Private & Commercial Finance

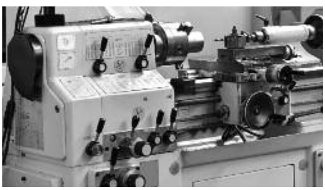
Interim Report 2016

Private & Commercial Finance Group plc







2016

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

Contents

Company Information

Directors	**D G Anthony** *Non-executive Chairman* **D J Morgan** *Non-executive* **A N Nelson** *Non-executive* **N P D Winks** *Non-executive* (resigned 30 October 2015) **A J Brook** *Non-executive* (appointed 1 December 2015) **M F Brown** *Non-executive* (appointed 1 December 2015) **S D Maybury** *Chief Executive* **R J Murray** *Managing Director* **Z R Kerse** *Finance Director* (resigned 31 July 2015) **D R Bull** *Finance Director* (appointed 3 August 2015)
Company Secretary	**R J Murray**
Registered Office	Pinners Hall 105-108 Old Broad Street London EC2N 1ER
Registered Number	02863246
Auditors	**Ernst & Young LLP** 1 More London Place London SE1 2AF
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	**Tavistock Communications Limited** 131 Finsbury Pavement London EC2A 1NT

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*

Chairman's Statement
for the twelve months ended 31 March 2016

Our profits have grown for the fifth year in succession since we reported a pre-tax profit of £455,000 in 2011 and impairments have reduced every year. Profit before tax increased by 57% to £3.3million (2015 – £2.1million) and profit after tax increased by 63% to £2.6 million (2015 – £1.6million). These improvements in profitability are the result of further operational gearing following a 12% increase in the portfolio to £112 million (2015 – £100 million), containment of administrative expenses and a further reduction in impairment charge. As a result, our operating profit margin increased to 16.1% (2015 – 14.9%).

Adjusted profit before tax for the twelve months ended 31 March 2016 increased by 67% to £3.5 million (2015 – £2.1million). Adjusted profit before tax is reported after adding back £224,100 of costs relating to our banking licence application (2015 – £nil). In March, we changed our Accounting Reference Date from 31 March to 30 September in order to align it with that of our majority shareholder, Bermuda Commercial Bank Limited. These results therefore represent the second set of interim results in an eighteen month period which will end on 30 September 2016.

Fully diluted earnings per share increased by 38% to 1.8p (2015 – 1.3p) leading to a fully diluted after tax Return on Equity ('ROE') of 13.9% (2015 – 10.2%). Our other key performance measure of Return on Average Assets ('ROAA') exceeded internal targets, increasing by almost 50% to 3.1% (2015 – 2.2%). In the short-term we have reset these targets at 12.5% and 2.5% respectively as we add infrastructure costs, staff resource and capital to our business in preparation for becoming a bank.

The Group has continued to make good progress during the current financial period, with our portfolio providing strong profitability gains. The financial results achieved for the twelve months ended 31 March 2016 give cause for optimism for the future.

Funding and banking licence application
We were invited to submit our formal application for a banking licence to the regulatory authorities on 13 May 2016 following extensive consultation with them. The application is currently being evaluated for completeness and we expect a response imminently. A complete application is then subject to assessment and a decision within a statutory deadline period of six months from the date of submission. Once the licence is granted, we will enter a mobilisation phase when the Group will put in place the operational infrastructure, risk and governance framework and balance sheet which we outlined in our application. Some of the mobilisation work can be done in advance of the licence being granted and, in particular, work has already commenced on the technology platform. This mobilisation phase is a detailed project plan covering a period up to summer 2017. We will provide regular updates on our progress as we move towards achieving this key strategic objective.

The Group has £117 million (2015 – £112 million) of committed borrowing facilities, of which 21% (2015 – 22%) is committed headroom, available for new business origination and further portfolio growth. This headroom is sufficient to deliver our budgeted organic growth plans up to completion of the mobilisation phase of the banking project.

Portfolio and balance sheet
New business originations increased by 13% to £63 million (2015 – £56 million) with 14% of those originations coming from direct sources, up from 12% in the previous period. New business growth was ahead of the previous period and, most importantly, was achieved without a weakening of our underwriting criteria or portfolio quality. Growth in business finance lending increased by 24% (2015 – 11%) and again outperformed consumer lending growth of 5% (2015 – 16%). This is consistent with sector research which shows that SMEs are increasingly turning to asset finance as an alternative to high street bank lending due to the speed of service, flexibility and the experience offered by a specialist lender.

In January 2016 all three Group subsidiaries received their full permissions from the Financial Conduct Authority to conduct consumer credit related activities.

Our portfolio of receivables increased by 12% to £112 million (2015 – £100 million) in the period and is comprised of over 11,000 customers, highlighting a wide and diverse spread of risk. Our largest customer accounted for only 0.5% of the total portfolio.

Portfolio quality continues to improve. The performance of the portfolio is ahead of internal targets with the loan loss provisioning charge falling to £1.2 million (2015 – £1.5 million), which represents a charge-off rate of 1.1% (2015 – 1.6%). With the quality of originations being maintained, the portfolio should continue to perform well, not least because we now have £26.5 million (2015 – £23.6 million) of unearned finance income on the balance sheet, which provides a certainty of earnings for future periods.

Balance sheet gearing continues to fall and now stands at 3.8x (2015 – 7.4x). This trend will continue as the remaining £1 million of convertible unsecured loan notes are expected to convert to equity on the final maturity date of 30 September 2016. The fully diluted net asset value per share increased to 14.3p (2015 – 12.8p) and the net assets of the Group increased to £22.9 million (2015 – £11.8 million) following the conversion last September of all loan notes held by Bermuda Commercial Bank Limited.

In the period, the Share Premium Account and Capital Reserve were reclassified to distributable profits which completed our preparations to pay a dividend. The Board is committed to returning to the dividend list and, following the change in our Accounting Reference Date, a final dividend will be recommended based on the results for the financial period ending 30 September 2016.

Staffing

We are fortunate to have committed and highly skilled staff. The average tenure is 7½ years and this experience will be of great benefit as we add new staff with the creation of the bank. I would like to thank them for their continued effort over the period.

Current trading and outlook

These results represent a strong performance over the last twelve months and are well ahead of market expectations set at the beginning of the period. Competitive pressures exist in both our markets but new business originations remain robust and we are determined to maintain our standards in relation to collateral, risk and terms of business.

We do not expect the forecasted lower economic growth and political uncertainty over EU membership to undermine our strategy over the remainder of this financial period and remain well placed to deliver continued growth in our portfolio and profits. It is, however, the opportunities of becoming a bank that present excellent long-term growth prospects for the Group and we look to the future with confidence.

David G Anthony
Chairman

9 June 2016

Independent Review Report to Private & Commercial Finance Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the Interim Report for the twelve months ended 31 March 2016, which comprises the Group Income Statement, Group Statement of Comprehensive Income, Group Balance Sheet, Group Statement of Changes in Equity, Group Statement of Cash Flows and Related Notes 1 to 10. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Interim Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with International Accounting Standards 34, 'Interim Financial Reporting', as adopted by the European Union.

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with IFRSs, as adopted by the European Union. The condensed set of financial statements included in this Interim Report has been prepared in accordance with International Accounting Standards 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Interim Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Report for the twelve months ended 31 March 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union.

Ernst & Young LLP
London

Group Income Statement

for the twelve months ended 31 March 2016

	Twelve months ended 31 March 2016 unaudited £'000	Year ended 31 March 2015 audited £'000
Group turnover	51,262	**45,293**
Cost of sales	(36,123)	**(31,846)**
Gross profit	15,139	**13,447**
Administration expenses	(6,875)	**(6,686)**
Operating profit	8,264	**6,761**
Interest receivable	5	**4**
Interest payable	(4,977)	**(4,666)**
Profit on ordinary activities before taxation	3.292	**2,099**
Income tax expense	(659)	**(485)**
Profit on ordinary activities after taxation	2,633	**1,614**
Profit for the period attributable to equity holders	2,633	**1,614**
Earnings per 5p ordinary share – basic	2.5p	**3.0p**
Earnings per 5p ordinary share – diluted	1.8p	**1.3p**

Group Statement of Comprehensive Income

for the twelve months ended 31 March 2016

	Twelve months ended 31 March 2016 unaudited £'000	Year ended 31 March 2015 audited £'000
Profit for the period	2,633	**1,614**
Cash flow hedges – fair value (losses)/gains	(220)	**(303)**
Income tax effect	44	**63**
	(176)	**(240)**
Total comprehensive income for the period	2,457	**1,374**

Group Balance Sheet
as at 31 March 2016

	31 March 2016 unaudited £'000	31 March 2015 audited £'000
Non-current assets		
Goodwill	397	**397**
Other intangible assets	414	**514**
Property, plant and equipment	108	**105**
Loans and receivables	73,529	**63,680**
Derivative financial instruments	–	**–**
Deferred tax	1,326	**1,694**
	75,774	**66,390**
Current assets		
Loans and receivables	38,741	**36,149**
Trade and other receivables	171	**1,134**
Corporation Tax	–	**–**
Cash and cash equivalents	84	**139**
	38,996	**37,422**
Total assets	114,770	**103,812**
Current liabilities		
Interest-bearing loans and borrowings	71,204	**10,733**
Trade and other payables	1,475	**1,643**
Derivative financial instruments	51	**22**
Corporation Tax	–	**176**
Bank overdrafts	675	**703**
	73,405	**13,277**
Non-current liabilities		
Derivative financial instruments	353	**156**
Interest-bearing loans and borrowings	18,089	**78,521**
	18,442	**78,677**
Total liabilities	91,847	**91,954**
Net assets	22,923	**11,858**
Capital and reserves		
Issued share capital	7,708	**2,656**
Share premium	–	**4,398**
Capital reserve	–	**3,873**
Other reserves	(303)	**(127)**
Own shares	(305)	**(305)**
Profit and loss account	15,823	**1,363**
Shareholders' funds	22,923	**11,858**

Group Statement of Changes in Equity

for the twelve months ended 31 March 2016

	Twelve months ended 31 March 2016 unaudited £'000	Year ended 31 March 2015 audited £'000
Total comprehensive income for the period	2,457	**1,374**
New share capital subscribed	8,589	**8**
Share-based payments	19	**14**
Issue of own convertible debt	–	**50**
Net addition to shareholders' funds	11,065	**1,446**
Opening shareholders' funds	11,858	**10,412**
Closing shareholders' funds	22,923	**11,858**

Group Statement of Cash Flows

for the twelve months ended 31 March 2016

	Twelve months ended 31 March 2016 unaudited £'000	Year ended 31 March 2015 audited £'000
Cash flows from operating activities		
Profit before taxation	3,292	**2,099**
Adjustments for:		
Amortisation of other intangible assets	187	**184**
Amortisation of issue costs	136	**136**
Depreciation	35	**29**
Share-based payments	19	**14**
Fair value movement on derivative financial instruments	(3)	**(18)**
Increase in loans and receivables	(12,441)	**(11,174)**
Decrease/(increase) in trade and other receivables	963	**(203)**
(Decrease)/increase in trade and other payables	(160)	**331**
Cash flows used in operating activities	(7,972)	**(8,602)**
Tax (paid)/received	(422)	**35**
Net cash flows used in operating activities	(8,394)	**(8,567)**
Cash flows from investing activities		
Purchase of property, plant and equipment	(38)	**(83)**
Proceeds from sale of property, plant and equipment	–	**33**
Purchase of other intangible assets	(87)	**(52)**
Net cash flows used in investing activities	(125)	**(102)**
Cash flows from financing activities		
Issue of own convertible debt	–	**50**
Net proceeds from borrowings	8,492	**8,842**
Net repayments of borrowings	–	**(741)**
Net cash flows from financing activities	8,492	**8,151**
Net decrease in cash and cash equivalents	(27)	**(518)**
Cash and cash equivalents at beginning of the period	(564)	**(46)**
Cash and cash equivalents at end of the period	(591)	**(564)**
Cash at bank	84	**139**
Bank overdrafts	(675)	**(703)**
	(591)	**(564)**
The amount of interest paid during the period	4,971	**4,694**

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 year ended 31 March 2015 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 twelve months ended 31 March 2015.
3. These Interim Consolidated Financial Statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union.
4. The Group's turnover represents gross rentals and instalments from the hire, financing and sale of equipment, and the provision of related fee-based services, stated net of Value Added Tax.
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.

   Turnover, profit on ordinary activities before taxation and loan loss provisioning charge are detailed below.

	Twelve months ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Consumer finance	26,939	**24,270**
Business finance	24,323	**21,023**
Group turnover	51,262	**45,293**
Consumer finance	2,209	**1,257**
Business finance	1,083	**842**
Profit on ordinary activities before taxation	3,292	**2,099**
Consumer finance	(754)	**(1,060)**
Business finance	(456)	**(486)**
Loan loss provisioning charge	(1,210)	**(1,546)**

   The central costs reported in previous years have been absorbed in the business units and the previous year's have been restated.

6. The income tax rate is 20%, representing the best estimate of the annual effective tax rate applied to operating profit before tax for the twelve months period.
7. The calculation of basic earnings per ordinary share is based on a profit of £2,633,234 for the period on 106,739,647 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 profit of £3,001,750 for the period, before deducting interest on the convertible loan notes of £368,516, on 170,378,202 ordinary shares, being the dilutive weighted average number of ordinary shares in issue during the period.

8. The Group's loans and receivables portfolio of £112,270,416 is reported net of unearned future finance income of £26,464,337.

9. On 18 November 2015, following the resolutions passed at the Annual General Meeting, the Company transferred £7,934,590 from the Share Premium Account and £3,873,467 from the Capital Reserve Account to the Profit and Loss Account. The legal mechanism to reclassify the Share Premium Account and Capital Reserve to distributable profits was approved by the court, which completed the preparations necessary to pay a dividend.

10. The 2016 Interim Report will be posted to all shareholders and convertible loan note holders on 13 June 2016. Further copies can be obtained from the Company Secretary at Pinners Hall, 105–108 Old Broad Street, London EC2N 1ER or can be downloaded from our website, *www.pcfg.co.uk*

Avocette Limited, London

Private & Commercial Finance

Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER
T 020 7222 2426   F 020 7222 2985   customerservices@pcfg.co.uk
www.pcfg.co.uk