4 December 2019

PCF Group plc
(“PCF”, the “Bank” or the “Group”)

Preliminary Results for the year ended 30 September 2019

Record profits, portfolio reaches £339m and diversification strengthens the business model

PCF Group plc, the AIM-listed specialist bank, today announces its preliminary results for the year ended 30 September 2019. The Board is pleased to report full year results in line with market expectation and delivery of our medium-term portfolio and return on equity targets almost a year ahead of our original plan set in 2017.

Business Highlights:

- Total new business originations up 86% to £276 million (2018: £148 million) comprising
  - New business origination for ‘own portfolio’ increased by 50% to £222 million (2018: £148 million); and
  - £54 million of ‘placed’ Azule new business origination generating £1 million of broker commission income
- Portfolio growth of 55% to £339 million (2018: £219 million)
- Growth focus is on the prime end of the credit spectrum, with 74% (2018: 70%) of originations in our top four credit grades
- Retail deposits total £267 million (2018: £191 million) with over 6,250 retail deposit customers (2018: 4,500)
- Azule acquisition completed in early November 2018 and is performing ahead of expectation, generating in total £69 million of originations in the eleven months of ownership (12 months to June 2018: £55 million)
- Nascent bridging property finance operation originates £14 million of lending in first nine months
- £10.75 million of new equity raised in February 2019
- New £15 million Tier 2 capital facility put in place to support growth

Financial Highlights:

- Operating income up 51% to £22.2 million (2018: £14.7 million)
- Statutory profit before tax up 54% to £8.0 million (2018: £5.2 million)
- Earnings per share up 35% at 2.7p (2018: 2.0p)
- After-tax return on equity increased to 12.6% (2018: 10.3%), ahead of our medium-term target of 12.5%
- Return on assets of 2.9% (2018: 3.0%)
- Recommended final dividend of 0.4p (2018: 0.3p) which, if approved, will be paid on 9 April 2020 to shareholders on the Register at 20 March 2020
- Net Interest Margin (‘NIM’) reduced slightly to 7.8% (2018: 8.2%) with continued active management of lending quality through the cycle
- Impairment charge of 0.8% (2018: 0.5%) including the adoption of IFRS9 which accounted for 0.1% of the increase
- CET1 Capital Ratio of 18% (2018: 19.3%)
- Liquidity Coverage Ratio of 553% (2018: 499%)
- £63 million (2018: £47 million) of unearned finance charges to contribute to earnings in future years

Tim Franklin, Chairman, commented: “This has been a very successful year for PCF Bank. I am delighted to report strong lending growth, increased profitability and earnings per share improving by 35% to 2.7p.

"We are close to our £350 million portfolio target a year ahead of plan and our return on equity is ahead of the 12.5% target expected at that same point. This has been achieved largely in the prime segments of our existing lending markets. However, we recognise that there is strength in diversification and during the year we broadened our income streams by adding new business lines through the acquisition of the broadcast and media asset finance specialist, Azule, and the launch of a property bridging finance division.

"We continue to strengthen the Bank's foundations for sustainable growth by investing in our operational platform, governance framework and recruiting talent at all levels of the business.

"While the year ahead may see some weakening of wider economic activity, we feel we are well placed as a specialist bank to deliver our strategic objectives and provide strong shareholder returns."

- end –

This announcement contains inside information.

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About PCF Group plc (www.pcf.bank)
Established in 1994, PCF Group plc is the AIM-listed parent of specialist bank, PCF Bank Limited. Since commencing operations as a bank in 2017, the Group has increased its lending portfolio significantly, from £146 million to £339 million. The Group will retain its focus on portfolio quality, lending increasingly to the prime segment of its existing finance markets. The Group has also recently diversified its lending products and asset classes through acquisition and by setting up new organic operations.

PCF Bank currently offers retail savings products for individuals and then deploys those funds through its four lending divisions:

- Business Finance which provides finance for vehicles, plant and equipment to SMEs;
- Consumer Finance which provides finance for motor vehicles to consumers;
- Azule Limited which provides finance to the broadcast and media industry; and
- Bridging Property Finance which provides loans to companies and sole traders investing in residential and commercial property

Recently recorded video profiles of PCF's Bridging Finance, Azule Broadcast Equipment Finance, and Savings divisions are available at the Company's profile page on the London Stock Exchange website: https://profile.lsegissuerservices.com/PCFGroup/overview.

For media enquiries please contact media@pcf.bank

Chairman's Statement

For the year ended 30 September 2019

I am delighted to report the Group's results for the year ended 30 September 2019, which show continued growth in our lending portfolio, profits and return on equity. The last 12 months have seen the delivery of key performance targets and accelerated progress and success on many fronts. Most notably, the bank has successfully achieved our ambitious medium-term targets for our loan portfolio and return on equity. We are fortunate to have a highly committed and talented team at all levels of the business. On behalf of the Board, I would like to extend my congratulations to all our colleagues for their commitment and dedication in achieving these results and for the foundations this creates for the future.

Over the year, we have continued to increase our lending to prime customers, whilst maintaining healthy margins supported by retail deposits at an attractive funding cost. Our move towards better quality prime lending is aligned to our cautious outlook for the UK economy and we continue to reflect our appetite for risk through the pricing of our lending products. During the year we diversified our operating model by entering into new markets through the acquisition of the broadcast and media asset finance specialist, Azule, and the launch of a property bridging finance division. Through providing high levels of customer service and competitive rates, we have continued to welcome new retail deposit customers to the bank. At 30 September 2019, over 6,250 customers held deposit balances with PCF Bank totalling £267 million (2018: £191 million).

Profits, shareholder return and capital

Profit before tax for the year ended 30 September 2019 was £8.0 million (2018: £5.2 million), an increase of 54%. This delivered 35% growth in earnings per share to 2.7p (2018: 2.0p) in a year during which we successfully raised £10.75 million of new capital. These results are particularly pleasing as they include the cost of a new property bridging finance operation, as well as a small amount of further one-off cost related to the acquisition of Azule. These costs amounted to £517,000 in the year (2018: £270,000).

This strong set of results demonstrates our ability to grow our portfolio and improve earnings through operational gearing, putting to work our capital base and utilising our cheaper funding to scale up our banking platform. All the while, we have continued investment for the future through the recruitment of new staff and by making technology enhancements to promote efficiencies and meet the needs of our customers.

Net assets increased by 38% to £58.8 million (2018: £42.6 million), following the equity fund raising, and the Group Common Equity Tier 1 Ratio ('CET1') remained a healthy 18% (2018: 19.3%). This capital position has been supplemented with a new £15 million Tier 2 capital facility which can be drawn, as required.

The Board recommends the payment of a final dividend of 0.4p per ordinary share (2018: 0.3p), which is a 33% increase over the previous year but retains a significant proportion of retained profits for growth. If approved, the dividend will be paid on 9 April 2020 to shareholders on the register at 20 March 2020. We continue to make a good return on our capital and intend to maintain a dividend policy that supports the capital requirement of the business and reinvests for the future.

Governance and culture

The Board plays a key role in supporting and challenging the Group’s long-term strategic planning. This includes the responsibility to provide effective governance and a rigorous assessment of risk. This continues to be my focus. We completed a board effectiveness review in July 2019, and we believe the Board and its committees are working well. We have continued to strengthen this area with the recruitment of a new independent non-executive director, Marian Martin. This was in response to the upcoming changes in the UK Corporate Governance Code and in consultation with the Prudential Regulation Authority. The structure and effectiveness of our governance regime is fundamental to our success in bringing together the Group’s purpose, strategy, culture and standards of conduct.

Outlook

This has been a year of significant achievement. The Group has delivered financial success and diversified into two new business areas, while maintaining a prudent approach to lending. We are cognisant that growth is ahead of our original plan and we will therefore continue to invest in our infrastructure and operating model. Some of these costs are being brought forward ahead of plan and will help us build a robust structure for sustainable growth and continued success.

Our lending portfolio is performing well, however, we acknowledge that there may well be some worsening of credit conditions over the next 12 to 24 months and we will maintain a cautious outlook. Given our still relatively small market share, we remain confident that we can continue to grow as planned whilst maintaining our appetite for risk.

We will continue to set ambitious targets and I look forward to building on the successes of 2019 in the coming year.

T A Franklin
Chairman
4 December 2019

Chief Executive's Statement
For the year ended 30 September 2019

Diversification while protecting the core business

We have made strong progress across the whole business this year. The strategy to diversify our asset classes and income streams is proving a great success and will play an important role in growing our lending portfolio in the coming years. Our established core business lines have made excellent progress against ambitious targets and we continue to deliver strong growth despite the challenging economic and political backdrop.

The long-term benefits of our strategic decision to become a bank are becoming increasingly evident. These include lower funding costs, an ability to reach and retain a wider range of customers, greater flexibility to diversify our business, and a reduced reliance on wholesale debt. We have executed a low-risk growth strategy by initially growing in existing markets in which we already had an established risk appetite and control framework before looking to diversify our asset classes.

This year's results demonstrate the strength of this approach, delivering record portfolio growth. The benefits of scale will continue to accrue as operational gearing increases our earnings, against the significant fixed cost of establishing our banking platform.

Increasing profitabilty

Statutory profit for the year has increased to £8.0 million from £5.2 million in 2018. This is an increase of 54% and a considerable achievement, given the expenses of establishing the property bridging finance division. Operating income increased to £22.2 million in the year (2018: £14.7 million) as a result of strong portfolio growth. As expected, we experienced a decrease in our Net Interest Margin ('NIM'), from 8.2% to 7.8% as we continued to actively manage quality and a greater proportion of our portfolio became lower yielding, prime quality lending.

Earnings per share increased strongly, up 35% to 2.7p (2018: 2.0p). This is calculated off a larger capital base with an average number of shares in issue of 234 million (2018: 212 million shares).

Return on equity increased to 12.6% (2018: 10.3%), taking us past our medium-term target of 12.5%. Return on assets was stable in the year at 2.9% (2018: 3.0%). The profit after tax for the year was £6.4 million (2018: £4.2 million) on an effective Corporation Tax rate of 20% (2018: 19%).

Our cost-to-income ratio reduced to 55.6% (2018: 57.1%). During a growth phase, the costs to build a bank operating model in areas such as IT, risk, compliance and audit are significant. Despite continued investment in the platform, staff resource and in new business lines, I am pleased to report that income growth has kept pace with costs.

We have recommended an increased final dividend of 0.4p (2018: 0.3p). It is our intention to retain a dividend cover that is commensurate with a strongly growing business and the capital-intensive nature of banking. A scrip alternative will also be available.

2019 achievements

Our achievements this year are the result of delivering on our key objectives. The main areas of achievement for the year have been

- Continued growth of the core businesses of asset finance and consumer motor finance by increased lending, particularly into the prime segments of each market
- Diversification of the balance sheet, introducing new asset classes and new products either organically or through acquisition
- Success against our £350 million portfolio and 12.5% return on equity targets
- Development of a much-improved proposition to the broker-introduced consumer motor finance market by automating credit decision making and proposal acceptance
- Capital planning to maintain shareholder return while preparing for the next stage of growth
- Continued investment in people, systems and infrastructure to build a bank that can in the longer term support a £1 billion portfolio

Business lines and portfolio

New business originations in the year increased by 86% to £276 million (2018: £148 million), meeting our volume targets. The acquisition of Azule introduces a 'hybrid' origination model where an element of new business is brokered to generate fee income. New business is placed with third party banks and finance companies for risk, pricing or exposure reasons, whilst enhancing return on equity for the Group. Azule placed £54 million of new business. The remainder of new business origination was for our own portfolio, amounting to £222 million (2018: £148 million).

The quality of new business origination met management expectation, with 74% of new business origination being to prime customers (2018: 70%). Prime credit for PCF is defined as our top four credit grades where the customer has a clean credit profile and a low probability of default. Two of these credit grades have only been achieveable since a lower cost of funds enabled the launch of lower yielding, lower risk products.

Our total customer base is continuing to grow and at 30 September 2019 totalled over 21,250 (2018: 17,000).

The lending portfolio grew by 55% to £339 million (2018: £219 million). The portfolio is reported net of unearned finance charges of £63 million (2018: £47 million). These finance charges are future operating income already on the balance sheet and at this level provide almost 65% of next year's operating income expectation. These future finance charges provide a level of certainty of earnings for future periods.

Earnings are underpinned by the quality of the portfolio, which continues to perform well. We remain alert to trends in the credit cycle and the collection environment which is less benign than at any time in the last five years. Impairment losses in the year were £2.2 million (2018: £0.9 million), which represents a charge of 0.8% (2018: 0.5%), of which 0.1% of the increase was attributable to the adoption of IFRS 9. This charge is consistent with the underlying loss rates expected from the portfolio going forward and, in the second half of the year, we saw a slight reduction in the rate from 0.9% to 0.8%. The part of the portfolio reported as 'up to date' deteriorated slightly in the period to 95% (2018: 96%). The less benign environment has been most noticeable in our Business Finance Division where the UK is experiencing an increased incidence of business failure across most industry sectors. The diversification of business lines will strenghten our asset base and widen our sources of income. In conjunction with our considerable experience in our two existing markets, we will continue to build a quality portfolio by maintaining the disciplines that have stood us in good stead over past credit cycles.

The Group remains committed to its core markets, supporting consumers and SMEs in the purchase of motor vehicles, plant and machinery. We have considerable experience in these markets which continue to produce attractive returns and where the lending is supported by assets with strong collateral characteristics. We currently have no greater than a 1% share in each of these existing markets and there is further scope to increase this. We are also excited to be introducing new business lines and products that show the same characteristics of margin and quality to build a sustainable, diversified portfolio for the future.

Segmental business review

Business finance

The Business Finance Division has provided strong growth. Lending to SMEs to enable them to invest in vehicles, plant and machinery increased by 40% to £120 million (2018: £86 million). With our reduced cost of funds and longstanding relationships with introducers, we have been better able to penetrate the prime segments of this market, with 71% of originations being to prime customers. In addition, we have made extensive efforts in 2019 to increase our introducer database by recruiting additional business development managers.

At 30 September 2019, the business finance portfolio had increased to £178 million (2018: £121 million). This business line now makes up 52% of our total lending portfolio (2018: 55%). Azule offers a product range similar to our Business Finance Division but, in this first year of ownership, we report on it seperately below.

Consumer finance

Origination growth in consumer finance was also strong, considering the well documented decline in new motor vehicle sales. Consumer finance lending increased by 18% in the year to £73 million (2018: £62 million). Our success is a result of our relative size in the used vehicle market, which has been much more resilient to the weakening consumer demand for cars, which has primarily affected new car sales. 96% of all our consumer finance originations are for nearly new or older vehicles and PCF does not take residual risk by offering a Personal Contract Purchase (“PCP”) product. Our success in consumer finance is also in part due to a specialisation in niche, leisure vehicles such as horseboxes and motorhomes. We also continue to have high customer retention with 10% of the total consumer finance volume this year being for existing customers of PCF.

Our finance proposition in this market has undergone change over the year and this will continue to evolve in 2020, as we extend auto-decisioning which is a standard capability for operating in the prime consumer market. At 30 September 2019, the consumer finance motor portfolio was £128 million (2018: £98 million).

Azule asset finance

Azule is a UK market leader in providing specialist funding and leasing services direct to individuals and businesses in the broadcast and media industry. Azule also operates in the audio visual and photography markets and offers its services across Europe, as well as in the UK. Azule has a sales capability to place asset finance with banks and lending institutions, as well as originating asset finance for its own portfolio. One of the attractions of the acquisition was the synergies with PCF's existing asset finance operations, given Azule's focus on financing business-critical assets for prime credit grade customers.

In the 11 months of ownership Azule originated £69 million of asset finance (12 months to June 2018: £55 million), £54 million of this was placed and contributed £1 million of fee income. The first year has been a great success and has triggered the payment of the first deferred consideration payment of £750,000 which was made on 5 November 2019.

Our initial focus for Azule was very much on supporting the business, understanding the market dynamics and nurturing the successful sales culture within the organisation. Over the course of 2020, we will look to centralise some functions and monetise the synergies between the two businesses.

Property bridging finance

PCF recruited a small team of experienced staff to commence this operation organically. It provides finance for terms up to 18 months to property investors for the purpose of bridging and refurbishment. This is an opportunity to enter a £4 billion market place in a measured way. This product complements our exisiting businesses with a shorter duration profile and improved capital efficiency through a lower risk weighting. We commenced operations in January 2019 and transacted £14 million of new business in the first nine months. As a new business line, there was a cost to establishing the operation and the division contributed a loss before tax of £428,000 in the year. We expect a strong contribution to profits in 2020.

Capital management and funding

The net assets of the Group increased by 38% to £58.8 million (2018: £42.6 million). At 30 September 2019 the CET1 Capital Ratio was 18.0% (2019: 19.3%) and the liquidity measurement of Liquidity Coverage Ratio was 553% (2018: 499%). These ratios were comfortably ahead of the minimum requirement.

During the year, we successfully raised £10.75 million of new equity and supplemented this with a £15 million Tier 2 capital facility, with the ability to access this in tranches as required. In combination these provide capital to support our strategic plan.

The Bank increased retail deposit balances in the year to £267 million (2018: £191 million). We now have over 6,250 retail deposit customers (2018: 4,500). We offer a range of products, with maturities from 100 days to 7 years, and have an average balance outstanding of approximately £42,400 (2018: £42,000) for an average term of 2.9 years (2018: 2.5 years). The average cost of retail deposits has increased slightly in the year to 2.2% (2018: 2.1%). The savings products are targeted at middle to older aged savers, providing ease of service by utilising our on-line application portal or by postal application if they prefer.

Wholesale funding capacity has been enhanced through a new £30 million revolving credit facility. In addition, the Bank is a member of the Bank of England's Sterling Monetary Framework which provides access to schemes such as the Discount Window Facility and the Term Funding Scheme.

Our funding strategy is to use retail deposits to fund growth, by matching business origination with fixed rate, fixed term deposits to preserve profit margin and reduce interest rate volatility. The Bank uses wholesale facilities to smooth liquidity and maturities where required, and to provide a diversified funding alternative to the retail deposit market.

Regulation and the competitive environment

Operational resilience creates a robust business model and it remains a matter for close scrutiny. We have adopted a proactive approach, having carefully considered the PRA's Discussion Paper on 'Building the UK finance sector's operational resilience'. We have updated our plan to ensure we continue to focus and invest in operational resilience. The key is to ensure the Group is adequately identifying, assessing and managing its risks. This extends to managing the third-party risks that may arise within outsourced activities.

In response to the PRA's Supervisory Statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', the Group is formalising its plan to respond to these future risks and will provide further detail as the year progresses.

On 15 October 2019, the Financial Conduct Authority (FCA) announced plans to regulate the way in which car retailers and brokers in the motor finance sector receive commission. A set of clear rules will be introduced in 2020 to address a lack of transparency and serve consumers better. PCF welcomes this initiative from the FCA as we believe that disclosed and standardised commission rates will ensure better outcomes for customers and a level playing field for motor finance providers such as PCF. We do not envisage that our adherence to the new rules will have a significant impact on our operations.

This is the first full year for implementation of accounting standard IFRS 9 (Financial Instruments) requiring extensive work to model the impairment provision for our portfolio of loans. The Notes to the Financial Statements contain an explanation of the methodology. Over the course of the year our views on the political and credit environment have changed and as a result we have amended our risk weightings to reflect a less benign credit environment and a more uncertain outcome for Brexit. At the start of the year we increased the provision by a net £0.5 million as we moved from an incurred loss basis ('IAS 39') to the expected loss basis ('IFRS 9'). This one-off increase is treated as an adjustment to brought forward retained profits and not as an expense in the current year income statement. The quantum of this adjustment is consistent with what would be expected from a collateralised lending portfolio. The IFRS 9 provision at 30 September 2019 has increased in line with the growth in the portfolio as well as our changes in risk weightings. Our views on risk weightings will continue to reflect the wider global economic outlook, in addition to Brexit, as well as emerging risks such as the financial risk associated with climate change.

People and resources

During the course of the year PCF moved to larger premises, providing staff with a much improved working environment and the capacity necessary to embark on the next stage of our growth. We have also taken the opportunity to improve the environment in the available space at Azule's offices in Berkshire. The office relocation was successfully completed without disruption and I would like to thank the project teams for their commitment and excellence in delivery.

Our staff numbers have now reached 110 full time employees (2018: 73) split between the City of London and Berkshire offices and I would like to thank everyone for their contribution this year. During the year we welcomed Azule staff to PCF and we have enjoyed working with our new colleagues, who have proved to be an ideal fit. We also recruited a new Head of Human Resources, Suzie Yong, and I look forward to working with her on new programmes including topics such as culture, staff development and diversity.

2020 strategic objectives

We continue to set ambitious targets and objectives and our focus in 2020 will be to

- Launch our new streamlined system for consumer motor finance
- Trial direct to consumer products on our new consumer platform
- Develop a market leading portal for SME lending
- Build out our property bridging finance division beyond the pilot initiative
- Evaluate how Azule's European capabilities could enhance PCF's business in the future
- Complete the integration of Azule operations to maximise its sales potential
- Improve our customer journey for savers and borrowers with additional online functionality
- Optimise technology across the organisation to support scale and gain efficiencies

Current trading and outlook

We have once again delivered on our strategic objectives, achieving our initial targets for portfolio size and return on equity ahead of time. Our next targets of a portfolio of £750 million and a return on equity of 15% by 30 September 2022 remain in place, but our progress to date suggests an aspiration of a £1 billion portfolio should not be beyond our reach in the medium-term.

New business originations remain strong and we continue to maintain prudent underwriting standards, a cautious risk appetite and sensible terms of business. Our goal is to generate sustainable returns and with our focus on a greater proportion of prime quality customers, our portfolio continues to perform well. We have a lending portfolio that has a wide spread of risk and, while we are not sanguine about the economic outlook, we feel our size, agility and well-established business model provide confidence for the future.

Economic uncertainty arising from the current political situation does remain a risk. This could manifest itself as decreased demand in our market places, a fall in our growth rate or rising impairments due to a downturn. Should these circumstances arise, we recognise this could slow our progress, but we have and will continue to build PCF's lending model on sound foundations and this will provide a solid basis for our continued success.

New business momentum has built throughout the year, with September 2019 being a record month for the Group, which continued in October. Our diversification strategy has been a success and provides the Group with extra strength in depth. The Group is ahead of its plans in terms of growth, so we have accelerated our investment in our technology platform, talent and governance framework. All this will leave us well placed to take advantage of market opportunities as they arise.

S D Maybury
Chief Executive
4 December 2019

GROUP STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

(£'000s)	*12 months ended 30 September 2019 unaudited*	*12 months ended 30 September 2018 audited*
Interest revenue calculated using the effective interest method	34,499	25,494
Other interest and similar income	18	-
Interest expense calculated using the effective interest method	(12,884)	(10,492)
Other interest and similar expense	(17)	-
Net interest income	21,616	15,002
Fees and commission income	1,815	492
Fees and commission expense	(1,154)	(844)
Net fee and commission income / (expense)	661	(352)
Net loss on financial instruments at fair value through profit or loss	(64)	-
Impairment losses on financial assets	(2,175)	(915)
Net operating income	20,038	13,735
Administration expenses	(12,020)	(8,562)
Profit before taxation	8,018	5,173
Income tax charge	(1,624)	(981)
Profit after taxation, being total comprehensive income, attributable to owners	**6,394**	**4,192**
Earnings per 5p ordinary share – basic	2.7p	2.0p

Underlying adjustments

Profit before taxation	8,018	5,173
Acquisition costs	89	270
Underlying profit before taxation	8,107	5,443
Income tax charge	(1,624)	(981)
Underlying profit after taxation, being total comprehensive income, attributable to owners	6,483	4,462

GROUP BALANCE SHEET

(£'000s)	*30 September 2019 unaudited*	*30 September 2018 audited*
Assets		
Cash and balances at central banks	7,371	21,338
Loan and advances to customers	338,503	219,322
Debt instruments at FVOCI	19,638	-
Available-for-sale financial investments	-	39,902
Property, plant and equipment	579	224
Goodwill and other intangible assets	5,941	2,957
Deferred tax assets	1,169	1,185
Trade and other assets	4,932	1,542
Total Assets	**378,133**	**286,470**
Liabilities		
Due to banks	44,412	48,881
Due to customers	267,070	191,139
Derivative financial liabilities	64	-
Trade and other liabilities	7,832	3,899
Total Liabilities	**319,378**	**243,919**
Equity		
Share capital	12,510	10,611
Share premium account	17,619	8,527
Revaluation reserve	7	15
Own shares	(355)	(355)
Retained earnings	28,974	23,753
Total Equity	**58,755**	**42,551**
Total equity and liabilities	**378,133**	**286,470**

GROUP STATEMENT OF CHANGES IN EQUITY

(£'000s)	*12 months ended 30 September 2019 Unaudited*	*12-month period 30 September 2018 audited*
Profit after tax for the year	**6,394**	**4,192**
Impact on transition to IFRS9	(502)	-
New share capital subscribed	10,991	3
Share-based payments	80	84
Cash dividend	(751)	(404)
Fair value loss on debt instruments at FVOCI	(8)	-
Fair value gain on cash flow hedges	-	15
Net addition to shareholders' funds	**16,204**	**3,890**
Opening shareholders' funds	42,551	38,661
Closing shareholders' funds	**58,755**	**42,551**

NOTES TO THE FINANCIAL STATEMENTS

1. The preliminary results are unaudited and do not constitute statutory accounts as defined by section 434 of the Companies Act 2006. The comparative figures for the 12 months ended 30 September 2018 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 preliminary results have been prepared on the basis of the accounting policies set out in the Annual Report & Financial Statements for the 12 months ended 30 September 2019.

3. These consolidated financial statements have been prepared in accordance with IFRS and its interpretations issued by the International Accounting Standards Board, as adopted by the European Union. This announcement has been approved and authorised for issue by the Board of Directors.

4. The Group operates in the principal areas of consumer finance for motor vehicles, business finance for vehicles, plant and equipment and bridging finance.

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

(£'000s)	*12 months ended 30 September 2019 unaudited*	*12 months ended 30 September 2018 audited*
Consumer finance ('CFD')	3,936	2,362
Business finance ('BFD')	3,913	2,811
Azule finance	686	-
Bridging finance	(428)	-
Central costs	(89)	-
Profit on ordinary activities before taxation	8,018	5,173
Consumer finance	(778)	(601)
Business finance	(1,345)	(314)
Azule finance	(46)	-
Bridging finance	(6)	-
Loan loss provisioning charge	(2,175)	(915)

5. The income tax assessed for the period is equal to the Corporation Tax in the UK of 20% (12-months period ended 30 September 2018 – 19%). The breakdown is below. The Finance (No.2) Act 2015 enacted a reduction in the corporation tax main rate (for all profits except ring fence profits) at 19% for the year starting 1 April 2019. The Finance Act 2016 enacted a reduction in the corporation tax main rate at 17% for the years starting the 1 April 2020. Deferred tax balances should be calculated at the rate which the balances are expected to be settled, based on tax rates that have been substantively enacted at the balance sheet date. Therefore, the deferred tax balances have been calculated with reference to these rates.

(£'000)	12 Months 30 September 2019
Profit on ordinary activities before tax	**8,018**
Profit on ordinary activities multiplied by the standard rate of Corporation Tax in the UK of 19% (2018 – 19%)	(1,526)
Effects of:	
Expenses not deductible for taxation purposes	(45)
Adjustments in respect of prior years	(29)
Shared base payments	(24)
Change in tax rate	16
Unutilised losses	(16)
Total tax charge for the year	**(1,624)**

6. The calculation of basic earnings per ordinary share for the 12 months ending 30 September 2019 is based on a profit after taxation of £6,394k for the period on 234,102,363 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 12 months ending 30 September 2018 is based on a profit of £4,192k for the period on 212,224,745 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

7. Revaluation reserve includes revaluation of debt instruments at fair value to other comprehensive income (FVOCI).

8. IFRS 9 'Financial Instruments' replaced IAS 39 with effect from 1 October 2018, and the Group has not provided a full restatement of comparatives but has instead reflected changes through the opening balance of retained earnings.

   From 1 October 2018, the Group is required to recognise Expected Credit Losses (ECL) based on unbiased forward-looking information for all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

   The Group uses the three-stage model for determination of expected credit losses: (i) For loans where the credit risk has not increased significantly since initial recognition, a provision is recognised for the expected 12-month credit losses expected to be incurred. (ii) For loans where there is deemed to be a significant increase in credit risk, a provision for the expected lifetime credit loss is recognised across this portfolio. (iii) For loans that are in default, the Group undertakes a specific impairment assessment. For loans classified as either Stage 1 or 2, an assessment is performed on a portfolio wide basis for impairment, with the key judgements and estimates being

   - The determination of significant increase in credit risk;
   - The probability of an account falling into arrears and subsequently defaulting;
   - Loss given default; and
   - Forward-looking information.

   In addition to above Stage 3 undertakes a review of the recoverability of the exposure.

   Significant increase in credit risk

   The Group applies a series of quantitative, qualitative and backstop criteria to determine if an account has demonstrated a significant increase in credit risk and should therefore be moved to Stage 2:

   - Quantitative criteria: This considers the increase in an exposure's remaining lifetime Probability of Default ('PD') at the reporting date compared to the expected residual lifetime PD when the exposure was originated. The Group segments its credit portfolios into PD bands and has determined a relevant threshold for each PD band, where a movement in excess of threshold is considered to be significant. These thresholds have been determined separately for each portfolio based on historical evidence of delinquency.

   - Qualitative criteria: This includes the observation of specific events such as short-term forbearance, payment cancellation, historical arrears or extension to customer terms.

   - Backstop criteria: IFRS 9 includes a rebuttable presumption that 30 days past due is an indicator of a significant increase in credit risk. The Group considers 30 days past due to be an appropriate backstop measure and does not rebut this presumption.

   Definition of default, credit-impaired assets, cures, write-offs and interest income recognition

   The definition of default for the purpose of determining ECLs has been aligned to the CRR article 178 definition of default, to maintain a consistent approach with IFRS 9 and associated regulatory advice. When exposures are identified as credit impaired such interest income is calculated on the carrying value net of the impaired allowance.

   The Group applies a series of quantitative and qualitative criteria to determine if an account meets the definition of default and should therefore be moved to Stage 3. These criteria include

   - when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); and
   - when the borrower is more than 90 days past due on any material credit obligation to the Group.

   When a loan falls into default and a formal process of recovering the loan has taken place, the loan will initially be fully impaired. The recovery will include a number of actions such as selling the underlying assets and agreeing an arrangement to repay. The group will assess the likeliness of full recovery and assign each loan into categories for which each will have a different recovery percentage assigned.

   If a loan is deemed no longer recoverable, the loan is written off and put forward for a future debt sale. The Group policy does not allow an exposure to be cured.

   Forward looking information

   Expected credit losses ('ECL')

   ECLs are an unbiased, probability-weighted estimate of credit losses determined by evaluating a range of possible outcomes. They are measured in a manner that reflects the time value of money and uses reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Measurement of ECLs depends on the 'stage' of the financial asset, based on changes in credit risk occurring since initial recognition, as described below

   - Stage 1. When a financial asset is first recognised, it is assigned to Stage 1. If there is no significant increase in credit risk from initial recognition, the financial asset remains in Stage 1. Stage 1 also includes financial assets where the credit risk has improved, and the financial asset has been reclassified back from Stage 2. For financial assets in Stage 1, a 12-month ECL is recognised.
   - Stage 2. When a financial asset shows a significant increase in credit risk from initial recognition, it is moved to Stage 2. For financial assets in Stage 2, a lifetime ECL is recognised.

- Stage 3. When there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit-impaired, it is moved to Stage 3. For financial assets in Stage 3, a lifetime ECL is recognised.
- Lifetime ECL is defined as ECLs that result from all possible default events over the expected behavioural life of a financial instrument.
- 12-month ECL is defined as the portion of lifetime ECL that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

The group considers three forward economic indicators for each business line as follows:

	CFD	BFD	Azule	Bridging
Unemployment rate	✓	✓	✓	✓
ONS Used Car Price Index	✓	▪	▪	▪
CPI	✓	✓	✓	▪
GDP	▪	✓	✓	✓
Nationwide HPI	▪	▪	▪	✓

The key source of these data sets is from the ONS.

The group considers the core source data forming the baseline, optimistic and pessimistic scenario. The scenarios for UK economic growth, inflation, residential property prices and unemployment the scenarios have been benchmarked against IFRS9 best practice and are in line those used by the UK banking sector as a whole. For the used car index, data have been obtained from the Office for National Statistics and extrapolated for each scenario consistently with the other data.

The method of weighting the economic scenarios was based on the Boards view of key risks and potential upside to the group. The Board key risks were the Brexit outcomes and the credit environment. In both cases it was thought there was more uncertainty on the Brexit outcome and a deterioration of the credit environment mainly seen in the increase of business failures, thus giving rise to increase in weighting. Whilst the overall pessimistic weighting has increased the Board also concluded there continues to be favourable outcomes to the extent the optimistic weighting is unchanged from the first implementation of IFRS 9. In conclusion the Board approved a reduction in the base case weighting for an increase in pessimistic weighting. These scenarios are uniformly applied across all business lines.

Model calculation

The definitions of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The Probability of Default ('PD') is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD - The Exposure at Default ('EAD') is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The Loss Given Default ('LGD') is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

ECLs are calculated by multiplying three main components, being the PD, LGD and the EAD, discounted at the original EIR.

Management adjustments are made to modelled output to account for situations where known or expected risk factors and information have not been considered in the modelling process. In particular where segments of the portfolio have little or no historical information to compute either PD or LGD, ECLs are extrapolated from a related segment. This is particularly relevant for our highest credit ranked business and the Bridging finance business.

Expected life

Lifetime ECLs must be measured over the expected life. This is restricted to the maximum contractual life and considers expected prepayment and extension.

Discounting

ECLs are discounted at the Effective Interest Rate ('EIR') at initial recognition or an approximation thereof and consistent with income recognition. Lease receivables are discounted at the rate implicit in the lease.

When estimating the ECLs, the model considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the value of collateral or the amount that might be received for selling the asset.

The model assesses both stage 1 on a 12-month ECL and stage 2 on a lifetime ECL basis.

For stage 3 where loans are in default but are not in a formal recovery process, the model above is followed and assesses ECL on a lifetime basis.

Those loans in formal recovery are assessed on a recovery basis having initially recognised a 100% impairment charge. The group will assess the likeliness of full recovery and assign each loan into categories for which each will have a different recovery percentage assigned.

The baseline recovery rate is the current rate of recovery for the category and is routinely back tested for accuracy. Each category will have a pessimistic and optimistic rate. The pessimistic rate is formulated as the worst recovery rate achieved in the preceding 10 years excluding outliers. The optimistic rate is formed from the best achieved rates over the past 10 years and where we are currently at the highest rate, management have agreed a small increase relative to other categories.

The Board agreed to take the worst recovery rates in the preceding 10 years to further illustrate its concern around the implications of an unknown Brexit outcome.

The Bank has an IFRS 9 Model Governance Control Framework which states its objective to ensure the models inputs and outputs are understood and agreed by relevant stakeholders. It incorporates procedures for models, their development and validation.

Critical accounting estimates and judgements

IFRS 9 impairment involves several important areas of judgement, including estimating forward looking modelled parameters (PD, LGD and EAD), developing a range of unbiased future economic scenarios, estimating expected lives and assessing significant increases in credit risk, based on the Group's experience of managing credit risk.

Within the BFD and CFD portfolios, which comprise large numbers of small homogenous assets with similar risk characteristics where credit scoring techniques are generally used, the impairment allowance is calculated using forward looking modelled parameters which are typically run at a cohort level.

For assets in Stage 3, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows across a range of recovery options are taken into account. These considerations can be subjective, but the recovery rates are routinely back-tested and used as the base case.

The Asset and Liability Committee considers the recovery rates, weightings and economic factors on at least a quarterly basis and where necessary puts forward changes to Board for approval.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to retained earnings.

Upon adoption of IFRS 9, the Group recognised additional impairment on its loans and receivables of £604,457.

Set out below is the reconciliation of the ending impairment allowances in accordance with IAS 39 to the opening loss allowances determined in accordance with IFRS 9.

	Allowance for impairment under IAS 39 as at 30 September 2018 £'000	Remeasurement £'000	ECL Under IFRS 9 as at 1 October 2018 £'000	ECL Under IFRS 9 as at 30 September 2019 £'000
Consumer lending	2,286	91	2,377	3,048
Business lending	2,084	513	2,597	4,471
Azule lending	-	-	-	122
Bridging loans	-	-	-	6
	4,370	**604**	**4,974**	**7,647**

	£'000
Remeasurement of ECL under IFRS 9	604
Deferred tax on remeasurement	(102)
Change in Equity due to impact on transition to IFRS 9	**502**

9. The 2019 Annual Report and Financial Statements will be posted to all shareholders on 7 February 2020 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.