



PCF BANK

Preliminary Results
December 2020

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Presenters: Scott Maybury, CEO
Nick Price, Interim CFO
Robert Murray, MD

PCF Bank is a specialist bank listed on the AIM Market

PCF Bank is one of a new generation of banks, making successful inroads into the very large lending markets in the UK

Overview

1

Lending divisions

- Consumer Motor Finance
- Business Asset Finance
- Azure Broadcast & Media Finance
- Property Bridging Finance

2

£434m asset backed portfolio

Funded by £342m of retail deposits (over 7,950 savings customers)

£62m drawn on Term Funding Schemes

3

Total customer base > 29,500

85% of originations are in our prime credit grades

4

Profitability down but robust performance

Net Interest Margin 6.9%

Underlying return on Equity 5.2%

Cost to Income ratio 55.6%

5

Significantly higher impairment charges of £7.8m, mainly due to Covid

Partial impairment of £1.75m of Azure goodwill

Loan book forbearance now less than 7% of total portfolio

6

Strong balance sheet

CET1 ratio 17.7%

Liquidity coverage ratio of 673%

Operational Highlights

Year ended 30 September 2020

“Resilience in a year of maximum disruption”

NEW BUSINESS ORIGINATIONS

▼ 2%
£270m

(2019: £276m)

PORTFOLIO GROWTH

▲ 28%
£434m

(2019: £339m)

RETAIL DEPOSITS

7,950 customers
£342m

(2019: £267m)

- Predominantly retail deposit funding but supported by wholesale debt facilities and access to UK Treasury Term Funding Schemes
- Diversified funding model continues to drive lower cost of funds
- Asset diversification through the growth of the new property bridging finance division
- 79% of loan book is for prime customers, with a low probability of default and clean credit profiles
- Impairment provisioning prudent and realistic for forecast economic downturn



Financial Highlights

Year ended 30 September 2020

“Profitability impacted by credit and goodwill impairment charges”

UNDERLYING PROFIT
BEFORE TAX

▼ **51%**
£3.9m

(2019: £8.0m)

OPERATING INCOME

▲ **19%**
£26.5m

(2019: £22.3m)

NET INTEREST MARGIN
(NIM)

▼ **11%**
6.9%

(2019: 7.8%)

EARNINGS PER SHARE

▼ **78%**
0.6p

(2019: 2.7p)

COST-TO-INCOME

55.6%

(2019: 55.6%)

UNDERLYING RETURN ON
EQUITY

5.4%

(2019: 12.6%)

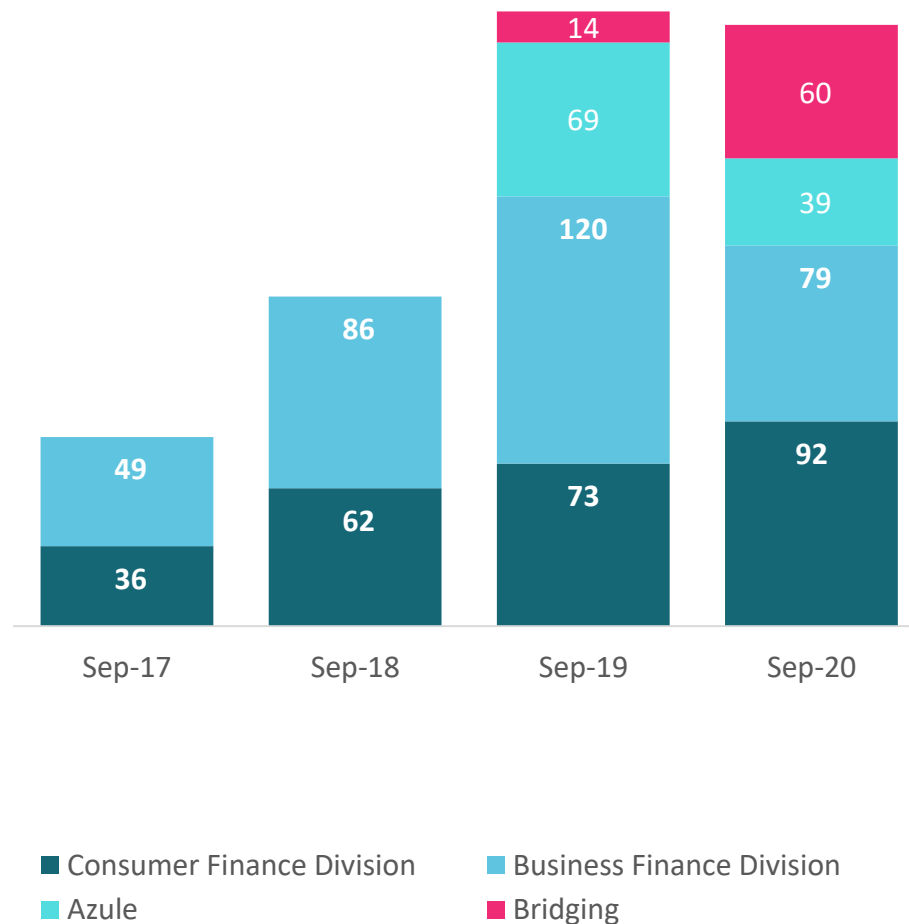
TOTAL CAPITAL RATIO

19.5%

(2019: 18%)

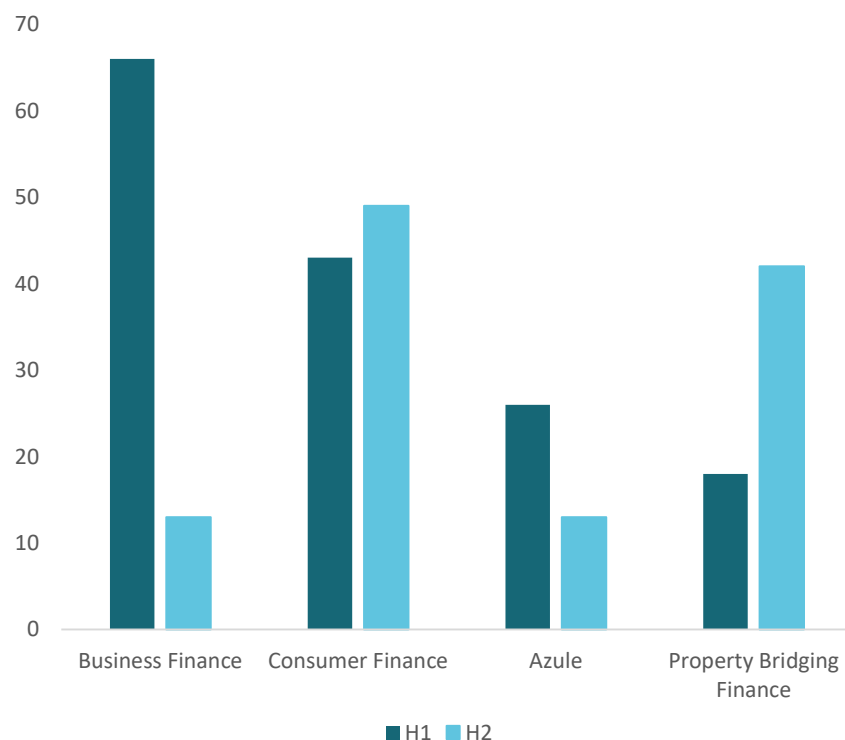
New Business Volumes

- Consumer Finance up 26% to £92m (34% of originations)
- Business Finance down 34% to £79m (29%)
- Azure Finance down 43% to £39m (15%)
- Property Bridging Finance up 328% to £60m (22%)
- 85% in prime credit grades (2019 : 74%)



New Business Volumes

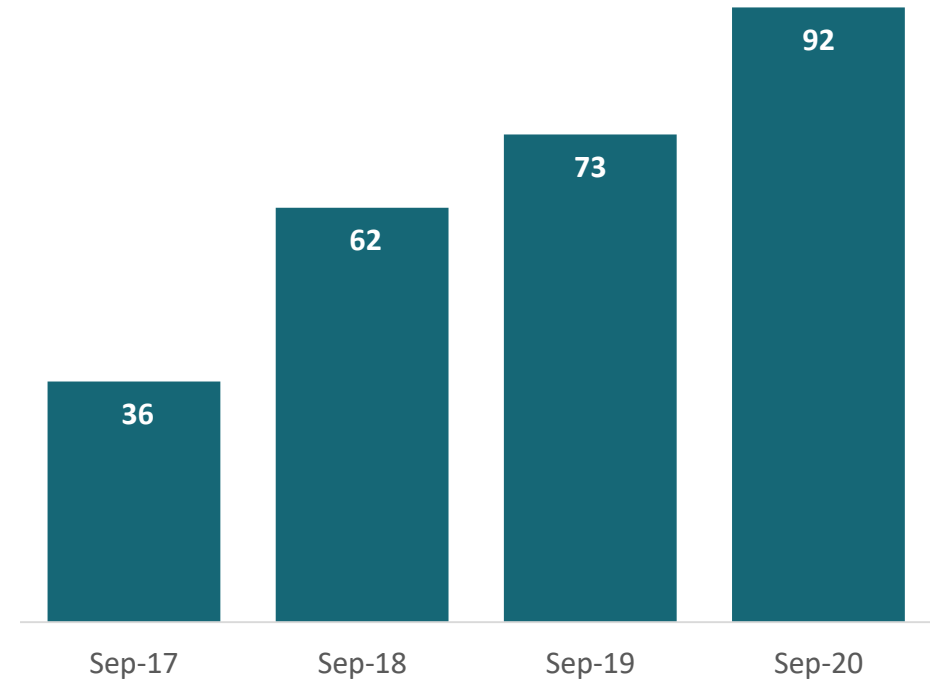
New business comparison (H1 v H2)



- Business Finance 80% fall in H2 compared to H1 as SMEs held back on investment plans and made use of CBILS and BBLS products
- Consumer Finance 14% increase, helped by prime proposition, growth of leisure vehicle business and some competitors temporarily withdrawing from the market
- Azure Finance down 50% as industry effectively shut down and customers made use of CBILS and BBLS products
- Property Bridging Finance up 133% as PCF brand gained traction with introducers, while some non-bank lenders withdrew from the market.

Consumer Finance

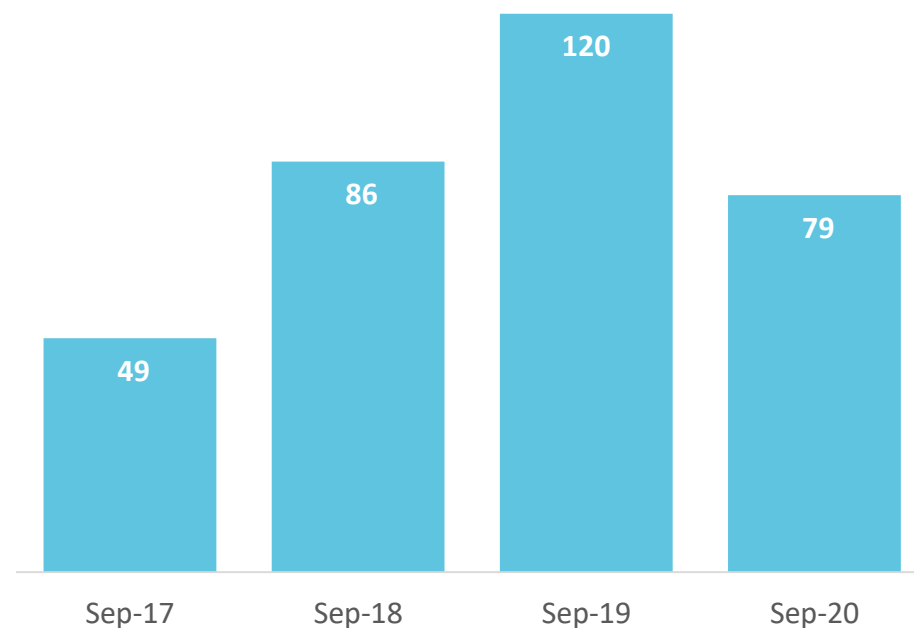
- Hire purchase finance for used cars and leisure vehicles
- Successful launch of automated prime proposition driving success
- Demand remained robust during pandemic
- Market of £16.5bn in FYE September 2020*
- PCF volumes of £92m represent market share of 0.6%
- Average deal size of £18k
- 93% of volume in prime credit grades
- Success in longer term finance for leisure finance (horseboxes, motorhomes and classic cars)
- £167m portfolio at 30 September 2020 with over 12,700 customers



* Source: FLA

Business Finance

- SME hire purchase/lease finance for vehicles, plant and equipment
- Demand affected by
 - Lower investment in assets by SMEs
 - Government support schemes (CBILS/BBLs)
- Market of £26bn in FYE September 2020*
- PCF volumes of £79m represent market share of 0.3%
- Average deal size of £47k
- 78% of volume in prime credit grades
- £184m portfolio at 30 September 2020 with over 5,800 customers

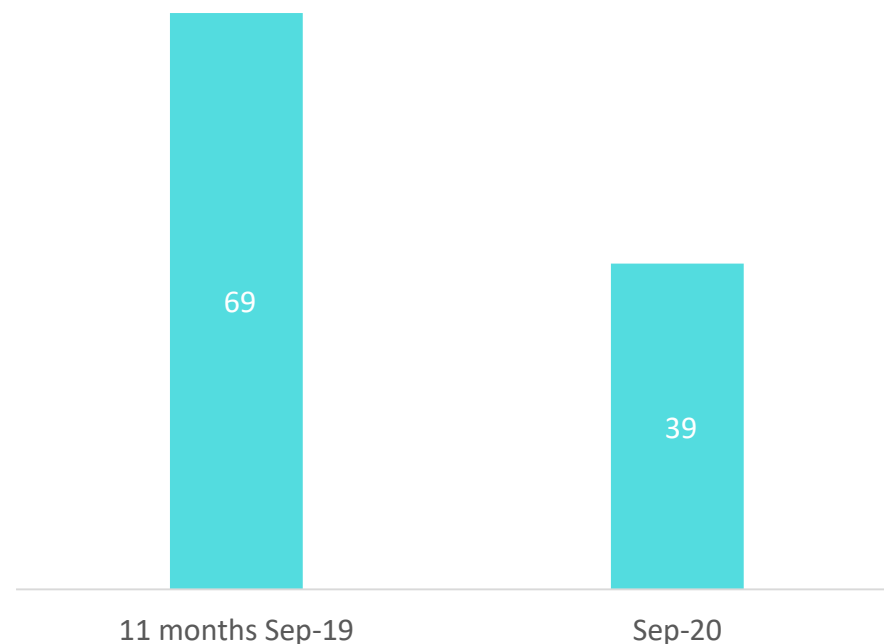


* Source: FLA

Azule Finance

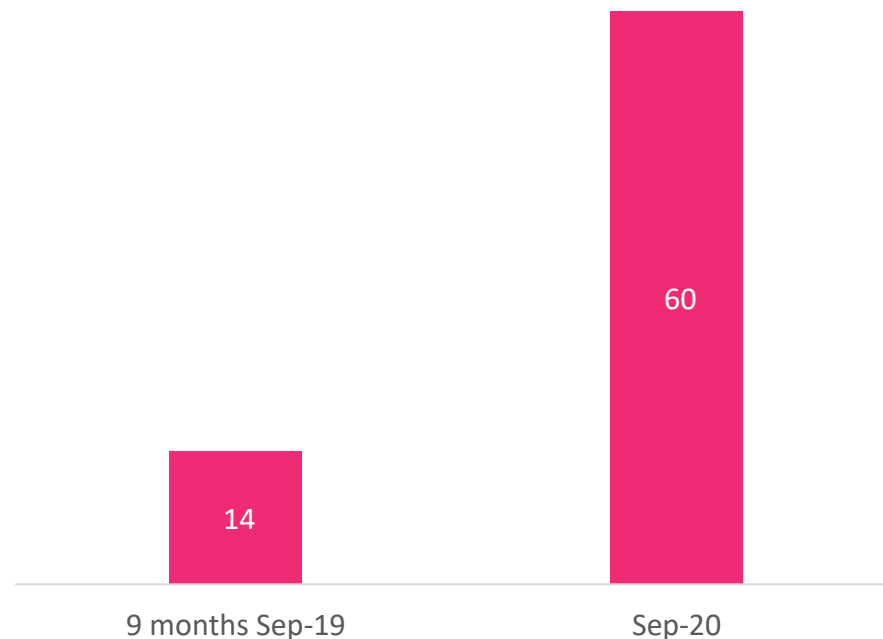


- SME hire purchase/lease finance for broadcast and media sector
- Direct manufacturer, distributor and customer relationships
- “Hybrid” model of writing business on balance sheet and introducing to third party banks for a fee
- Reduced volume of £39m due to shutdown of TV/film production and live events
- Potential to recover strongly as on-demand streaming content (e.g. Netflix, Disney+) is in high demand
- £23m portfolio at 30 September 2020 with over 700 customers



Property Bridging Finance

- First charge property finance for bridging purposes to professional investors and developers
- Very successful first full year of operations
- Market of £4bn in FYE September 2020*
- PCF volumes of £60m represent market share of 1.5%
- Average deal size of £607k
- Average LTV of 60%
- 81% of volume in prime credit grades
- £59m portfolio at 30 September 2020

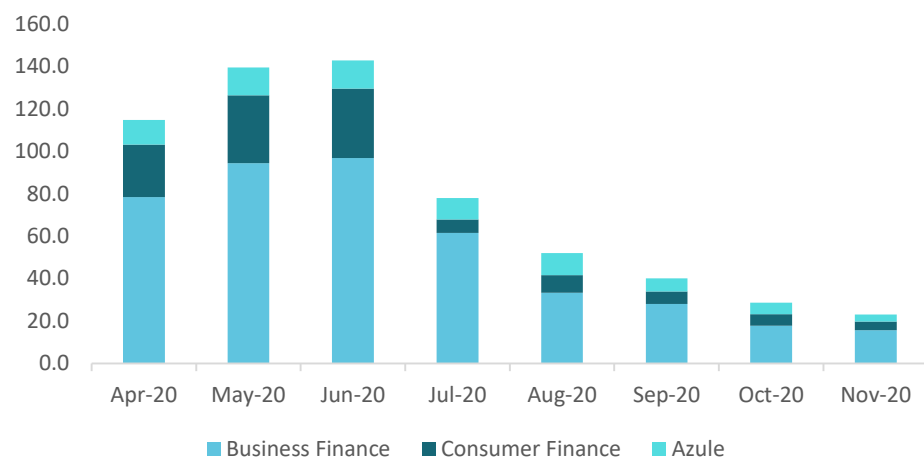


* Source: EY & Mintel

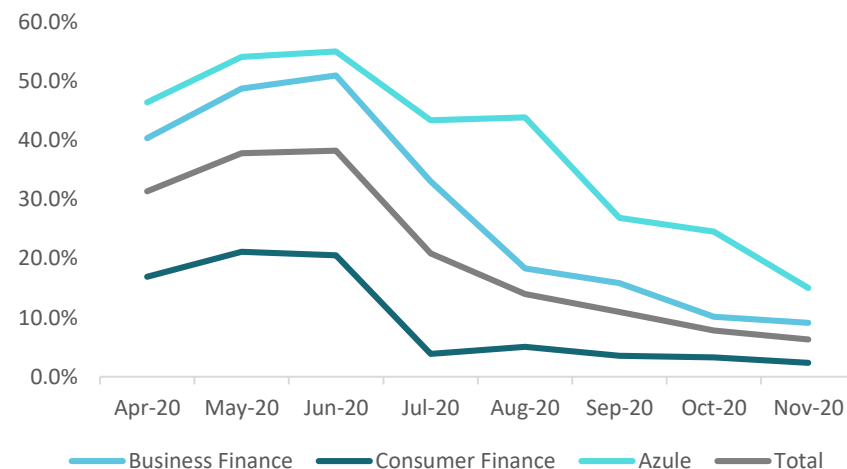
Forbearance

- First requests for forbearance came from Azure and coach/bus customers in late February/early March
- Constant increase in requests from customers during 1st lockdown, many for precautionary reasons, resulting in a peak in May 2020 of £139.4 million (37.8% of portfolio)
- Gradual reduction during summer months as customers resumed payments after a 3 months payment holiday – reducing to £40 million (10.9% of portfolio) by 30 September 2020
- Further reduction to £23 million (6.3% of portfolio) by 30 November 2020
- Lowest forbearance in Consumer Finance Division which stood at 2.3% of portfolio as at 30 November 2020
- Business Finance Division at 9.1%; Azure at 15.0% as at 30 November 2020

Forbearance levels (£m)



Percentage of portfolio in forbearance



2020 Achievements

“Operating model displays resilience”

- Growth in core consumer motor finance through automation of prime proposition
- Diversification of the balance sheet through new property bridging finance business
- Operational resilience supports colleagues and maintains excellent service for customers
- Close capital and liquidity management throughout the pandemic
- Continue to invest in people, systems and infrastructure to build a bank that can support a strongly growing portfolio

Future Operating Model

“Putting the building blocks in place for greater digitalisation”

- Launched operational review of customer and account journey
- Optimise technology across the organisation to support scale and deliver efficiencies
- Launch a market leading portal for SME lending in Q1
- Assess market opportunities for future diversification, M&A and portfolio acquisition

Investment Case

“Investment in people, platform and automation will drive future successes”

- £69m of future contracted income provides almost 65% of next year’s operating income
- A management team with over 25 years’ experience each and over several credit cycles will continue to successfully navigate through a difficult economic environment
- Competitive advantage of banking licence
- Investment in systems will deliver outstanding service levels
- A robust business model and sustainable growth due to:
 - our relatively small market share
 - our diversified income streams
 - balance sheet strength
 - access to the retail deposit market
 - enhanced infrastructure will deliver increased operational gearing

Outlook

“As normality returns PCF Bank will have the opportunity to grow its business and shareholder value”

1

Well positioned once UK recovers from pandemic

Prime quality loan book underpins profitability in uncertain times

2

Reduced impairment charge expected in FY21

Income embedded in £434m loan book

Process efficiency will drive cost control

3

A medium-term target of a £750m portfolio by September 2023

4

Retain a cautious risk appetite but keep under review

Current prime focus will result in further NIM compression in near-term

5

Continued investment in new business lines, talent, our operating platform and the governance structure

Digitalise more of the business to enable scale

6

Target and objectives to be reset when better visibility

Dividend to be considered at 2021 Interim results



PCF BANK

Appendices

Income Statement

(£000's)	12 months ended 30 September 2020	12 months ended 30 September 2019	Comments
<i>Interest income and similar income</i>	42,344	34,499	
<i>Interest expense and similar income</i>	(15,713)	(12,884)	
Net interest income	26,631	21,615	NIM reducing due to 79% of new business in prime
<i>NIM %</i>	6.9%	7.8%	
<i>Broker commission income</i>	1,470	1,023	
<i>Other fees and commission income</i>	-	792	
<i>Fees and commission expense</i>	(1,594)	(1,154)	
Net fee and commission income /(expense)	(124)	661	
<i>Net loss on financial instruments at fair value through P&L</i>	(44)	(63)	Increase primarily due to potential Covid-19 credit losses
<i>Impairment losses on financial assets</i>	(7,805)	(2,175)	
Net operating income	18,658	20,038	
<i>Administration expenses</i>	(14,800)	(12,020)	70% write down on goodwill of acquisition
<i>Impairment losses on goodwill</i>	(1,750)	-	
Profit before tax	2,108	8,018	
<i>Income tax expense</i>	(655)	(1,624)	
Profit after tax, being total comprehensive income, attributable to owners	1,453	6,394	
<i>Earnings per share – basic & diluted</i>	0.6p	2.7p	
RoA	0.6%	2.9%	
<i>Average assets employed</i>	375,683	275,601	

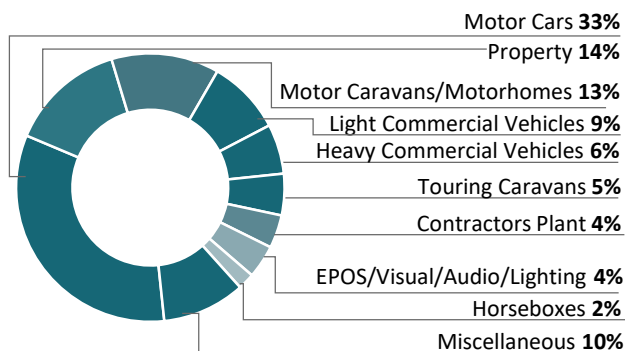
Balance Sheet

(£000's)	30 September 2020	30 September 2019	Comments
Assets			
Cash and balances at central banks	24,731	7,371	
Loans and advances to customers	433,694	338,503	
Debt instruments	9,095	19,638	
Property Plant and Equipment	2,605	579	IFRS16 – capitalisation of property leases
Goodwill and other Intangible assets	4,260	5,941	
Deferred tax assets	1,494	1,105	
Trade and other assets	2,794	4,932	
Total assets	478,673	378,069	
Liabilities			
Due to banks	62,620	44,412	Includes £62m from UK TFSME
Due to customers	342,046	267,070	
Other borrowed funds	7,126	-	Tier 2 capital facility
Derivative financial liabilities	80	63	
Trade and other liabilities	7,435	7,769	
Total liabilities	419,307	319,314	
Net assets	59,366	58,755	
RoE	2.3%	12.6%	
CET1 Ratio	17.7%	18.0%	
Liquidity Coverage Ratio (LCR)	673%	553%	

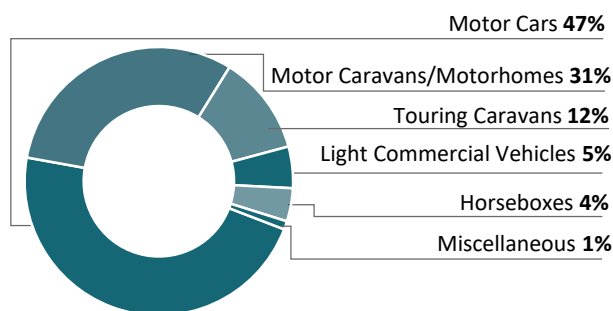
Portfolio Analysis

30 September 2020

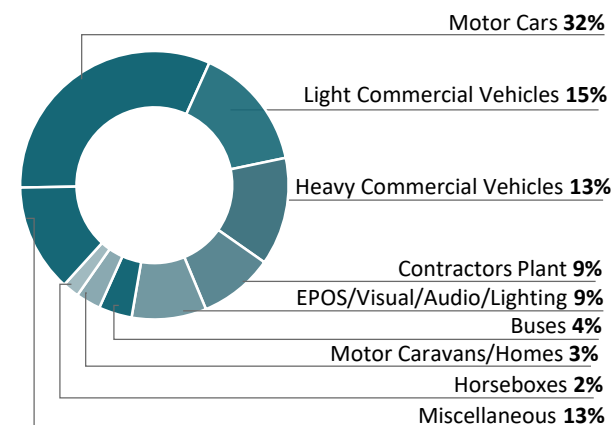
Combined Summary-Assets Financed



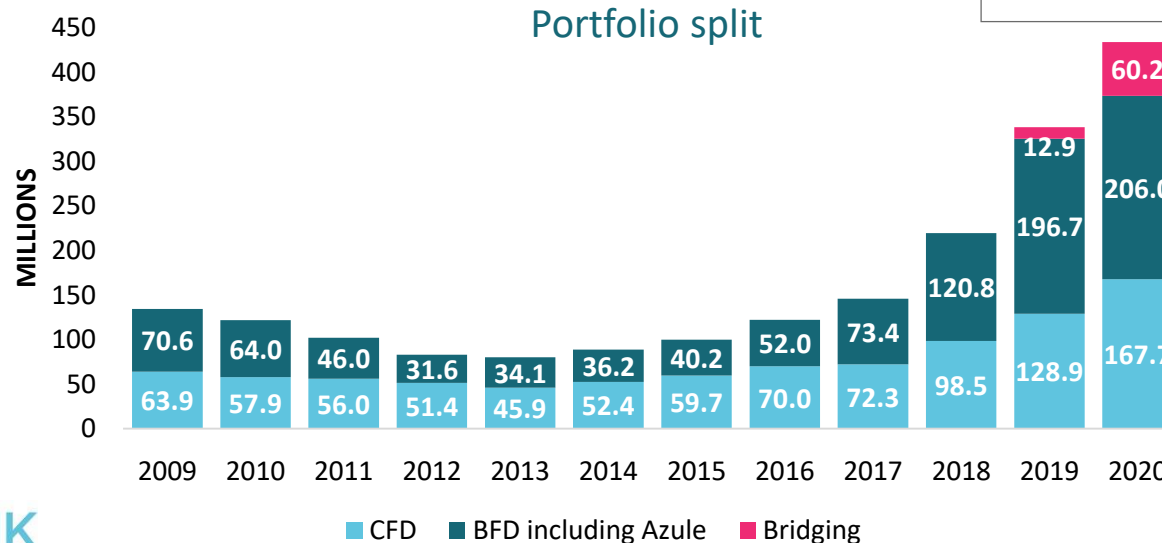
Consumer Finance Division-Assets Financed



Business Finance Division-Assets Financed



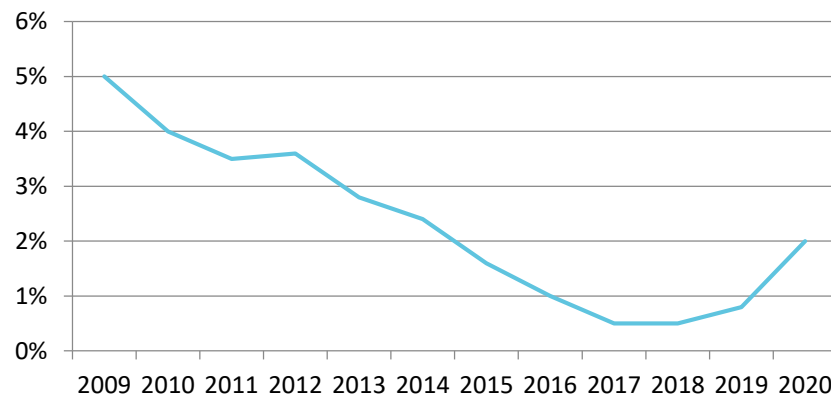
Portfolio split



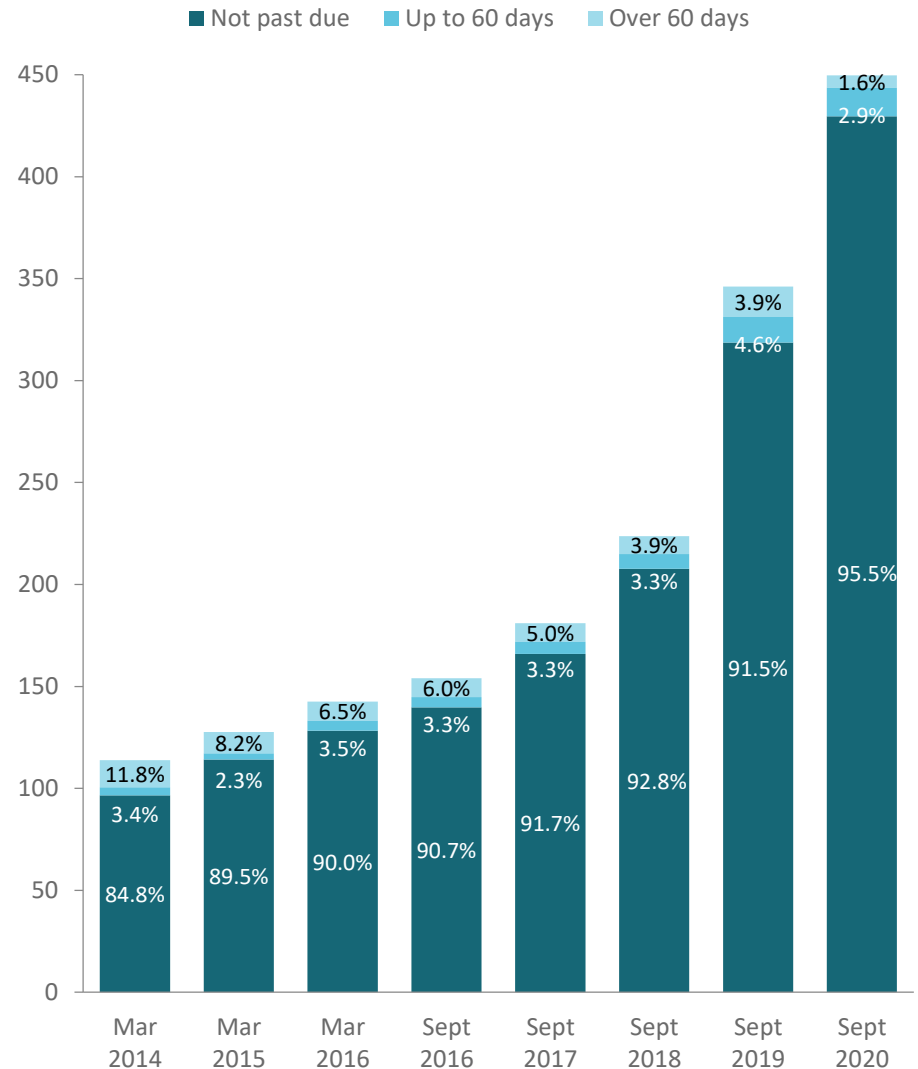
Credit Quality

- Prescriptive underwriting criteria for risk, asset quality and valuation
- Detailed assessment of customer's ability to service debt
- 85% of all new business originations fall within our top four credit grades (2019: 74%)
- Over 60 days portfolio is stable in relative terms
- Small average transaction size provides a wide spread of risk

Impairment charge (%)



Loan Book – Gross (£m)



Competitive Environment

Consumer Finance



Close Motor finance



Hitachi Capital



Hitachi Capital

