

# Interim Report 2017

## Private & Commercial Finance Group plc





Private & Commercial Finance Group plc is the parent company of PCF Bank, a specialist banking group engaged in the provision of finance for vehicles, plant and equipment for consumers and businesses.

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## Company Information

### Directors

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

### Company Secretary

**R J Murray**

### Registered Office

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105-108 Old Broad Street  
London EC2N 1ER

### Registered Number

02863246

### Auditors

**Ernst & Young LLP**  
25 Churchill Place  
London E14 5RB

### Nominated Adviser & Broker

**Panmure Gordon (UK) Limited**  
One New Change  
London EC4M 9AF

### Joint Broker

**Stockdale Securities Limited**  
Beaufort House  
15 St Botolph Street  
London EC3A 7BB

### Solicitors

**Maclay Murray & Spens LLP**  
One London Wall  
London EC2Y 5AB

### Registrars

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

### Media & Investor Relations

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London EC3V 3ND

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Private & Commercial Finance Group plc ordinary shares are listed on the Alternative Investment Market of the London Stock Exchange.

Details of the Group, its products, recent developments, share price and analysts' research can be found on our website, [www.pcfg.co.uk](http://www.pcfg.co.uk)

# Chairman's Statement

## for the six months ended 31 March 2017

I am delighted to present my first Interim Report in what has been a truly exciting period since my appointment on 6 December 2016. The following day we were granted our banking licence and since then our team has been working diligently to ensure that we execute mobilisation successfully within the twelve months period set by the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA'). It gives me great pleasure to report that we submitted our Variation of Permissions to the regulators on 31 May 2017, enabling us to remain on target to launch PCF Bank this summer, in line with our initial estimations.

The investment in establishing PCF Bank will allow the Group to access a lower cost of funds, increasing profitability through scale and giving access to new markets. During the last six months we have continued to recruit high calibre risk and savings staff to build our banking team, fully tested our computer systems with a successful 'Friends and Family' trial and put in place the governance and operational framework required by the regulators. In addition, we completed a successful Placing and Open Offer in early April, raising £10.5 million (before expenses) of additional equity to meet the PRA's liquidity requirements and provide us with the requisite capital to support our medium-term growth plans. We were also pleased that our £500,000 Open Offer was over-subscribed, confirming support amongst our retail shareholders. All the foundations are now in place for the successful launch of the bank and we will utilise the coming weeks to refine processes, complete our training programmes, put in place new business initiatives to support those growth plans and announce the branding and website for PCF Bank.

As anticipated, one-off costs relating to the banking project increased in the period to £553,000 (2016 – £197,000) but remain within budget. The statutory profit before tax for the period, after expensing these banking costs, was £1.7 million (2016 – £1.8 million). Underlying profit before tax, adjusted for banking costs, however, increased by 16% to £2.3 million (2016 – £2.0 million) due to the increased size of our portfolio and a further reduction in the loan loss provisioning charge. The continuing upward trend in profitability which we have seen over the last six years, together with an unchanged timetable for the launch of the bank, provides us with confidence in achieving market expectations for the full year.

### Profitability and balance sheet

Profitability exceeded target with a Return on Average Asset ('ROAA') of 2.8% adjusted for banking costs (2016 – 3.2%), ahead of the medium-term target of 2.5%. Fully diluted earnings per share for the period was 0.8p (2016 – 1.0p) and after tax Return on Equity ('ROE') was 10.5% (2016 – 12.7%), both reflecting the conversion or redemption of the remaining convertible loan notes at the beginning of this period. The ongoing additional costs of running the bank are estimated at £1.9 million per annum. However, these are far outweighed by the positive benefits of reduced funding costs and the ability to scale the business. We reconfirm our three-year targets of an ROAA of 2.5% and an ROE of 12.5% as we transition and leverage the full potential of the banking infrastructure and additional equity.

Net Interest Margin ('NIM') in the period was 8.2% (2016 – 8.8%) and is ahead of our medium-term target of 8%. The compression in NIM must be considered alongside the 46% reduction of the loan loss provisioning charge to 0.5% (2016 – 1.0%). Over a number of years, we have improved the credit quality of our portfolio but it is now slightly lower yielding and this is being reflected in our NIM and loan loss charge. This focus towards prime lending is key to our future growth plans but also supports our current risk appetite with regards to the credit cycle and economic environment.

## Chairman's Statement

Administrative expenses increased by 20% to £3.0 million (2016 – £2.5 million), reflecting the increased investment in the banking project. Intangible assets increased to £2.1 million (2016 – £0.8 million), reflecting the capital expenditure on new IT software licences required to establish the bank.

The portfolio of receivables increased by 14% to £128 million (2016 – £112 million). The portfolio continues to perform well and its quality is excellent with 96% of the portfolio reported as neither past due nor impaired (2016 – 96%). Our objective is to grow the portfolio to £350 million within three years and to £750 million within five years.

The net assets of the Group at 31 March 2017 increased by 20% to £27.4 million (2016 – £22.9 million) and have further increased following the recent Placing and Open Offer.

A final dividend will be recommended on the announcement of our results for the full year on 5 December 2017. We do not intend to pay an interim as well as a final dividend for the foreseeable future.

### Bank mobilisation and funding

Once the Variation of Permissions is approved, the current restrictions on savings operations will be lifted and we will be able to commence trading as PCF Bank. This process can take up to twelve weeks but we hope the decision will arrive earlier. Until then, we will continue to fund our business through wholesale bank facilities and we have adequate headroom of £36 million (2016 – £25 million) to meet our portfolio growth targets. With retail deposits on the horizon, we have already taken steps to rationalise our senior debt facilities. We have replaced facilities and interest rate swaps with fixed rate funding, which protects our margin, and we expect to report interest expense and facility cost savings in the remainder of the year.

### New business origination and our business model

The targeted portfolio growth to £750 million in five years will be achieved initially through further expansion into the prime and super-prime segments of the lending markets in which we already operate. This strategy is made possible through the significantly reduced cost of funding provided by retail deposits and these interest expense savings will enable us to offer the finance terms that are typical in those segments. This is a low risk execution of our growth strategy, as we will be operating in business areas in which we already have invaluable experience and existing origination channels. With a small existing market share and the banking licence providing a more equal footing with our major competitors, we see great opportunity in both consumer motor finance and SME asset finance. Over time, this organic growth strategy will be supplemented with diversification into new asset classes through corporate activity or potentially the acquisition of specialist resource in new sectors. Our current focus is on refining our credit model, automating processes and defining the terms of business for our expansion into the prime market.

In this six months period, new business originations increased by 13% to £35 million (2016 – £31 million). The strongest growth was in SME asset finance where we were best able to match credit quality criteria with our yield expectations based on the existing, more expensive funding model. The current portfolio sizes are consumer motor finance at £69 million (2016 – £64 million) and SME asset finance at £59 million (2016 – £48 million). There has been no change in risk appetite or compromise on credit quality.

The Group does not offer Personal Contract Purchase ('PCP') and hence is unaffected by the recent negative press comment regarding the car finance market and specifically that product. We are not, therefore, exposed to the inherent residual risk in that type of contract or vulnerable to the criticisms being made about mis-selling and poor underwriting practices for this product. We have operated in the car finance market for 20 years and have an in-depth knowledge of the risk factors, in addition to the experience of successfully administering a portfolio in difficult economic circumstances historically. We finance predominantly used vehicles on fully amortising hire purchase contracts and apply appropriate underwriting standards by taking into consideration loan-to-value, credit status, age of vehicle and affordability to assess and price risk. We are regulated by the FCA for consumer credit lending and we maintain a well-diversified portfolio of quality receivables which has in the past performed well at all points of the credit cycle.

## **Staff**

I would like to thank the whole PCF team who continue to deliver excellent results while undertaking the considerable task of building a bank. Their commitment, skill and relentless dedication continue to be the foundation to our success.

## **Current trading and outlook**

New business levels remain buoyant and we achieved a record month for new business originations in May 2017. There are competitive pressures in both our chosen markets and while economic uncertainty exists over the General Election, falling real incomes and the Brexit negotiations, we feel that these risks are being mitigated by our prudent and disciplined approach to lending. With a small market share, a focus on delivering excellent customer service and the upcoming ability to fund through retail deposits, the outlook for growth in both our markets is favourable.

We have delivered strong profits for the first six months, while putting in place the bank infrastructure to implement our strategy to deliver significant portfolio scale, further profitability growth and enhanced shareholder value. The long-term growth prospects of the Group are excellent and we look to the future with great confidence.

**T A Franklin**  
Chairman

6 June 2017

## Group Statement of Profit and Loss and Other Comprehensive Income for the six months ended 31 March 2017

	Six months ended 31 March 2017 unaudited £'000	Six months ended 31 March 2016 unaudited £'000	18 months period ended 30 September 2016 audited £'000
Interest income and similar income	9,697	9,070	22,419
Interest expense and similar charges	(4,545)	(4,215)	(7,542)
<b>Net interest income</b>	<b>5,152</b>	<b>4,855</b>	<b>14,877</b>
Fees and commission income	258	208	677
Fees and commission expense	(336)	(262)	(847)
<b>Net fee and commission expense</b>	<b>(78)</b>	<b>(54)</b>	<b>(170)</b>
Fair value loss on financial instruments	(4)	3	2
<b>Net operating income</b>	<b>5,070</b>	<b>4,804</b>	<b>14,709</b>
Administration expenses	(3,049)	(2,472)	(7,996)
Impairment losses on financial assets	(305)	(565)	(1,586)
<b>Profit before taxation</b>	<b>1,716</b>	<b>1,767</b>	<b>5,127</b>
Income tax charge	(347)	(353)	(1,106)
<b>Profit after taxation, being total comprehensive income, attributable to owners</b>	<b>1,369</b>	<b>1,414</b>	<b>4,021</b>
Earnings per 5p ordinary share – basic	0.8p	0.9p	3.2p
Earnings per 5p ordinary share – diluted	0.8p	0.9p	2.6p
<b>Underlying adjustments</b>			
<b>Profit before taxation</b>	<b>1,716</b>	<b>1,767</b>	<b>5,127</b>
Banking costs	553	197	506
<b>Underlying profit before taxation</b>	<b>2,269</b>	<b>1,964</b>	<b>5,633</b>
Income tax charge	(458)	(394)	(1,212)
<b>Underlying profit after taxation, being total comprehensive income, attributable to owners</b>	<b>1,811</b>	<b>1,570</b>	<b>4,421</b>

# Group Balance Sheet

at 31 March 2017

	Six months ended 31 March 2017 unaudited £'000	Six months ended 31 March 2016 unaudited £'000	18 months period ended 30 September 2016 audited £'000
<b>Assets</b>			
Cash and balances at central banks	1,993	84	5,904
Loan and advances to customers	127,590	112,270	121,960
Derivative financial assets	-	-	-
Property plant and equipment	304	108	147
Intangible assets	2,058	811	764
Deferred tax assets	1,338	1,326	1,424
Trade and other assets	362	171	503
<b>Total assets</b>	<b>133,645</b>	<b>114,770</b>	<b>130,702</b>
<b>Liabilities</b>			
Bank overdraft	-	675	-
Due to banks	104,042	89,293	103,305
Derivative financial liabilities	-	404	491
Trade and other liabilities	2,251	1,475	2,199
<b>Total liabilities</b>	<b>106,293</b>	<b>91,847</b>	<b>105,995</b>
<b>Equity</b>			
Share capital	8,506	7,708	7,956
Share premium account	558	-	174
Other reserves	-	(303)	(373)
Own shares	(355)	(305)	(305)
Retained earnings	18,643	15,823	17,255
<b>Total equity</b>	<b>27,352</b>	<b>22,923</b>	<b>24,707</b>
<b>Total equity and liabilities</b>	<b>133,645</b>	<b>114,770</b>	<b>130,702</b>

## Group Statement of Changes in Equity

for the six months ended 31 March 2017

	Six months ended 31 March 2017 unaudited £'000	Six months ended 31 March 2016 unaudited £'000	18 months period ended 30 September 2016 audited £'000
<b>Total comprehensive income for the period</b>	<b>1,369</b>	1,414	<b>4,021</b>
New share capital subscribed	<b>934</b>	89	<b>9,011</b>
Share-based payments	<b>19</b>	16	<b>37</b>
Issue of own convertible debt	<b>(50)</b>	-	-
Transfer to distributable reserves from derivative instruments	<b>373</b>	-	-
Fair value gain/(loss) on cash flow hedges	-	(85)	<b>(220)</b>
<b>Net addition to shareholders' funds</b>	<b>2,645</b>	1,432	<b>12,849</b>
Opening shareholders' funds	<b>24,707</b>	21,491	<b>11,858</b>
<b>Closing shareholders' funds</b>	<b>27,352</b>	22,923	<b>24,707</b>

## Notes to the Interim Report

1. The interim results are unaudited and do not constitute statutory accounts as defined by section 434 of the Companies Act 2006. The comparative figures for the 18 months period ended 30 September 2016 are based on the statutory accounts of the Group for that period and have been reported on by the Group's auditor and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 498 of the Companies Act 2006.
2. The interim results have been prepared on the basis of the accounting policies set out in the Annual Report & Financial Statements for the 18 months period ended 30 September 2016.
3. These accounts are reported for the first time in banking format with the main differences in the presentation being:
  - gross profit is reported as 'interest income and similar income' with a small element reported in the 'fees and commission income'
  - banking facilities fees and broker commission fees are moved from administration expenses to 'fees and commission expenses'
  - impairment losses are separately disclosed from administration expenses
4. These interim consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union.
5. The Group operates in the principal areas of consumer finance for motor vehicles and business finance for vehicles, plant and equipment. All revenue is generated in the United Kingdom.

Profit on ordinary activities before taxation and loan loss provisioning charge are detailed below:

	Six months ended 31 March 2017 unaudited £'000	Six months ended 31 March 2016 unaudited £'000	18 months period ended 30 September 2016 audited £'000
Consumer finance	927	1,024	2,695
Business finance	789	743	2,433
<b>Profit on ordinary activities before taxation</b>	<b>1,716</b>	<b>1,767</b>	<b>5,127</b>
Consumer finance	(146)	(327)	(1,036)
Business finance	(159)	(238)	(550)
<b>Loan loss provisioning charge</b>	<b>(305)</b>	<b>(565)</b>	<b>(1,586)</b>

6. Administration expenses includes £553,000 of one-off costs relating to the set-up of a new bank (2016 – £197,000). The costs of software and infrastructure have been included in property, plant and equipment and other intangible assets.
7. The income tax rate is 20%, representing the best estimate of the annual effective tax rate applied to operating profit before tax for the six months period.

8. The calculation of basic earnings per ordinary share for the six months period ended 31 March 2017 is based on a profit of £1,369,156 for the period on 170,124,102 ordinary shares, being the weighted average number of ordinary shares in issue during the period. There were no convertible loan notes in issue during the period.

The calculation of basic earnings per ordinary share for the six months period ended 31 March 2016 is based on a profit of £1,413,753 for the period on 154,162,846 ordinary shares, being the weighted average number of ordinary shares in issue during the period. The calculation of diluted earnings per ordinary share is based on a profit of £1,501,267 for the period, before deducting interest on the convertible loan notes of £87,514, on 170,378,200 ordinary shares, being the dilutive weighted average number of ordinary shares in issue during the period.

The calculation of basic earnings per ordinary share for the 18 months period ended 30 September 2016 is based on a profit of £4,020,756 for the period on 124,288,560 ordinary shares, being the weighted average number of ordinary shares in issue during the period. The calculation of diluted earnings per ordinary share is based on a profit of £4,466,130 for the period, before deducting interest on the convertible loan notes of £445,374, on 170,378,200 ordinary shares, being the dilutive weighted average number of ordinary shares in issue during the period.

9. In other reserves, the Group adopted hedge accounting for derivative financial instruments. The hedging reserve includes the effective portion of the change in fair value of cash flow hedging instruments. These derivative financial instruments matured on 31 March 2017 and during the six months period the cash flow hedge reserve balance transferred to distributable reserves.





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