



**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
- Azule 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 Azule 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%)

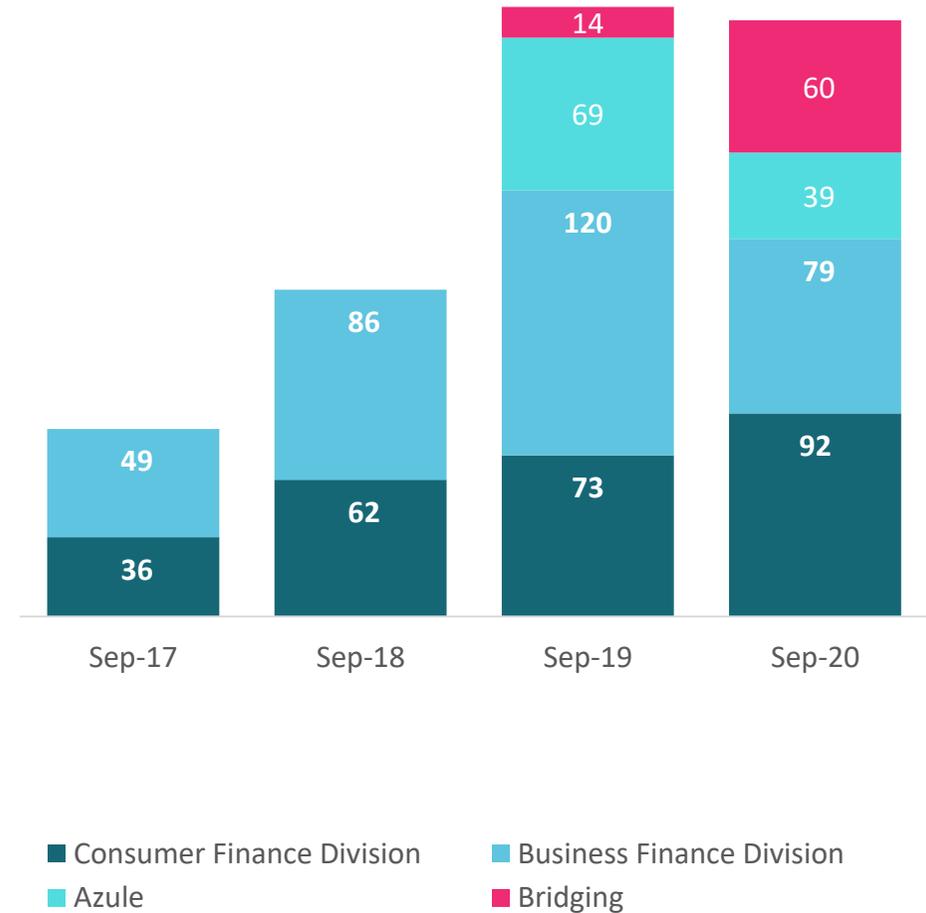
TOTAL CAPITAL RATIO

**19.5%**

(2019: 18%)

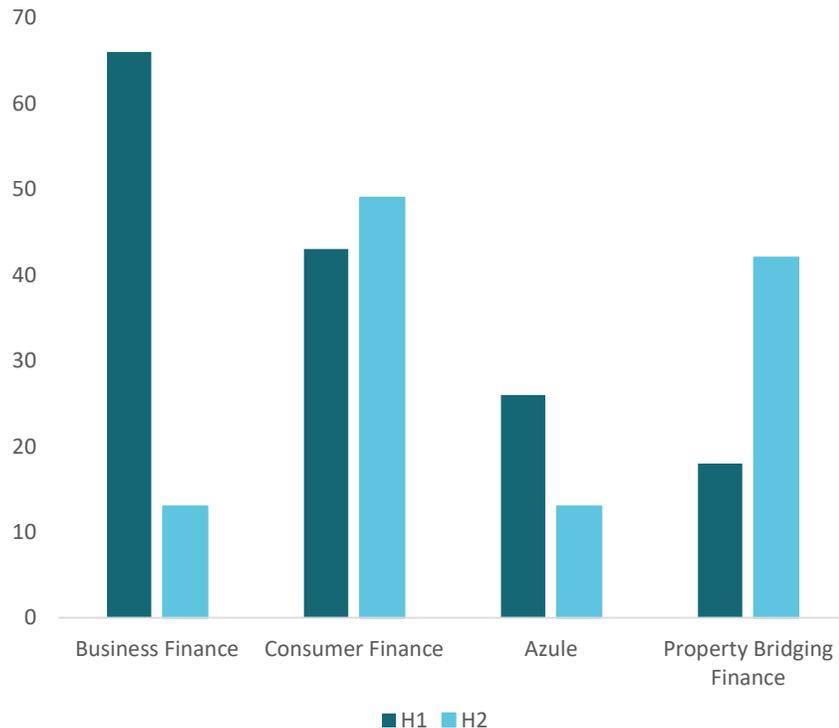
# New Business Volumes

- 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

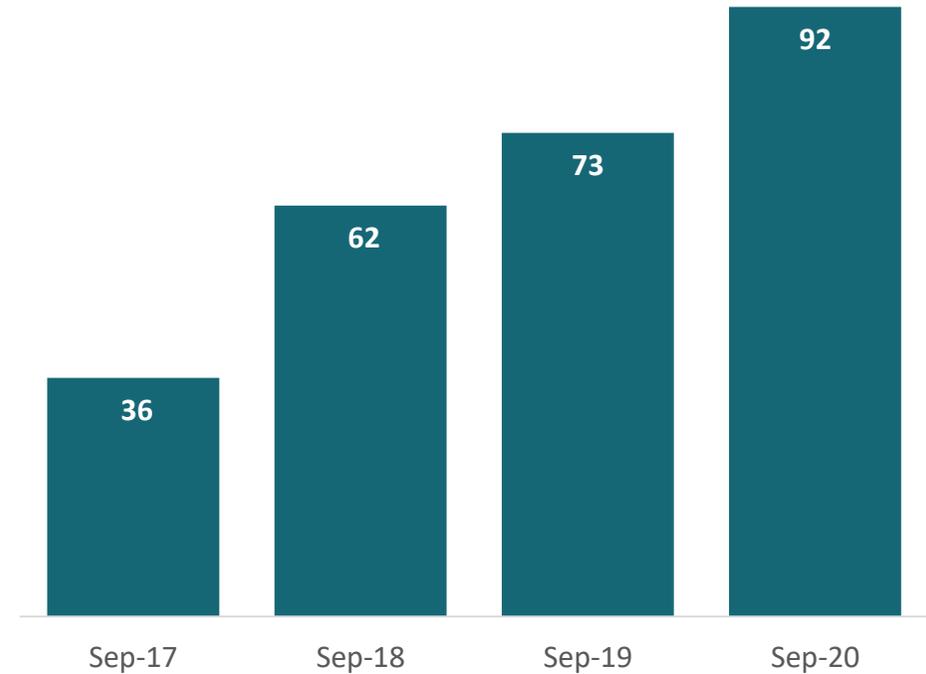
New business comparison (H1 v H2)



- 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

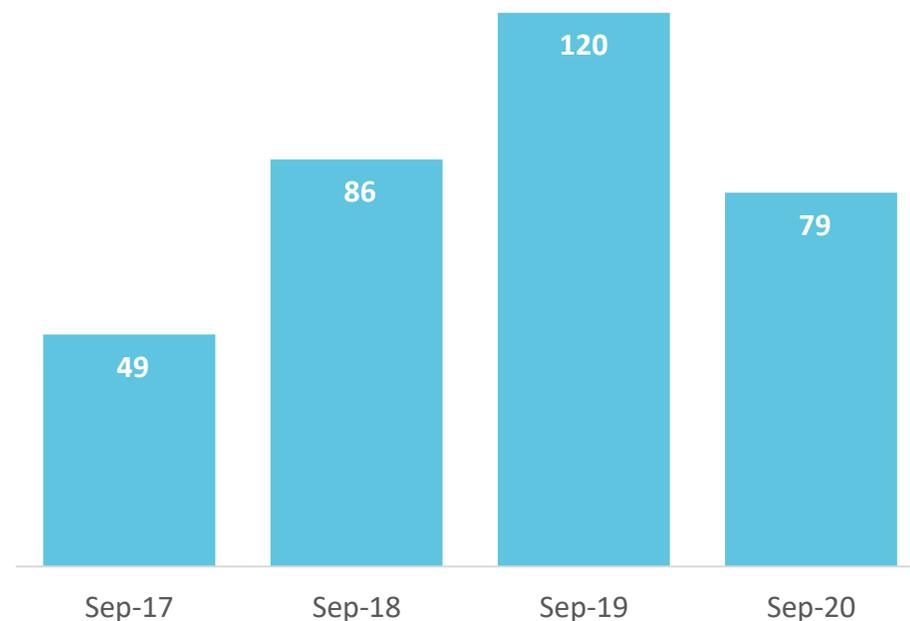
- Hire purchase finance for used cars and leisure vehicles
- Successful launch of automated prime proposition driving success
- Demand remained robust during pandemic
- Market of £16.5bn in FYE September 2020\*
- PCF volumes of £92m represent market share of 0.6%
- Average deal size of £18k
- 93% of 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

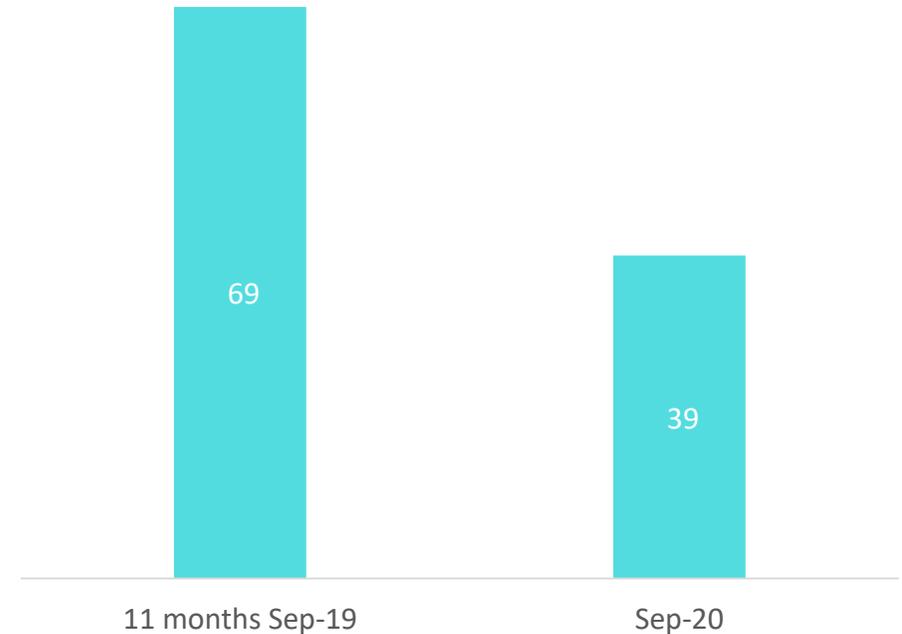


\* Source: FLA

# Azule Finance

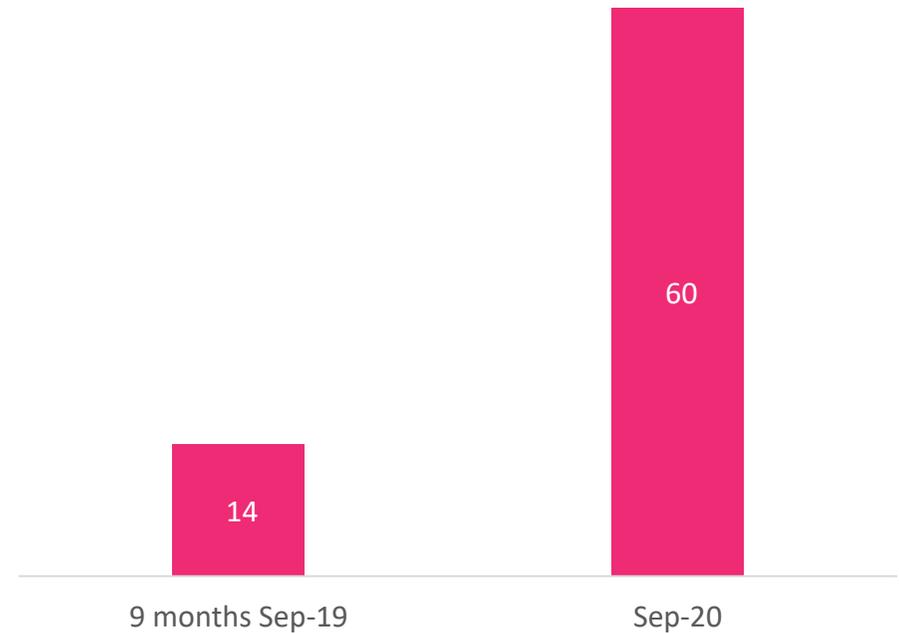


- SME hire purchase/lease finance for broadcast and media sector
- Direct manufacturer, distributor and customer relationships
- “Hybrid” model of writing business on balance sheet and introducing to third party banks for a fee
- Reduced volume of £39m due to shutdown of TV/film production and live events
- 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

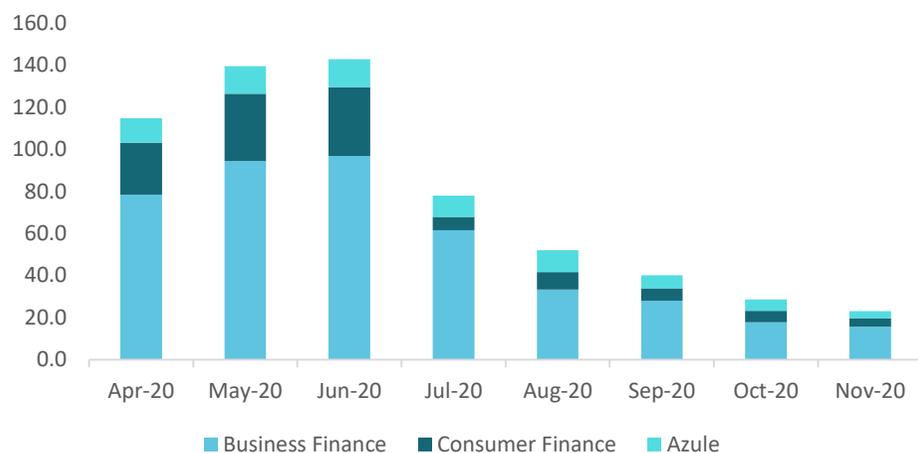


\* Source: EY & Mintel

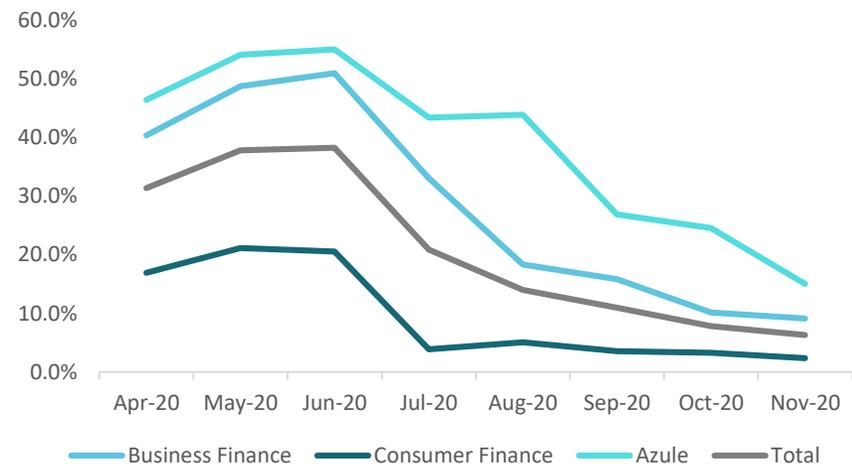
# Forbearance

- First requests for forbearance came from Azule and coach/bus customers in late February/early March
- Constant increase in requests from customers during 1<sup>st</sup> 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%; Azule at 15.0% as at 30 November 2020

Forbearance levels (£m)



Percentage of portfolio in forbearance



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# 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

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# 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

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

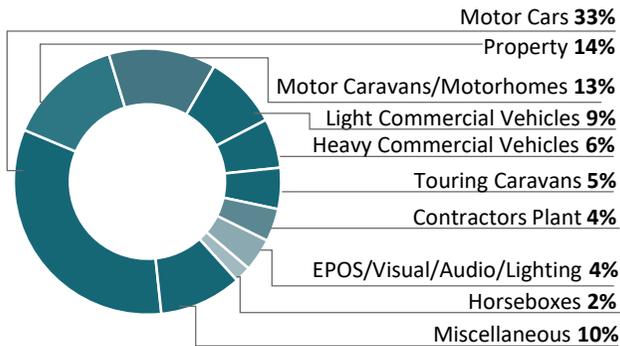
# Balance Sheet

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

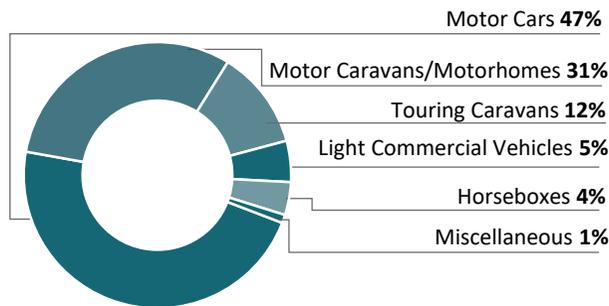
# Portfolio Analysis

## 30 September 2020

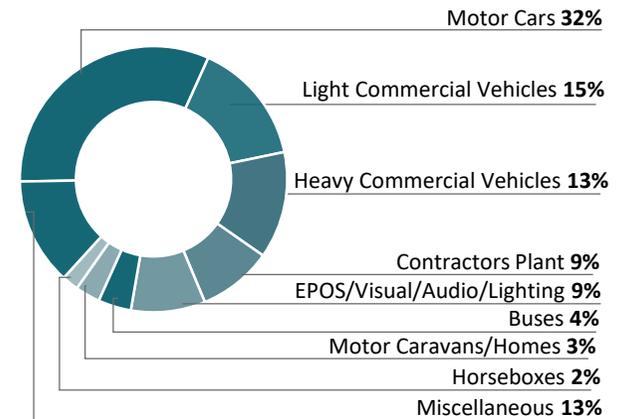
### Combined Summary-Assets Financed



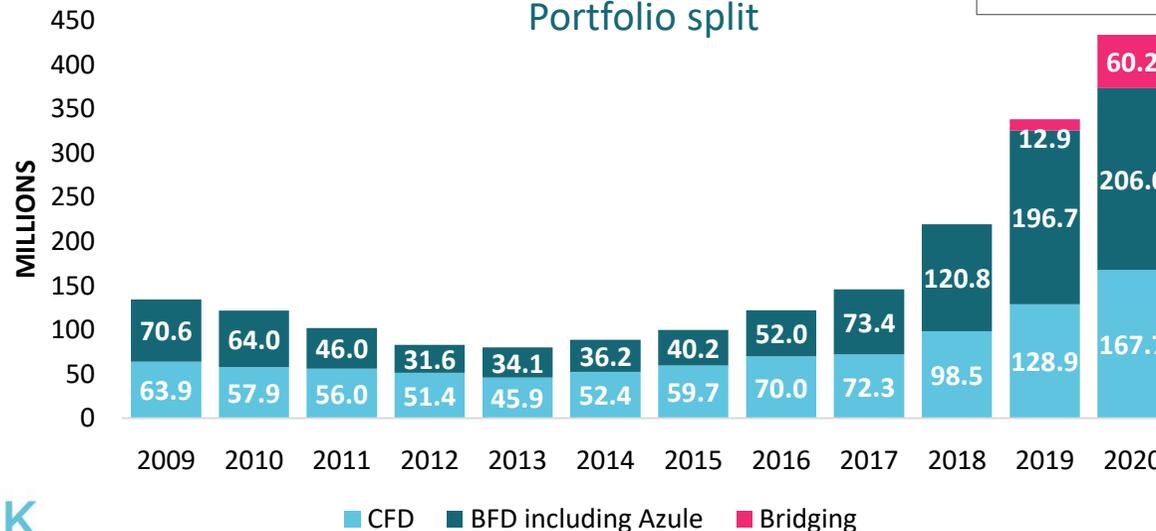
### Consumer Finance Division-Assets Financed



### Business Finance Division-Assets Financed



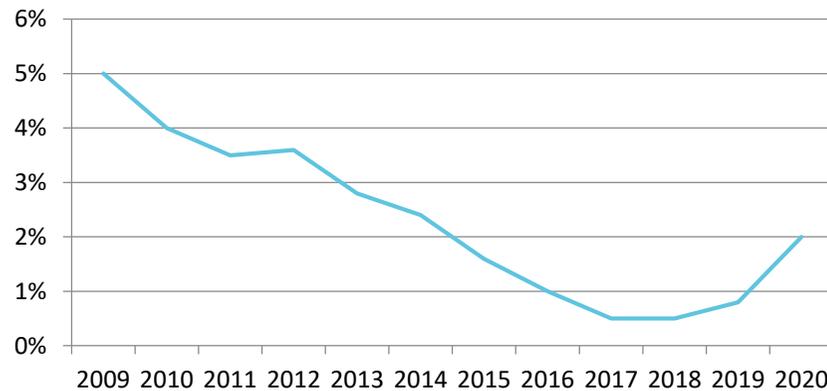
### Portfolio split



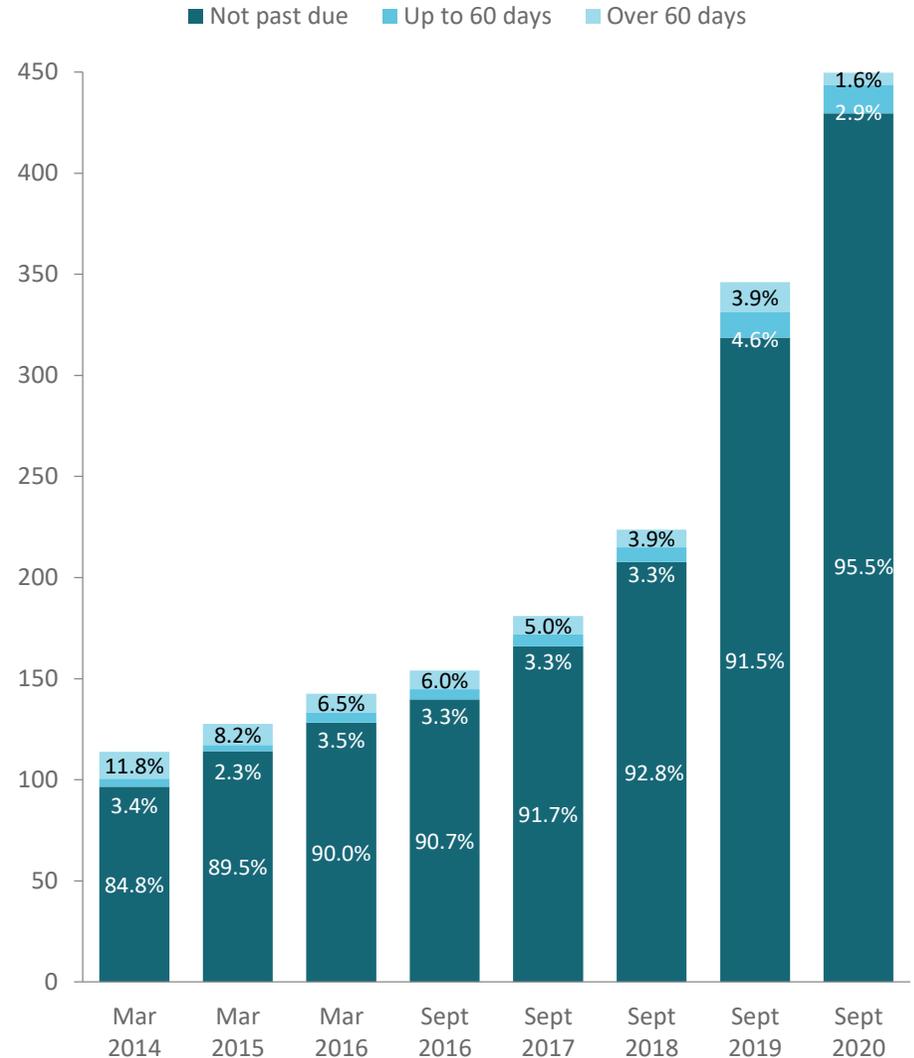
# Credit Quality

- 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

