CITY INSIGHTS

PRIVATE & COMMERCIAL FINANCE GROUP

www.pcfg.co.uk

COMPANY UPDATE

28 FEBRUARY 2017

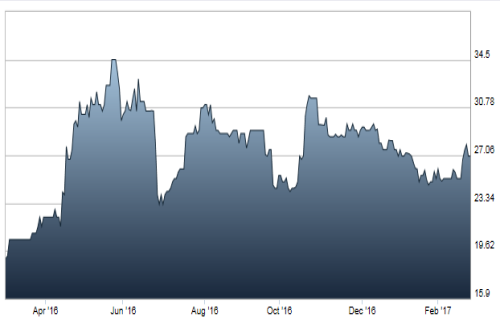
Private & Commercial Finance

Final results for the 18 months ended 30 September, a change in accounting period and end year date, showed improved results on all metrics, evidence of a sound business model with scalability now to be achieved as a result of the grant of a banking licence (announced 6 December). Future growth of the business will increasingly be based on retail deposits. The required bank systems and infrastructure are to be installed over the next six months. A strengthened tier 1 capital ratio will be sought via a capital raise in the near future. Confidence in the business justifies a return to the dividend list with a recommended final dividend of 0.1p.

KEY INFORMATION

EPIC	PCF.L
Market	AIM
Sector	Financial Services
Share price (p)	27.00
12m high/low (p)	35.00-18.58
Issued shares (m)	170.1
Market cap (£m)	45.9m
NOMAD/Broker	Panmure Gordon
Joint broker	Stockdale Securities

SHARE PRICE GRAPH



GROUP DESCRIPTION

PCFG is a specialist finance Group providing instalment credit for consumer motor vehicle purchase and HP/finance leases for vehicles, plant and equipment for SMEs. The focus is on portfolio growth with increased profitability at larger scale and maintained credit quality. Business is largely broker originated with proposals evaluated by in-house underwriters. PCFG has received approval from the FCA/PRA.for its banking licence and is now creating the required systems and infrastructure. Retail deposits will be attracted from summer 2017.

FINANCIAL CALENDAR

AGM & Trading Update	10 Mar '17
Half year end	31 Mar '17
Interim results	To be advised

- Results expressed for the pro forma 12 month period ended 30 September show a 38% underlying profit before tax increase to £4.0m (2015: £2.9m). That is before costs of £0.5m for the banking licence application. Fully diluted EPS for the 12 months period rose 13% to 1.8p (2015: 1.6p). New business volumes increased by 14% to £68.4m (2015: £59.9m) while the total loan portfolio rose 13% to £122m (2015: £108m).
- Underlying performance continued to increase. Measured on average assets, the return increased to 3.1% from 2.7% in 2015. The after tax return on equity was stable at 13% on the enlarged equity base following conversion of the loan notes. After stripping out bank costs, the cost to income ratio declined from 45.3% to 42.9%, reflecting increased efficiency and operational gearing benefits.
- Growth has been driven by funding for consumer car loans (57%) and SME asset purchases (43%) on a low risk basis with most loans in the prime category. Scaling up the portfolio to c.£350m in three years implies annual compound growth over 40% in gross loans from the 2016 year end level. Further growth to c.£750m in five years is planned. On a low cost operating basis, management expect ROAA to rise to 3.5% and ROE to c.17.5% on an enlarged equity base.
- Expansive growth targets do not require or anticipate entry to new markets but enhanced capacity to fund more loans using lower cost retail deposits. The business model is assumed unchanged but retail deposits could fund two thirds of the portfolio at the end of the first five years. Retail deposits could be attracted at c.350 basis points lower than the current cost of wholesale bank funding. This will provide the means to drive volumes with no change in portfolio risk and on a conservatively assumed stable net interest margin. Operational gearing on an enlarged scale will generate further improvement.
- In the near term, conversion to bank status requires an expanded capital base within the range of £10m - £20m depending on market conditions. On the lower figure, a Tier 1 capital ratio of above 14.0% on the current portfolio of risk-weighted assets is above requirements and in line with peer group ratios.
- In the near term, PCFG will utilise bank funding to drive growth ahead of the attraction of retail deposits. The Company has £65m of headroom remaining out of committed debt facilities of £174m, including a new £83m facility agreed with Bermuda Commercial Bank, the majority shareholder. PCFG intends to maintain a balance between bank debt and retail deposits, although necessarily weighted to the latter.

Year end 30 Sept	Turnover (£m)	PBT (£m)	Dil EPS (p)	PER (x)	DPS (p)	Yield (%)
2016A#	55.8	4.0	1.8	15.0	0.10	0.4
2017E[2]	64.2	4.4	1.9	14.2	0.25	0.9
2018E[2]	82.0	5.2	2.0	13.5	0.35	1.3
2019E[2]	101.9	8.0	3.0	9.0	0.45	1.7

 # Pro forma results for the 12 months to September 2015 and 2016 are unaudited. Pre-tax profit is after adding back bank set up costs of £0.4m. 2 Average of Panmure Gordon and Stockdale forecasts.

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OPERATIONAL HIGHLIGHTS

Continued growth with improved portfolio quality...

PCFG's final results for the 18 month period to 30 September were strong, comfortably exceeding market expectations. Those results provide continued evidence of the scalability of the Company's business model and the rationale for the change of status. Putting this in context, PCFG's claimed market share in consumer motor finance, based on monthly data from trade sources, is 0.25% by new business originations. In business finance, the same approach indicates a smaller market share of c.0.18%.

...but management's primary focus is on profitability

Highlights of the results and key numbers were:

- 18 month underlying profit before tax of £5.6m before charging £0.5m of bank set-up costs;
- 12 months pro forma underlying profit before tax up 38% to £4.0m (2015: £2.9m);
- New business volumes up by 14% to £68.4m for the 12 months to 30 September 2016;
- Total portfolio growth of 13% to £122.0m (2015: £108m);
- ROAA up 40 basis points to 3.1% (2015: 2.7%);
- Fully diluted after tax ROE flat at 13.0% (2015: 12.9%) on an enlarged equity base.

...across all parts of the business

Disaggregating the performance of the operating divisions shows faster growth of the Business Finance division in the latest 12 months period with a substantially improved pre-tax profit margin.

Divisional revenue and profit performance

Period ended 30 September	12 months	12 months	18 months	Change (%)
Fig's in £'000	2015	2016	2016	12mths/12/mths
Consumer Finance				
Turnover	25,772	27,787	40,891	7.8
Pre-tax profit	1,785	1,795	2,695	0.6
Margin (%)	*6.9*	*6.5*	*6.6*	
Business Finance				
Turnover	22,636	27,981	36,925	23.6
Pre-tax profit	1,004	1,807	2,433	80.0
Margin (%)	*4.4*	*6.5*	*6.6*	
Group turnover	**48,408**	**55,768**	**77,816**	15.2
Pre-tax -profit	**2,789**	**3,592**	**4,218**	28.8
Margin (%)	*5.8*	*6.4*	*5.4*	
Loan loss provisioning charge				
Consumer finance	(975)	(609)	(1,036)	(37.5)
Business finance	(306)	(381)	(550)	24.5

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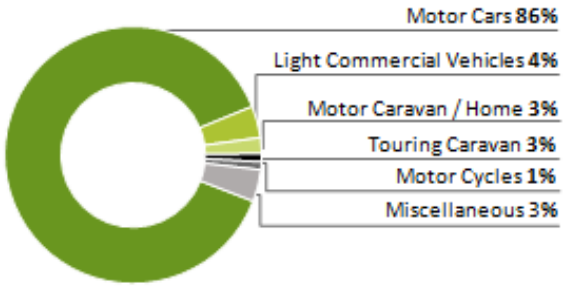
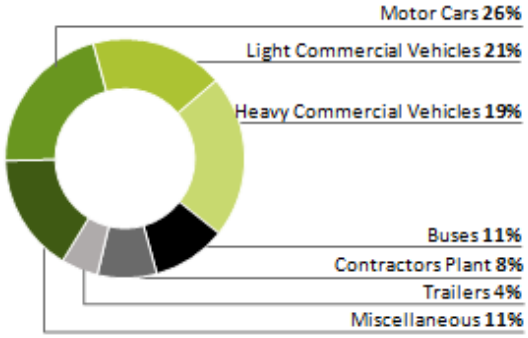
PCFG's niche is vehicle loans

The core business on the consumer side is represented by loans for new car purchase. On the business side, about two-thirds of SME loans are for cars and commercial vehicles. The asset class is disaggregated by PCFG as shown below. Vehicles provide good collateral and PCFG takes no residual value risk, all agreements being either full payout leases or hire purchase contracts. Commercial risk is minimised by low transaction size (average loan from inception is £11,500 in consumer and £26,000 in business finance) and a large and diverse customer base. Exposure to any single customer was no greater than £700,000 in the year which represented 0.65% of the total portfolio.

Consumer Finance Division



Business Finance Division



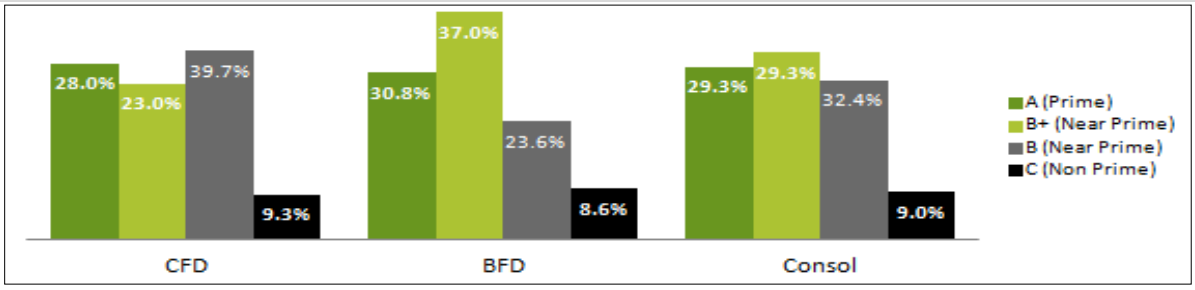
Source: Private & Commercial Finance Group

Business finance has showed faster growth in a catch up phase

As at the 30 September, PCFG had over 8,500 private customers owing £70m (average debt of £8,235 outstanding) while, on the SME side, there were over 2,700 accounts totalling £52m with an average debt outstanding of £19,259. Both divisions primarily use a broker-led system to generate business although a small proportion comes directly from returning customers. New consumer loan originations totalled £37m, up 8% in the 12 months to 30 September. New car registrations enjoyed a strong 2016 which underpinned performance. On the business side, new loans increased 24% to £31m, this faster growth partly reflecting a catch up on the slower growth of the previous year.

Credit quality at least maintained...

PCFG is seeking to maintain loan quality and has not sacrificed this to boost lending. As shown on the bar chart below, 58% of the portfolio falls within the top two credit grades, prime and near prime. This has changed little over recent periods. The importance of this is to manage default risk and overall credit quality.



Source: Private & Commercial Finance Group

...with impaired loans now down to 6% and falling

Latest data on the credit quality of the gross portfolio (i.e. before the deduction for unearned income for later periods) is shown below. Over 90% of the gross portfolio is neither past due nor impaired while, at the bottom end, the impaired portfolio is now down to 6.0% of the portfolio, £9.2m in absolute terms. While 42% of that figure is covered by a loan loss provision (£3.9m), collections of the outstanding amount are improving through charging orders and revised payment arrangements. The loan loss provisioning charge continues to decline. As a percentage of the average portfolio for the period, the charge for the 12 months to 30 September 2016 was 1.4% compared with 2.1% in the comparative period of 2015.

Credit quality breakdown

Figures in £m	Mar-13	Mar-14	Mar-15	Mar-16	Sep-16
Neither past due nor impaired	82.9	96.6	114.2	128.3	139.7
As % of gross loans & receivables	*79.7*	*84.8*	*89.5*	*90.0*	*90.7*
Past due but not impaired	3.7	3.9	2.9	4.9	5.1
As % of gross loans & receivables	*3.6*	*3.4*	*2.3*	*3.4*	*3.3*
Impaired	17.4	13.4	10.5	9.3	9.2
As % of gross loans & receivables	*16.7*	*11.8*	*8.2*	*6.5*	*6.0*
Gross loans and receivables	**104.0**	**113.9**	**127.6**	**142.5**	**154.0**

THE PROSPECTS

Assessment of PCFG's prospects can be analysed under four main heads:

- **Business model**: PCFG's business model and how this may adjust;
- **Bank status**: The change in status and how it achieves full authorisation;
- **Growth targets**: PCFG's ambitious growth and feasibility of the profitability targets;
- **Environment**: The business environment and how it is evolving.

1. BUSINESS MODEL

PCFG to expand its existing business...

Scale and not the business model is what is expected to change over the medium and longer terms. Despite its new bank status, PCFG does not see itself as a challenger bank. Management emphasise that current business is what they do well and therefore they will build on this. The intention is not to branch out in a variety of new directions which, however, does not preclude some innovative expansion around the edges. PCFG has stated that 'once the bank is established it will review its options for extending the range for financial products'. This may include lending on other asset classes for which longer term loans than currently allowed are required.

...but growth targets could not be achieved with bank funding alone

The above point is important. Existing bank facilities are for restricted time periods, and generally not longer than four years. Existing wholesale loans can also be terminated. They are not guaranteed forever. This poses a restriction on PCFG's ambitious growth targets. They could not be achieved with bank funding alone. PCFG has secured additional finance of £83m from Bermuda Commercial Bank, its largest shareholder.

2. BANK STATUS

Mobilisation route provides a certain outcome if all requirements are met

PCFG has elected for the 'mobilisation route' to full authorisation. Under PRA guidelines, this is suitable for start-up banks which it states 'may not have the upfront investment, or need time to build IT systems, infrastructure, recruit staff or engage with third-party suppliers'. Mobilisation is an alternative route to becoming a fully operational bank because it permits a new bank to get authorisation at an earlier stage with lower costs, albeit with limitations on the amount of business it can undertake. Mobilisation may be referred to as 'Authorisation with Restriction'.

Operating costs are expected to be c.£1.5m higher

The advantage for PCFG is that there is an agreed plan and certainty of outcome with full operational status within twelve months provided that the Company carries out all recruitment and necessary infrastructure investments. That said, however, PCFG has set a more ambitious time frame of summer 2017. The additional costs are expected to be around £2.5m, much of it in additional depreciation on IT systems and therefore spread over several years. On an annual basis, the operating cost base is expected to be £1.5m higher due to additional staffing and depreciation charges.

The agreed fully worked business plan also covers capital and liquidity assessment

The plan agreed with the PRA has two main components:

- A fully developed viable and sustainable plan for the business including a financial resources plan and financial projections for the first five years;
- Within financial resources, an indication that minimum capital requirements are in place along with fully developed internal processes for assessing capital and liquidity adequacy.

£100m of retail deposits may be achievable in 2017

A marketing plan is in place to attract retail deposits from summer 2017. No target figure has been published but a reasonable expectation is c.£100m in the following twelve months assuming a loan portfolio of around £200m by the end of financial 2018 and continuation of the current favourable business environment. PCFG's target market will generally be consumer groups in older, higher income categories with an average account balance of c.£40,000. Different deposit terms may be offered but the preference is likely to be for two to five years with a 100 day notice account.

3. GROWTH TARGETS

PCFG has set ambitious targets with no reduction in loan quality ...

PCFG's targeted growth looks ambitious. The key metrics have been set out as follows:

- 3 years: Portfolio of £350m, ROAA 2.5% and ROE after tax 12.5%;
- 5 years: Portfolio of £750m, ROAA 3.5m and ROE after tax 17.5%.

Performance metrics dip in the first three years because of the required capital infusion, a £10m-£20m equity raise in the near term. The £750m portfolio at the end of five years is assumed to be financed two-thirds by retail deposits although this is an approximation. PCFG may also use securitisation of part of its existing loan portfolio (a package of at least £150m would be needed) to fund further growth. Importantly, the growth targets do not envisage any diminution of loan quality by, for example, offering loans at higher LTVs than currently apply. The average is c.104% at inception and the maximum is unlikely to exceed 110%.

...and growth targets start from a low base	The performance metrics start from a very low base which makes them more achievable. The implied annual compound growth rate of pre-tax profit to achieve these targets is comfortably in excess of 30% through to the end of 2019. If the tax rate is assumed to be 20% and the average portfolio £300m, that would produce the required ROAA of 2.5%. ROE might be higher than the targeted 2.5%, but this is a matter of timing. The dilution effect of the capital raise could come earlier in 2017 and 2018.
Scale benefits should achieve a quantum leap in profitability...	If PCFG achieves a quantum leap in raising retail deposits of c.£500m by the end of year five, that implies £250m financed by a mix of bank funding and other sources including securitisation. The ROAA and ROE targets associated with business on this scale indicate pre-tax profits on a multiple of approaching seven times the current level. This is not unrealistic given the scale benefits of a portfolio six times larger.
... and with some improvement in the NIM...	Management emphasise that the cost base will remain tight, there are no legacy costs other than the rundown of earlier impaired debt, and improved profitability will not come from an improved net intrinsic margin (NIM). That may be too conservative. Current savers' rates for fixed term deposits vary from 1.4% for one year up to around 2.0% for five years from providers such as Atom, Paragon and Masthaven. PCFG may not have to offer much above this competition to attract five year deposits, and its weighted cost of funds could gradually decline to 3.6% on the basis of a one-third/two-thirds split between wholesale bank funding (currently at c.6%) and five year retail deposits at, say, 2.5%. That would improve average funding costs by more than 250 basis points.
...despite access to super prime borrowers lowering the average yield	As the intention is to extend lending to the super-prime segment at lower interest rates than currently on offer, the average interest charged will dip below the current rate of approximately 12% in the short term. Management do not expect new super-prime entry to make a significant difference to yields. The advantage on the funding side will be partly offset by lower interest earned on a superior quality portfolio.
The NIM should be well within peer group range	On the pro forma figures, PCFG's NIM is a little above 3% but could increase to 4.4% – 5% in the medium term. This would be well within the peer group range. It would be above Aldermore (3.6%) and One Savings Bank (3.1%) but below Shawbrook (5.6%) as was reported in the latter's Q3 Interim Management Statement.
	Other factors should provide additional margin benefit. First, an increase in direct sales (not via brokers) from returning customers has been achieved, and, secondly, a further decline should occur in loan loss provisions with quality improving at the front end, and the impaired legacy loans falling out at the other.
PCFG's performance compares well with the smaller bank peer group...	On the basis of the performance targets, PCFG should sit comfortably within its peer group. Surveys conducted by KPMG on the results achieved by the new smaller challenger banks, although only up to 2015 (work on 2016 has not been published), indicate a wide spread in operating and financial performance, but clearly superior to the mainstream banks. Importantly, new entrants, coming from a lower base, have achieved faster growth than the established high street banks and higher returns on equity.

...while its cost to income and ROE should rise as scale increases

KPMG found that the smaller new banks had superior figures than the sector average for both costs and equity returns, both reflecting their low start up positions and the fact that their business models relied on websites and digital usage. Their average cost to income ratio was 48.5% and the after tax ROE 17%. These might be considered suitable benchmarks for PCFG. The Company's own 2016 pro forma cost to income ratio was 42.9% and ROE 13%, but both are expected to improve with enlarged scale. ROE is targeted to reach 17.5% within five years, all other things remaining equal.

New banks have simpler business models and specific business niches

KPMG commented that the superior performance of the smaller new banks largely reflected their simpler and more tightly focused business models. In general, the new banks are only loosely seen as challengers to the mainstream banks. Some, like Starling and Monzo, are more akin to fintech start-ups than banks, but they do address markets not currently well served by the high street banks, such as SMEs, while some are targeting particular sub-segments of the property market such as buy-to-let. A common characteristic is that they are digital operations, readily linked to smart phones, have a lower cost base than mainstream banks (zero charges to the customer), and are focused on specific niche areas of business.

4. ENVIRONMENT

New lending by banks has run at c.£6bn a quarter

The overall market for finance appears benign with limited evidence of a setback caused by increased uncertainty post-Brexit. However, different segments of the market indicate greater diversity of experience. That of the mainstream banks in 2016 has been poorer than that of the specialist finance companies and new small banks growing from a low base. On the 1 December, BBA, the leading trade organisation for the UK banking industry, commented that an uncertain trading environment was leading to reduced or postponed investment plans and thus a lower demand for finance. Nevertheless, £5.6m was lent in Q3 of 2016 (down on the corresponding quarter of 2015) and there had been a modest expansion in net lending in the year to date. According to the BBA, approved new lending by UK banks to SMEs during 2016 has run at £6bn each quarter or £2bn per month.

...but specialist finance companies have provided more...

As evidenced by PCFG itself, and by member firms of the Finance & Leasing Association (FLA), a strong demand for both consumer and business finance during 2016 has been experienced. Firms specialising in motor finance and hire purchase and finance leases for business assets have generally done well. Reporting earlier on finance extended for new and used car purchases from dealerships by private consumers (business purchases excluded) in the month of October, the FLA indicated new car purchase volumes and values up 1% and 8% respectively. The corresponding figures were 9% and 12% respectively for used car purchases.

...especially in support for SMEs

Those figures were just for non-business purchases. Taking both into account, the FLA provides in total £9bn - £10bn per month. Figures for 2016 have not yet been published but, in 2015, the split was £81bn (74%) to consumer loans weighted heavily to cars and £29bn (26%) to SMEs. The latter SME figure shows slightly higher monthly support for SMEs than provided by the banking system.

Focus on car loans likely to maintain growth momentum...

The current emphasis on car loans provides strong underpinning for continued outperformance. Published figures from the Society of Motor Manufacturers and Traders (SMMT) show a record breaking 2016 (2.69m new registrations, up 2.3% on 2015 and the fifth year of growth). The organisation has commented that while 2017 is likely to be more challenging, based on the probable impact of higher prices due to sterling depreciation, it still expects growth based on continued low interest rates, excellent finance deals offered by dealerships and an expected seventy planned new car model launches to attract consumers in 2017.

... but the number of bank start-ups is making for a more competitive market

The number of new bank start-ups and the scaling up of those already authorised is making the market more competitive. The process of authorising new start-ups has not run its course. This is due to encouragement by the PRA and FCA which, in January 2016, jointly launched a New Bank Start-Up Unit with the aim of reducing barriers to entry for new banks, encourage competition through innovation, and to ensure that SMEs are able to secure adequate funding. On the other side, the buoyant business environment has attracted successful specialist finance companies, such as PCFG itself, to take the necessary steps towards bank status as a means of scaling up.

Expansion will not come up against market limits

Competition is therefore increasing, but may not have significant impact given that PCFG's market share is still likely to remain small. On the basis of recent figures, PCFG originates new business of £6m in an average month on a roughly 50/50 split between consumer and business. The BBA supports the SME market to the tune of c.£2bn a month, even in a bad year, while the FLA membership extends new loans to consumers and SMEs of £9bn - £10bn a month. Hence PCFG's market share currently emerges at just 0.05%. Even if PCFG expands new lending by a multiple of two or three times, that will still not make a significant difference to its market share.

Assessment supports the investment case

In summary, a reasonable assessment of PCFG's prospects, based on an established and effective business model, continuing favourable post-Brexit business environment and cash flows sufficient to permit a progressive dividend policy underpin the investment case. PCFG's sound relationship with Bermuda Commercial Bank also provides a useful backstop to moderate risk.

BROKER ESTIMATES

Target share prices anticipate significant upside

Figures on the front page are the averaged estimates from joint brokers, Stockdale and Panmure Gordon. Both have buy notes out on PCFG and both sets of estimates present pre-tax profit estimates. Bank costs are no longer regarded as exceptional from 2018 onwards when the bank will be fully operational. Stockdale expects portfolio growth to £230m at end of 2018. The estimated after tax returns on figures to be reported (bank costs included) are 2.1% for ROAA and 10.1% for the ROE (return on average equity). The broker has set a target share price of 42p. Panmure Gordon's estimates are similar with net profit after tax of £4.0m in 2018. This results in similar after tax ratios of 2.1% for the ROAA and 10.0% for the ROE. The broker has a target share price of 38p.

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FINANCIAL STATEMENTS

The income statement is as shown below for the statutory 18 months ended 30 September and the unaudited results for the 12 months to the same end date in 2016 and 2015.

Improving underlying metrics

Points to note are:

- **Turnover**: Pro forma 12 months turnover increased by 7.8%. The figure for turnover represents income from new business originated less the amount earned for a later period plus income from contracts in a previous period;
- **Gross profit**: Pro forma gross profit increased by 10% to £15.7m (2015: £14.3m) albeit with a small reduction in the gross margin related to increased competition;
- **Loan loss provision**: A reduction in the loan loss provisioning charge which, as a percentage of turnover, declined from 2.6% to 1.8% in the 12 months period;
- **Administrative expenses**: As a percentage of turnover these declined by 90 basis points due to operational gearing benefits despite banking start-up costs of £0.5m;
- **Pre-tax profit**: This increased by 28%. After adding back bank start-up costs, the pre-tax profit margin improved by 150 basis points.

INCOME STATEMENT				
Period end 30 September	12 mths #	12 mths #	18 mths	Change (%)
Figures in '000	2015	2016	2016	12mths/12mths
Consumer Finance	25,772	27,787	40,891	7.8
Business Finance	22,636	27,981	36,925	23.6
Group turnover	**48,408**	**55,768**	**77,816**	**15.2**
Cost of sales	(34,130)	(40,105)	(54,719)	17.5
Gross profit	**14,278**	**15,663**	**23,097**	**9.7**
Margin (%)	*29.5*	*28.1*	*29.7*	
Loan loss provisioning charge	1,281	990	1,586	(22.7)
As % of turnover	*2.6*	*1.8*	*2.0*	
Depreciation and amort. of other intangibles	208	232	341	11.5
Banking start-up costs	67	506	506	
Other administration expenses	5,012	5,359	7,996	6.9
Administration expenses	**6,568**	**7,087**	**10,429**	7.9
As % of turnover	*13.6*	*12.7*	*13.4*	
Profit from operations	**7,692**	**8,576**	**12,668**	**11.5**
Net finance costs	(4,903)	(4,974)	(7,540)	1.4
Profit before tax	**2,789**	**3,602**	**5,128**	**29.2**
Pre-tax profit margin before bank costs (%)	*5.9*	*7.4*	*7.2*	
Tax	(619)	(801)	(1,107)	29.4
Tax rate (%)	*22.2*	*22.2*	*21.6*	
Profit after tax	**2,188**	**2,801**	**4,021**	**28.0**
Basic EPS (p)	3.9	1.8	2.5	(53.8)
Diluted EPS (p)	1.6	1.8	1.9	12.5

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BALANCE SHEET

The abbreviated balance sheet is as shown.

BALANCE SHEET			
12 mths ended 30 September (Fig's in £'000)	2015#	2016	Change
Loans and receivables	69,079	80,997	11,918
Tangible and Intangible assets	969	911	(58)
Deferred tax assets	1,718	1,424	(294)
Non-current assets	71,766	83,332	11,566
Loans and receivables	38,427	40,962	2,535
Cash and cash equivalents	510	5,904	5,394
Other	1,043	504	(539)
Current assets	39,980	47,370	7,390
Total assets	**111,746**	**130,702**	**18,956**
Interest-bearing loans and borrowings	70,808	89,372	18,564
Other	261	439	178
Non-current liabilities	71,069	89,811	18,742
Interest-bearing loans and borrowings	17,032	13,934	(3,098)
Other	2,152	2,250	98
Current liabilities	19,184	16,184	(3,000)
Total liabilities	**90,253**	**105,995**	**15,742**
Net assets = Shareholders' funds	**21,493**	**24,707**	**3,214**

13% portfolio growth after deducting future income and loan loss provision

The table below sets out the time distribution of PCFG's portfolio of risk assets which totalled £122m at the period end. The figure of £57.7m for loans due within one year does not correspond to loans and receivables of £41m in current assets on the balance sheet. That is because the latter is after deductions for future unearned income and the loan loss provision together totalling £16.7m.

Loan Portfolio			
Year ended 30 September	2015	2016	Change (%)
Figures in £'000			
Due within 1 year	53,676	57,746	7.6
Due within 1 - 5 years	83,731	96,290	15.0
Gross loans and receivables	**137,407**	**154,036**	**12.1**
Unearned future finance income #	(25,708)	(28,196)	9.7
	111,699	**125,840**	**12.7**
Loan loss provision	(4,193)	(3,881)	(7.4)
Net loans and receivables	**107,506**	**121,959**	**13.4**
# 50% profit contribution taken in the year of the contract, then 30%, 15% and 5% in the following years.			

Undrawn debt facilities will fund growth in the near term...

Debt facilities remain important to PCFG because of the time it will take to establish the required bank infrastructure and to attract retail profits in reasonable quantity. The Company has acknowledged that its existing lenders are unlikely to provide the scale of funding required and there is a risk of some reduction. PCFG has therefore agreed a new £83m facility with its majority shareholder, the Bermuda Commercial Bank. This falls within current total committed debt facilities totalling £174m of which £109m has already been drawn. The remaining £65m of headroom should enable the Company to operate at its present rate of lending for up to a year. That is on the assumption of new business originations which totalled £68m in the 12 months to December. However, PCFG is planning to attract retail deposits from summer 2017.

...while major balance sheet adjustments provide distributable reserves...

Elsewhere on the liabilities side, two main changes have occurred with the aim of strengthening the balance sheet ahead of the change to bank status. In addition, it was planned to create distributable reserves sufficient for a return to the dividend list after an absence of thirteen years. The changes were:

- **Share premium account**: A reduction in the share premium account of £7.9m and the elimination of the £3.9m capital reserve.
- **CULS**: Conversion of the interest bearing convertible loan notes into equity. Within the 18 months period, conversion of £8.6m of CULS into 101.04m of ordinary shares added £5.0m to the equity.
- **P&L account**: An increase in the P&L account balance of £14.7m, which included £4.0m of retained profit for the 18 months period.
- **Shareholders' funds**: These ended the period £3.2m higher at £24.7m. With net debt standing at £97.4m, gearing is 3.9 times.

...and improve the capital ratio with more on the way

At the period end, PCFG's issued share capital provided a Tier 1 capital ratio of just 6.6% against portfolio risk assets. The Company now intends to take the next step of a capital raise early in 2017, expected to be in the range £10m - £20m and dependent on market conditions. This would have a substantial impact on the equity base. Given PCFG's intentions to radically scale up its business, the inevitable short term dilutive impact is not considered a disadvantage. As already noted, a £10m equity falling straight through to the balance sheet would immediately raise the Tier 1 ratio to 14.9% of risk assets as well as providing funds for the required banking infrastructure. A Tier 1 ratio of that size falls in the range noted for other small banks.

CASH FLOW STATEMENT

Expanded loan portfolio covered by financing...

On a 12 months pro forma basis, cash from operations declined from £10.4m to £9.3m reflecting the expansion of loans. No changes occurred in investing activities although 2017 may see an increase arising from new software and other infrastructure that the new bank requires. New borrowing reflected the drawdown of bank facilities both existing and from Bermuda Commercial Bank. The net effect of operating, investing and financing activities was an increase in cash of £6.5m for the 18 months and a period end balance of £5.9m.

COMPANY UPDATE

28 FEBRUARY 2017

CASH FLOW			
Period end 30 September	12 mths	12 mths	18 mths
Figures in '000	2015	2016	2016#
Profit before taxation	**2,807**	**3,602**	**5,127**
(Increase in loans and receivables	(13,622)	(14,454)	(22,130)
Other	416	1,503	1,490
Cash flows from operating activities	**(10,399)**	**(9,349)**	**(15,513)**
Tax paid	(302)	(463)	(640)
Net cash flows used in operating activities	**(10,701)**	**(9,812)**	**(16,153)**
Purchase of tangible and intangible assets	(155)	(174)	(237)
Net cash flows used in investing activities	**(155)**	**(174)**	**(237)**
Net change in borrowings	10,926	15,839	22,858
Net cash flows from financing	**10,926**	**15,839**	**22,858**
Net increase in cash and cash equivalents	**70**	**5,853**	**6,468**
Cash and cash equivalents at the start of the year	(19)	51	(564)
Cash and cash equivalents at the end of the year	**51**	**5,904**	**5,904**
# Only the results for the 18 month period are audited.			

Liquidity requirements to be set by PRA under new CRD IV guidelines

Liquidity will assume greater importance with bank status and be subject to PRA guidelines. In June 2015, the PRA issued guidelines containing the 'final' rules and supervisory statement to accommodate the introduction of the European Union Liquidity Coverage Requirement of CRD IV. Banks, building societies and investment firms were previously subject to firm-specific liquid asset buffers. These are now withdrawn. For firms such as PCFG, there will be a requirement for a formal assessment of liquidity adequacy which will be reported. It is intended that the PRA will provide explicit guidance to individual firms on maintaining liquidity buffers with the Bank of England, called 'pre-positioned collateral', in loan assets which can be pledged to the Bank.

COMPANY UPDATE

28 FEBRUARY 2017

BOARD OF DIRECTORS

NON-EXECUTIVE CHAIRMAN

Tim Franklin (appointed December 2016)

Tim has a financial services background and has worked in banking for a number of organisations for over 30 years. He is currently a non-executive at the Post Office and he is also Senior Independent Director at HM Land Registry. Tim is an Institute of Leadership and Management (ILM) qualified Level 7 Coach and works extensively with senior executives across many industries both in the UK and internationally.

NON-EXECUTIVE DIRECTOR

Anthony Nelson (appointed NED October 2008)

Tony is one of the founding directors of PCFG and a member of The Association of Corporate Treasurers. After qualifying as a solicitor, he held senior management positions with various multi-nationals, including Chief Executive of McDonnell Douglas Bank Limited from 1981 to 1993 and Chief Executive of PCFG from 1994 to 2008.

NON-EXECUTIVE DIRECTOR

David Morgan (appointed July 2012)

David has over thirty-five years' experience in international banking, starting his career at Standard Chartered Bank in Europe and the Far East and becoming Chief Executive for the UK and Europe in 1998. He left Standard Chartered in 2003 and has been involved in various business advisory and non-executive roles. David is currently a NED of Somers Limited, Bermuda Commercial Bank Limited, Waverton Investment Management Limited and Ascot Lloyd Financial Services Limited.

NON-EXECUTIVE DIRECTOR

Mark Brown (appointed December 2015)

Mark has been Chairman of Westhouse Securities since November 2014. He was previously Chief Executive of Collins Stewart Hawkpoint. He was Global Head of Research for ABN AMRO and HSBC and Chief Executive of ABN's UK equities business. Mark led the turnaround of Arbuthnot Securities followed by Collins Stewart Hawkpoint.

NON-EXECUTIVE DIRECTOR

Andrew Brook (appointed December 2015)

Andrew is a chartered accountant with over 25 years financial services experience as a NED and previously a partner with PwC Bermuda. He is an independent NED of the company's parent Bermuda Commercial Bank and also sits on the board of a private equity Africa-focused advisory business, chairing its Investment Committee as an independent NED.

CHIEF EXECUTIVE OFFICER

Scott Maybury (appointed CEO October 2008)

Scott holds a degree in business studies and is a qualified accountant. He spent six years with BHP-Billiton, Australia's largest multi-national corporation, and five years with McDonnell Douglas Bank. He is one of the founding directors of PCFG and was previously Finance Director until October 2008.

MANAGING DIRECTOR

Robert Murray (appointed MD July 2012)

Robert holds the ACIB Banking Diploma and has over thirty-five years banking and finance experience. He heads both the Business and Consumer Finance Divisions and has extensive experience in lending to personal, corporate and international customers. He is one of the founding directors of PCFG.

FINANCE DIRECTOR

David Bull (appointed FD August 2015)

David is a chartered accountant and previously worked in the banking sector with appointments at KPMG, Deutsche Bank and the Bank of England where he was interim Chief Financial Accountant. Recently David worked as Director of Finance and Company Secretary at Hampshire Trust Bank, setting up the banking operations of that new bank. David joined PCFG in August 2015.

CITY INSIGHTS

PRIVATE & COMMERCIAL FINANCE GROUP

www.pcfg.co.uk

COMPANY UPDATE

28 FEBRUARY 2017

ADDRESS

Head office	Pinners Hall
	105-108 Old Broad Street
	London
	EC2N 1ER
Telephone	020 7222 2426

LEADING SHAREHOLDERS

As at 29 January 2017	**%**
Bermuda Commercial Bank	67.9

FINANCIAL SUMMARY

INCOME STATEMENT		
12 months ended 30 September	2015#	2016#
Consumer Finance	25,772	27,787
Business Finance	22,636	27,981
Group turnover	**48,408**	**55,768**
Cost of sales	(34,130)	(40,105)
Gross profit	**14,278**	**15,663**
Administration expenses	(6,568)	(7,087)
Profit from operations	**7,710**	**8,576**
Net finance costs	(4,903)	(4,974)
Profit before tax	**2,807**	**3,602**
Tax	(619)	(801)
Profit after tax	**2,188**	**2,801**
Basic EPS (p)	3.9	1.8
Diluted EPS (p)	1.6	1.8
# Results for both years are unaudited.		

BALANCE SHEET	2015#	2016
Goodwill and other intangible assets	869	764
Property, plant and equipment	100	147
Loans and receivables	69,079	80,997
Deferred tax	1,718	1,424
Non-current assets	**71,766**	**83,332**
Loans and receivables	38,427	40,962
Trade and other receivables	1,043	504
Cash and cash equivalents	510	5,904
Current assets	**39,980**	**47,370**
TOTAL ASSETS	**111,746**	**130,702**
Interest-bearing debt and derivative fin. instruments	71,070	89,811
Non-current liabilities	**71,070**	**89,811**
Interest-bearing debt & derivative fin. instruments	17,073	13,986
Trade and other payables	1,348	1,907
Bank overdrafts	459	-
Corporation tax	305	291
Current liabilities	**19,185**	**16,184**
TOTAL LIABILITIES	**90,255**	**105,995**
NET ASSETS = TOTAL EQUITY	**21,491**	**24,707**
# Results for year ended 2015 are unaudited		

CASH FLOW	2015#	2016#
Profit before taxation	**2,807**	**3,602**
(Incr.)/decr. in trade, loans and other receivables	(13,955)	(13,914)
Deprec. and amortisation of intangible assets	208	232
Increase in trade and other payables	371	561
Other including loss/(profit) on asset disposals	170	170
Cash flows from operating activities	**(10,399)**	**(9,349)**
Tax paid	(302)	(463)
Net cash flows from operating activities	**(10,701)**	**(9,812)**
Purchase of property, plant and equipment	(84)	(86)
Purchase of other intangible assets	(71)	(88)
Borrowings less debt repayments	10,926	15,839
Net increase in cash and cash equivalents	**70**	**5,853**
Cash and cash equivalents at the start of the year	(19)	51
Cash and cash equivalents at the end of the year	**51**	**5,904**
# Results for both years are unaudited.		

CONTACTS

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