



**PCF BANK**

Investor Presentation

February 2020

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*PCF Group plc is the AIM listed parent of specialist bank, PCF Bank*

PCF Bank is a well-established, profitable and growing financial services business which has been transformed by gaining a banking licence in 2017

We are one of the new generation of banks, making strong inroads into the very large lending markets now available to us

# Overview

1

Lending to

- Business Asset Finance
- Consumer Motor Finance
- Broadcast and Media
- Property Finance

Predominately broker introduced

2

£339m asset backed portfolio

£267m of retail deposits and over 6,250 savings customers

Total customer base > 21,250

3

74% of originations are in our prime credit grades

Diversified portfolio with a wide spread of risk

110 staff. Offices in City of London & Berkshire

4

Focus on return not just scale

Net Interest Margin 7.8%  
Return on Equity 12.6%  
Return on Assets 2.9%  
Impairment charge 0.8%  
Cost to Income Ratio 56%

5

Medium-term targets

Net Interest Margin > 7%  
Return on Equity 15%  
Return on Assets 2.75%  
Impairment charge <1%  
Portfolio £750m

6

Experienced Board and management team

Proven operating model delivering increasing profitability and sustainable growth

# Operational Highlights

Year ended 30 September 2019

*“Record new business originations delivers strong portfolio growth”*

## NEW BUSINESS ORIGINATIONS

▲ **86%**  
**£276m**

(2018: £148m)

## PORTFOLIO GROWTH

▲ **55%**  
**£339m**

(2018: £219m)

## RETAIL DEPOSITS

**6,250 customers**  
**£267m**

(2018: £191m)

- New revolving term loan facility of £30m, supporting retail deposit funding
- Balance sheet diversification through the acquisition of Azule and a new organic bridging property finance division.
- 74% of new business origination is for prime customers, with a low probability of default and clean credit profiles
- Impairment charge of 0.8% (2018: 0.5%), including adoption of IFRS 9
- Competitive deposit rates and an excellent customer experience continues to boost our portfolio of savings customers
- CET1 Capital Ratio of 18% (2018: 19.3%)



# Financial Highlights

Year ended 30 September 2019

*“Profits up 54% , Earnings per share up 35% and Return on Equity over our medium-term target”*

PROFIT BEFORE TAX

▲ **54%**  
**£8.0m**

(2018: £5.2m)

OPERATING INCOME

▲ **51%**  
**£22.2m**

(2018: £14.7m)

NET INTEREST MARGIN  
(NIM)

▼ **5%**  
**7.8%**

(2018: 8.2%)

EARNINGS PER SHARE

▲ **35%**  
**2.7p**

(2018: 2.0p)

COST-TO-INCOME

**Stable**  
**56%**

(2018: 57%)

RETURN ON ASSETS

**Stable**  
**2.9%**

(2018: 3.0%)

AVERAGE AFTER TAX  
RETURN ON EQUITY

▲ **22%**  
**12.6%**

(2018: 10.3%)

DIVIDEND

**0.4p**

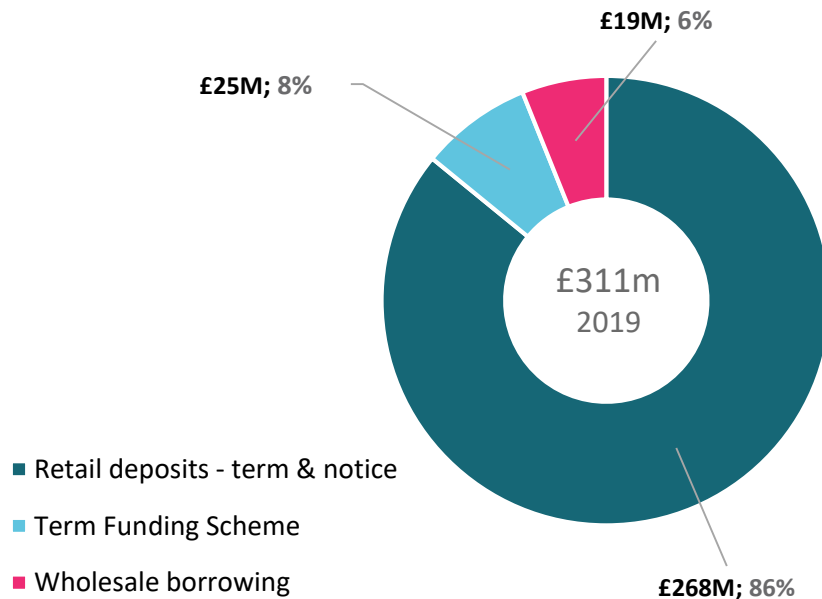
(2018: 0.3p)



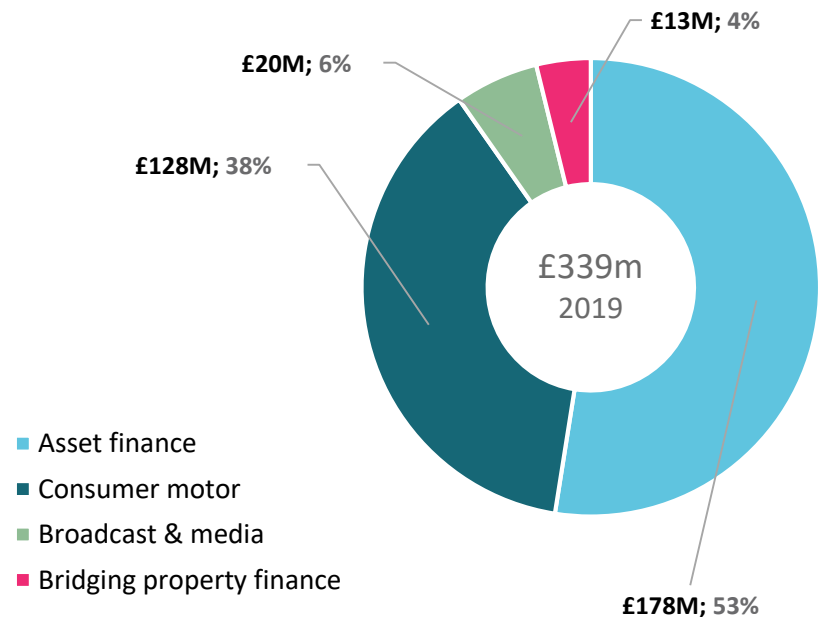
# PCF Bank



## Funding

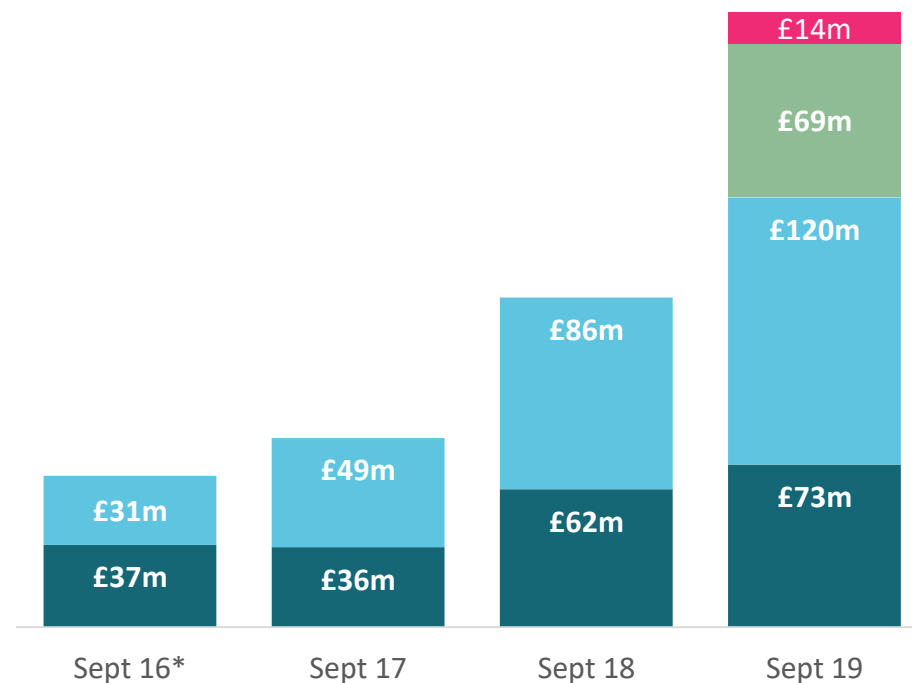


## Lending



# New Business Origination

- Business Finance up 40% to £120 million (43%)
- Consumer Finance up 18% to £73 million (27%)
- Azure Finance up 26% to £69 million (25%)
- Bridging Finance – £14 million (5%)
- 75% broker originated
- No PCP's. No residual positions on hire purchase and finance lease contracts



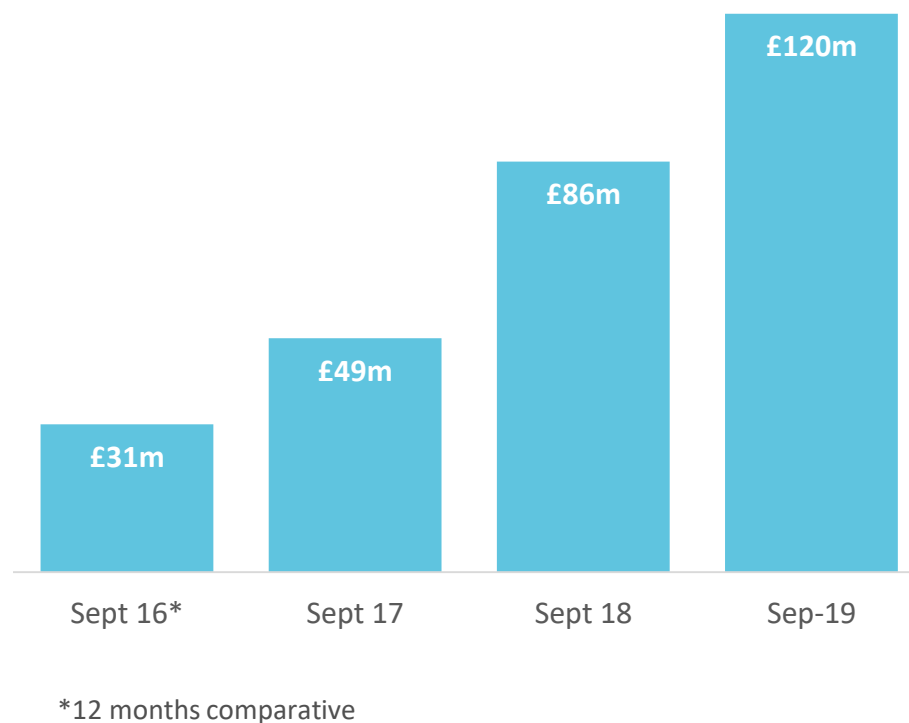
\*12 months comparative

■ Consumer Finance Division    ■ Business Finance Division  
■ Azure    ■ Bridging



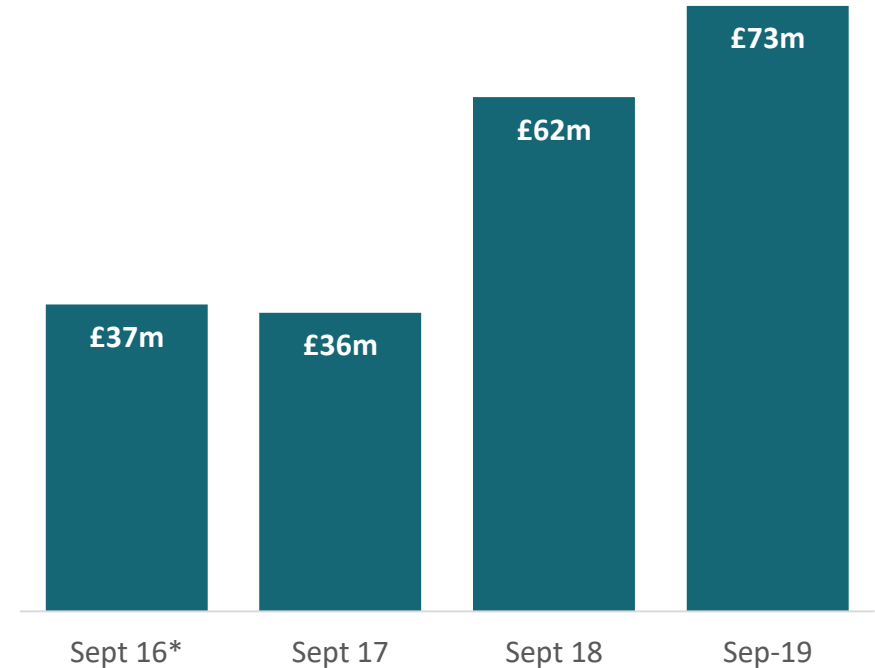
# Business Finance

- SME hire purchase / lease finance for vehicles, plant and equipment
- Market of £26bn in FYE September 2019, with a 7% growth rate (Finance & Leasing Association)
- Volume of £120m represents a market share of 0.5%
- Average deal size of £45k
- Success in penetrating prime segment of the market
- 71% of volumes in prime credit grades
- £178m portfolio at 30 September 2019 with over 5,700 customers
- Increasing network of broker intermediaries



# Consumer Finance

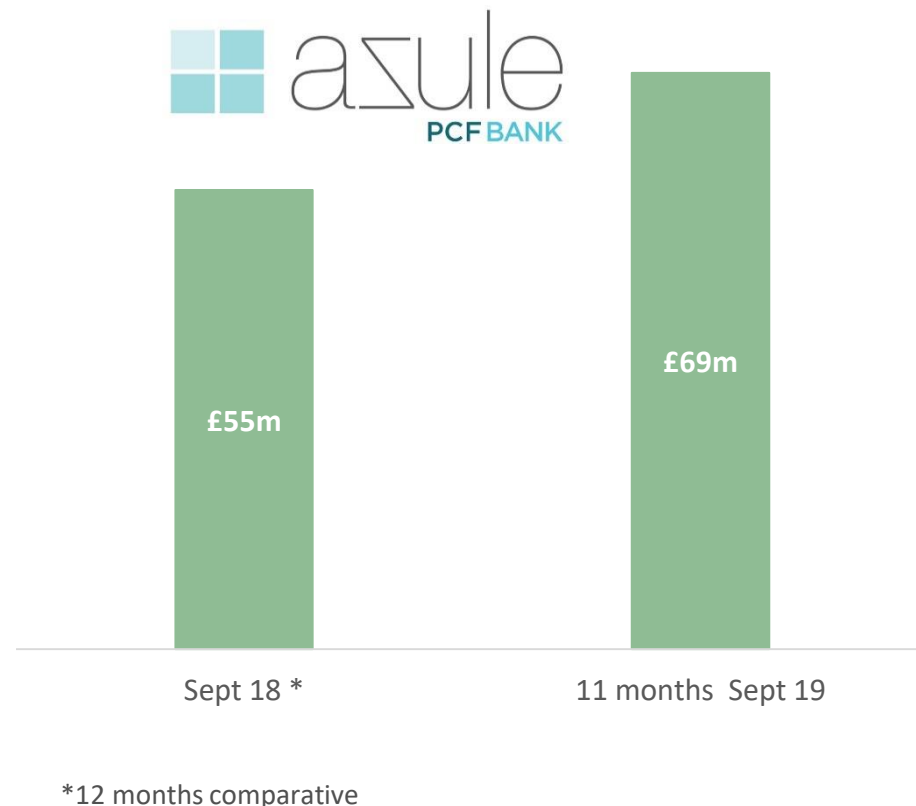
- Hire purchase finance for used cars and leisure vehicles
- Market of £18bn in FYE September 2019, with 6% growth rate (Finance & Leasing Association)
- Volume of £73m represents a market share of 0.4%
- Enhanced scorecard and automation will provide a new proposition to the prime market
- Average deal size of £17k
- 80% of volumes in prime credit grades
- Success of long term finance for leisure finance (horseboxes, motorhomes and classic cars)
- £128m portfolio at 30 September 2019 with over 11,000 customers



\*12 months comparative

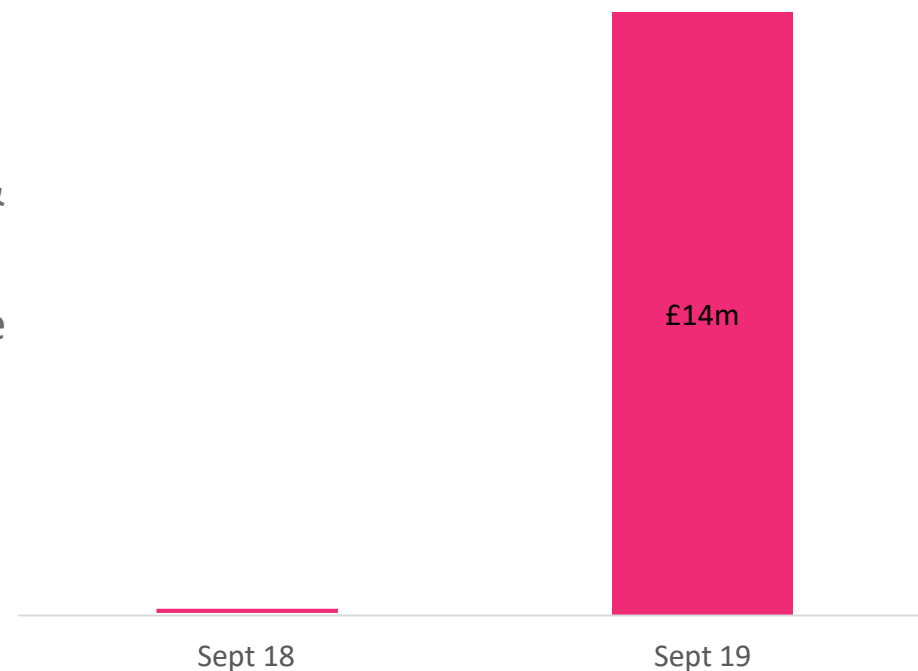
# Azule Finance

- Excellent first year of ownership
- SME hire purchase / lease finance for broadcast and media sector
- Direct manufacturer, distributor and customer relationships
- “Hybrid” model of writing business on balance sheet and introducing to third party banks for a fee
- £15m on balance sheet; £54m off balance sheet
- Average deal size of £44k
- 76% of volumes in prime credit grades
- £20m portfolio at 30 September 2019 with over 800 customers



# Bridging Property Finance

- First charge property finance for bridging purposes to professional investors
- Market of £4bn in FYE September 2019 (EY & Mintel)
- PCF volumes of £14m represent market share of 0.4%
- Average deal size of £636k
- Average LTV of 59%, average term 12 months
- 62% of volumes in prime credit grades
- £13m portfolio at 30 September 2019
- Successful completion of “pilot scheme” and objective to write £60 million of business in 2020



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# 2019 Achievements

*“Sustainable growth delivering increased profitability”*

- Grow the core businesses of asset finance and consumer motor finance by increased lending into the prime market
- Diversify the balance sheet with new asset classes; both through acquisition and organically
- Develop a much-improved proposition to the broker-introduced consumer motor finance market by automating credit decision making and proposal acceptance
- £15m Tier 2 capital facility to prepare for the next stage of growth, while continuing to deliver improving Return on Equity.
- Continue to invest in people, systems and infrastructure to build a bank that can support a £1bn portfolio

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# Future Strategic Initiatives

*“Putting the building blocks in place for greater digitalisation”*

- Launch our new streamlined system for consumer motor finance
- Trial direct to consumer products on our new platform
- Develop a market leading portal for SME lending
- Build out our Property Finance division beyond the pilot initiative
- Evaluate how Azure’s European capabilities can enhance our revenues
- Complete the Azure integration and monetise synergies
- Improve our customer journey for savers and borrowers with additional online functionality
- Optimise technology across the organisation to support scale and deliver efficiencies

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# Investment Case

*“A resilient operating model provides confidence for now and the future”*

- In lending to UK SMEs & consumers, PCF Bank is investing in the UK’s future success
- Powered by the banking licence, investment in technology is underpinning portfolio growth and service levels
- £63m of future operating income, already to hand on the balance sheet provides almost 65% of next financial year’s operating income expectation
- A management team with over 25 years’ experience each, over several credit cycles understand the need for prudent underwriting, sensible terms and the correct pricing for risk
- A financial services stock that isn’t residential mortgage or BTL focused and is free of legacy issues
- Is paying a dividend, qualifies for IHT relief and is on an attractive valuation
- A profitable business model and sustainable growth due to:
  - our small market share
  - diversified income streams
  - the quality of the portfolio
  - access to the retail deposit market; and
  - operational gearing



# Outlook

*“PCF Bank continues to succeed despite the uncertain economic environment. We are a new bank with a small market share, operating in very large markets. It is making us a standout performer.”*

Market Expectations 2019 – 2022				
	2019 (A)	2020	2021	2022
Net Interest Income (£m)	21.6	28.4	38.7	54.6
Base	100	131	179	253
Adj. Profit before Tax (£m)	8.0	10.5	14.7	20.4
Base	100	131	184	255
Adjusted EPS (p)	2.7	3.4	4.2	5.8
Base	100	126	156	215
Lending Portfolio (£m)	339	466	721	996
Base	100	137	213	294

Source – Consensus

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# Summary

- Strong portfolio growth will accelerate further with the launch of new prime motor proposition
- Results orientated business with a cautious risk appetite
- Longer-term aspirations of a £1 billion diversified balance sheet introducing new asset classes
- Track record of M&A and as a market consolidator
- A dividend policy that balances return with the capital requirements of a growing bank

*“PCF Bank has a substantial opportunity to grow its business and shareholder value in the coming years”*



**PCF BANK**

Appendices

# Income Statement

(£000's)	12 months ended 30 September 2019	12 months ended 30 September 2018	Comments
<i>Interest income and similar income</i>	34,517	25,494	
<i>Interest Expense and similar income</i>	(12,901)	(10,492)	
<b>Net interest income</b>	<b>21,616</b>	<b>15,002</b>	NIM reducing due to 75% of new business in prime
<i>NIM %</i>	<i>7.8%</i>	<i>8.2%</i>	
<i>Broker commission income</i>	1,023	0	Azule commission income
<i>Other Fees and commission income</i>	792	492	
<i>Fees and commission expense</i>	(1,154)	(844)	
<b>Net fee and commission income /(expense)</b>	<b>661</b>	<b>(352)</b>	
<b>Net operating income</b>	<b>22,277</b>	<b>14,650</b>	52% increase in income
Net loss on financial instruments at fair value through P&L	(64)	0	Increased expense as we further build for a bigger business
Administration expenses	(12,020)	(8,562)	
Impairment losses on financial assets	(2,175)	(915)	
<b>Profit before tax</b>	<b>8,018</b>	<b>5,173</b>	
Income tax expense	(1,624)	(981)	
<b>Profit after tax</b>	<b>6,394</b>	<b>4,192</b>	
<b>Earnings per share – basic &amp; diluted</b>	<b>2.7p</b>	<b>2.0p</b>	E.P.S. increased 35% period on period
<b>Annualised ROA</b>	<b>2.9%</b>	<b>2.8%</b>	Slight increase in ROA
<b>Average assets employed</b>	<b>275,601</b>	<b>182,520</b>	

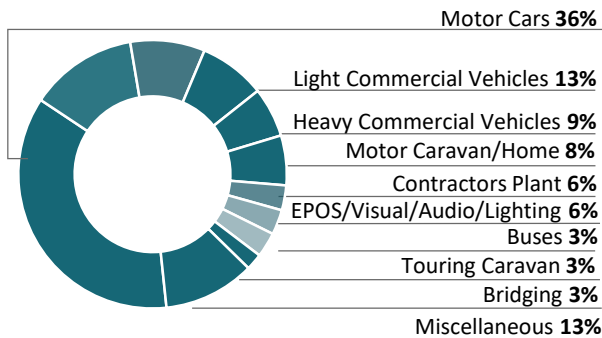
# Balance Sheet

(£000's)	30 September 2019	30 September 2018	Comments
<b>Assets</b>			
Cash and balances at central banks	7,371	21,338	
Loans and advances to customers	338,503	219,322	
Available for sale financial investments	19,638	39,902	
Property Plant and Equipment	579	224	
Goodwill and other Intangible assets	5,941	2,957	Includes goodwill for Azule
Deferred tax assets	1,169	1,185	
Trade and other assets	4,932	1,543	Increase relating to Azule and growing book
<b>Total assets</b>	<b>378,133</b>	<b>286,471</b>	
<b>Liabilities</b>			
Due to banks	44,412	48,881	Includes £25m of TFS funding
Due to customers	267,070	191,139	
Trade and other liabilities	7,896	3,899	
<b>Total liabilities</b>	<b>319,378</b>	<b>243,919</b>	
<b>Net assets</b>	<b>58,755</b>	<b>42,552</b>	
<b>Annualised ROE</b>	<b>12.6%</b>	<b>10.3%</b>	
<b>CET1 Ratio</b>	<b>18.0%</b>	<b>19.3%</b>	
<b>Liquid Coverage Ratio (LCR)</b>	<b>553%</b>	<b>499%</b>	

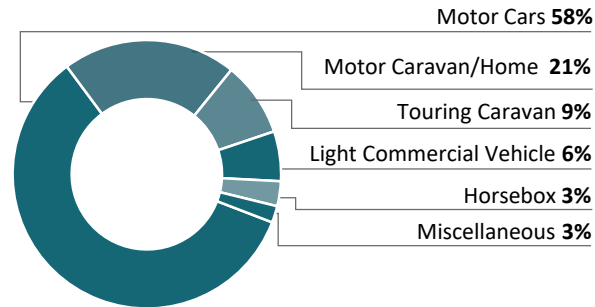
# Portfolio Analysis

30 September 2019

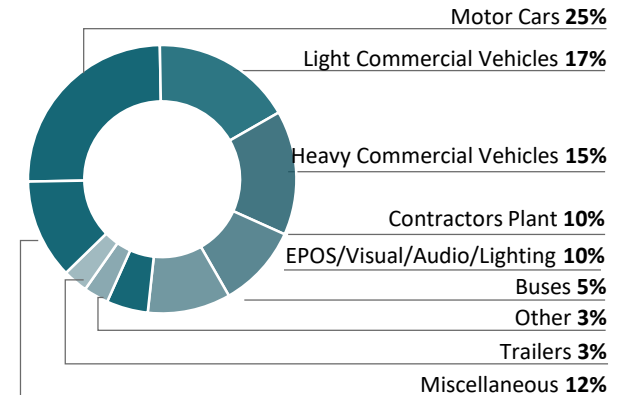
## Combined Summary-Assets Financed



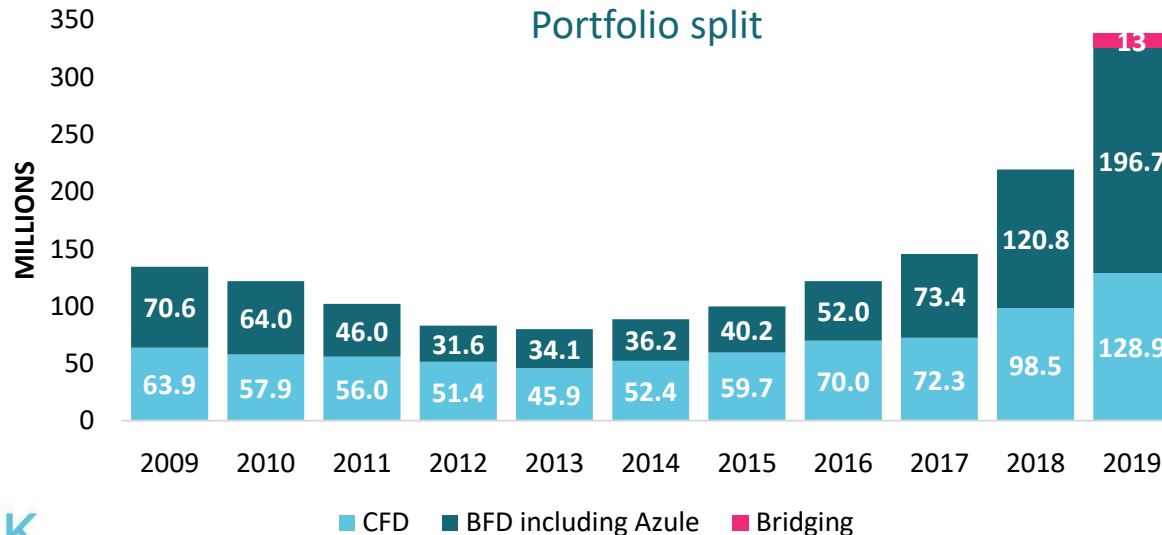
## Consumer Finance Division-Assets Financed



## Business Finance Division-Assets Financed



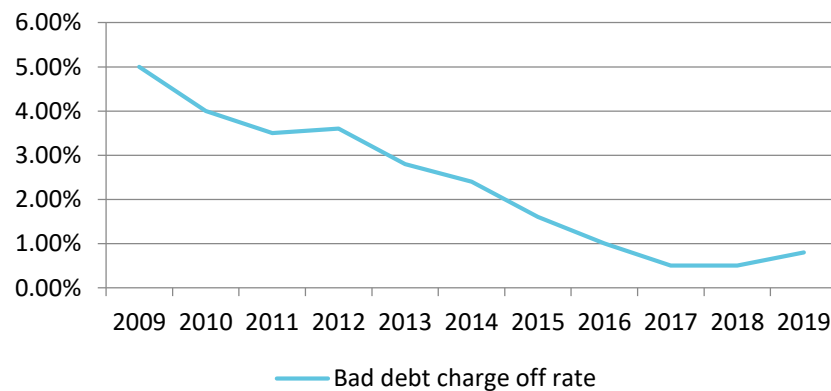
## Portfolio split



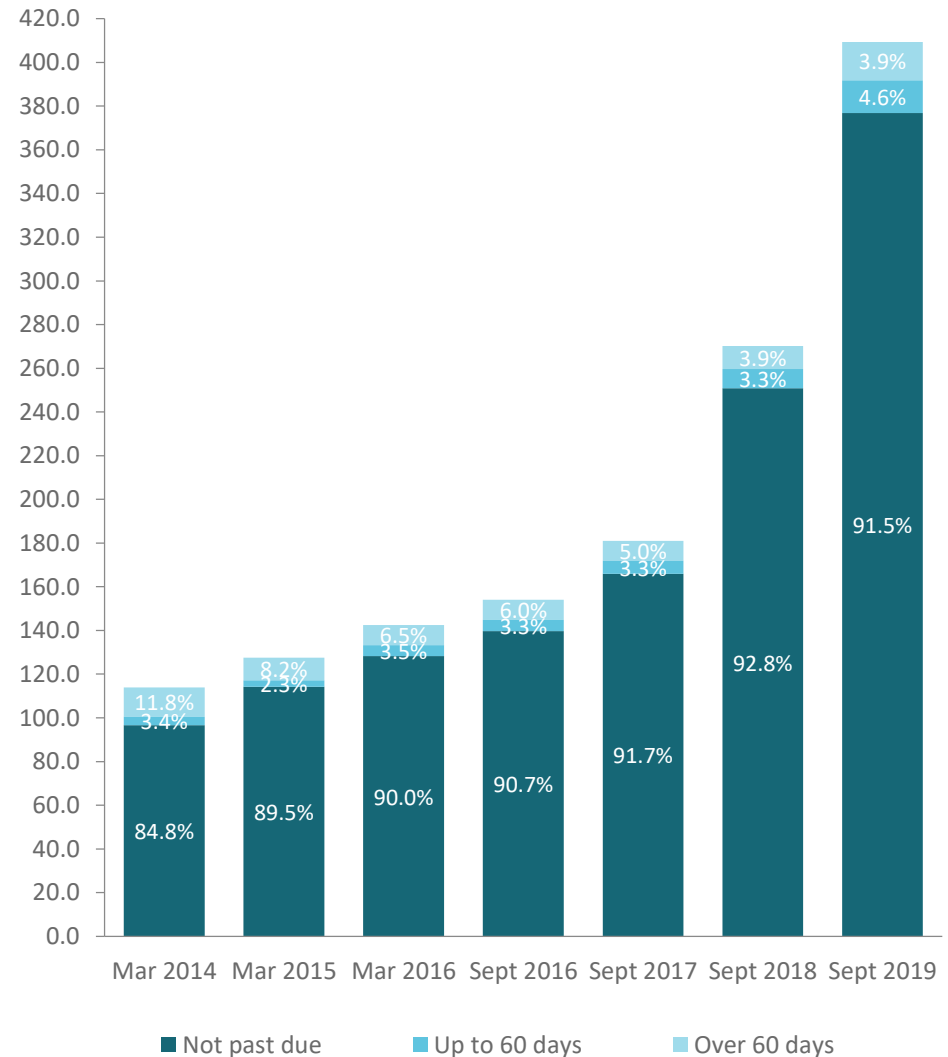
# Credit Quality

- Prescriptive underwriting criteria for risk, asset quality and valuation
- Detailed assessment of customer's ability to service debt
- 74% of all new business originations fall within our top four credit grades (2018: 70%)
- Over 60 days portfolio is stable in relative terms
- Small average transaction size provides a wide spread of risk

## Bad debt charge off rate

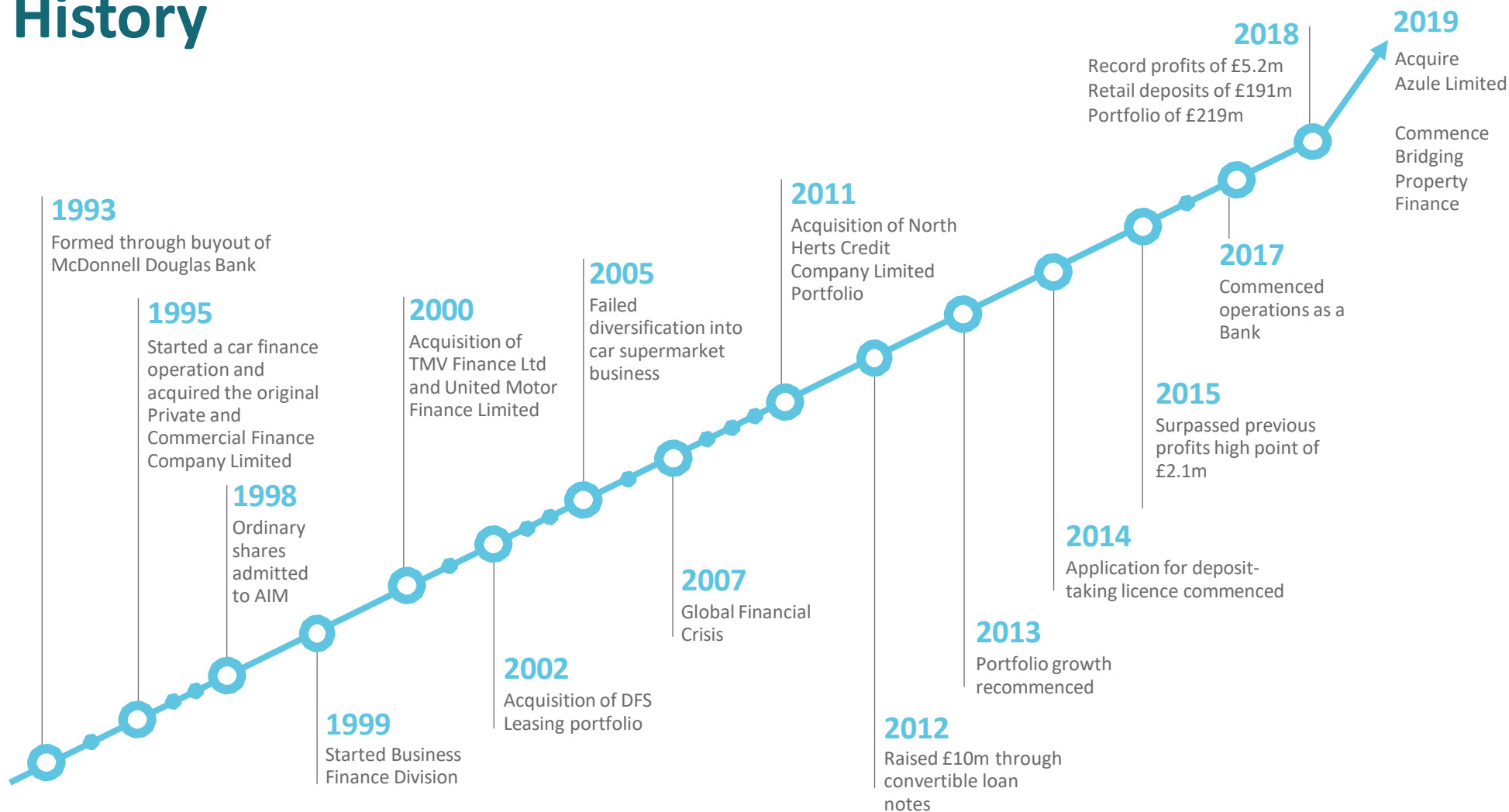


## Loan Book – Gross (£m)





# History



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# The Board

## Tim Franklin

**Non-Executive Chairman**  
Appointed on 06 December 2016

Tim has extensive experience in the financial services industry, having worked for over 30 years in the retail banking and building society sectors. Tim served as a non-executive director of the Post Office for 7 years until December 2019 and remains Chairman of Post Office Insurance. Additionally, he is a non-executive director of Computershare Loan Services. Tim is an Institute of Leadership & Management Level 7 Coach and works extensively with senior executives across many industries, both in the UK and internationally. In addition, he is an Associate of the Chartered Institute of Bankers.

Tim is a member of the Nomination Committee and Remuneration Committee

## David Morgan

**Non-Executive Director**  
Appointed 09 July 2012

David has over 35 year's experience in international banking, building his career at Standard Chartered Bank in Europe and the Far East. Since leaving Standard Chartered in 2003, he has been involved in a range of business advisory and non-executive roles. He is currently a non-executive director of Somers Limited, Bermuda Commercial Bank Limited and Waverton Investment Management Limited. He is also Chairman of Harlequin FC, the Premiership rugby club.

David is a member of the Audit & Risk Committee, the Nomination and Remuneration Committee.

## Christine Higgins

**Independent Non-Executive Director**

Appointed 13 June 2017

Christine is a Chartered Accountant with over 25 year's experience in asset finance, for UK and international banks. Over the last 9 years, she has served as a non-executive director on a number of boards in the health, housing, leisure and finance sectors, including as chair of the audit committee. She is currently a non-executive director of Buckinghamshire Building Society and chairs its audit committee and is a Trustee at Refuge.

Christine is the chair of the Audit & Risk Committee and a member of the Nomination and Remuneration Committee.

## Mark Brown

**Non-Executive Director**  
Appointed on 01 December 2015

Mark was Chairman of Stockdale Securities from November 2014 until it was bought by Shore Capital in April 2019. He was previously Chief Executive of Collins Stewart Hawkpoint and brings a wealth of experience and leadership in both small and large financial services business. Having worked as Global Head of Research for ABN AMRO and HSBC and as Chief Executive of ABN's UK equities business, Mark led the successful turnaround of Arbuthnot Securities followed by Collins Stewart Hawkpoint.

Mark is a member of the Nomination Committee and the Remuneration Committee.

# The Board

## David Titmuss

**Independent Non-Executive Director**

**Appointed on 11 July 2017**

David has over 25 years' experience in both large and small financial services organisations, with a particular emphasis on customer acquisition and database management. His corporate background includes working at a senior level in public and privately backed businesses. David has direct experience of credit decisioning and debt collection for companies and consumers gained from holding senior roles in the finance industry. He has also led companies both as CEO and as a board director. Latterly David headed the marketing function of webuyanycar.com and is recognised as an expert in digital marketing and advising businesses on cost effective customer acquisition.

David is the chairman of the Nomination Committee and Remuneration Committee.

## Marian Martin

**Non-Executive Director**

**Appointed on 25 July 2019**

Marian Martin is a chartered accountant with a background in risk management and audit. Most recently, Marian was at Virgin Money for 11 year's and was Chief Risk Officer throughout a period of significant growth and strategic development of Virgin Money and its risk function, including its successful listing on the London Stock Exchange. Marian was an Executive Director of the main trading companies of the Virgin Money group during this period. In addition, Marian is a non-executive director at Castle Trust and Starling Bank.

## Scott Maybury

**Chief Executive ('CEO')**

**Appointed on 12 January 1994**

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 PCF Group plc and was previously Finance Director until October 2008.

## Robert Murray

**Managing Director ('MD')**

**Appointed on 19 October 1993**

Robert holds the ACIB Banking Diploma and has over 40 year's banking and finance experience. He has extensive experience in both lending to personal, corporate and international customers. He is one of the founding directors of PCF Group plc.

## David Bull

**Finance Director ('FD')**

**Appointed on 03 August 2015**

David holds a first class degree in Mathematics and Statistics and is a qualified chartered accountant. After qualifying in 1996 he has worked in the Banking sector across a number of institutions including KPMG, Deutsche Bank and was interim Chief Financial Accountant at the Bank of England. Before joining PCF Group, David was a Director of Finance and Company Secretary at Hampshire Trust Bank plc, the specialist challenger bank where he was instrumental in setting up their banking operations.

# Competitive Environment

## Consumer Finance



Close Motor finance



## Business Finance



Hitachi Capital

