balance sheet exposures | 896 | 1,657 |
| | Capital and total exposures | | |
| 20 | Tier 1 capital | 50,384 | 53,694 |
| 21 | Total leverage ratio exposures | 434,946 | 450,734 |
| | Leverage ratio | | |
| 22 | Leverage ratio | 11.6% | 11.9% |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | T1 transitional | T1 transitional |

[^]The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.

[#]The 30 September 2020 comparatives have been restated to account for the derecognition of the deferred tax asset previously recognised in the 2020 Annual Report & Financial Statements.

Appendix B: EBA Regulatory Capital Balance Sheet Reconciliation

The Group has not presented the template analysing its firm specific countercyclical buffer, as required by Annex I of the Commission Delegated Regulation (EU) 2015/1555, as the majority of its credit exposures are within the UK and therefore only the CCyB set by the FPC applies to it.

Appendix C: CRR References

| CRR Ref | High-level summary | Compliance reference |
|--|---|---|
| Scope of disclosure requirements | | |
| 431(1) | Publicly disclose Pillar 3 information. | PCF Group plc publishes Pillar 3 disclosures. |
| 431(2) | Firms with permission to use specific operational risk methodologies must disclose operational risk information. | Not applicable. |
| 431(3) | Institutions must have a formal policy to comply with the disclosure requirements and have policies for assessing the appropriateness of their disclosures, including their verification and frequency. Institutions shall also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants. | PCF is in the process of implementing a formal Pillar 3 policy. |
| 431(4) | Explanation of rating decisions to SMEs and other corporate applicants upon request. | Not applicable. |
| Non-material, proprietary or confidential information | | |
| 432(1) | Institutions may omit information that is not regarded as material if certain conditions are respected. | Compliance will be governed by the Pillar 3 policy. |
| 432(2) | Institutions may omit information that is proprietary or confidential if certain conditions are respected. | Compliance will be governed by the Pillar 3 policy. |
| 433(3) | Where 432(2) applies this must be stated in the disclosures, and more general information must be disclosed. | This table indicates where disclosures are omitted. |
| 432(4) | Use of 432 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information. | Material information has been disclosed. |
| Frequency of disclosure | | |
| 433 | Disclosures must be published once a year at a minimum and more frequently if necessary. | Refer to 'Basis of disclosure' on page 4. |
| Means of disclosure | | |
| 434(1) | To include all disclosures in onappropriate medium, or provide clear cross-references. | All relevant disclosures are contained in this document or the Annual Report & Financial Statements. |
| 434(2) | Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate. in this document. | Any cross-references to accounting or other disclosures are clearly signposted |
| Risk management objectives and policies | | |
| 435(1) | Disclose information on: | |
| 435(1)(a) | The strategies and processes to manage those risks. | Refer to 'Risk management overview' on page 9. |
| 435(1)(b) | The structure and organisation of the relevant risk management function. | Refer to Annual Report & Financial Statements, 'Risk Management Report' on page 54. |
| 435(1)(c) | The scope and nature of risk reporting and measurement systems. | Refer to Annual Report & Financial Risk overview on page 18 and Annual Report & Financial Statements 'Risk Management Report' on page 54. |
| 435(1)(d) | The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants. | Refer to Annual Report & Financial Statements, 'Management of Market Risk' on page 63. |
| 435(1)(e) | Declaration approved by the management body on the adequacy of risk management arrangements. | Refer to 'Internal control and effectiveness of risk management arrangements' on page 11. |

| | | |
|-----------------------------|--|--|
| 435(1)(f) | Concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. | Refer to 'Internal control and effectiveness of risk management arrangements' on page 11. |
| 435(2) | Information on governance arrangements. | Refer to 'Governance and oversight' on page 11. |
| 435(2)(a) | Number of directorships held by members of the management body. | Refer to 'Information on number of directorships' on page 10. |
| 435(2)(b) | Recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise. | PCF is in the process of implementing a recruitment policy. |
| 435(2)(c) | Policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved. | PCF is in the process of implementing a policy on diversity. |
| 435(2)(d) | Whether or not the institution has set up a separate risk committee and the number of times the risk committee has met. | Refer to Annual Report & Financial Statements, section 'Attendance at meetings' on page 31. |
| 435(2)(e) | Description of the information flow on risk to the management body. | Refer to Annual Report & Financial Statements, 'Risk Management Report' on page 54. |
| Scope of application | | |
| 436(a) | Name of the institution to which the requirements of this Regulation apply. | Refer to 'Basis of disclosure' on page 4. |
| 436(b) | Difference in basis of consolidation for accounting and prudential purposes, describing entities that are: | Refer to 'Basis of consolidation' page 6. |
| 436(b)(i) | fully consolidated; | |
| 436(b)(ii) | proportionally consolidated; | |
| 436(b)(iii) | deducted from own funds; | |
| 436(b)(iv) | neither consolidated nor deducted. | |
| 436(c) | Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries. | There are no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries. |
| 436(d) | Aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries. | Not applicable. |
| 436(e) | Making use of the provisions laid down in Articles 7 and 9. | PCF Bank Ltd, the main regulated subsidiary of the group, applies the provisions in article 9 of the CRR (solo-consolidation waiver) and reports to the PRA on a solo-consolidation basis. |
| Own funds | | |
| 437(1) | Disclose the following information regarding own funds: | |
| 437(1)(a) | full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution; | Table 1 on page 6 and table 3 on pages 7 and 8 respectively. |
| 437(1)(b) | a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution; | Refer to 'Regulatory Capital Instruments' on page 15. |

| | | |
|---|--|---|
| 437(1)(c) | the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments; | Refer to Table 8 on page 15. |
| 437(1)(d) | Disclosure of the nature and amounts of the following: | |
| 437(1)(d)(i) | each prudential filter applied pursuant to Articles 32 to 35; | Refer to Table 1 on page 6. |
| 437(1)(d)(ii) | each deduction made pursuant to Articles 36, 56 and 66; | Refer to Table 1 on page 6. |
| 437(1)(d)(iii) | items not deducted in accordance with Articles 47, 48, 56, 66 and 79; | The Group has no items following the alternative treatments. |
| 437(1)(e) | A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply; | Not applicable. |
| 437(1)(f) | Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated. | Not applicable |
| 437(2) | EBA to publish implementation standards for points above | The Group follows the implementing standards. |
| Capital requirements | | |
| 438(a) | Summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities. | Refer to 'ICAAP, ILAAP, Recovery and Stress Testing' on page 10 and Annual Report & Financial Statements, 'Going concern' on page 77. |
| 438(b) | Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process | Refer to Table 5 on page 12. |
| 438(c) | Capital requirements for each Standardised approach credit risk exposure class. | Refer to Table 5 on page 12. |
| 438(d) | Capital requirements for each Internal Ratings Based Approach credit risk exposure class. | Not applicable. |
| 438(e) | Capital requirements for market risk or settlement risk | Not applicable. |
| 438(f) | Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable. | Refer to Table 9 on page 17. |
| 438 (end note) | Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach. | Not applicable. |
| Exposure to counterparty Credit Risk | | |
| 439(a) | A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures. | Refer to Credit Risk' on page 19 and Annual Report & Financial Statements, section 'Management of capital risk' on page 60. |
| 439(b) | A discussion of policies for securing collateral and establishing credit reserves. | Refer to section 'Credit Risk Mitigation (CRM)' on page 22. |
| 439(c) | A discussion of policies with respect to Wrong-Way risk exposures; | Not applicable. |
| 439(d) | A discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating. | The Group does not have any funding deals containing credit rating downgrade triggers. |

| | | |
|---|--|--|
| 439(e) | Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements. | Due to the size of the derivatives book, this is deemed to be immaterial and as a result is not disclosed. |
| 439(f) | Measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable. | PCF applies the Mark-to-market method. Please refer to Counterparty credit risk (CCR) section on page 28. |
| 439(g) | The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure. | Not applicable. |
| 439(h) | The notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group. | Not applicable. |
| 439(i) | The estimate of α if the institution has received the permission of the competent authorities to estimate α | Not applicable. |
| Capital buffers | | |
| 440(1)(a) | Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer. | PCFs credit exposures are mostly to UK counterparties and as a result the relevant information is deemed immaterial. |
| 440(1)(b) | The amount of its institution specific countercyclical capital buffer. | Refer to 'Countercyclical capital buffer' on page 18. |
| 440(2) | EBA to publish technical standards specifying the disclosure requirements above. | The group follows the technical standards. |
| Indicators of global systemic importance | | |
| 441 | Disclosure indicators of global systemic importance. | Not applicable. |
| Credit risk adjustments | | |
| 442(a) | The definitions for accounting purposes of 'past due' and 'impaired' | Refer to Annual Report & Financial section 'Definition of default, credit-impaired assets, cures, write-offs, and interest income recognition' on page 82. |
| 442(b) | A description of the approaches and methods adopted for determining specific and general credit risk adjustments. | Refer to 'Credit risk adjustment' on page 25. |
| 442(c) | Disclosure of pre-CRM EAD by exposure class. | Refer to table 10 on page 20. |
| 442(d) | Disclosure of pre-CRM EAD by geography and exposure class. | PCFs credit exposures are mostly to UK counterparties and as a result the relevant information is deemed immaterial. |
| 442(e) | Disclosure of pre-CRM EAD by industry or counterparty type and exposure class. | Refer to Table 12 on page 22. |
| 442(f) | Disclosure of pre-CRM EAD by residual maturity and exposure class. | Refer to table 11 on page 21. |
| 442(g) | Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry or counterparty type. | Refer to table 15 on page 26 |

| | | |
|---|--|---|
| 442(h) | Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography. | PCFs credit exposures are to UK counterparties and as a result the relevant information is deemed immaterial. |
| 442(i) | Reconciliation of changes in specific and general credit risk adjustments for impaired exposures. | Refer to Annual Report & Financial Statements, section 'Impairment losses on financial assets' on page 100 and 'Impairment allowance for loans and advances to customers' page 118. |
| 442 (end note) | Specific credit risk adjustments recorded to income statement are disclosed separately. | Refer to Annual Report & Financial Statements, section 'Impairment losses on financial assets' on page 100 and 'Impairment allowance for loans and advances to customers' page 118. |
| Unencumbered assets | | |
| 443 | Disclosure of unencumbered assets. | Refer to Table 21 on page 35. |
| Use of ECAIs | | |
| 444(a) | Names of the nominated ECAIs and ECAs and the reasons for any changes. | Refer to section 'External Credit Assessments Institutions (ECAI)' on page 19. |
| 444(b) | Exposure classes for which each ECAI or ECA is used. | Not disclosed as it's deemed immaterial. |
| 444(c) | Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book. | Not applicable. |
| 444(d) | Mapping of external rating to CQS. | The Group complies with the standard association published by the EBA. |
| 444(e) | Exposure value pre and post-credit risk mitigation, by CQS. | Not disclosed as it's deemed immaterial. |
| Exposure to market risk | | |
| 445 | Exposure to market risk | Not applicable. |
| Operational risk | | |
| 446 | Scope of approaches used to calculate operational risk. | Refer to 'Operational Risk' on page 30. |
| Exposures in equities not included in the trading book | | |
| 447 | Exposures in equities not included in the trading book | Not applicable. |
| Exposure to interest rate risk on positions not included in the trading book | | |
| 448(a) | The nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk. | Refer to 'Interest rate risk in the non-trading' on page 29. |
| 448(b) | The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency. | Refer to 'Interest rate risk in the non-trading book' on page 29 and Table 16 on page 29 |
| Exposure to securitisation positions | | |
| 449 | Exposure to securitisation positions. | Not applicable. |
| Remuneration policy | | |
| 450(1) | Institutions shall disclose at least the following information, regarding the remuneration policy and practices of the categories of staff whose professional activities have a material impact on its risk profile: | Refer to Annual Report & Financial Statements, section 'Remuneration Committee Report' on page 38. |

| | | |
|----------------|--|---|
| 450(1)(a) | information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders; | Refer to Annual Report & Financial Statements, section 'Remuneration Committee Report' on pages 38 and section 'Attendance at Meeting' on page 31. |
| 450(1)(b) | information on link between pay and performance; | Refer to Annual Report & Financial Statements, section 'Remuneration Committee Report' on page 38. |
| 450(1)(c) | the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria; | For 2021 financial year as a proportionality level 3 firm PCF met the criteria to disapply certain rules, including deferral. This will be reviewed in 2022 given the recent changes to the Remuneration Code rules. |
| 450(1)(d) | the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU; | PCF is a proportionality level 3 firm and as at 30 September 2021, criteria exist to disapply certain rules, including bonus deferral, within the limits. Variable pay did not exceed one third of total remuneration for MRT's with total compensation greater than £500k per annum. Therefore, no disclosure is made. |
| 450(1)(e) | information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based; | Refer to Annual Report & Financial Statements, section 'Share-based payments and director interests in shares' of the 'Remuneration Report' on page 39. |
| 450(1)(f) | the main parameters and rationale for any variable component scheme and any other non-cash benefits; | Refer to Annual Report & Financial Statements 'Remuneration Committee Report', section 'Variable Remuneration' on page 40. |
| 450(1)(g) | aggregate quantitative information on remuneration, broken down by business area; | Not applicable. |
| 450(1)(h) | aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: | Refer to Table 22 on page 37. |
| 450(1)(h)(i) | the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; | Refer to Table 22 on page 37. |
| 450(1)(h)(ii) | the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types; | Refer to Table 22 on page 37. |
| 450(1)(h)(iii) | the amounts of outstanding deferred remuneration, split into vested and unvested portions; | Not applicable. Refer to 450(1)(c) explanation above. |
| 450(1)(h)(iv) | the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments; | Not applicable. Refer to 450(1)(c) explanation above. |
| 450(1)(h)(v) | new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; | Refer to Table 23 on page 37. |

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| 450(1)(h)(vi) | the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person; | Refer to Table 23 on page 37. |
| 450(1)(i) | the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million; | Not applicable. As at 30 September 2021, no single employee was remunerated EUR 500k or more. |
| 450(1)(j) | upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management. | Refer to Annual Report & Financial Statements, section 'Remuneration Committee Report' on pages 38. |
| 450(2) | For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information referred to in this Article shall also be made available to the public at the level of members of the management body of the institution. | Not applicable. |
| Leverage | | |
| 451(1)(a) | Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items. | Refer to tables 17, 18 and 19 on pages 31 to 32. |
| 451(1)(b) | | |
| 451(1)(c) | | |
| 451(1)(d) | Description of the processes used to manage the risk of excessive leverage, and factors that impacted the leverage ratio during the year. | Refer to section 'Leverage' on page 31. |
| 451(1)(e) | | |
| 451(2) | EBA to publish technical standards specifying the uniform disclosure templates for the requirements above. | PCF applies with the standards. |
| Use of IRB approach to credit risk | | |
| 452 | IRB approach. | Not applicable. |
| Use of credit risk mitigation techniques | | |
| 453(a) | Policies and processes for use of on and off-balance sheet netting. | Not applicable. |
| 453(b) | Policies and processes for collateral valuation and management. | Refer to section "Credit Risk Mitigation" on page 22. |
| 453(c) | A description of the main types of collateral taken by the institution. | Refer to section "Credit Risk Mitigation" on page 22. |
| 453(d) | The main types of guarantor and credit derivative counterparty and their creditworthiness. | Not applicable. |
| 453(e) | Market or credit risk concentrations within risk mitigation exposures. | Not applicable. |
| 453(f) | Standardised or Foundation IRB Approach, exposure value covered by eligible collateral. | Refer to Table 13 on page 23. |
| 453(g) | Exposures covered by guarantees or credit derivatives. | Not applicable. |
| Use of the Advanced Measurement Approaches to operational risk | | |
| 454 | Description for the use of insurance or other risk transfer mechanisms to mitigate operational risk. | Not applicable. |
| Use of Internal Market Risk Models | | |
| 455 | Use of internal market risk models. | Not applicable. |