

28 June 2011

**Private & Commercial Finance Group plc ('PCFG' or 'the Group')**  
**Final Results**

Private & Commercial Finance Group plc, the AIM quoted finance house, announces its results for the year ended 31 March 2011.

**Overview**

- Profit before tax of £455,336
- New funding facility of £7 million
- Heads of Agreement signed for the acquisition of a £6 million portfolio of finance receivables
- £106 million portfolio of receivables continues to perform well
- New business advances totalled £40.8 million for the period (2010: £43.4 million)
- Shareholders' funds increased by 18% to £7.9 million
- Net Asset Value per share increased to 15.0p (2010: 12.7p)

PCFG's CEO Scott Maybury said,

“These results have again demonstrated the quality and durability of our business model and, in turn, our portfolio of receivables. There are some excellent opportunities available in our sector and with the aid of our new facility we intend to take full advantage of them. We expect to complete the acquisition of a £6 million portfolio of receivables in early July, which is a start to re-growing our portfolio of revenue earning assets and increasing our profitability. ”

**Chairman's Statement**

The profit before tax for the year ended 31 March 2011 was £455,336 (2010: £528,361) a result which is primarily attributable to the 13% reduction in the Group's portfolio of earning assets during the year and reflects the tight conditions which persisted in the funding markets.

On 23 March 2011 the Government announced its intention to reduce the main rate of Corporation Tax by 2% to 26% with effect from 1 April 2011. We have a substantial deferred tax asset and paradoxically the effect of the Government's announcement is to increase our tax charge by £335,128 in respect of the period ended 31 March 2011. This is an accounting adjustment to the value of the deferred tax asset which we hold

on our balance sheet and not a cash payment. Like all businesses, we welcome the reduced Corporation Tax to be paid in this and future years. A more favourable adjustment, resulting from International Financial Reporting Standards, is a significant increase in the value of our portfolio of interest rate swaps, which is the main reason for the 18% increase in shareholders' funds to £7.9 million.

We have started the new period well and I am pleased to report two achievements in the first three months of the current accounting period. Firstly, we have signed a new funding facility of £7 million to help us grow our Business Finance Division. Secondly we have agreed terms for the purchase of £6 million of well seasoned finance receivables, subject to contract and due diligence, which we anticipate completing in July. This would give an immediate boost to earnings for the Group. These transactions mark the first steps in the direction of achieving portfolio growth and we intend to build on them.

### **Strategy Review**

The executive directors have done well to steer the Group through a credit crisis and recession, which has seen the downfall of many of our competitors, both quoted and unquoted. The funding markets have largely been closed to our sector for the last three years with a number of competitors being forced into run-off. Whilst we have maintained the support of our existing banks and entered into one new banking facility, we had hoped that we would be in a position to take better advantage of this opportunity with the aid of a significant new funding structure in the last accounting period. We held a number of interesting discussions, however, despite our best efforts, the gap between funders' aspirations and our own criteria proved unbridgeable. We are continuing dialogue with a number of parties and we believe the gap is narrowing.

Although the Group remained in profit throughout the economic turmoil, the return on shareholders' funds is too low. Upon taking on the role of Chairman at the beginning of April 2011, I instigated a thorough and wide ranging review of the Group's strategy and operations with the primary focus on significantly improving earnings per share.

The review encompassed:

- All possible alternative funding methods, ranging from securitisation to becoming a deposit-taker
- The Group's product range and routes to market
- Ways and means of generating additional income to enhance earnings over and above the level of income generated by the portfolio of receivables
- The potential for acquisitions and/or disposals

The main conclusions arising from the review are that:

- The best way of increasing shareholder value is to grow our portfolio, supplementing the portfolio income with non-interest income, without corresponding increases in overheads ('operational gearing')
- Whilst continuing dialogue with conventional funders, we will also actively pursue negotiations with alternative lending sources utilising other funding structures
- There are a wide variety of portfolios of financial receivables available for sale. However potential buyers are demanding very substantial discounts and sellers are unwilling to take an immediate sizeable loss on disposal. We see this as a period of opportunity to acquire but, unless market conditions change, not one in which we expect to dispose of any of our own assets
- We are identifying further potential acquisition targets in tandem with our negotiation of new funding arrangements, with the intention of bringing the two initiatives together simultaneously. Any such acquisitions would have to be earnings-enhancing in the first 12 months
- Given the uncertain outlook for a recovery in the UK economy, we will maintain the credit and collateral quality of our new business rather than increase our lending rates and take on riskier customers
- We are enhancing our website and utilising our internet-based proposal system, *eQuote*, as an additional route to market
- We will introduce new add-on products which complement our finance offering and generate fee income

Our posture since the onset of the credit crunch has been largely defensive, in particular reducing costs (including closure of our office in Watford and reductions in staff costs) and generating cash. We believe that the climate is now slowly changing as some degree of confidence returns to the funding markets, or at least to those funders who have weathered the credit crunch better than others. It is vital to make every effort to seize the opportunities currently available.

### **The Business and Trading**

PCFG is a long-established finance group with a highly experienced management and an efficient and scalable infrastructure and business model.

The Group has two operating divisions:

- Business Finance Division, which provides finance for vehicles, plant and equipment for SMEs; and
- Consumer Finance Division, which provides finance for cars for consumers.

Both divisions underwrite good quality, collateralised business with realistic margins, sourced through a national network of established brokers. Proposals for new business are submitted via *eQuote*, the Group's proprietary internet-based proposal management system, which is able to filter high volumes of proposals quickly and at low cost.

During the period we wrote £40.8 million of new business compared with £43.4 million in the previous year. We remained cautious in setting terms for new business and continue to be highly selective. Our portfolio reduced in the period by 13% to £106 million, which is reported net of future finance income of more than £20 million.

We have a well spread portfolio of over 17,000 customers with an average outstanding balance of approximately £5,400, and no concentration of risk. No single customer accounts for more than 0.3% of our total portfolio. The new funding facilities will enable us to increase our new business volumes and grow our portfolio; however we will maintain our cautious stance on underwriting new business. Although many consumers and businesses cautiously held back from seeking new finance during the period under review, the effect has been largely counterbalanced, so far as our Group is concerned, by reduced competition.

### **Competitive Environment**

Our longstanding relationships with introductory sources stand us in good stead. We have also benefitted from the withdrawal from our market of a number of competitors. Whilst there are signs, particularly in the business finance sector, of competition returning, conditions remain favourable and there is little sign as yet of a return to the imprudent rates and terms which were offered by competitors in the last decade.

### **Impairments and Provisioning**

Impairment charges have continued to be comfortably within our range of expectations, and I am pleased to report that the improvements noted in the Interim Report issued in December 2010 have continued.

### **Regulatory Environment**

We welcomed the Regulations implementing the European Consumer Credit Directive because they further increased barriers to entry to a consumer credit market which had already been depopulated by the withdrawal from the market of a number of competitors. We successfully adapted our systems, documentation and procedures without undue expense and are operating well under the new regime.

## **Funding**

During recent months there have been improvements in the availability of new funding from new lenders to our sector. During June 2011 we signed a three year facility with a new bank for an initial sum of £7 million and are in negotiations with existing and new lenders for additional facilities of £8 million. I am pleased to report that we also reached agreement with all of our existing lenders for extensions of the terms of their facilities and there are no scheduled maturities in the next 12 months.

Whilst these are all promising signs, we continue to pursue the objective of a major funding facility on the right terms and structure which, coupled with an acquisition of comparable size, would deliver the substantial increase in earnings per share that we seek to achieve.

## **Underwriting and IT Infrastructure**

Over the years we have systematically upgraded and refined our methodology for underwriting lending proposals. This has included the checks incorporated into *eQuote*, our bespoke, internet-based proposal management system. In particular, in addition to many other tests, we have, for several years, taken into account the levels of applicants' overall indebtedness and scrutiny of their income and outgoings, thus enabling us to judge their ability to service new loans. This cautious, forward-looking approach stood us in good stead during the economic downturn and continues to do so.

We are also in the process of significantly enhancing our web-site so that it is more customer-facing and able to provide services to both existing and new customers. This is scheduled to come into operation by 30 September 2011. Our portfolio of receivables is managed by our highly effective and experienced in-house team supported by the Instalment Credit and Collections Suite ('ICS'), a market leading finance and lease management system which is as advanced in terms of technology as *eQuote*.

Our integrated IT systems and the carefully developed processes which they operate are as good as any similar system in the UK and are a key part of our ability to underwrite and manage a far higher volume of transactions without comparable increases in costs.

## **Staff**

The quality, skill and hard work of our professional and experienced staff is a major factor in our sustained performance and, on behalf of the Board, I would like to take this opportunity to thank them.

## **Directorate change**

Peter Shea, who joined our Board ten years ago, will be stepping down before the Annual General Meeting scheduled for 30 September 2011 when a suitable replacement has been appointed. Although it is not strictly a requirement of the AIM market, he feels that as Chairman of Daniel Stewart & Co, the Company's Broker (which it was not when he joined the board), it is appropriate to step down to avoid any possible suggestion of a conflict of interest. Happily, Peter's incisive analysis and expertise in the capital markets will continue to be available to PCFG on an advisory basis through Daniel Stewart. I also pay a warm tribute to my predecessor as Chairman, Michael Cumming for the supportiveness, shrewd insights and humour with which he performed the role. On behalf of the Board, I thank Peter and Michael for all their help and support during challenging times.

## **Outlook**

With our new funding headroom, the good quality business we are writing and the firm foundation of a strong and growing portfolio supported by a highly experienced team, we have a firm base on which to grow earnings as the year progresses, even with no major new initiatives. If, however, we are successful in making this the year in which we achieve our more ambitious goals, prospects should be even brighter.

Anthony N Nelson

Chairman

28 June 2011

## Group Income Statement

for the year ended 31 March 2011

	2011 £'000	2010 £'000
<b>Group turnover</b>	57,940	60,200
Cost of sales	<u>(41,203)</u>	<u>(41,516)</u>
<b>Gross profit</b>	16,737	18,684
Administration expenses	<u>(10,625)</u>	<u>(12,007)</u>
<b>Operating profit</b>	6,112	6,677
Interest payable	<u>(5,657)</u>	<u>(6,149)</u>
<b>Profit on ordinary activities before taxation</b>	455	528
Income tax expense	<u>(417)</u>	<u>(150)</u>
<b>Profit on ordinary activities after taxation</b>	<u>38</u>	<u>378</u>
<b>Profit for the year attributable to equity holders</b>	<u>38</u>	<u>378</u>
Earnings per 5p ordinary share - basic and diluted	0.1p	0.9p

## Group Statement of Comprehensive Income

for the year ended 31 March 2011

	2011 £'000	2010 £'000
<b>Profit for the year</b>	<u>38</u>	<u>378</u>
Cash flow hedges – fair value gains	1,620	1,134
Income tax effect	<u>(472)</u>	<u>(318)</u>
<b>Other comprehensive income for the year</b>	<u>1,148</u>	<u>816</u>
<b>Total comprehensive income for the year</b>	<u>1,186</u>	<u>1,194</u>

## Group Balance Sheet

as at 31 March 2011

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	397	397
Other intangible assets	816	855
Property, plant and equipment	100	173
Loans and receivables	55,599	69,195
Deferred tax	<u>4,602</u>	<u>4,968</u>
	<u>61,514</u>	<u>75,588</u>
<b>Current assets</b>		
Loans and receivables	50,366	52,697
Trade and other receivables	417	572
Cash and cash equivalents	<u>1,047</u>	<u>660</u>
	<u>51,830</u>	<u>53,929</u>
<b>Total assets</b>	<u>113,344</u>	<u>129,517</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	29,611	8,761
Trade and other payables	1,281	1,860
Derivative financial instruments	393	320
Corporation tax	306	965
Bank overdrafts	<u>645</u>	<u>300</u>
	<u>32,236</u>	<u>12,206</u>
<b>Non-current liabilities</b>		
Derivative financial instruments	698	2,719
Interest-bearing loans and borrowings	<u>72,525</u>	<u>107,889</u>
	<u>73,223</u>	<u>110,608</u>
<b>Total liabilities</b>	<u>105,459</u>	<u>122,814</u>
<b>Net assets</b>	<u>7,885</u>	<u>6,703</u>
<b>Capital and reserves</b>		
Called up share capital	2,637	2,636
Share premium	4,384	4,377
Capital reserve	3,873	3,873
Other reserves	(700)	(1,848)
Own shares	(255)	(243)
Profit and loss account	<u>(2,054)</u>	<u>(2,092)</u>
<b>Equity shareholders' funds</b>	<u>7,885</u>	<u>6,703</u>

## Group Statement of Changes in Equity

for the year ended 31 March 2011

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
<b>Total comprehensive income for the year</b>	1,186	1,194
New share capital subscribed	8	1,393
Purchase of own shares	(12)	-
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Net addition to shareholders' funds	1,182	2,587
<b>Opening shareholders' funds</b>	<b>6,703</b>	<b>4,116</b>
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<b>Closing shareholders' funds</b>	<b>7,885</b>	<b>6,703</b>
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## Group Statement of Cash Flows

for the year ended 31 March 2011

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cash flows from operating activities</b>		
Profit before taxation	455	528
Adjustments for:		
Amortisation of other intangible assets	163	166
Amortisation of issue costs	33	7
Depreciation	54	72
Profit on sale of property, plant and equipment	(2)	-
Fair value movement on derivative financial instruments	(194)	(190)
Decrease in loans and receivables	15,927	12,575
Decrease/(increase) in trade and other receivables	155	(72)
(Decrease)/increase in trade and other payables	(712)	760
<b>Cash flows from operating activities</b>	<u>15,879</u>	<u>13,846</u>
Tax paid	(1,183)	(1,372)
<b>Net cash flows from operating activities</b>	<u>14,696</u>	<u>12,474</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(3)	(59)
Proceeds from sale of property, plant and equipment	24	5
Purchase of other intangible assets	(124)	(719)
<b>Net cash flows used in investing activities</b>	<u>(103)</u>	<u>(773)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	-	1,360
Purchase of own shares	(12)	-
Repayments of borrowings	(14,539)	(13,138)
<b>Net cash flows used in financing activities</b>	<u>(14,551)</u>	<u>(11,778)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>42</u>	<u>(77)</u>
Cash and cash equivalents at beginning of the year	360	437
<b>Cash and cash equivalents at end of the year</b>	<u>402</u>	<u>360</u>
Cash at bank	1,047	660
Bank overdrafts	(645)	(300)
	<u>402</u>	<u>360</u>
<b>The amount of interest paid during the year is as follows:</b>		
Interest paid	<u>5,985</u>	<u>6,283</u>

## Notes to the Financial Statements

1. Financial Information – The unaudited financial information set out above does not constitute the Group’s statutory accounts as defined in Section 434 of the Companies Act 2006. The comparative financial information is based on the statutory accounts for the year ended 31 March 2010.

The Financial Statements for the year ended 31 March 2010, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies. The statutory Financial Statements and audit opinion for the year ended 31 March 2011 will be signed on 28 July 2011 and will be delivered to the Registrar following the Company’s Annual General Meeting.

2. Basis of Preparation – These consolidated statements have been prepared in accordance with IFRS and its interpretations issued by the International Accounting Standards Board, as adopted by the EU, and on the basis of the accounting policies set out in the 31 March 2010 Financial Statements as updated where necessary for new accounting standards adopted in the year.

The financial information contained within this preliminary statement was approved and authorised for issue by the Board on 21 June 2011.

3. Income tax expense – The tax assessed for the year is higher than the standard rate for current Corporation Tax in the UK of 28% (2010 – 28%). The differences are explained below. Deferred tax has been recognised at 26% (2010 – 28%). On 23 March 2011 as part of the 2011 Budget, the UK government announced its intention to legislate to reduce the main rate of corporation tax to 26% with effect from 1 April 2011 and further by 1% per annum falling to 23% with effect from 1 April 2014.

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	455	528
Profit on ordinary activities multiplied by the standard rate of Corporation Tax of 28% (2010 – 28%)	(127)	(148)
Effects of:		
Expenses not deductible for taxation purposes	(2)	(2)
Adjustments in respect of prior years	6	-
Change in tax rate	(335)	-
Utilisation of previously unrecognised losses	41	-
Total tax charge for the year	(417)	(150)

4. Dividends – The directors are not recommending the payment of a final dividend.
5. Earnings per Ordinary Share – The calculation of basic and diluted earnings per ordinary share is based on a profit of £37,748 (2010 – £378,106) and on 52,726,036 (2010 - 40,672,666) ordinary shares, being the weighted average number of shares in issue during the year. In the current financial year and the previous year the convertible loan notes were not dilutive of earnings.
6. Hedge Accounting – Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly to equity and the ineffective portion is recognised immediately to the income statement. The cumulative gain or loss on the hedging instrument recognised directly to equity is reported net of tax in ‘Other reserves’ in the balance sheet.
7. New Accounting Standards – There has been no significant financial impact on the Group’s financial statements as a result of any new or amended accounting standards in the year.
8. The 2011 Report & Financial Statements will be posted to all shareholders on 8 August 2011. Further copies can be obtained from the Secretary of the Company at 39 Victoria Street, London SW1H 0EU or can be downloaded from our website, [www.pcfg.co.uk](http://www.pcfg.co.uk).

