

FINAL VERSION

PCF Bank Limited (02794633)

Report and Financial Statements

for the year ended 30 September 2018



PCF Bank Limited (02794633)
Company Information

Directors

T A Franklin *Non-executive Chairman*
C A Higgins *Non-executive*
D J Titmuss *Non-executive*
M F Brown *Non-executive*
D J Morgan *Non-executive*
S D Maybury *Chief Executive*
R J Murray *Managing Director*
D R Bull *Finance Director*

Company Secretary

R J Murray

Company Registration Number
02794633

Registered Office

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

Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

PCF Bank Limited (02794633)

Strategic Report for the year ended 30 September 2018

Profile

PCF Bank Limited ("the Bank") is a wholly owned subsidiary of PCF Group plc (the Parent"). The shares of the Parent are listed on the Alternative Investment Market of the London Stock Exchange. Both entities are registered and domiciled in the United Kingdom.

The Bank is a specialist bank, offering retail savings products for individuals and lending products for consumers and businesses to finance motor vehicles, plant and equipment.

Highlights and key performance indicators

	Year ended 30 Sept 2018	Year ended 30 Sept 2017
	£'000	£'000
Net operating income	1,674	(119)
Operating Administrative expenses	(5,172)	(1,920)
Dividend income	10,152	10,224
Profit before tax	<u>6,654</u>	<u>8,185</u>

	30 Sept 2018	30 Sept 2017
	£'000	£'000
Loans and advances to customers	183,263	56,890
Deposits by customers	191,139	53,120
Shareholders funds (Total equity)	36,938	25,681
Total assets	254,441	83,109

Return on average assets	5.54%	28.77%
Net Interest Margin	7.70%	N/A
After Tax ROE	19.90%	63.90%
CET1 Capital Ratio	20.77%	30.13%

The Bank's loans and advances portfolio increased to £183.3m through a combination of transfers of trade from other group companies totalling £30.6m and new business being written in the Bank of £130.3m. Profit before tax reduced to £6.7m. The reduction in profits was the result of a one-off write-off of investments of £6.8m (see note 16).

Diversification and strategic initiatives

On 31 October 2018, the Bank completed the acquisition of Azule Limited. Azule is a UK market leader in providing specialist funding and leasing services direct to individuals and businesses in the broadcast and media industry. Azule also operates in the audio visual and photography markets and offers its services across Europe, as well as in the UK. Azule has been providing finance for more than twenty years and has built a strong market presence, with a sales capability to place asset finance to a wide range of banks and lending institutions, as well as originating asset finance for its own portfolio. The acquisition offers revenue synergies with PCF's existing asset finance operations, given Azule's focus on financing a niche class of business-critical assets with strong collateral characteristics, for prime credit grade customers. For the year ended 30 June 2018, Azule originated £54.3 million of asset finance, reported revenues of £3.1 million and a profit before tax of £0.8 million. Since the acquisition, trading has been in line with management expectations. The Bank is well-established in its existing markets of consumer motor finance and business asset finance and, having a relatively small market share of both those markets, expects to see continued growth in new business originations. The Bank has further diversified by entering the bridging finance market with the recruitment of a specialist team who have over 20 years experience in the specialist property lending market.

The Azule acquisition, bridging finance diversification and continued growth in our organic market will support our future growth aspirations.

**Strategic Report (cont'd.)
for the year ended 30 September 2018**

Outlook

This has been a year of important achievements. The Bank has delivered continued financial success and growth and is ahead of its original plan, bringing forward investment costs previously anticipated in future years.

The Bank has set ambitious targets and will increase the level of investment in the resources and technology necessary to maintain a robust governance structure and enhance future profits growth. The growth in the lending portfolio to £219 million at the year end, together with the Azule acquisition, has provided a base to achieve a medium-term target portfolio size of £350 million a year earlier than previously anticipated.

The loan book is performing well and, whilst the Bank is an aspirational business, it will remain alert to current political events and economic headwinds as it plans and pursues a sustainable growth strategy.

The Bank aims to minimise the adverse impact on NIM caused by any increase in the cost of borrowing. It is a fixed rate lender and uses fixed rate retail deposits and debt to protect its profit margin. The recent interest rate rises, therefore, have little effect on the Bank's existing portfolio and, if it enters a higher interest rate environment, its terms for new lending will need to reflect any increase in borrowing cost.

Principal Risks and Uncertainties

Principal risks are the primary risks that the business faces which could impact the delivery of the Bank's strategic objectives. The Bank has identified eight principal risks which could impact the delivery of its strategic objectives and has defined a Board approved risk appetite, with key mitigating factors and controls for the following risks.

Strategic and business risk

Definition - Strategic and business risk is the risk which affects the Bank's ability to achieve its corporate and strategic objectives.

Statement – In order to maintain investor confidence in the Group overall, the Bank Board endeavours to operate the business in such a way as to achieve a consistent increase in profits and shareholders' return.

Key mitigating factors and controls

- The Bank does not intend to undertake any medium to long-term strategic actions within its business model which would put at risk its vision of being a successful, specialist lender in its chosen and target markets, backed by a strong and dependable savings franchise.
- The Bank will monitor, review and challenge its performance against strategy using established key performance indicators.
- The Bank will not put its core strategic and business objectives at a level of risk which is beyond its financial resources and operational capabilities under both normal and stressed conditions.
- Where the Bank is going through a strategic change programme, it will consider, in addition to readiness and any risks to delivery, the impact of that change on the business in terms of customers, staff, the control environment and reputational impacts.
- The Board will set challenging but achievable financial targets.
- The Board and its committees will regularly monitor the business and macro-economic assumptions underlying its business, capital, and liquidity plans.
- The Board will align the remuneration of senior management to key strategic objectives.

**Strategic Report (cont'd.)
for the year ended 30 September 2018**

Credit risk

Definition - Credit risk is the risk that a borrower fails to pay the interest or to repay the capital on the Bank's loans and receivables, thereby giving rise to the Bank incurring a financial loss on that borrower's account.

Statement - The Bank aims to minimise the impact on profitability from defaults through a prudent and stringent underwriting policy and case management when customers are in difficulty.

Key mitigating factors and controls

- The Bank will focus its lending on its specific areas of expertise.
- The Bank currently limits its portfolio lending to the UK.
- The Bank will embed clear lending policies in all business areas.
- The Bank will review performance against risk appetite.
- The Bank will hold credit committee meetings for larger exposures or new areas at risk.
- The Bank will stress the portfolio to test resilience.
- The Bank will conduct a product risk assessment on any new business lines.

Capital risk

Definition - Capital risk is the risk that the Bank will have insufficient capital resources to support the business.

Statement - The Bank aims to maintain a sufficient level of capital above the total regulatory capital requirement as detailed in the Internal Capital Adequacy Assessment Process ('ICAAP'). The level of surplus capital held will be formally reviewed by the Asset & Liability Committee ('ALCO'), Executive Committee ('ExCo') and the Board on an annual forward-looking basis.

Key mitigating factors and controls

- ARC is responsible for reviewing and approving assumptions and stress scenarios in the planning stages of the ICAAP and Internal Liquidity Adequacy Assessment Process ('ILAAP'), including substantive changes to the previous assessment.
- The Bank will consider the need for a Capital Planning Buffer ('CPB'), over and above the CRD IV capital buffers, to mitigate the risks of exposures under appropriate stress scenarios.
- The Bank will monitor closely and regularly its capital and leverage ratios to ensure that it meets current and future regulatory requirements.
- The Bank is able to accumulate additional capital through profits and by raising new equity as part of a listed Group on a recognised stock exchange.
- The Bank has a supportive majority shareholder who has participated in recent equity raisings.
- The Bank is able to manage the demand for capital through management actions including adjusting its lending strategy.
- The Bank will regularly conduct stress tests and sensitivity analysis on a forward-looking basis.
- The Bank will regularly conduct forecasting and scenario planning.

Liquidity and funding risk

Definition - Liquidity and funding risk is the risk that the Bank is not able to fund new business originations or meet cash flow or collateral obligations as they fall due without adversely affecting either its daily operations or its financial health.

Statement - The Bank will at all times maintain liquidity resources that are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The Bank will not tolerate liquidity risk that leads to it being unable to meet its liabilities as they fall due in a scenario consistent with its standard Pillar 1 and Pillar 2 ILAAP stress tests. The Bank will maintain strong relationships with its banks for funding purposes, be active in the retail deposit taking market and will maintain a diversified funding market. The Bank will align the tenor of its funding to the average effective life of its loan portfolio. The Bank will continue to maintain wholesale debt and have at its disposal an appropriate level of committed facility headroom.

**Strategic Report (cont'd.)
for the year ended 30 September 2018**

Key mitigating factors and controls.

- The Bank will at all times adhere to the Overall Liquidity Adequacy Rule ('OLAR') and operate within its risk tolerance.
- The Bank will ensure compliance with the OLAR and liquidity risk tolerance and that liquidity stress testing is conducted as part of the ILAAP review.
- The Bank will maintain its liquidity resources in the form of high quality liquid assets ('HQLA'). The amount of these will, at all times, exceed the minimum required by the OLAR and liquidity risk tolerance.
- The Bank will carry out forward modelling to identify liquidity mismatches.

Market and interest rate risk

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

Statement - The Bank aims to minimise the adverse impact on Net Interest Margin ('NIM') caused by the increased cost of variable rate borrowings and to fix the cost of borrowing through the use of interest rate swaps with major UK banks as counterparties. The Bank does not trade wholesale financial instruments and so does not have a trading book.

Key mitigating factors and controls

- The Bank does not seek to take or expose itself to market risk and does not carry out proprietary trading.
- The Bank's balance sheet exposures are predominantly in Sterling, so it has little foreign exchange risk. Some assets are bought or sold in foreign currency as are broking transactions, but these are short-term exposures.
- The Bank manages its Interest Rate Risk in the Banking Book ('IRRBB') by first identifying and quantifying interest rate risk gaps due to mismatches between assets, liabilities and existing interest rate swaps.
- Where a significant interest rate gap is identified, the Bank will execute an interest rate swap to hedge the position. It will ensure that the change in Economic Value of Equity ('EVE') and Earnings at Risk ('EaR') are managed within policy limits at all times.
- The Bank will adjust the interest rate for new lending to changes in borrowing interest rates to ensure an appropriate NIM.

Operational risk

Definition - Operational risk is the risk of loss arising from inadequate or failed controls or processes, people, and systems or from external events.

Statement - The Bank will maintain a strong internal control environment to mitigate operational risk which is inherent to its business activities and to minimise the financial impact of operational risk arising from risks such as IT disruption, human error, a breakdown of procedures, non-compliance with policy and internal or external fraud.

Key mitigating factors and controls

- The Bank will review IT system architecture to ensure systems are resilient and that the confidentiality, integrity and availability of critical systems and information assets are protected against cyber attacks.
- The Bank will implement a robust project governance structure and delivery framework with respect to IT and change management to ensure there are appropriate controls in place covering scoping and planning, design, initiation, monitoring and risk assessment.
- The Bank will implement actions from internal and external IT assurance reviews to enhance the resilience of systems supporting the processes most critical to customers.
- The Bank will maintain competitive working practices to attract, retain and engage high quality employees.

**Strategic Report (cont'd.)
for the year ended 30 September 2018**

- The Bank will invest in enhanced protection of customer information, including limiting access to key systems and enhancing the security, durability and accessibility of critical information.
- The Bank will manage effectively change projects so that they do not cause serious disruption or create processing inefficiencies to the business during or after their implementation.
- The Bank will maintain a strong internal control environment and adopt policies and procedures to detect and prevent the use of its business for operational risk, money laundering, facilitating tax evasion, bribery and activities prohibited by legal and regulatory requirements.
- The Bank will provide enhanced training and compliance awareness sessions to all employees
- The Bank will formally review and ratify all new products and business lines through its Marketing & New Products Approval Committee ('MNPA')

Regulatory risk

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

Statement – The Bank has no appetite for regulatory breaches, fines, censure, legal or enforcement action due to failing to comply with applicable laws, regulations and codes of conduct or legal obligations.

Key mitigating factors and controls

- The Bank engages with industry bodies, such as UK Finance, and seeks external advice from consultants.
- Bank policies and procedures set out the principles and key controls that should apply across the business and which are aligned to the Bank's risk appetite. Business units assess and implement policy and regulatory requirements and establish controls to ensure compliance. There is mandatory training for all employees.
- Risk & Compliance provide oversight, proactive support and constructive challenge to the business in identifying and managing regulatory issues.
- When appropriate, Risk & Compliance will conduct thematic reviews of regulatory compliance across businesses and divisions.

Conduct Risk

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

Statement - The Bank has no appetite for conduct risk events through product design, corporate culture or operational processes. The Bank restricts its activities to areas of established expertise and ensures the culture of the organisation delivers a fair outcome for customers.

**Strategic Report (cont'd.)
for the year ended 30 September 2018**

Key mitigating factors and controls

- The Board has an approved statement on culture, adopted throughout the organisation.
- Customer focused policies and procedures. These reflect the customer outcomes the Board intend to achieve (e.g. product development, governance, and distribution).
- Conduct risk appetite established at Bank and business area level.
- Customer needs explicitly considered within business and product level planning and strategy.
- Enhanced product governance framework and Marketing & New Product Approval Committee to ensure products continue to offer fair value and meet the needs of the relevant target market throughout their life cycle.
- Enhanced recruitment, training and a focus on how the Bank manages employee performance with clear customer accountabilities.
- Learning from past mistakes, including root cause analysis.
- Clear customer accountabilities for staff, with rewards and customer centric feedback built into performance appraisals.
- Complaints are viewed as a valuable source of management information and we recognise that, despite our intolerance of conduct risk failures, mistakes do happen and when they do we must rectify and learn from them.
- A programme of assurance reviews centred on conduct risk clusters, including product design and governance reviews, periodic product reviews, culture measurement, marketing and promotion reviews, the treatment of vulnerable customers and complaint handling.

Emerging Risks

Emerging risks are those future risks which have been identified and may have an impact on the Bank's future performance, compromise its existing strategy or threaten its business model.

Interest rate environment

Risk - The low interest rate environment, introduced to stimulate growth following the financial crisis, has persisted for longer than first expected. Interest rates have since increased and, if rates continue to increase or growth slows, unemployment or business failure may rise and loan servicing costs may increase, which could cause an increase in credit losses.

Mitigation - The Bank continues to monitor these risks and UK growth has remained positive in the face of domestic and international headwinds. The Bank has not felt any significant adverse consequences but remains conscious of economic outlook. The Bank also lends at fixed rates, which mitigates the impact of rising rates on individual borrowers.

Future direction - Market consensus is that the short-term outlook for the UK will see interest rates increase by between ¼ and ½ percentage points during 2019.

**Strategic Report (cont'd.)
for the year ended 30 September 2018**

Brexit and economic environment

Risk - The Bank has considered the potential for the process of the UK leaving the European Union ('EU') to lead to stress events in addition to those identified in the ILAAP and ICAAP assessments. Although Brexit has the potential to disrupt UK banks' access to markets in the remainder of the EU, the Bank has only limited brokerage business outside the UK following its acquisition of Azule Limited. However, there is broad consensus among economists that Brexit will likely, in the short term at least, reduce the UK's real per-capita income level through changes to interest rates, employment, household income and indebtedness.

Management believes that Brexit's potential effect on the Bank would be indirect and confined to the events identified above. Management's concern is primarily focused on the negative effect that the prolonged process of Brexit is having on consumer and business sentiment.

Mitigation - The Bank continues to monitor closely the Brexit negotiations and the potential economic impact on credit risk and implications for the business. It will decide whether internal scenario planning is required should the UK leave the EU with no deal.

Future direction – The Government has published a series of technical notices to allow businesses and citizens to understand what they would need to do under different Brexit scenarios, so they can make informed plans and preparations. Management will continue to review each technical notice as it is released and will determine scenario planning in the light of the final Brexit outcome.

Cyber Crime

Risk – Cyber-attacks and data leakage are daily threats to organisations globally. The Bank recognises that information is a critical asset and that how information is managed, controlled and protected can have a significant impact on the delivery of its services and security of its customers. Information assets must be protected from unauthorised use, disclosure, modification, damage and loss.

Mitigation – The Board has approved a Cyber Strategy using best practice guidelines from the National Cyber Security Centre, the FCA and the Bank of England. This strategy sets out in detail how the Bank will work to ensure it remains protected against the increasing threat of cyber-attacks. This strategy is the framework for the Bank's response to these threats and sets out five core objectives which have been delivered over the course of the financial year by implementing a number of cyber security led initiatives. These objectives are:

- Understand cyber risk and act responsibly
- Understand the extent and potential impact of exposure to the attack
- Defences operate consistently across the Bank's cyberspace, physical site and organisations
- Incident report
- Strengthen collaboration

The Bank continues to be accredited under the Government's Cyber Essentials framework and is a member of the Cyber Security Information Sharing Partnership ('CiSP').

Future direction – The prevention of cybercrime remains a key focus for the Bank. A significant enhancement to the Bank's security is the introduction of a Security Operation Centre ('SOC'). The SOC will provide 24/7 monitoring of PCF's network for vulnerabilities, breaches, attacks and otherwise unusual behaviour, which could be indicative of undesirable and potentially harmful activity within its infrastructure.

PCF Bank Limited (02794633)

**Strategic Report (cont'd.)
for the year ended 30 September 2018**

Technological and competitive changes to the motor car market

Risk - The Bank has a substantial lending portfolio in motor cars which equates to over 48% of total loans and receivables. Technical obsolescence could result in a concentrated exposure to diesel cars and may lead to a diminution of vehicle values if defensive action is not taken. The evolution of electronic or autonomous vehicles is seen as long-term risk.

Mitigation - The sector risks are mitigated by collateral backed lending, sensible loan to value lending, low average lending balances, a wide range of models and marques for residual diversification, and an increased focus on prime motor finance. The Bank does not offer products that take residual risk in motor cars.

Future direction - Continued successful participation in this sector requires a good understanding of the upcoming changes in regulation, prudent lending criteria and sensible lending practices. The Bank will monitor its portfolio on a regular basis and amend its lending criteria to reflect changes in economic conditions and the vehicle market, including research into the electric vehicle sector. The Bank has over twenty years' experience of the consumer motor finance sector.

Approved by order of the Board on 23 January 2019



S D Maybury
Director

PCF Bank Limited (02794633)

**Directors' Report
for the year ended 30 September 2018**

The directors present their report and financial statements for the year ended 30 September 2018.

Results and dividends

The Bank's profit for the year before taxation was £6,654,000 (year ended 30 September 2017: £8,185,000). The taxation charge for the year was £412,000 (year ended 30 September 2017: credit of £378,000).

The directors do not recommend any dividend payment for the year (year ended 30 September 2017: Nil).

Principal activities, business review and future developments

The Bank is a specialist bank and also the holding company of a group of specialist finance companies which offers lending products for consumers and businesses to finance motor vehicles, plant and equipment and savings products to retail investors.

The Bank received dividend income amounting to £10,152,000 from its subsidiaries during the year (30 September 2017: £10,224,000). The Bank also received, by way of intra-group transfer, certain portfolios of lending products which were previously held by its subsidiaries and non-current assets and liabilities previously held by its Parent. The total amount of the transfers amounted to £30.6 million. In October 2017, £1.1m was transferred from PCF Asset Finance Limited and £2.4m from PCF Leasing Limited. PCF Credit Limited transferred £5.5m in November 2017, £8.1m in March 2018 and £13.5m in September 2018. Information regarding the business review, future developments and principal risks is contained in the Strategic Report.

Directors

The directors of the Bank during the year ended 30 September 2018 were those listed on page 1.

International Financial Reporting Standards ("IFRS")

The results for the year ended 30 September 2018 have been prepared in accordance with IFRS and its interpretations issued by the International Accounting Standards Board, as adopted by the European Union.

Statement of going concern

The Bank's business activities, together with the factors likely to affect its future development and position are set out in the Strategic Report. The financial position of the Bank, its cash flows, liquidity position and borrowing facilities are set out in the Financial Statements.

The Bank maintains an actively managed capital and liquidity base to cover risks inherent in the business and is meeting the capital and liquidity adequacy requirements of the banking supervisor, the Bank of England. The adequacy of the Bank's capital and liquidity is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Bank. The Bank participates in the Group's centralised treasury arrangements and so shares banking arrangements with other Group companies. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Bank to continue as a going concern or its ability to continue with the current banking arrangements.

After making enquiries, the directors have a reasonable expectation that the Bank has adequate resources including sufficient capital and liquidity to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards, as adopted by the European Union.

**Directors' Report (cont'd.)
for the year ended 30 September 2018**

Statement of directors' responsibilities (cont'd.)

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors must not approve the Company Financial Statements unless they are satisfied they present fairly the financial position, financial performance and cash flows of the Bank for that year. In preparing those Financial Statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- state that the Bank has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the Bank's financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

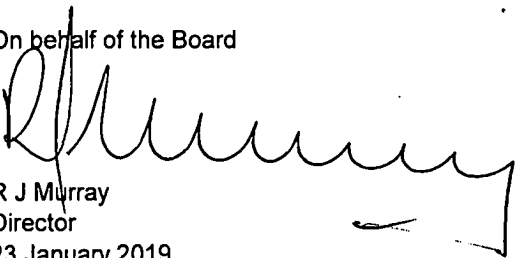
Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Bank's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Reappointment of auditors

A resolution to re-appoint Ernst & Young LLP as the Bank's auditors will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



R J Murray
Director
23 January 2019

PCF Bank Limited (02794633)
Independent Auditor's Report to the members of PCF Bank Limited
for the year ended 30 September 2018

Opinion

We have audited the financial statements of PCF Bank Limited for the year ended 30 September 2018 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 33, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 30 September 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none">• Risk of fraud in the recognition of revenue in respect of the application of the effective interest rate methodology• Impairment of loans and advances to customers
Materiality	<ul style="list-style-type: none">• Overall materiality of £332,700 which represents 5% of Profit Before Tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

PCF Bank Limited (02794633)

**Independent Auditor's Report to the members of PCF Bank Limited
for the year ended 30 September 2018**

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Risk of fraud in the recognition of revenue in respect of the application of the effective interest rate (EIR) methodology.</p> <p>Interest and similar income: £14,551k (2017: £5k)</p> <p>Refer to the accounting policies (note 4.1.3) and note 6 of the Financial Statements</p> <p>For certain product fees, the Bank operates a model to recognise fee income (included within Interest Income) under the effective interest method. The effective interest method spreads the recognition of product fee income over the life of the financial instrument, as these are in substance an integral part of the overall yield.</p> <p>Effective interest models are sensitive to judgements about the expected lives of the product to which they relate. Due to the complexity of calculations, the degree of judgement exercised by the Bank in respect of the expected lives of the product and the different products for which fees are recognised, this is considered a key audit matter.</p>	<p>We identified and tested key controls over the effective interest rate model. We determined that we could place reliance on these controls for the purposes of our audit.</p> <p>We tested the key assumptions used in the EIR calculation including the expected behaviour and lifecycle of the products and expected changes in base interest rate. We checked that changes made to the EIR model were validated and approved by management.</p> <p>We utilised an independent leasing valuation specialist to recalculate the finance lease income using EIR methodology for each product on sample basis. In addition to that we recalculated finance lease income on a sample of leases and ensured completeness and accuracy of data through reconciliation to source systems.</p> <p>We tested that fees and commissions were appropriately included in the EIR calculations in accordance with the accounting standards.</p> <p>We selected a risk based sample of journal entries and reviewed the journals for validity and appropriateness.</p>	<p>We concluded to the Audit & Risk Committee that the EIR calculations and methodology were in accordance with accounting policies and standards and interest income was appropriately derived.</p> <p>Our testing concluded that the controls were designed and operating effectively.</p> <p>Our testing of journal entries does not highlight any issues and there was no evidence of management override of controls.</p>

<p>Impairment of loans and advances to customers</p> <p>Loans and advances to customers: £183,263k (2017: £56,89 0k)</p> <p>Impairment on loans and advances: £641k (2017: Nil)</p> <p>Refer to the accounting policies (note 4.1.5 & 4.3) and note 14 of the Financial Statements</p> <p>The Bank's lending portfolio relates to small and medium sized enterprises (SMEs) leasing commercial vehicles and individual consumers leasing cars.</p> <p>Estimating the Bank's collective and specific provisioning is subjective, requires the management to exercise significant judgement, and incorporates the use of various assumptions.</p> <p>Given the level of judgement and subjectivity involved, there is a risk that the impairment provision could be materially misstated.</p>	<p>We assessed the design adequacy and tested the operating effectiveness of key controls over loan origination, loan administration and impairment of loans related processes.</p> <p>We reviewed and independently tested key assumptions including probability of default and loss given default. We challenged the overlays for completeness, appropriateness of methodology and accuracy of calculation.</p> <p>We performed back testing on the key assumptions used in impairment calculation for each segment including vouching proceeds from the sale of assets.</p> <p>We performed data integrity testing on key sources of data and information used for calculation of impairment including testing of ageing of loans.</p> <p>We recalculated the impairment calculation.</p>	<p>We concluded to the Audit & Risk Committee that the impairment models and assumptions employed by the Bank were reasonable as at 30 September 2018.</p> <p>Our testing concluded that the controls were designed and operating effectively, and the provisioning methodology was in line with IAS 39.</p> <p>Our back testing conducted concurrently with management resulted in adjustments to the provisioning primarily as a result of increases in values in the second hand car market. We also concluded that the disclosures presented were in compliance with IFRS.</p>
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In the prior year, our auditor's report included two key audit matters in relation to (i) impact of banking licence on taking of deposits, financial reporting and internal controls; and (ii) inter-group transfers of loan portfolios and the T-24 Banking Platform. In the current year, these matters have not been included as key audit matters as they were specific to Bank's first year of operation.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

PCF Bank Limited (02794633)

**Independent Auditor's Report to the members of PCF Bank Limited
for the year ended 30 September 2018**

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Bank to be £332,700 (2017: £256,810), which represents 5% of the underlying profit before tax (2017: 1% of equity). We believe profit before tax is the most appropriate measurement basis for determining our materiality as it is a consistent basis for computing materiality across the banking industry. The primary stakeholders of the financial statements are the Parent and the Prudential Regulation Authority who regard the operating performance, particularly profit before tax, as the most relevant measure as this reflects profits available for distribution to shareholders or to be retained as retained earnings and forming part of the Bank's equity. In the prior year, equity was used as the measurement basis for materiality as it was the Bank's first year and the extent of the banking operations were limited. Accordingly, in the current year, the measurement basis has been changed to profit before tax.

During the course of our audit, we reassessed initial materiality and made adjustments based on the final financial performance of the Bank.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £249,525 (2017: £192,600). We have set performance materiality at this percentage due to sound internal controls with no material weakness identified in the prior period.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £16,635 (2017: £12,840), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

PCF Bank Limited (02794633)

**Independent Auditor's Report to the members of PCF Bank Limited
for the year ended 30 September 2018**

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 10 and 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

PCF Bank Limited (02794633)

**Independent Auditor's Report to the members of PCF Bank Limited
for the year ended 30 September 2018**

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are the Companies Act 2006, Financial Services and Markets Act 2000 (FSMA), Financial Services Act 2012 and other relevant Financial Conduct Authority ('FCA') and Prudential Regulation Authority ('PRA') regulations.
- We understood how PCF Bank Limited is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and UK regulatory bodies; reviewed minutes of the Board and Audit & Risk Committee; and gained an understanding of the Bank's approach to governance, demonstrated by the Board's approval of the Bank's governance framework and the Board's review of the Bank's risk management framework and internal control processes.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by considering the controls that the Bank has established to address risks identified by the entity, or that otherwise seek to prevent or detect fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of executive management, internal audit, and focused testing, as referred in the Key Audit Matters section above.
- The Bank operated in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team had the appropriate competence and capabilities.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Bank at the AGM on 2 March 2018 to audit the financial statements for the year ending 30 September 2018. The period of total uninterrupted engagement including previous renewals and reappointments of this company is 20 years, covering the years ending 31 December 1998 to 30 September 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

Use of our report

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.



Michael-John Albert (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

23 January 2019

PCF Bank Limited (02794633)
Income Statement
for the year ended 30 September 2018

	Notes	Year ended 30 Sept 2018 £'000	Year ended 30 Sept 2017 £'000
Interest and similar income	6	14,551	5
Interest and similar expense	7	(5,342)	(124)
Net interest income/(expense)		9,209	(119)
Fee and commission income	8	157	-
Fee and commission expense	8	(230)	-
Net fees and commission expense		(73)	-
Impairment losses on loans and advances	9	(641)	-
Write off of investments	16	(6,821)	-
Net operating income		1,674	(119)
Depreciation of property and equipment	17	(84)	-
Amortisation of intangible assets	18	(385)	-
Other operating expenses	11	(4,703)	(1,920)
Total operating expenses		(5,172)	(1,920)
Operating loss		(3,498)	(2,039)
Dividend income		10,152	10,224
Profit before tax		6,654	8,185
Income tax (charge)/credit	12	(412)	378
Profit after tax, being total comprehensive income attributable to owners		6,242	8,563

Statement of Other Comprehensive Income
for the year ended 30 September 2018

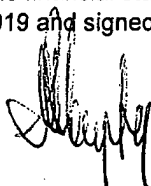
	Year ended 30 Sept 2018 £'000	Year ended 30 Sept 2017 £'000
Profit after taxation	6,242	8,563
Other comprehensive income that will be reclassified to the income statement		
Fair value gain on available-for-sale financial instruments	18	-
Income tax expense	(3)	-
Total items that will not be reclassified to the income statement	15	-
Total comprehensive income, net of tax	6,257	8,563

The accounting policies and Notes on pages 22 to 49 form part of, and should be read in conjunction with, these financial statements

PCF Bank Limited (02794633)
Balance Sheet
as at 30 September 2018

	Notes	30 Sept 2018 £'000	30 Sept 2017 £'000
Asset			
Cash and balances at central banks	13	21,284	16,626
Available-for-sale financial investments	15	39,902	4,511
Loans and advances to customers	14	183,263	56,890
Due from related companies	21	6,181	-
Investment in subsidiaries	16	150	2,504
Property, plant and equipment	17	224	271
Intangible assets	18	2,560	2,307
Deferred tax assets	19	90	-
Other assets	20	787	-
Total assets		254,441	83,109
Liabilities			
Due to banks	23	25,037	-
Due to related companies	21	-	4,141
Due to customers	22	191,139	53,120
Deferred tax liabilities	19	-	94
Other liabilities	24	1,327	73
Total liabilities		217,503	57,428
Equity			
Issued capital	26	21,298	16,298
Other reserves		15	-
Retained earnings		15,625	9,383
Total equity		36,938	25,681
Total liabilities and equity		254,441	83,109

The financial statements were approved and authorised for issue by the Board of Directors on 23 January 2019 and signed on behalf of the Board of Directors by:



S D Maybury
Director



D R Bull
Director

The accounting policies and Notes on pages 22 to 49 form part of, and should be read in conjunction with, these financial statements

PCF Bank Limited (02794633)
Statement of Changes in Equity
for the year ended 30 September 2018

	Issued capital £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 October 2017	16,298	-	9,383	25,681
Issuance of new shares during the year	5,000	-	-	5,000
Fair value gain on AFS financial instruments	-	15	-	15
Profit for the year	-	-	6,242	6,242
Balance as at 30 September 2018	21,298	15	15,625	36,938
Balance as at 1 October 2016	298	-	820	1,118
Issuance of new shares during the year	16,000	-	-	16,000
Profit for the period	-	-	8,563	8,563
Balance as at 30 September 2017	16,298	-	9,383	25,681

The accounting policies and Notes on pages 22 to 49 form part of, and should be read in conjunction with, these financial statements

PCF Bank Limited (02794633)
Statement of Cash Flows
for the year ended 30 September 2018

	30 Sept 2018	30 Sept 2017
	£'000	£'000
Operating activities		
Total operating loss	(3,498)	(2,039)
Adjustment for:		
Change in operating assets:		
Net change loans and advances	(126,373)	(56,890)
Net change in other assets	(877)	-
Net change in amounts due from related companies	(10,322)	2,755
Transfer of PPE and intangible assets from holding company	-	(2,578)
Depreciation of property, plant and equipment	83	-
Amortisation of other intangible assets	384	-
Write off of investment	6,821	-
Change in operating liabilities:		
Net change in amounts due to customers	138,019	53,120
Net change in derivative financial instruments	15	-
Net change in other liabilities	1,254	73
Income tax credit	(506)	472
Net cash flows from operating activities	<u>5,000</u>	<u>(5,087)</u>
Investing activities		
Dividends received	10,152	10,224
Purchase of available-for-sale financial instrument	(35,391)	(4,511)
Purchase of property and equipment	(36)	-
Purchase of intangible assets	(637)	-
Investment in subsidiary	(4,467)	-
Net cash flows from investing activities	<u>(30,379)</u>	<u>5,713</u>
Financing activities		
Proceeds from issue of capital during the year	5,000	16,000
Proceeds from borrowings	25,037	-
Net cash flows from financing activities	<u>30,037</u>	<u>16,000</u>
Net increase in cash and cash equivalents	4,658	16,626
Cash and cash equivalents at beginning of the year	16,626	-
Cash and cash equivalents at 30 September	<u>21,284</u>	<u>16,626</u>
Operational cash flows from interest and dividends		
Interest paid	1,307	1
Interest received	507	5

The accounting policies and Notes on pages 22 to 49 form part of, and should be read in conjunction with, these financial statements

1 Corporate Information

PCF Bank Limited ("the Bank") is a bank limited by shares, registered in England and domiciled in the United Kingdom. The Bank is wholly owned by PCF Group plc ("the Parent") whose shares are listed on the Alternative Investment Market ("AIM") of the London Stock Exchange. The Bank's registered office is at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.

The Bank is a specialist bank and also the holding company of a group of specialist finance companies, which collectively offer lending products for consumers and businesses to finance motor vehicles, plant and equipment. The Bank also provides retail savings products for individuals.

The Bank's financial statements for the year ended 30 September 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 21 January 2019.

2 Basis of preparation

The financial statements of the Bank have been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. The financial statements are presented in Pound Sterling (£) and all values are rounded to the nearest thousand (£'000), except where otherwise indicated. The Bank is exempt from preparing group financial statements by virtue of s400 of Companies Act 2006 as the Bank is part of a larger group with the Parent preparing group financial statements.

3 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), interpretations issued by the International Accounting Standards Board ("IASB") and the Companies Act 2006.

4 Summary of significant accounting policies

4.1 Financial instruments - initial recognition and subsequent measurement

4.1.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, (i.e. the date that the Bank becomes a party to the contractual provisions of the instrument). This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Bank recognises balances due to customers when funds reach the Bank.

4.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention when acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

4 Summary of significant accounting policies (cont'd.)

4.1.3 The effective interest rate method

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in Notes:

- 4.1.5 for 'Loans and advances to customers'
- 4.3 for 'Impairment of financial assets'
- 4.5 for 'Recognition of income and expenses'

4.1.4 Available-for-sale financial instruments

Available-for-sale investments include debt securities. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions.

The Bank has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial instruments are measured subsequently at fair value with gains and loss recognised in other comprehensive income.

Interest earned whilst holding available-for-sale financial instruments is reported as interest income, which takes into account any discount or premium and qualifying transaction costs that are an integral part of the instrument's yield.

4.1.5 Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments which, are not quoted in an active market.

Conditional sale agreements, hire purchase contracts and finance leases are initially recognised at the lower of fair value of the asset financed or the present value of the minimum instalments or lease payments. These loans and receivables are subsequently measured at an amount equal to the net investment in the contract, less any provision for impairment. Other loans and receivables, are initially recognised at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the EIR method, less any provision for impairment.

4 Summary of significant accounting policies (cont'd.)

4.2 De-recognition of financial assets and financial liabilities

4.2.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when the rights to receive cash flows from the asset have expired. The Bank also de-recognises the assets if it has both transferred the asset, and the transfer qualifies for de-recognition.

A transfer only qualifies for de-recognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In relation to the above, the Bank considers the control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

4.2.2 Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

4.3 Impairment of financial assets

The Bank assesses on an on-going basis, whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a loan loss provision. The amount of the loss is recognised in the income statement as loan loss provisioning charge.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets which are individually significant and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Future cash flows for a group of loan assets that are collectively evaluated for impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with similar credit characteristics.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

4 Summary of significant accounting policies (cont'd.)

4.3 Impairment of financial assets (cont'd.)

4.3.1 Available-for-sale financial instruments

For available-for-sale financial instruments, the Bank assesses at each reporting date, whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment such as:

Observable data regarding a decline in estimated future cash-flows and/or a decline in underlying collateral impacting the Bank's ability to recover all cash flows;

The amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss; and

The interest income is recorded as part of interest and similar income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

4.3.2 Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on default of financial assets. The collateral is the asset subject to financing. The fair value of collateral is generally assessed, at a minimum, at inception.

4.3.3 Collateral repossessed

The Bank's policy is to sell repossessed assets. Repossessed assets are sold through various auction houses and should the asset generate a surplus over the outstanding debt, this is returned to the borrower.

4.4 Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Bank as a lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the year in which they are earned.

4 Summary of significant accounting policies (cont'd.)

4.5 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

4.5.1 Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the EIR method. The calculation takes into account all of the contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4.5.2 Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established, which is generally when the shareholders approve the dividend.

4.5.3 Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories:

- Secondary lease income arising from finance lease that completed the primary lease period
- Fees earned from late payment charges and recharge of costs incurred from the recovery of assets under hire purchase and finance lease.

4.6 Investment in subsidiaries

Investments in subsidiaries are initially and subsequently measured at cost. These are assessed for impairment in line with the accounting policy detailed in note 4.10.

4.7 Cash and cash equivalents

Cash and cash equivalents as referred to in the Statement of Cash Flows comprises cash in hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

4 Summary of significant accounting policies (cont'd.)

4.8 Property plant and equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

- Computer hardware	3 to 10 years
- Office equipment, fixtures and fittings	5 years
- Operating lease equipment	1 to 10 years

Property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is de-recognised.

4.9 Intangible assets

The Bank's intangible assets include the value of computer software and the capitalised expenses relating to the project of applying to become and becoming a bank.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Acquired software and subsequent enhancements are capitalised as intangible assets and amortised over their useful lives (3 to 10 years) on a straight-line basis. All other software development and maintenance costs are recognised as an expense as incurred. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

4.10 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4 Summary of significant accounting policies (cont'd.)

4.10 Impairment of non-financial assets (cont'd.)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

4.11 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

4.12 Taxes

4.12.1 Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Bank operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Detailed disclosures are provided in Note 12.

4.12.2 Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities ("DTL") are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

4 Summary of significant accounting policies (cont'd.)

4.12.2 Deferred tax (cont'd.)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets, which are charged or credited to Other Comprehensive Income ('OCI'). These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain.

4.12.3 Value Added Tax ("VAT")

Revenues, expenses and assets are recognised net of the amount of VAT except in the case of overdue loans and receivables, other receivables and other payables which are shown inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of other receivables or other payables in the balance sheet.

4.13 Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 October 2018 have not been early adopted in the preparation of the Bank's financial statements. New standards but not yet effective that may affect the Bank are as follows:

	Effective from
- IFRS 2 (amendment) 'Share Based Payments'	01-Jan-18
- IFRS 9 'Financial Instruments'	01-Jan-18
- IFRS 15 'Revenue from Contracts with Customers'	01-Jan-18
- IFRS 16 'Leases'	01-Jan-19

4.13.1 Amendment to IFRS 2: Share-based payments

These amendments were issued in June 2016 and clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based transactions from cash-settled to equity-settled. This amendment is effective for periods beginning on or after January 2018. There are no-share based payments managed by the Bank and therefore this amendment will have no impact on the Bank.

4.13.2 IFRS 16: Leases

This standard was issued in January 2016 and it replaces the existing standard IAS 17 Leases. The standard requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard is effective from periods beginning on or after 1 January 2019 with early adoption permitted, provided the new revenue standard, IFRS 15 Revenue from contracts with customers, has been applied, or is applied at the same date as IFRS 16. This standard does not have a material impact on the Bank as a lessor but during 2018/19, the Bank will be assessing the impact as a lessee. The Bank does not intend to early adopt IFRS 16 and thereby will only adopt it from 1 October 2019.

4 Summary of significant accounting policies (cont'd.)

4.13 Standards issued but not yet effective (cont'd.)

4.13.3 IFRS 9: Financial instruments

The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 sets out the requirements for recognizing and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Bank has determined the Date of Initial Application for IFRS 9 to be 1 October 2018. The classification, measurement and impairment requirements are applied retrospectively by adjusting the opening statement of financial position at 1 October 2018. The Bank will not restate the comparatives as permitted by IFRS 9.

a. Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through statement of income.

Loans and advances to customers are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Bank analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Investments in Government bonds are currently classified as available-for-sale, measured at fair value through other comprehensive income and the Bank has concluded that these investments will continue to meet the criteria for fair value through other comprehensive income. Therefore, reclassification for these instruments is not required.

The adoption of this standard will not have a significant impact on the classification and measurement of Bank's financial assets and financial liabilities.

b. Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. The IFRS 9 expected credit loss ('ECL') model replaces the current "incurred loss" model of IAS 39.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

4 Summary of significant accounting policies (cont'd.)

4.13 Standards issued but not yet effective (cont'd.)

4.13.3 IFRS 9: Financial instruments (cont'd.)

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment are intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

The Bank has completed the development and testing of operating models and methodologies for the calculation of ECL. The Bank continues to revise, refine and validate the impairment models and related process controls. The Bank has determined the potential impact of the expected provision for credit losses in accordance with IFRS 9 as of 30 September 2018, the transition adjustment with regard to ECL is expected to be between 10-15% of current provisioning levels, which will be a transitional adjustment to retained earnings.

4.13.4 IFRS 15 Revenue from contracts with customers

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cashflows with customers. The Bank has assessed the impact of IFRS 15. Based on the assessment, adoption of IFRS 15 is not expected to have any material effect on the Bank's financial statements.

5 Significant accounting judgements, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur.

5 Significant accounting judgements, estimates and assumptions (cont'd.)

5.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5.2 Effective Interest Rate ("EIR") method

The Bank's EIR methodology, as explained in Note 4.1.3, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and lifecycle of the instruments, as well as expected changes to the Bank's base rate and other fee income/expense that are integral parts of the instrument.

5.3 Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement.

The detailed approach for this is explained in Note 4.3 which includes an element of management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

Additionally, judgements around the inputs and calibration of the collective impairment models include the criteria for the identification of smaller homogenous portfolios, the effect of concentrations of risks and economic data (including levels of unemployment, repayment trends, collateral values of assets under financing, the performance of different individual groups, and bankruptcy trends), and for determination of the emergence period. The methodology and assumptions are reviewed regularly in the context of actual loss experience.

The impairment methodology and its application is disclosed in more detail in Notes 4.3

6 Interest and similar income

	Year ended 30 Sept 2018 £'000	Year ended 30 Sept 2017 £'000
Cash and short term-funds	151	4
Loans and advances to customers	14,260	-
Financial instruments - available-for-sale	140	1
	<u>14,551</u>	<u>5</u>

PCF Bank Limited (02794633)
Notes to the Financial Statements
for the year ended 30 September 2018

7 Interest and similar expense

	Year ended 30 Sept 2018 £'000	Year ended 30 Sept 2017 £'000
Paid and accrued to banks	279	-
Paid and accrued to customers	2,085	124
Credit-related fees and commission forming part of EIR	2,978	-
	<u>5,342</u>	<u>124</u>

8 Net fee and commission expense

	Year ended 30 Sept 2018 £'000	Year ended 30 Sept 2017 £'000
Fee and commission income		
Secondary lease income	70	-
Other fees not forming part of EIR	87	-
	<u>157</u>	<u>-</u>
Fee and commission expenses		
Debt recovery and valuation fees	(59)	-
Creditworthiness due diligence costs	(171)	-
	<u>(230)</u>	<u>-</u>
Net fee and commission expense	<u>(73)</u>	<u>-</u>

9 Impairment losses on financial assets

Impairment losses on financial assets relates to impairment losses on loans and advances to customers. The credit risk inherent in loans and advances to customers are detailed in Note 29. The charge during the year is as follows:

	Instalment credit £'000	Finance lease £'000	Total £'000
Bank			
30 September 2018			
Impairment charge for the year on loans and advances to customers	559	82	641
	<u>559</u>	<u>82</u>	<u>641</u>
Bank			
30 September 2017			
Impairment charge for the year on loans and advances to customers	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

10 Dividend income

During the year, the Bank received dividend income amounting to £10,152,000 (year ended 30 September 2017: £10,224,000) from its subsidiaries.

PCF Bank Limited (02794633)
Notes to the Financial Statements
for the year ended 30 September 2018

11 Other operating expenses

Other operating expenses solely relates to management service charges agreed with the Bank's Parent in return for the resources and management services which it provided to the Bank.

Audit fees

Audit fees were paid by the Parent during the year and recharged accordingly through a management service charge. Audit fees were approximately £75,000 (year ended 30 September 2017: £5,000).

Directors' emoluments and staff costs

Staff salaries were paid by the Parent during the year and recharged accordingly through a management service charge. Directors' emoluments were included as part of the management service charge. However, the amounts relating to directors' emoluments, were as below:

	Year ended 30 Sept 2018 £'000	Year end 30 Sept 2017 £'000
Non executive director salaries	131	25
Executive director salaries	368	80
	<u>499</u>	<u>105</u>

The maximum salary recharged to the Bank for a director was £137,000 in the year ending September 2018.

12 Income tax

- a) The components of income tax charge for the year ended 30 September 2018 and its comparative were as follows:

	Year ended 30 Sept 2018 £'000	Year end 30 Sept 2017 £'000
Current tax		
UK Corporation Tax on profit of the year	563	-
Payment for transfer pricing	-	(112)
Group relief	-	(360)
Adjustments in respect of prior periods	36	
Total current tax	<u>599</u>	<u>(472)</u>
Deferred tax		
Origination and reversal of temporary differences recognised in deferred tax liabilities	(142)	94
Adjustments in respect of prior periods	(60)	-
Change in tax rate	15	-
Total tax charge/(credit) for the year	<u>412</u>	<u>(378)</u>

PCF Bank Limited (02794633)
Notes to the Financial Statements
for the year ended 30 September 2018

12 Income tax (cont'd.)

b) Factors affecting current tax credit for the year

The tax assessed for the period differs from the standard rate of Corporation Tax in the UK of 19% (year ended 30 September 2017 – 20%). The differences are explained below.

The Finance (No.2) Act 2015 enacted a reduction in the Corporation Tax main rate (for all profits except ring-fenced profits) to 19% for the years starting 1 April 2017, 2018 and 2019. The Finance Act 2016 enacted a reduction in the Corporation Tax main rate at 17% for the years starting 1 April 2020. Deferred tax balances should be calculated at the rate which the balances are expected to be settled, based on tax rates that have been substantively enacted at the balance sheet date. Therefore, the deferred tax balances have been calculated with reference to these rates.

	Year ended 30 Sept 2018 £'000	Year end 30 Sept 2017 £'000
Profit before tax as stated in the income statement	6,654	8,185
less: Dividend income received from subsidiaries	(10,152)	(10,224)
Accounting loss before tax	<u>(3,498)</u>	<u>(2,039)</u>
Corporation Tax in the UK of 19% (year ended 30 September 2017 - 19.5%)	(665)	(398)
Effects of:		
Expenses not deductible for tax purposes	1,296	-
Change in tax rate	15	(14)
Difference on tax written down value transfer	-	34
Adjustments in respect of prior years	(24)	-
Difference on transfer of trade	(210)	-
Income tax charge/(credit) as reported in income statement	<u>412</u>	<u>(378)</u>

13 Cash and balances at central banks

	30 Sept 2018 £'000	30 Sept 2017 £'000
Cash and demand deposits	21,284	1,063
Money market funds	-	15,563
	<u>21,284</u>	<u>16,626</u>

The Bank does not have monies held in trust for clients.

14 Loans and advances to customers

	30 Sept 2018 £'000	30 Sept 2017 £'000
Consumer lending	79,097	17,520
Business lending	104,166	39,370
	<u>183,263</u>	<u>56,890</u>

PCF Bank Limited (02794633)
Notes to the Financial Statements
for the year ended 30 September 2018

15 Available-for-sale financial instruments

	30 Sept 2018 £'000	30 Sept 2017 £'000
Government debt securities	<u>39,902</u>	<u>4,511</u>

There are no allowances for impairment losses on available-for-sale financial instruments during the year and at year end.

16 Investment in subsidiaries

The financial statements of the Bank are prepared on a solo basis excluding its subsidiaries. The Bank is exempt from preparing consolidated financial statements by virtue of s400 of the Companies Act 2006 as the Bank is part of a larger group with the Parent preparing the consolidated financial statements. All the subsidiaries are incorporated and operate in the United Kingdom and are registered in England and Wales. The Bank does not have any joint ventures or associates. Significant subsidiaries of the Bank were as follows:

Name of company	Nature of business	% of equity interest	% of equity interest
		30 Sept 2018	30 Sept 2017
AMC Trust Limited	Dissolved	-	100
PCF Asset Finance Limited ("PCF Asset")	Dissolved	-	100
PCF Business Finance Limited ("PCF Business")	Dissolved	-	100
PCF Leasing Limited ("PCF Leasing")	Dissolved	-	100
PCF Credit Limited ("PCF Credit")	Leasing and hire purchase	100	100
PCF Finance Group Limited ("PCFGL")	Holding company	100	100

All the subsidiaries above have an Accounting Reference Date of 30 September and a registered office of Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER

	30 Sept 2018 £'000	30 Sept 2017 £'000
Cost and net book value: At beginning of the year	<u>2,504</u>	<u>2,504</u>
Increase in investments	4,467	-
Write off of investments *	(6,821)	-
At the end of the year	<u>150</u>	<u>2,504</u>

It is the opinion of the directors that the recoverable amount of the Bank's investment in subsidiaries is not less than the amount at which it is stated in the Bank's financial statements.

*The write off of investment relates to historical losses held in a dormant subsidiary. These losses, the investment and associated intercompany balances have been written off with those subsidiaries being dissolved. There was no net loss to the group in dissolving the dormant subsidiaries.

PCF Bank Limited (02794633)
Notes to the Financial Statements
for the year ended 30 September 2018

17 Property, plant and equipment

	Leasehold improvement 30 Sept 2018 £'000	Office equipment 30 Sept 2018 £'000	Total 30 Sept 2018 £'000
Cost			
At 1 October 2017	11	260	271
Additions during the year	5	30	35
Disposals during the year	-	-	-
At 30 September 2018	<u>16</u>	<u>290</u>	<u>306</u>
Accumulated Depreciation			
At 1 October 2017	-	-	-
Depreciation during the year	6	77	83
Disposals during the year	-	-	-
At 30 September	<u>6</u>	<u>77</u>	<u>83</u>
Net book value as at 30 September 2018	<u>10</u>	<u>213</u>	<u>224</u>
	30 Sept 2017 £'000	30 Sept 2017 £'000	30 Sept 2017 £'000
Cost			
At 1 October 2016	-	-	-
Transfers during the year	11	260	271
At 30 September 2017	<u>11</u>	<u>260</u>	<u>271</u>
Accumulated Depreciation			
At 1 October 2016	-	-	-
At 30 September 2017	<u>-</u>	<u>-</u>	<u>-</u>
Net book value as at 30 September	<u>11</u>	<u>260</u>	<u>271</u>

18 Intangible assets

	30 Sept 2018 £'000	30 Sept 2017 £'000
Cost		
At beginning of the year	2,307	-
Additions during the year	638	-
Transfers during the year	-	2,307
At end of the year	<u>2,945</u>	<u>2,307</u>
Accumulated Depreciation		
At beginning of the year	-	-
Amortisation during the year	385	-
At end of the year	<u>385</u>	<u>-</u>
Net book value as at 30 September 2018	<u>2,560</u>	<u>2,307</u>

Intangible assets comprise of computer software and the capitalised expenses relating to the project of applying to become and becoming a bank.

19 Deferred tax assets

	30-Sep-18 £'000	30-Sep-17 £'000
Accelerated capital allowances	-	94
Decelerated capital allowances	(79)	-
Other temporary differences	(11)	-
	<u>(90)</u>	<u>94</u>
Opening deferred tax liability	94	-
Recognised in income	(127)	94
Adjustment in respect of prior year timing difference	(60)	-
Recognised in other comprehensive income	3	-
Closing deferred tax (asset)/liability	<u>(90)</u>	<u>94</u>

At the Summer Budget 2015, the UK Government announced legislation setting the Corporation Tax main rate from 20% to 19% for the years starting 1 April 2017, 2018 and 2019 and at 17% for the year starting 1 April 2020.

The deferred tax asset has been measured at 17%, the tax rate effective from April 2020. The impact of measuring the deferred tax asset at the current tax rate of 19% is £101k. As the timing of the reversal of the deferred tax asset is uncertain, the Bank has taken the approach of measuring the deferred tax asset at the lowest enacted tax rate.

20 Other assets

	30 Sept 2018 £'000	30 Sept 2017 £'000
Other receivables	787	-
	<u>787</u>	<u>-</u>

Other assets are not interest-bearing and are normally settled on terms of up to 30 days. The maximum exposure to credit risk and the fair value of trade and other receivables equates to the carrying amount.

21 Due to/from related companies

These are the following outstanding balances with holding and related companies:

	30 Sept 2018 £'000	30 Sept 2017 £'000
Due (from)/to holding company	(6,181)	4,141
	<u>(6,181)</u>	<u>4,141</u>

These balances are unsecured, interest free and repayable on demand. There were no other material related party transactions.

PCF Bank Limited (02794633)
Notes to the Financial Statements
for the year ended 30 September 2018

22 Due to customers

	30 Sept 2018 £'000	30 Sept 2017 £'000
Retail customers:		
Notice account	14,107	3,245
Term deposit	177,032	49,875
	<u>191,139</u>	<u>53,120</u>

Included in amounts due to customers is accrued interest amounting to £1,086,000 (30 September 2017: £118,000) and £58,000 (30 September 2017: £5,000) for term deposits and notice accounts respectively.

23 Due to banks

	30 Sept 2018 £'000	30 Sept 2017 £'000
Current		
Secured loans and borrowings	<u>37</u>	<u>-</u>
Non-current		
Secured loans and borrowings	<u>25,000</u>	<u>-</u>
	<u>25,037</u>	<u>-</u>

Interest bearing loans and borrowings

£25.0 million term loan facility granted to PCF Bank by the Bank of England under the Term funding Scheme.

This loan has an interest rate linked to the Bank of England Base Rate and has a maturity in February 2022. The loan is secured by a charge over loans and receivables and the guarantee of the Parent.

24 Other liabilities

	30 Sept 2018 £'000	30 Sept 2017 £'000
Other payables	220	34
Accruals	1,107	39
	<u>1,327</u>	<u>73</u>

Other liabilities includes other payables and accruals that are not interest-bearing and are normally settled on 30-day terms.

25 Financing activity

The table below details changes in the Bank's liabilities arising from financing activities.

	Notes	1 Oct 2017 £'000	Cash flows £'000	30 Sept 2018 £'000
Due to Banks	23	-	25,037	25,037
		<u>-</u>	<u>25,037</u>	<u>25,037</u>

PCF Bank Limited (02794633)
Notes to the Financial Statements
for the year ended 30 September 2018

26 Issued capital and reserves

	30 Sept 2018 '000 units	30 Sept 2017 '000 units	30 Sept 2018 £'000	30 Sept 2017 £'000
Authorised ordinary shares of £1 each	63,000	63,000	63,000	63,000
Ordinary shares issued and fully paid				
At 1 October 2017 and 1 October 2016	16,298	298	16,298	298
Issuance of new shares during the year	5,000	16,000	5,000	16,000
At 30 September	21,298	16,298	21,298	16,298

5,000,000 new shares were issued to the parent on the 30 April 2018.

27 Financial instruments

The Bank uses financial instruments to invest in liquid asset balances and raise wholesale funding via deposits from customers. The risk associated with financial instruments represents a significant component of those risks faced by the Bank and is analysed in more detail below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 4.

27.1 Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained in Note 27.2.

PCF Bank Limited (02794633)
Notes to the Financial Statements
for the year ended 30 September 2018

27.2 Assets and liabilities by classification, measurement and fair value hierarchy

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

	Amortised cost £'000	Held at fair value as available- for-sale assets £'000	Total £'000
30 Sept 2018			
Cash and balances at central banks	21,284	-	21,284
Loans and advances to customers	183,263	-	183,263
Due from related companies	6,181	-	6,181
Available for sale financial instruments	-	39,902	39,902
Total financial assets	210,728	39,902	250,630
Other non-financial assets			3,811
Total assets			254,441
Due to banks	25,037	-	25,037
Due to customers	191,139	-	191,139
Total financial liabilities	216,176	-	216,176
Other non-financial liabilities			1,327
Total liabilities			217,503
30 Sept 2017			
Cash and balances at central banks	16,626	-	16,626
Loans and advances to customers	56,890	-	56,890
Available for sale financial instruments	-	4,511	4,511
Total financial assets	73,516	4,511	78,027
Other non-financial assets			5,082
Total assets			83,109
Due to related companies	4,141	-	4,141
Due to customers	53,120	-	53,120
Total financial liabilities	57,261	-	57,261
Other non-financial liabilities			167
Total liabilities			57,428

The Bank holds certain financial assets and liabilities at fair value, grouped into Levels 1 and 2 of the fair value hierarchy as explained below.

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

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

27 Financial instruments (cont'd.)

27.2 Assets and liabilities by classification, measurement and fair value hierarchy (cont'd.)

Level 3 - These are valuation techniques for which one or more significant inputs are not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, similar market products, foreign currency exchange rates and equity index prices. Critical judgement is applied by management in utilising unobservable inputs including expected price volatilities, expected mortality rates and prepayment rates, based on industry practice or historical observation. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's-length.

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

Financial instruments held at amortised cost	Level 1	Level 2	Level 3	Carrying value	Fair value
30 September 2018	£'000	£'000	£'000	£'000	£'000
Assets					
Cash and balances at central banks	21,284	-	-	21,284	21,284
Loans and advances to customers	-	-	183,263	183,263	212,539
	21,284	-	183,263	204,547	233,823
Liabilities					
Due to banks	25,037	-	-	25,037	25,037
Due to customers	-	191,139	-	191,139	191,139
	25,037	191,139	-	216,176	216,176
30 September 2017					
Assets					
Cash and balances at central banks	16,626	-	-	16,626	16,626
Loans and advances to customers	-	-	56,890	56,890	65,978
	16,626	-	56,890	73,516	82,604
Liabilities					
Due to customers	-	53,120	-	53,120	53,120
	-	53,120	-	53,120	53,120

The carrying value of amounts due to customers are considered to approximate the fair value as it would be impractical to determine the fair value due to a lack of historical data available.

27 Financial instruments (cont'd.)

27.2 Assets and liabilities by classification, measurement and fair value hierarchy (cont'd.)

Financial instruments held at fair value adjusted through other comprehensive income	Level 1 £'000	Level 2 £'000	Level 3 £'000	Carrying	Fair
				value £'000	value £'000
30 Sept 2018					
Available-for-sale financial investments	39,902	-	-	39,902	39,902
30 Sept 2017					
Available-for-sale financial investments	4,511	-	-	4,511	4,511

27.3 Valuation techniques

Available-for-sale financial instruments

Government debt securities are financial instruments issued by sovereign governments and include both long-term bonds and short-term bills with fixed or floating rate interest payments. These instruments are generally highly liquid and traded in active markets, resulting in a Level 1 classification. When active market prices are not available, the Bank uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future index levels and extrapolating yields outside the range of active market trading, in which instances the Bank classifies those securities as Level 2. The Bank does not have Level 3 UK Government securities where valuation inputs would be unobservable.

Loans and advances to customers

For loans and receivables designated as carried at amortised cost, a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. The element of fair value attributable to the credit risk is calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics. All loans and advances to customers are Level 3.

28 Derivative financial instruments

The fair value of derivative financial instruments included in the financial statements, together with their notional amounts is summarised as follows:

	30 Sept 2018		30 Sept 2017	
	Fair Value £'000	Notional	Fair Value £'000	Notional
Interest rate swaps	-	8,000	-	-
	-	8,000	-	-

29 Financial risk management

The Bank is based and its operations are solely in the United Kingdom. Whilst risk is inherent in the Bank's activities, it is managed through an integrated risk management framework, including ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to liquidity risk, market risk and credit risk.

29.1 Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises when the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank seeks to manage its liquidity by matching the maturity of loans and advances with the maturity of deposits from customers.

The Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Bank also has lines of credit that it can access to meet liquidity needs. In accordance with the Bank's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale, less deposits from customers and other issued securities and borrowings due to mature within the next month. The ratios during the year were, as follows:

a) Liquidity ratios

Advances to deposit ratios

	30 Sept 2018	30 Sept 2017
Year-end	1.0	1.1
Average	1.0	1.1

The Bank acknowledges the importance of savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding with a remaining term to maturity in excess of one year.

PCF Bank Limited (02794633)
Notes to the Financial Statements
for the year ended 30 September 2018

29.1 Liquidity risk (cont'd.)

b) Contractual maturities

	<i>On demand</i>	<i>In less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 30 September 2018						
Financial assets						
Cash and balances at central banks	21,284	-	-	-	-	21,284
Loans and advances to customers	2,143	14,406	47,050	156,148	6,978	226,726
Due from related companies	6,181	-	-	-	-	6,181
Available-for-sale financial investments	-	18,338	740	22,275	-	41,353
Total undiscounted financial assets	29,608	32,744	47,790	178,424	6,978	295,544
Financial liabilities						
Due to banks	-	47	141	25,266	-	25,453
Due to customers	-	9,885	88,034	94,533	8,103	200,555
Other liabilities	-	1,327	-	-	-	1,327
Total undiscounted financial liabilities	-	11,259	88,175	119,799	8,103	227,335
Surplus/(shortfall)	29,608	21,485	(40,385)	58,625	(1,125)	68,209
At 30 September 2017						
Financial assets						
Cash and balances at central banks	1,063	15,563	-	-	-	16,626
Loans and advances to customers	205	9,358	15,959	44,610	540	70,672
Available-for-sale financial investments	-	4,511	-	-	-	4,511
Total undiscounted financial assets	1,268	29,432	15,959	44,610	540	91,809
Financial liabilities						
Due to related companies	4,141	-	-	-	-	4,141
Due to customers	-	305	17,360	32,703	2,752	53,120
Other liabilities	-	73	-	-	-	73
Total undiscounted financial liabilities	4,141	378	17,360	32,703	2,752	57,334
Surplus/(shortfall)	(2,873)	29,054	(1,401)	11,907	(2,212)	34,475

The Bank's policy on funding capacity is to ensure there is always sufficient long-term funding in place. The Bank endeavours to have committed borrowing facilities in place in excess of its forecast gross borrowing requirements for a minimum of the next twelve months. Additional funding from related companies will be utilised whenever required.

Surplus liquidity in periods shown above will be used to cover liquidity shortfalls in subsequent periods.

PCF Bank Limited (02794633)
Notes to the Financial Statements
for the year ended 30 September 2018

29 Financial risk management (cont'd.)

29.1 Liquidity risk (cont'd.)

c) Analysis of encumbered and unencumbered assets

	Encumbered 30 Sept 2018 £'000	Unencumbered		Total 30 Sept 2018 £'000
		Available as collateral 30 Sept 2018 £'000	Other 30 Sept 2018 £'000	
Available-for-sale instruments	25,173	14,727	2	39,902
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	-	157,197	1,532	158,729
Unsecured loans	-	1	1	2
Finance leases of equipment, plant and vehicles	-	24,023	509	24,532
Net assets	25,173	195,948	2,044	223,165

	Encumbered 30 Sept 2017 £'000	Unencumbered		Total 30 Sept 2017 £'000
		Available as collateral 30 Sept 2017 £'000	Other 30 Sept 2017 £'000	
Available-for-sale instruments	-	4,511	-	4,511
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	-	48,149	177	48,326
Unsecured loans	-	-	18	18
Finance leases of equipment, plant and vehicles	-	8,546	-	8,546
Net assets	-	61,206	195	61,401

29.2 Market risk - Interest rate risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Due to the nature and geographical operations of the Bank, the Bank's market risk is primarily interest rate risk. The Bank borrows at fixed and variable interest rates. At 30 September 2018, the proportion of the Bank's borrowings at fixed rates was 88% (30 September 2017- 100%), fixed for an average period of 2 years (30 September 2017- 3 years). Based on the exposure to interest rate risk, an increase in base rate by one half of one percentage point for the whole financial year would have a favourable effect on income of £23k, and favourable effect on capital of £18k

29 Financial risk management (cont'd.)

29.3 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank 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. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit quality analysis at 30th September 2019

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	£'000	£'000	£'000	£'000
Available for sale financial instruments	39,902	-	-	39,902
Cash and balances at central banks	21,283	-	-	21,283
Loans and advances	177,157	4,051	2,055	183,263
Amounts due from other Group Companies	6,181	-	-	6,181
Total	<u>244,523</u>	<u>4,051</u>	<u>2,055</u>	<u>250,629</u>

29.3.1 Impairment assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed as defined in Note 4.

29.3.2 Analysis of maximum exposure to credit risk and collateral

Maximum exposure to credit risk

	30 Sept 2018 £'000	30 Sept 2017 £'000
Financial assets		
Cash and balances at central banks		
- Cash and demand deposits	21,283	1,063
- Money market funds	-	15,563
Loans and advances to customers		
- Consumer and business lending (net)	183,263	56,890
- Intercompany balances	6,181	-
Available-for-sale financial instruments	39,902	4,511
	<u>250,629</u>	<u>78,027</u>
Other non-financial assets	3,811	5,082
	<u>254,440</u>	<u>83,109</u>

30 Material litigation

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. The Bank has formal controls and policies for managing legal claims. Based on professional legal advice, the Bank provides and/or discloses amounts in accordance with its accounting policies described in Note 4.11. As at year end, there has been no material litigation against the Bank.

31 Related parties

Non executive directors held a total of £102,805 in savings accounts in the Bank at 30 September 2018. The Bank has an intercompany balance with the parent, PCF Group plc, as detailed in Note 21. There were no other related party transactions.

32 Events after the balance sheet date

On 30 October 2018, post year end, the Bank completed the acquisition of Azule Limited. Azule is a UK market leader in providing specialist funding and leasing services direct to individuals and businesses in the broadcast and media industry. Azule also operates in the audio visual and photography markets and offers its services across Europe, as well as in the UK. Azule has been providing finance for more than 20 years and it has built a strong market presence, with a sales capability to place asset finance to a wide range of banks and lending institutions, as well as originating asset finance for its own portfolio. The acquisition offers revenue synergies with PCF's existing asset finance operations, given Azule's focus on financing a niche class of business-critical assets with strong collateral characteristics, for prime credit grade customers. For the year ended 30 June 2018, Azule originated £54.3 million of asset finance, reported revenues of £3.1 million and a profit before tax of £0.8 million. Since the acquisition, trading has been in line with management expectations. The purchase consideration for Azule was £5.6m, with a contingent consideration of £1.5m subject to the level of aggregate new business originations in the first and second years of the new ownership.

33 Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements of the local banking supervisor, the Bank of England. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Bank.

The Bank has complied in full with all its externally imposed capital requirements over the reported period.

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Prudential Regulation Authority ("PRA") supervises the Bank and receives information on the capital adequacy of, and sets capital requirements for, the Bank. The Bank is authorised by the PRA and regulated by the FCA and the PRA. The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars".

- Pillar 1 - Minimum capital requirements
- Pillar 2 - Supervisory review process
- Pillar 3 - Market discipline

33 Capital management (cont'd.)

Under Pillar 2, the Bank completes an annual self assessment of risks known as the "Internal Capital Adequacy Assessment Process" ("ICAAP"). The ICAAP is reviewed by the PRA which culminates in the PRA setting "Individual Capital Guidance" ("ICG") on the level of capital the Bank and its regulated subsidiaries are required to hold. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that Bank's capital, risk exposures and risk assessment process. The Bank's Pillar 3 disclosures can be found on the group's website, www.pcf.bank/investors.

The Bank maintains a strong capital base to support the development of the business and to ensure the Bank meets Pillar 1 capital requirements, ICG and additional Capital Requirements Directive buffers at all times.

As a result, the Bank maintains capital adequacy ratios which are significantly above minimum regulatory requirements.