PCF BANK

Simple banking. At your service.

PCF Group plc
Interim Report 2018

PCF GROUP

Simple banking. At your service.

PCF Group plc is the AIM-listed parent company of the specialist bank, PCF Bank.

PCF Bank offers retail savings products for individuals and lending products for consumers and businesses to finance motor vehicles, plant and equipment.

Our commitment is to provide great customer service through expertise and simplicity.

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Company Information

Directors	**Tim Franklin** *Non-executive Chairman* **Christine Higgins** *Non-executive* **David Titmuss** *Non-executive* **Mark Brown** *Non-executive* **David Morgan** *Non-executive* **Scott Maybury** *Chief Executive* **Robert Murray** *Managing Director* **David Bull** *Finance Director*
Company Secretary	**R J Murray**
Registered Office	Pinners Hall 105-108 Old Broad Street London EC2N 1ER
Registered Number	02863246
Auditors	**Ernst & Young LLP** 25 Churchill Place Canary Wharf London E14 4SY
Nominated Adviser & Broker	**Panmure Gordon (UK) Limited** One New Change London EC4M 9AF
Joint Broker	**Stockdale Securities Limited** 100 Wood Street London EC2V 7AN
Registrars	**Computershare Investor Services PLC** The Pavilions Bridgwater Road Bristol BS99 7NH
Media & Investor Relations	**Tavistock Communications Limited** 1 Cornhill London EC3V 3ND

PCF Bank Limited (formerly known as PCF Group Holdings Limited) is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, FRN number 747017. The Bank is registered in England and Wales, registration number 02794633, and is wholly owned by PCF Group plc, a company registered in England and Wales, registration number 02863246 and listed on the Alternative Investment Market. Certain subsidiaries of the Bank are authorised and regulated by the Financial Conduct Authority for consumer credit activities. Registered offices are at Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER.

PCF GROUP

Chairman's Statement

for the six months ended 31 March 2018

I am pleased to present the half-year report for what will be our first full year as a bank. The first six months have gone very well and we have made significant progress towards achieving our strategic objectives. Our strong growth in new business originations has been focused on the prime market and the higher end of the credit spectrum.

Profits, shareholder return and capital

Profit before tax for the six months ended 31 March 2018 was up 20% to £2.1 million (2017 – £1.7 million). This is a strong performance as it incorporates, for the first time in a financial period, the full costs of operating as a bank. Becoming a bank entails significant cost and capital, both of which, in the short-term, have reduced the Company's return on equity to 8.7% (2017 – 10.5%). However, the benefits of the banking model have already started to accrue with lower funding costs, the ability to reach and retain a wider range of customers, greater flexibility to diversify our business, access to the Sterling Monetary Framework and a reduction in risk from relying solely on wholesale funding.

Earnings per share were maintained at 0.8p (2017 – 0.8p) and, as the lending portfolio grows against a largely fixed cost base, we will deliver increasing profitability. These results are also underpinned by a lending portfolio that continues to perform well and in line with our expectations.

The net interest margin ('NIM') for the period was largely unchanged at 8.4% (2017 – 8.3%). This was a good performance considering the transition towards lower yielding prime lending. We have seen competitive pressure on margins in both our divisions and we expect our NIM to fall in time as the prime portfolio forms a larger part of our total lending portfolio. This can be offset by a further reduction in funding costs, a lower impairment charge from the better quality portfolio and operational gearing, as scale delivers a better cost-to-income ratio.

The Group has a CET1 capital ratio of 21.6% and held 157% of what was needed to meet the Overall Liquidity Adequacy Rule ('OLAR'). These comfortably exceed regulatory requirements and demonstrate that we have the resources to deliver our medium-term targets. Net assets have increased by 47% to £40.4 million (2017 – £27.4 million) and the foundations are in place for continued profitable growth.

2018 Strategic objectives

The Board's primary objective for 2018 is to unlock the value in our new banking model, prudently but as quickly as possible. Our priorities are

- to protect the core businesses by increased lending into the prime market, while expanding our range of lending services;
- to maintain high levels of customer and broker service at much higher volumes of origination;
- to refine and further improve the efficiency of the bank's treasury and savings structure;
- to maintain a clear trajectory towards the 2020 portfolio target of £350 million; and
- to harness the power of scale in an operationally geared model.

We have made real progress in achieving these objectives. It was a major achievement to maintain the cost-to-income ratio for the period at 59% (2017 – 59%) as we utilised the new, cheaper retail funding to accelerate portfolio growth and generate increased interest income.

The new bank operation has resulted in a significant increase in operational costs, including the cost of amortising the banking infrastructure. The stated objectives of a portfolio of £350 million by 2020 and £750 million by 2022, with return on equity targets of 12.5% and 17.5% respectively, provide a measure of the Board's ambition for future profitability.

PCF Bank

Establishing ourselves as a specialist bank provides an operating model that is increasingly diversified across both lending and funding platforms and this provides resilience, flexibility and opportunity.

The bank has welcomed over 2,400 new customers since inception and deposits have increased to £108 million (2017 – £nil). In a relatively short period, deposits from customers have become the largest part of the Group's funding. Demand for our savings products remains strong and the success of our savings operation is the result of a well received internet banking platform and simple, fast on-boarding processes. Our customer services team offer an excellent experience, aiming to cater for all customer needs, including the alternative of applying by postal application.

The next development for our savings platform is the introduction of a range of products for corporate customers and this is expected to be launched later this year.

The bank gained membership to the Sterling Monetary Framework on 6 November 2017. This provides us with a more efficient treasury model with access to a Bank of England reserve account, the discount window facilities and the Term Funding Scheme ('TFS'). The bank has recently drawn £25 million of funding under the TFS for a period of four years.

New business origination and portfolio performance

New business originations in the period have increased by 97% to £69 million (2017 – £35 million). The retail deposits have enabled business lines to offer terms of business that are more competitive in the prime sector of our existing markets. This additional business was quickly accessed through our existing routes to market and a lower cost of funds has meant we have maintained profitability. The greater flexibility of retail funding, in terms of both use and tenor, has allowed us to launch a number of new products for niche assets and these have been well received. We have also seen an increase in returning customers, as we can now retain their business with competitive lending rates. Finally, we launched a direct sales initiative in the light commercial vehicle market and, although it is early days, the outlook is promising. We finished the period with a record month for originations in March of £14 million.

The lending portfolio now stands at £179 million (2017 – £128 million), an increase of 40%, and is currently split between Business Finance - £96 million (2017 – £59 million) and Consumer Finance - £83 million (2017 – £69 million). The portfolio is reported net of unearned finance charges of £39 million (2017 – £28 million). These finance charges will be attributed to income over the next four years and provide a certainty of earnings for future periods.

The largest increase in new business originations came from our Business Finance Division, where new business volumes increased by 111% to £41 million (2017 – £19 million). This builds on the impressive performance of the previous year and, for the first time, saw Business Finance become the largest part of our lending portfolio.

PCF GROUP

Chairman's Statement

The period saw a return to growth for our Consumer Finance Division with originations up 81% to £28 million (2017 – £16 million). The improvement is the result of launching new prime terms supported by IT enhancements. There have been incremental changes to the IT platform throughout the period to accommodate the high volume nature of prime motor finance and originations have built steadily over time, with February and March being record months. The final phase of IT development was implemented after the period-end and we expect new business origination to continue to grow strongly in the second half of the year. Technological changes in the motor sector provide both a challenge and an opportunity as we continue to adapt our risk appetite to accommodate demand for diesel and electric vehicles.

Loan loss impairment in the period was £0.6 million (2017 – £0.3 million) which represents a charge of 0.7% (2017 – 0.5%). The part of the portfolio reported as 'neither past due nor impaired' remained stable at 96% (2017 – 96%). This is consistent with the underlying loss rates expected from the portfolio going forward. Past periods have benefited from significant recoveries from customers that defaulted during the financial crisis and, while there will continue to be recoveries from this legacy portfolio, they are now becoming immaterial to overall performance.

Governance, regulation and IFRS 9

We have seen increased recruitment across the Group and we have welcomed many new colleagues. I would like to thank all staff for their efforts and their dedication to providing professionalism and good customer outcomes. The leadership team has been strengthened in the period and I congratulate the committee chairs and members for their work in embedding the new governance structure.

The implementation of the General Data Protection Regulation ('GDPR') on 25 May 2018 requires policy, procedure and technology changes across the Group to manage how we process and secure data and protect the rights of individuals. The working group reported to the Board in April that the implementation timetable will be met. Internal audit reviewed the process and will continue to be involved in the post implementation phase.

The accounting standard IFRS 9 'Financial Instruments' will be implemented by the Group with effect from 1 October 2018. IFRS 9 utilises a single impairment model which is based on an Expected Credit Loss ('ECL') methodology. In arriving at the relevant ECL, IFRS 9 requires it to be calculated incorporating forward-looking information which considers future economic conditions. The move to an ECL methodology is the most significant change introduced by IFRS 9 which will impact on the Group's results. A working group has been set up with the initial focus on reviewing the Group's loan history to economic changes. The Group is in the process of building models which will form part of a parallel run in the second half of the year. A quantitative assessment of the ECL methodology will be available when the Group's results for the year ending 30 September 2018 are announced in December 2018.

Current trading and outlook

The new business pipeline is strong and we are pleased with the quality of business we are writing. This is consistent with our cautious outlook for the UK economy in the medium-term and, in the event of a downturn, the current impairment performance provides comfort, as does 24 years' experience in our chosen sectors. By maintaining prudent and responsible lending, we are confident that we will continue to perform well in our existing markets.

We are well positioned for continued growth and for the achievement of our 2018 strategic priorities. Our focus can then turn to a strategy of diversification. Our ambition is to introduce new lending classes and sectors to broaden and balance our existing portfolio. The medium-term objective of a £350 million portfolio by 2020 is within our sights and, while organic growth in existing products is the main driver for that target, the longer-term objective of a £750 million portfolio will require acquisitions, strategic partnerships or the setting up of new specialist teams. This wide range of opportunities needs to be carefully researched and we will be most attracted to those which use technology as the enabler for growth and to those that provide synergies with our current infrastructure and customer base.

We remain on track to meet our own and market expectations and look forward to reporting continued success as the year progresses.

T A Franklin
Chairman

6 June 2018

PCF GROUP

Group Statement of Profit and Loss and Other Comprehensive Income

for the six months ended 31 March 2018

	Six months ended 31 March 2018 unaudited £'000	Six months ended 31 March 2017 unaudited £'000	Twelve months ended 30 September 2017 audited £'000
Interest income and similar income	**11,648**	9,697	**19,970**
Interest expense and similar charges	**(4,828)**	(4,545)	**(8,906)**
Net interest income	**6,820**	5,152	**11,064**
Fees and commission income	**248**	258	**512**
Fees and commission expense	**(379)**	(336)	**(702)**
Net fee and commission expense	**(131)**	(78)	**(190)**
Fair value loss on financial instruments	**–**	(4)	**(4)**
Operating income	**6,689**	5,070	**10,870**
Administration expenses	**(4,046)**	(3,049)	**(6,557)**
Impairment losses on financial assets	**(579)**	(305)	**(679)**
Profit before taxation	**2,064**	1,716	**3,634**
Income tax charge	**(413)**	(347)	**(734)**
Profit after taxation, being total comprehensive income, attributable to owners	**1,651**	1,369	**2,900**
Earnings per 5p ordinary share	**0.8p**	0.8p	**1.6p**

Group Balance Sheet

at 31 March 2018

	31 March 2018 unaudited £'000	31 March 2017 unaudited £'000	30 September 2017 audited £'000
Assets			
Cash and balances at central banks	**14,657**	1,993	**17,018**
Available-for-sale financial investments	**25,091**	–	**4,511**
Loans and advances to customers	**179,203**	127,590	**145,718**
Property, plant and equipment	**244**	304	**271**
Goodwill and other intangible assets	**3,031**	2,058	**2,704**
Deferred tax assets	**1,206**	1,338	**1,205**
Other assets	**757**	362	**1,041**
Total assets	**224,189**	133,645	**172,468**
Liabilities			
Due to banks	**72,198**	104,042	**77,067**
Due to customers	**108,276**	–	**53,120**
Current tax liabilities	**213**	153	**166**
Other liabilities	**3,201**	2,098	**3,454**
Total liabilities	**183,888**	106,293	**133,807**
Equity			
Share capital	**10,611**	8,506	**10,611**
Share premium account	**8,524**	558	**8,524**
AFS reserve	**(11)**	–	**–**
Own shares	**(355)**	(355)	**(355)**
Retained earnings	**21,532**	18,643	**19,881**
Total equity	**40,301**	27,352	**38,661**
Total equity and liabilities	**224,189**	133,645	**172,468**

PCF GROUP

Group Statement of Changes in Equity

for the six months ended 31 March 2018

	31 March 2018 unaudited £'000	31 March 2017 unaudited £'000	30 September 2017 audited £'000
Total comprehensive income for the period/year	**1,651**	1,369	**2,786**
New share capital subscribed	**–**	934	**11,460**
Share-based payments	**–**	19	**52**
Issue of own convertible debt	**–**	(50)	**(50)**
Transaction costs	**–**	–	**(455)**
Cash dividends	**–**	–	**(212)**
Fair value gain on cash flow hedges	**–**	373	**373**
Fair value loss on AFS financial instruments	**(11)**	–	**–**
Net addition to shareholders' funds	**1,640**	2,645	**13,954**
Opening shareholders' funds	**38,661**	24,707	**24,707**
Closing shareholders' funds	**40,301**	27,352	**38,661**

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 Group balance sheet comparative figures for the year ended 30 September 2017 are based on the statutory accounts of the Group for that year 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. The comparative figures for the Group statement of profit and loss and other comprehensive income are based on the unaudited interim report for the six months ended 31 March 2017.
2. The interim results have been prepared based on the accounting policies set out in the Annual Report & Financial Statements for the year ended 30 September 2017.
3. These interim consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union ('EU').
4. The accounting policies applied by the Group in these condensed consolidated interim financial statements are substantially the same as those applied by the Group in its consolidated financial statements for the year ended 30 September 2017. The methodology for selecting assumptions underpinning the fair value calculations has not changed since 30 September 2017. The Group is assessing the impact of the following standards, interpretations and amendments that are not yet effective. Where already endorsed by the EU, these changes will be adopted on the effective dates noted. Where not yet endorsed by the EU, the adoption date is less certain.
   - Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions': effective 2019 financial year
   - Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts': effective 2019 financial year
   - Annual Improvements to IFRSs 2014-2016: effective 2019 financial year
   - IFRS 9 'Financial Instruments': effective 2019 financial year (see below)
   - IFRS 15 'Revenue from Contracts with Customers': effective 2019 financial year
   - IFRS 16 'Leases': effective 2020 financial year
   - IFRS 17 'Insurance contracts': effective 2022 financial year (not yet endorsed by the EU)
   - IFRIC 22 'Foreign Currency Transactions and Advance Consideration': effective 2019 financial year
   - IFRIC 23 'Uncertainty over Income Tax Treatments': effective 2020 financial year (not yet endorsed by the EU)
   - Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures': effective 2020 financial year (not yet endorsed by the EU)
   - Annual Improvements to IFRSs 2015-2017: effective 2020 financial year (not yet endorsed by the EU)
   - Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement': effective 2020 financial year (not yet endorsed by the EU)

The Group continues to assess the impacts of IFRS 15 and IFRS 16. The Group has made progress in understanding the effect of IFRS 15 and IFRS 16 and currently expects these standards to have a limited impact on its results, but we will provide fuller details in the year end consolidated financial statements. In light of its significant portfolio of loans and advances to customers, the Group is still assessing the transition options of IFRS 16 and anticipates concluding this work before the end of this financial year.

IFRS 9

IFRS 9 'Financial Instruments' will be implemented by the Group with effect from 1 October 2018, in line with the standard's requirements of applying for financial periods beginning on or after 1 January 2018.

Classification and measurement

IFRS 9 makes changes to the measurement categories for financial assets, with the current categories of available-for-sale and held-to-maturity no longer being available. The measurement categories available under IFRS 9 are amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVTPL'). Assessments of the business model under which the financial asset is held and whether or not the contractual cash flows represent solely payments of principal and interest ('SPPI') will determine under which category a financial asset is classified. A financial asset which is held in a 'hold to collect' business model and which passes the SPPI test, for example, will be held at amortised cost. The FVTPL category is similar to that under IAS 39, with the addition that financial assets not held in a 'hold to collect' or 'hold to collect and sell' business model will be held at FVTPL. Financial assets that fail the SPPI test will also be held at FVTPL. The Group anticipates the classification and measurement requirements of IFRS 9 will have a minimal impact.

Impairment

IFRS 9 utilises a single impairment model for financial assets held at amortised cost and FVOCI, which is based on an expected credit loss ('ECL') methodology, as opposed to the incurred loss methodology that currently exists under IAS 39. Where a financial asset has not experienced a significant increase in credit risk since origination, a 12 month ECL calculation is required. Where a financial asset has experienced a significant increase in credit risk since origination, a lifetime ECL calculation is required. In arriving at the relevant ECL (either 12 month or lifetime), IFRS 9 requires it to be calculated incorporating forward-looking information, which takes into account future economic conditions in a multiple scenario and probability-weighted approach.

The move to an ECL methodology is the most significant change introduced by IFRS 9 which will impact on the Group's results. A working group has been set up with the initial focus on reviewing the Group's loan history to economic changes. The Group is in the process of building models which will form part of a parallel run in the second half of the year. These models will be subject to further review and refinement for the remainder of the parallel run period. A quantitative impact assessment of the ECL methodology will be available when the Group's results for the year ending 30 September 2018 are announced in December 2018.

Transition

On implementation, the Group will not provide a full restatement of comparatives but will instead reflect changes through retained earnings, as permitted by IFRS 9.

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 2018 unaudited £'000	Six months ended 31 March 2017 unaudited £'000
Consumer finance	**975**	927
Business finance	**1,089**	789
Profit on ordinary activities before taxation	**2,064**	1,716
Consumer finance	**(268)**	(146)
Business finance	**(311)**	(159)
Loan loss provisioning charge	**(579)**	(305)

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 six months period.
7. The calculation of basic earnings per ordinary share for the six months ended 31 March 2018 is based on a profit of £1,650,857 for the period on 212,219,778 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

   The calculation of basic earnings per ordinary share for the six months 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.
8. AFS Reserve records the gains and losses arising from changes in the fair value of available-for-sale ('AFS') financial instruments.
9. The 2018 Interim Report will be posted to shareholders on 6 June 2018 or shortly thereafter. 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.pcf.bank*

Avocette Limited, London

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Savings 020 7227 7577 **Credit Control** 020 7227 7517 **Switchboard** 020 7222 2426