

SECURE TRUST BANK PLC

2018 INTERIM RESULTS

8 AUGUST 2018



SECTION

1

INTRODUCTION & BUSINESS REVIEW

PAUL LYNAM | CHIEF EXECUTIVE OFFICER

H1 2018 HIGHLIGHTS

Benefits of strategic repositioning – quality driving profitability

Strong growth in profits

- Statutory PBT up **31.3%** to **£15.1m**
- Cost of risk down **20%** on IAS 39 basis (down **24%** on IFRS 9 basis)
- Underlying PBT up **36.4%** to **£16.5m**
- Underlying return on required equity at **14.6%***, statutory return on required equity at **13.4%**
- Increased dividend by **6% to 19p** (2017:18p)
- Equity per share since AIM flotation has increased from **£1.66** to **£12.18**, after **£5.82** was paid to shareholders by way of dividends

Continued delivery of strategy

- Loan book (excluding PLD) up **26% to £1.8bn** on H1 2017
- Book remains diversified with Business Finance balances at **53%** of lending assets

- Exceeded the million customer mark with numbers of **1,096,854**, an increase of **31%** on H1 2017
- High levels of customer and employee satisfaction

Strategic repositioning bearing fruit

- Continued shift in business model from higher risk unsecured consumer credit towards lower risk secured lending
- Legacy higher risk loan book has largely run off
- Capital and liquidity positions remain healthy
- Significantly improved impairment performance, particularly in Motor, has offset impact of IFRS 9 on H1 profits
- Ongoing diversification strategy to balance the portfolio across consumer, SME and residential mortgage lending
- Well positioned to continue developing business model in line with ambition and risk appetite

*Required equity is calculated as 12% of average total risk exposure.

2018 DEVELOPMENTS

Business evolving as planned in the first half of the year

Continuing evolution of the balance sheet

- Growth in both Business Finance and Consumer Finance, targeted in selected markets
- Significant continued growth in Real Estate Finance and Retail Finance
- Commercial Finance (invoice financing) almost doubled in size over the past year, developing regional presence and have now funded over **£2bn** invoices since launch in 2014
- Asset Finance balances contracted as expected
- Motor Finance continues to shift to higher credit quality lending
- Mortgage growth tempered in challenging market

Investment in systems

- Opportunity for prime and near prime products and services to be delivered through new Motor lending platform

- Internet banking offered and savings product expansion planned following new deposit platform going live in 2017

Capital and liquidity developments

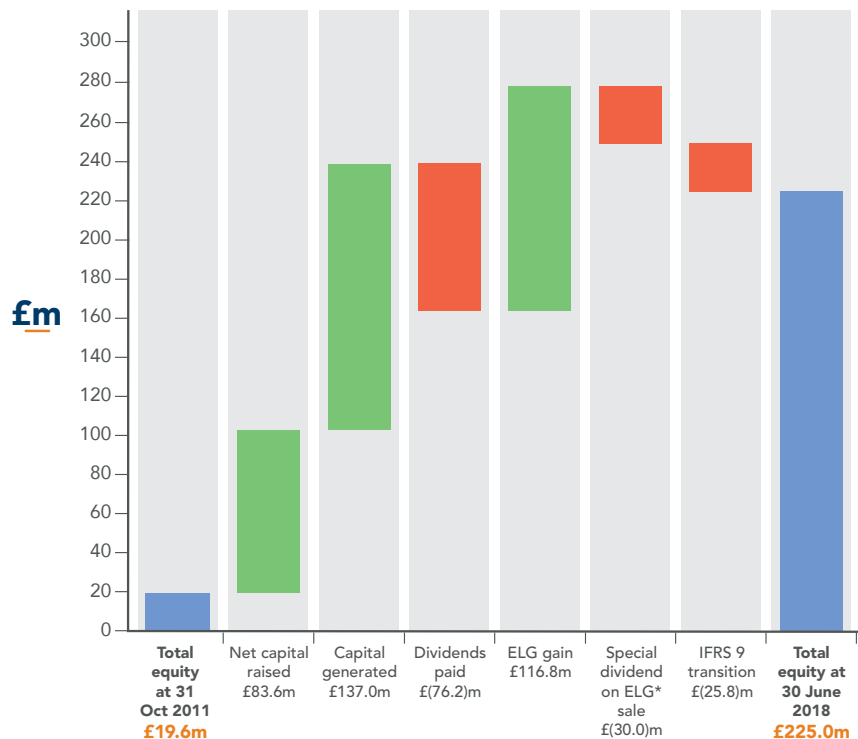
- Capital structure enhanced by issue of **£25m** Tier 2 capital in July 2018 at **6.75%**, increasing Total Capital Ratio to **15.3%** (based on June position)
- Unutilised Term Funding Scheme capacity locked in prior to scheme closure

IFRS 9 impact

- One-off impact to reserves of **£25.8m** was within expected range (**£22m** to **£27m**)
- Cost of risk has fallen by **20%** on a like-for-like (IAS 39) basis for Motor and Retail Finance
- This has offset the acceleration of loss recognition that IFRS 9 brings

STRATEGY

Very significant shareholder value created since 2011 IPO



- **£253.8m** capital generated since IPO
- Consistently strong dividend payment pattern
- Capital remains strong with Common Equity Tier 1 ratio of **13.6%** (**13.8%** before interim dividend)
- Leverage ratio of **10.4%** well above the PRA minimum (**10.6%** before interim dividend)
- Equity per share at IPO **£1.66**
- Equity per share at H1 2018 of **£12.18** (**634%** increase on equity per share at IPO) after **£5.82** was paid to shareholders by way of dividends
- Total shareholder return of **236%**

*ELG: Everyday Loans Group.

STRATEGY

Growth and diversification

- Continue to grow our business responsibly with new products where appropriate
- Use M&A to accelerate growth in portfolios that are less mature or repositioning in their market, with potential opportunities in the Asset Finance and Commercial Finance markets

Investment

- Investing in new platforms to provide future expected customer service
- Realising benefits of previous investments such as new Deposits platform, Commercial Finance platform and Consumer Mortgages platform

Leadership

- Continue to refresh expertise in our core businesses including recruiting highly experienced leaders with a history of strong business performance

CONTINUED GROWTH IN DIVERSE LOAN BOOK

	Business Finance 53% of loan book (H1 2017 51%)			Consumer Finance 42% of loan book (H1 2017 46%)			Consumer Mortgages 2% of loan book (Initiated H1 2017)
	Real Estate Finance	Asset Finance	Commercial Finance	Retail Finance	Motor Finance	Personal Lending*	Consumer Mortgages
STB product offering	Residential and commercial investment and development lending	Hire purchase and finance leases	Invoice discounting and debt factoring	Prime credit portfolio customers across a range of retail sectors including cycle, leisure and furniture	Prime and non-prime lending in the used car market	Fixed rate, fixed term unsecured personal loans to customers in employment	Owner occupied mortgages for customers currently underserved by the market
% Change (YoY)	30%	(21)%	99%	29%	5%	(100)%	N/A
Loan book H1 2018 £m	704.8	87.9	187.5	508.0	272.0	–	37.3
Cost of risk H1 2018 £m**	0.1%	0.9%	0.1%	1.6%	3.2%	N/A	0.0%
Loan book H1 2017 £m	541.4	111.5	94.2	394.3	258.4	48.5	0.1
Cost of risk H1 2017 £m**	0.0%	0.4%	0.0%	1.9%	3.7%	3.7%	N/A
Net revenue margin H1 2018	3.7%	5.0%	4.6%	10.8%	15.3%	–	2.9%
Net revenue margin H1 2017	3.9%	4.9%	6.7%	11.1%	15.1%	13.8%	1.8%
M&A appetite	Medium	High	Medium	Limited Opportunities	Medium		High

*Sale of Personal Lending portfolio in Q4 2017.

**On an IAS 39 basis.

SECTION

2

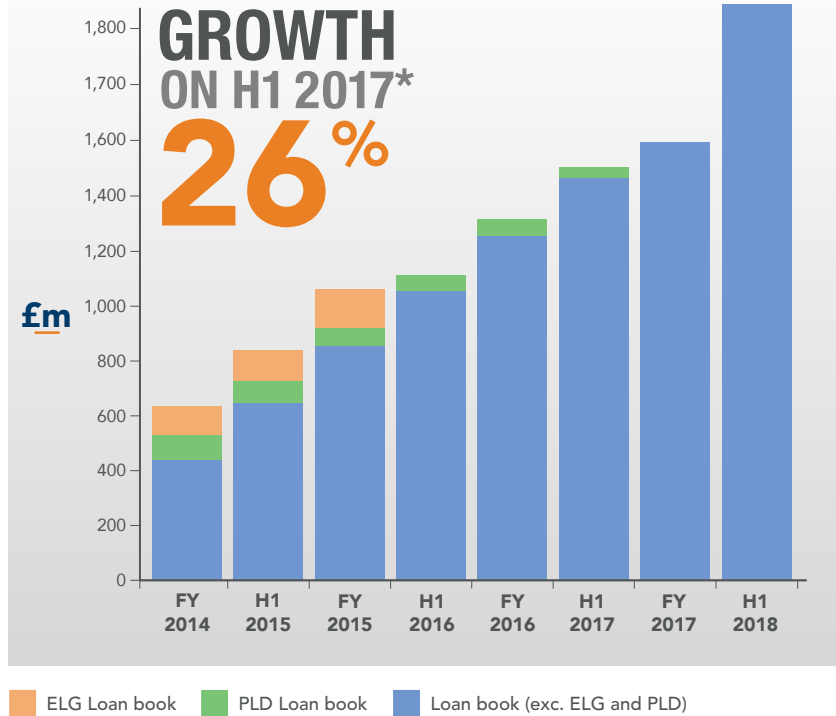
FINANCIAL REVIEW

NEERAJ KAPUR | CHIEF FINANCIAL OFFICER

POSITIVE MOMENTUM AND STRONG PROFIT GROWTH

	H1 2018	H1 2017*
	£m	£m
Gross interest income	79.2	66.5
Interest expense	(15.5)	(12.7)
Net interest income	63.7	53.8
Impairment losses	(16.3)	(16.4)
Reported PBT	15.1	11.5
Underlying PBT	16.5	12.1
Basic EPS (pence)	68.7	50.3
Underlying EPS (pence)	74.7	53.0
Annualised underlying ROAA	1.4%	1.3%
Annualised underlying RORE**	14.6%	13.0%
Loan book (£m)	1,839.1	1,461.1
Loan to deposit ratio	111.8%	110.2%
Cost of risk	1.9%	2.5%
Customers	1,096,854	839,208
Common Equity Tier 1 Ratio	13.6%	15.3%

Total Lending Assets £1,839m



*H1 2017 is reported on a continuing basis under IAS 39.

**Return on required equity (required equity is calculated as 12% of average total risk exposure).

SUMMARY INCOME STATEMENT

Balancing growth and risk by repositioning the business

£m	H1 2018	H1 2017*	% change
Net interest income	63.7	53.8	18.4%
Net fee, commission and other income	8.8	7.3	20.5%
Operating income	72.5	61.1	18.7%
Impairment losses	(16.3)	(16.4)	(0.6)%
Operating expenses	(41.1)	(33.5)	22.7%
Profit on sale of NSF shares	–	0.3	N/A
Profit before tax	15.1	11.5	31.3%
Underlying profit before tax	16.5	12.1	36.4%
Basic EPS (pence)	68.7	50.3	36.6%
Underlying EPS (pence)	74.7	53.0	40.9%
Proposed interim dividend (pence)	19	18	5.6%
Cost to income ratio	56.7%	54.8%	–
Cost of risk	1.9%	2.5%	–
Annualised underlying RORE**	14.6%	13.0%	–

➤ 19% increase in operating income

- Maintaining strong growth in both Consumer Finance and Business Finance sectors whilst continuing to move to lower risk, lower margin lending

➤ Cost of risk down 24%

- Strong collections performance and better credit quality has offset the expected increase in provisions brought about by IFRS 9
- Impairments in Business Finance remain modest

➤ Operating expenses up 23%

- Reflecting continuing investment in people, leadership and infrastructure in order to achieve growth ambitions
- Regulatory compliance remains a disproportionately high cost

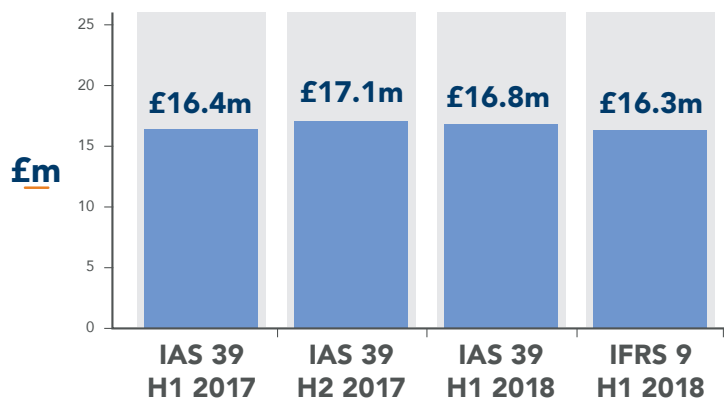
*H1 2017 is reported on a continuing basis under IAS 39.

**Underlying return on required equity (required equity is calculated as 12% of average total risk exposure).

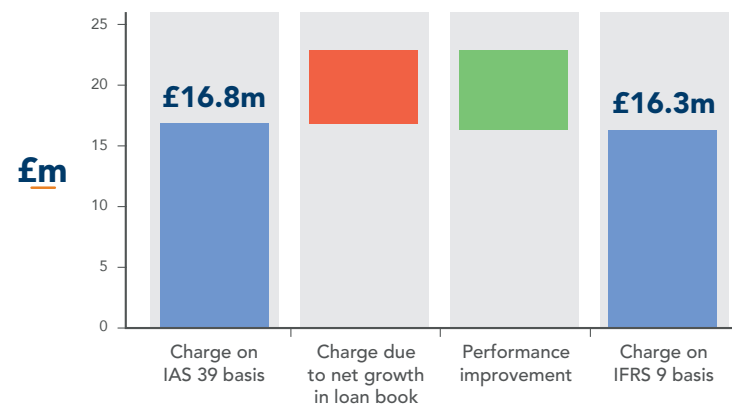
IFRS 9

Impact of the new standard has been offset by improved performance

- Requires accounting for impairment on an expected rather than incurred loss basis – no impact on cash flows
- Impact on transition of **£25.8m** net of tax, through opening reserves
- Expected increase in provisions due to accelerated recognition has been offset by performance improvement arising from strategic repositioning of the consumer lending portfolio
- Cost of risk is **1.9%**. On an IAS 39 basis this would be **2.0%** (**H1 2017: 2.5%**)



H1 2018 impairment charge



KPI SUMMARY

Improved credit quality driving results

Key Performance Indicator	H1 2018 IFRS 9	H1 2017* IAS 39
Gross revenue margin	10.6%	11.3%
Net interest margin	7.6%	8.2%
Net revenue margin	8.6%	9.3%
Cost of risk	1.9%	2.5%
Annualised underlying ROAA ⁽¹⁾	1.4%	1.3%
Annualised underlying RORE ⁽²⁾	14.6%	13.0%

Key Performance Indicator	H1 2018 IFRS 9	H1 2017* IAS 39
Cost of funding	1.8%	1.9%
Total cost to income ratio	56.7%	54.8%
Loan to deposit ratio	111.8%	110.2%
Common equity tier 1 ratio	13.6%	15.3%
Leverage ratio	10.4%	12.7%
Annualised underlying ROAE ⁽³⁾	12.3%	8.2%

*H1 2017 is reported on a continuing basis.

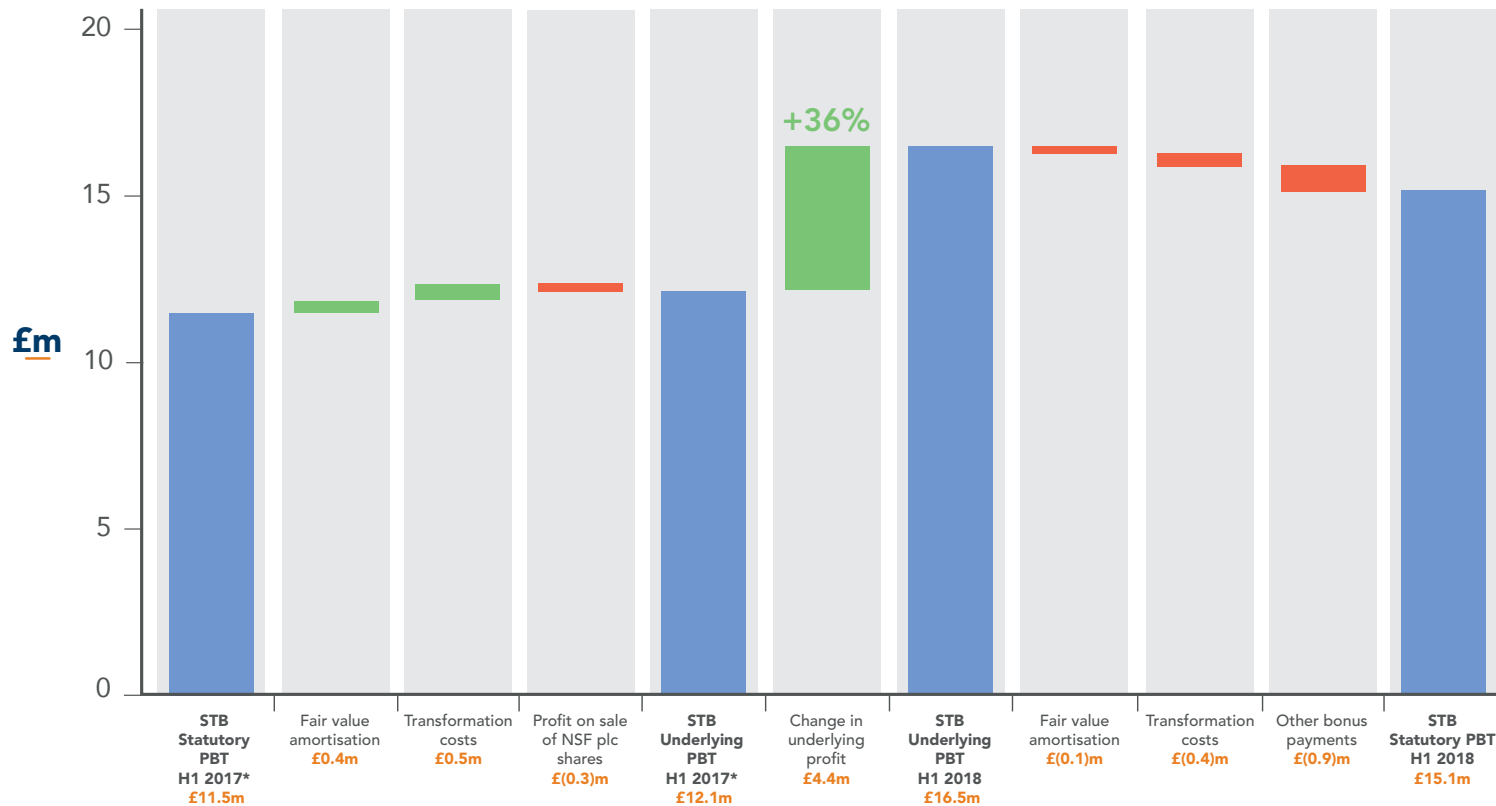
(1) Return on average assets

(2) Return on required equity – required equity is calculated as 12% of average total risk exposure

(3) Return on average equity

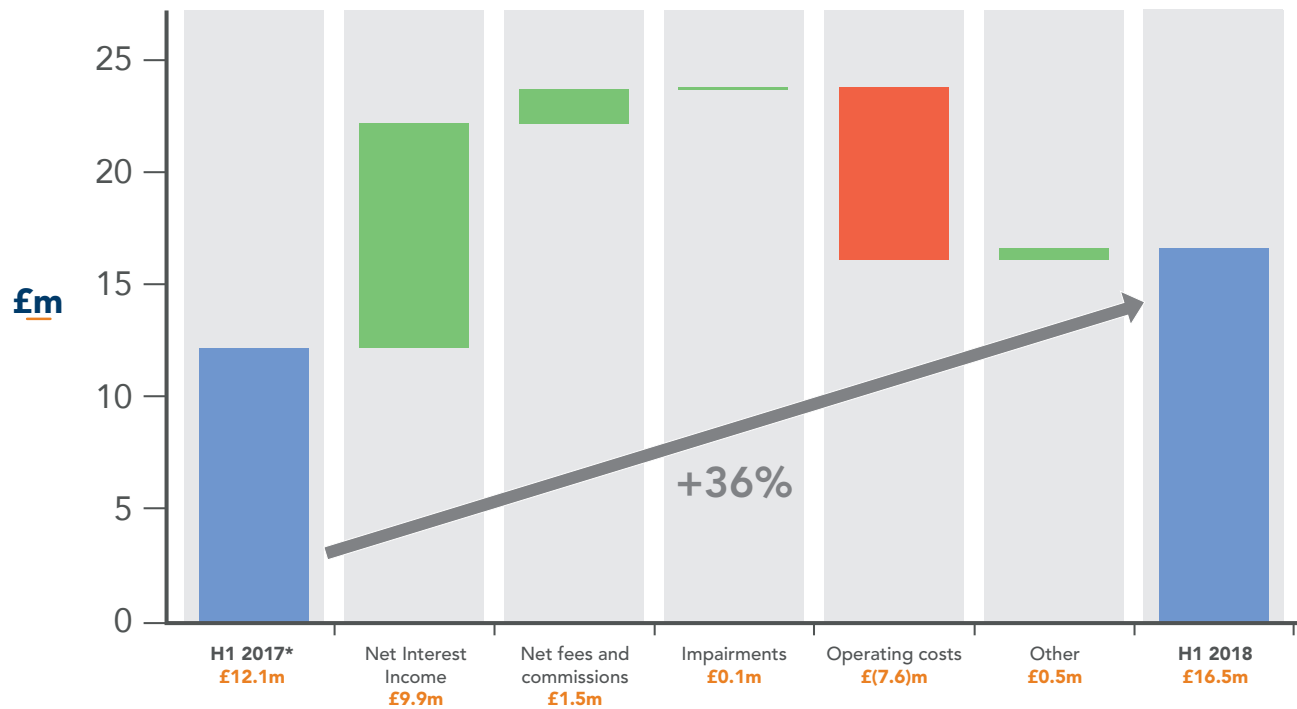
UNDERLYING PROFIT BRIDGE

Profit driven by growing loan book and improved cost of risk



*H1 2017 PBT is on a continuing basis.

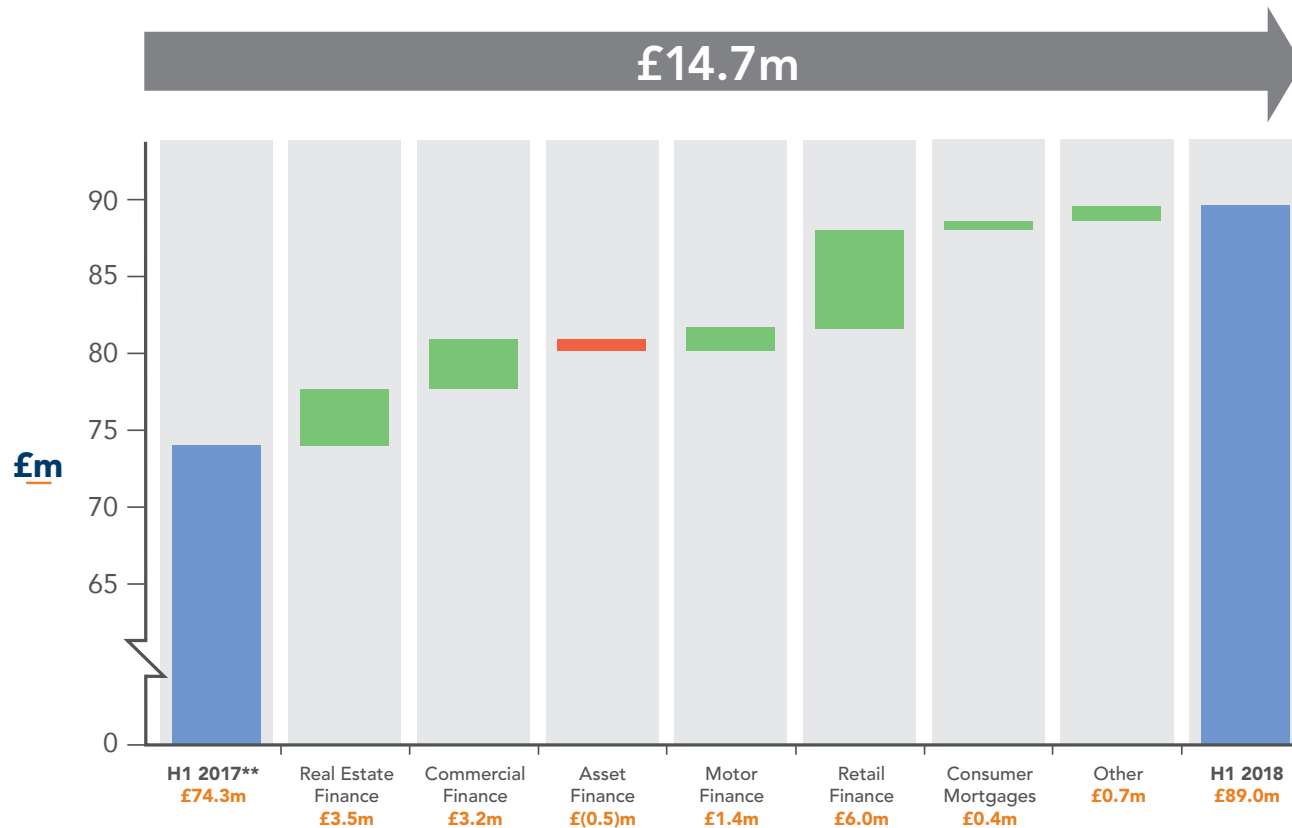
UNDERLYING PROFIT GROWTH



*H1 2017 is reported on a continuing basis.

GROWING INCOME* ACROSS ALL MAJOR DIVISIONS

Delivered increased income of 20% YoY**

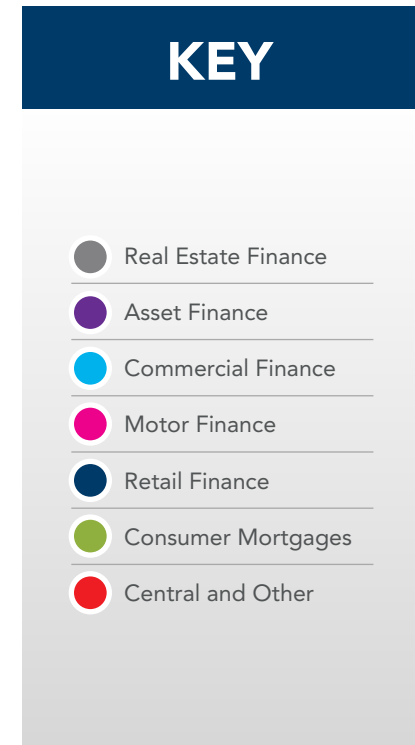
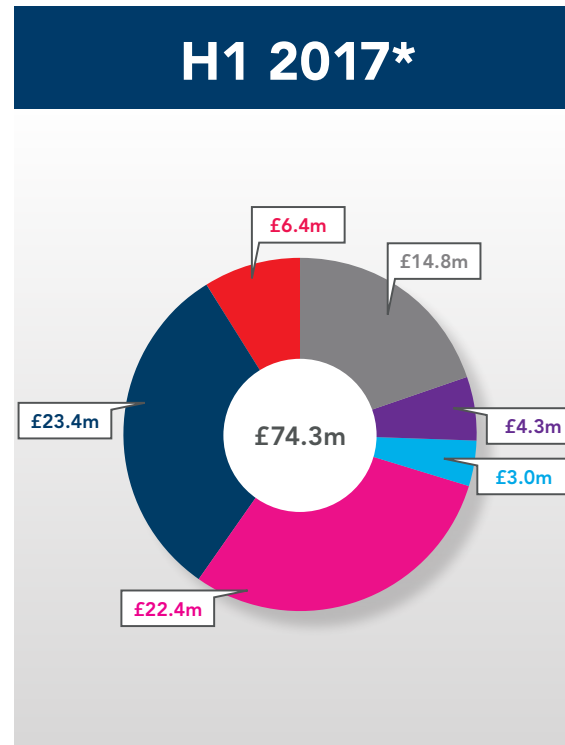
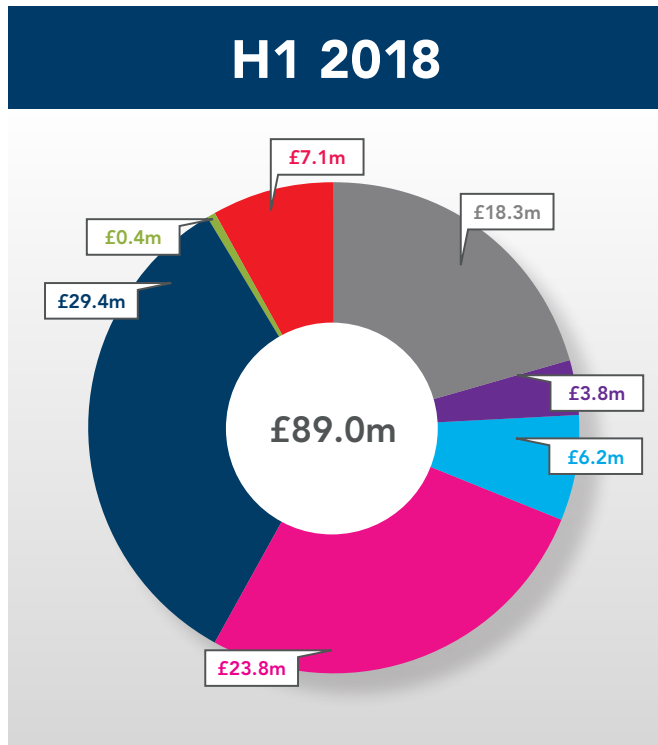


*Income before interest expense, commission expense and impairment losses.

**H1 2017 is reported on a continuing basis.

DIVERSIFIED BUSINESS

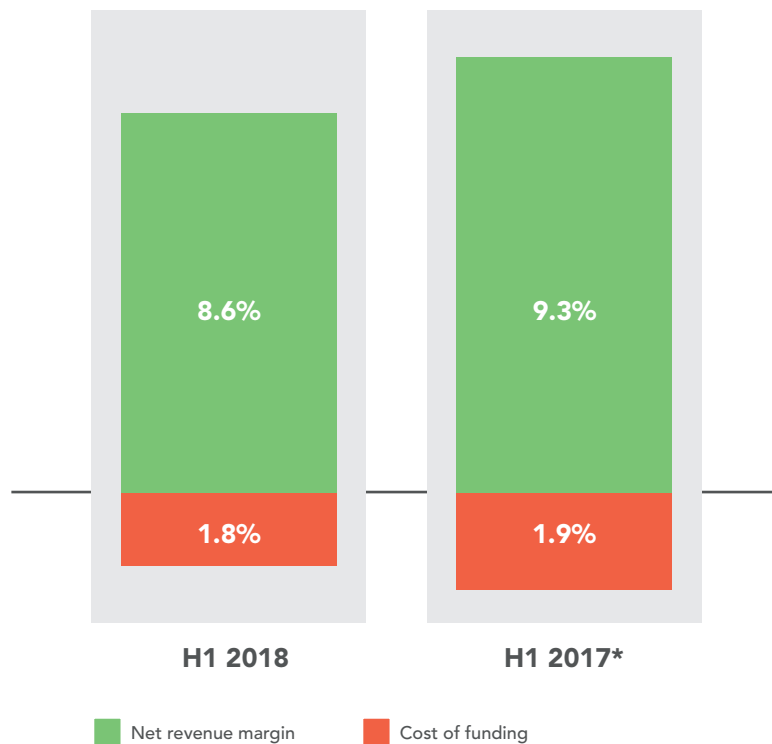
Income growth across majority of businesses



*H1 2017 is reported on a continuing basis.

EVOLVING NET REVENUE MARGIN

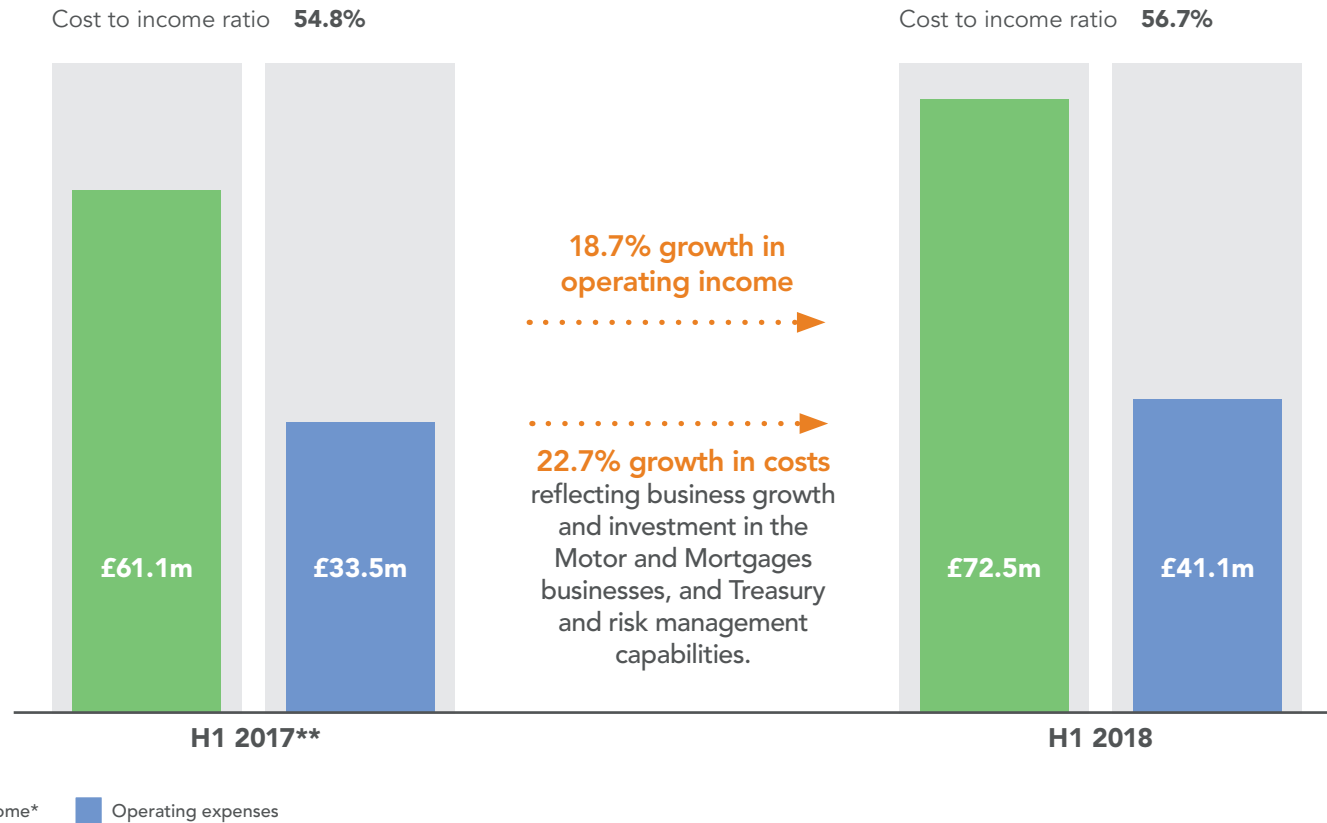
Successful shift towards lower risk, lower margin lending



- Reduction in group net revenue margins is a reflection of the move to lower risk, lower margin lending and cessation of personal lending originations in Q1 2017
- Cost of funding reduced despite increased competition driven by closure of the Term Funding Scheme
- Range of savings products to be expanded to include ISAs, easy access products and business savings products

*H1 2017 is reported on a continuing basis.

INVESTING IN BUSINESS GROWTH AND NEW PRODUCT LINES



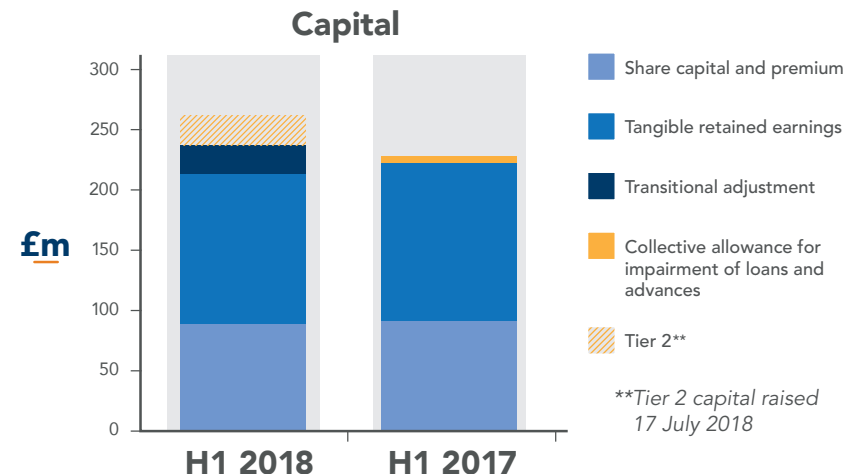
*Income net of interest expense and commission expense.

**H1 2017 is reported on a continuing basis.

BALANCE SHEET SUMMARY

£m	H1 2018 Continuing Operations	H1 2017 Continuing Operations
Cash and balances at central banks	126.7	114.0
Loans and advances to banks	34.2	25.5
Debt securities held to maturity	150.0	–
Loans and advances to customers	1,839.1	1,461.1
Other assets	37.1	25.3
Total assets	2,187.1	1,625.9
Deposits from customers	1,645.4	1,325.8
Wholesale funding	263.0	63.0
Other liabilities	53.7	46.3
Total liabilities	1,962.1	1,435.1
Total shareholders' equity	225.0	239.3
Total liabilities and shareholders' equity	2,187.1	1,674.4
Loan to deposit ratio	111.8%	110.2%
Customer numbers	1,096,854	839,208
BoE encumbrance*	7.0%	9.2%

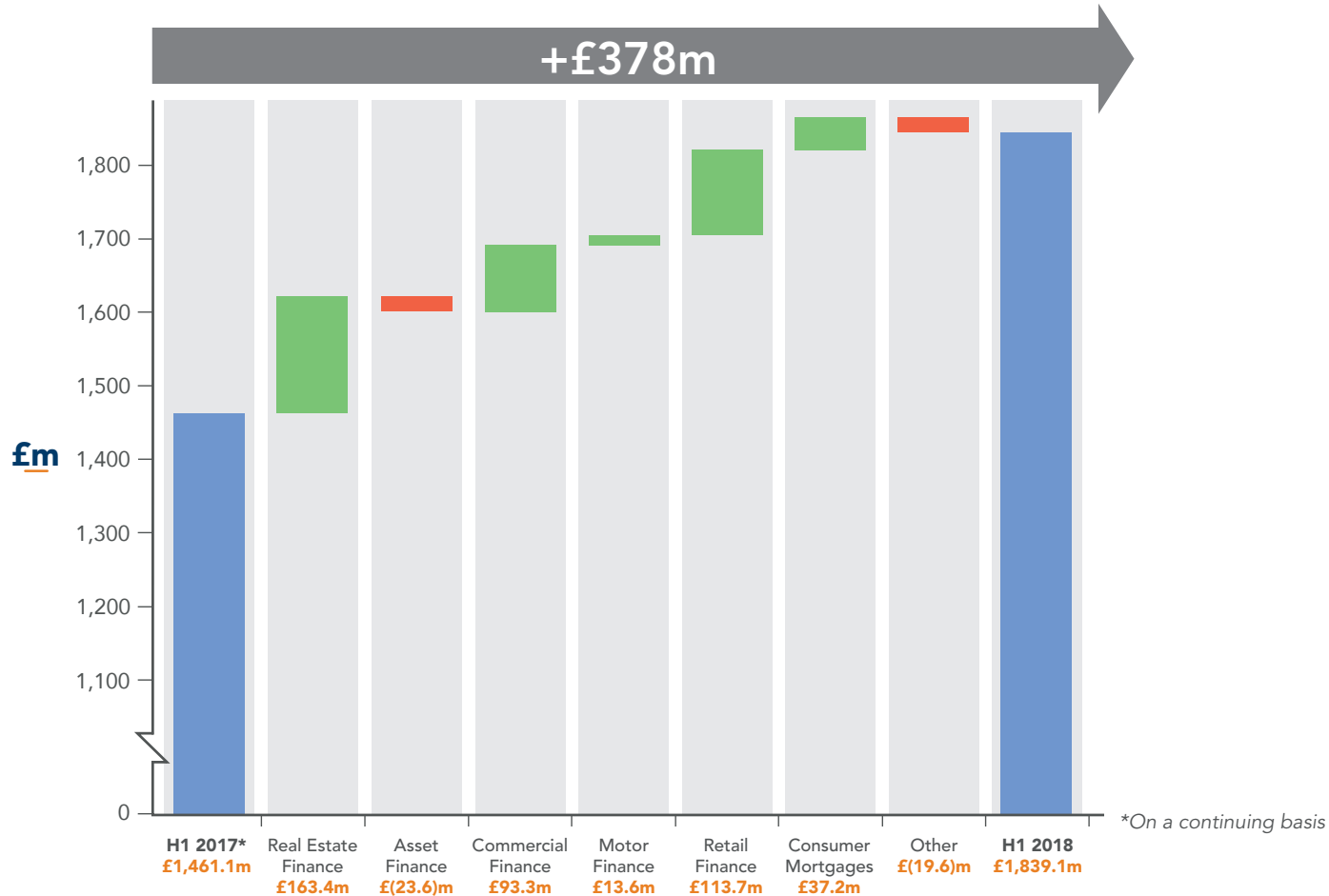
- Customer loans **up 26% to £1.8bn**
- Customer deposits **up 24% to £1.6bn**
- Customer numbers **up 31% to £1.1m**
- Modest utilisation of TFS
- Prudent approach to asset liability duration matching



*BoE asset encumbrance is the process by which STB assets are pledged with the Bank of England in order to secure funding under the TFS. STB limits asset encumbrance to 25% of total assets on loans that the bank can encumber.

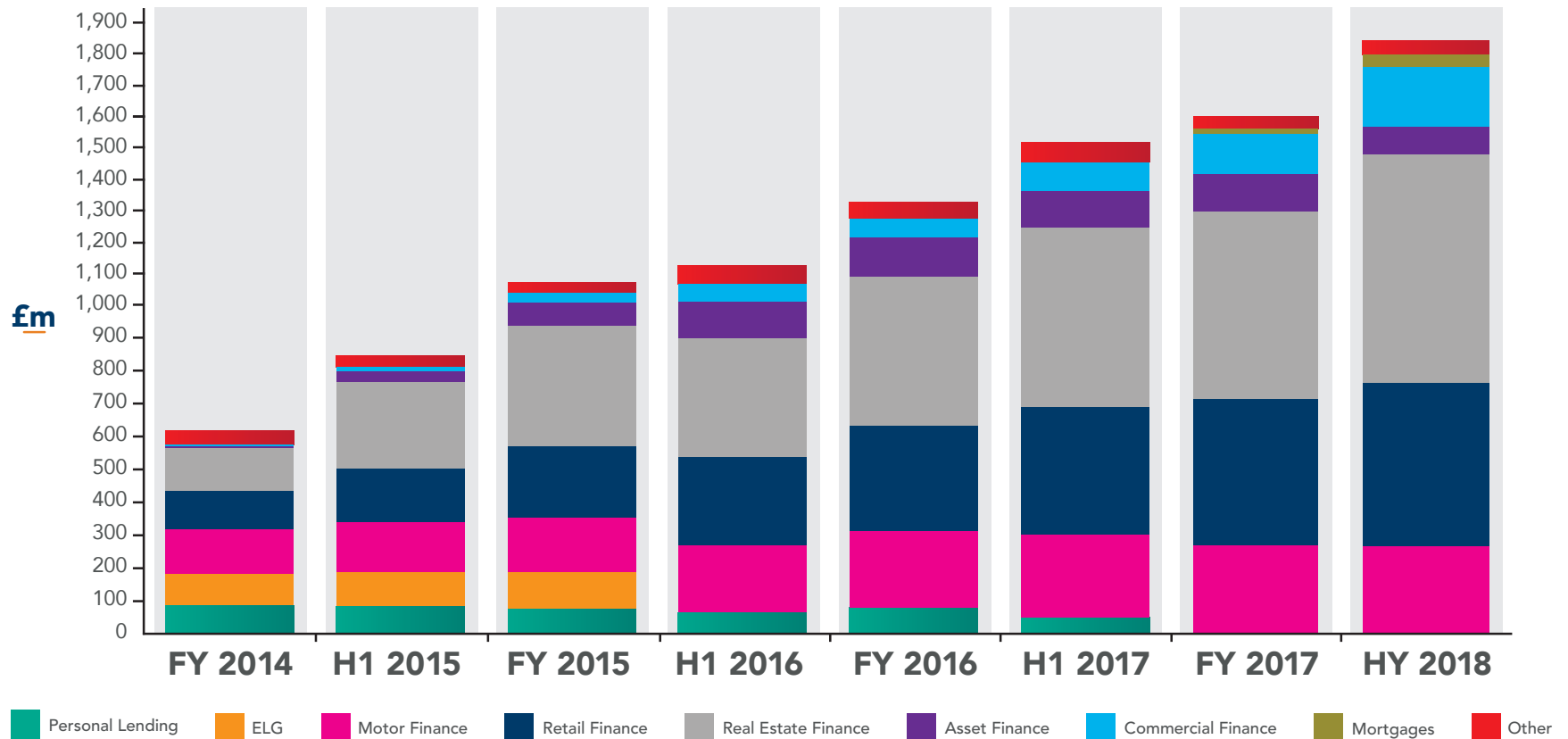
SUCCESSFUL DEPLOYMENT OF CAPITAL IN LINE WITH STRATEGY

Increase on H1 2017 of 26%*



CUSTOMER LOAN PROGRESSION

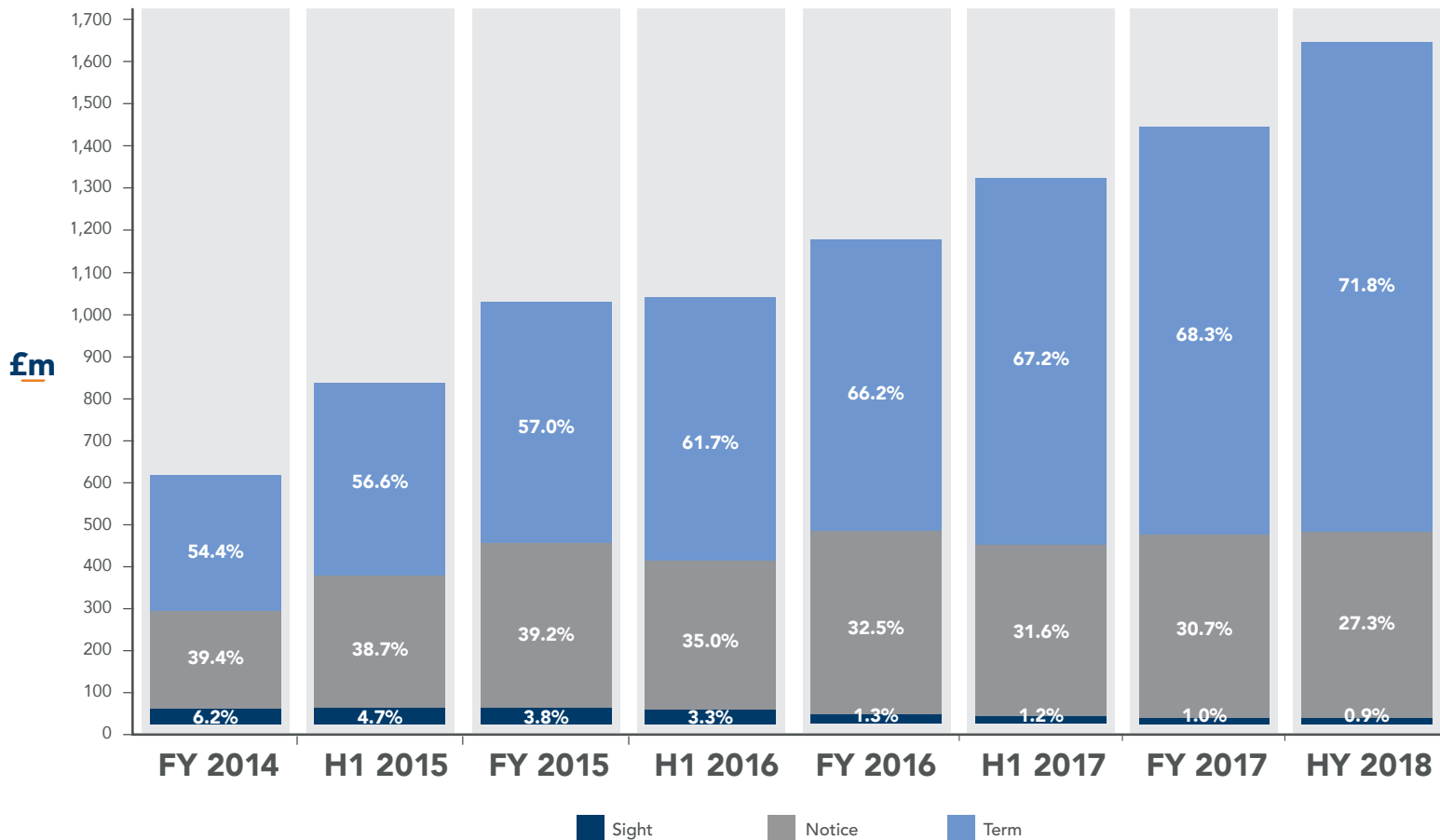
Growth of 26% on H1 2017*: Business Finance 31%, Consumer Finance 20%



*H1 2017 is reported on a continuing basis

CUSTOMER DEPOSIT PROGRESSION

Increase on H1 2017 of £320m, weighted towards term deposits



SUMMARY AND OUTLOOK

Strategic repositioning delivered strong profit growth

- Statutory PBT up **31.3%** and underlying PBT up **36.4%**
- Cost of risk reduced by **24%***
- Asset yields reduced in line with higher quality balance sheet
- However, income growth across majority of products
- Legacy higher risk loan book largely run off
- Impact of IFRS 9 offset by improved impairment performance reflecting strategic repositioning

Well positioned for further growth

- Expect H2 2018 to build on positive trends of H1 2018
- Growth potential in all key product areas
- Opportunity for new products and services via new Motor lending platform
- Leverage of new customer deposits platform, starting with internet banking rollout
- Capital options widened by issue of **£25m** Tier 2 capital
- M&A opportunities

*On an IFRS 9 basis.

CUSTOMER FEEDBACK AND AWARDS

V12

Customer feedback from **feefo** 
4.8 stars

- “ You get a quick decision and payments are easy to set up... You can't go wrong. ”
- “ Quick decision made, have used V12 finance retail before, never any problems. Excellent. Will use again. ”
- “ The payments are affordable with the added bonus of interest free I would definitely recommend V12 finance. ”
- “ I have used V12 finance a few times and their terms and support customer service is outstanding, highly recommended. ”
- “ It was simple, painless and we got an answer very quick. ”

Deposits

Customer feedback from **feefo** 
4.4 stars

- “ Very professional to deal with. Always quick to produce information, and to keep you abreast of what your finances are doing. Rates are pretty good, too! ”
- “ It has been a very easy process from start to finish. The application was straightforward, the internet banking was easy to set up and the staff at STB are extremely helpful and knowledgeable. ”
- “ The procedure was simplicity personified which made a very pleasant change from that experienced with some companies. ”
- “ Great communication. Professional, they feel small and personal even for an online service. ”
- “ Positive help and careful communication. ”

All scores and comments as of June 2018.

CUSTOMER FEEDBACK AND AWARDS

Motor Finance

Customer feedback from **feefo**^{ee}
4.7 stars

“ Very friendly service. Spoke to same person all the way. Payment reminder is very helpful to me. ”

“ I’m still an existing customer with MoneyWay and I have to say they have been fantastic to be a customer of. From day one I have had no complications with their service at all I am totally grateful for their professional service. ”

“ So easy to deal with, such polite and lovely lady on the other end of the phone, would highly recommend, in fact I have to three close friends and they have also been pleased. ”

“ A fast and effective service... MoneyWay’s decision was fast and within one week of applying for finance I had my new vehicle. I had not used a finance company before, and was guided through the process which was very helpful for me. I would certainly recommend MoneyWay, and have done to my friends and colleagues. ”



All scores and comments as of June 2018.

BUSINESS TO BUSINESS FEEDBACK

Motor Finance

“ I’ve been working with MoneyWay for over a year, I’m very impressed with the speed & ease of customer decisions, Finance Rates and terms are among the best in the Near prime market, coupled with a great account manager who genuinely cares about my dealership its made me even recommended MoneyWay to other Car Dealers. MoneyWay are on to a Winner! ”

Mark Nother,
Director at RightDrive

Commercial Finance

“ We chose to work with Secure Trust Bank Commercial Finance because of its refreshing approach to lending. The team took the time to understand the business and its requirements, and constructed a facility in a short time frame. We’re now able to set our eyes on future targets and embark on the next phase of our acquisition strategy. ”

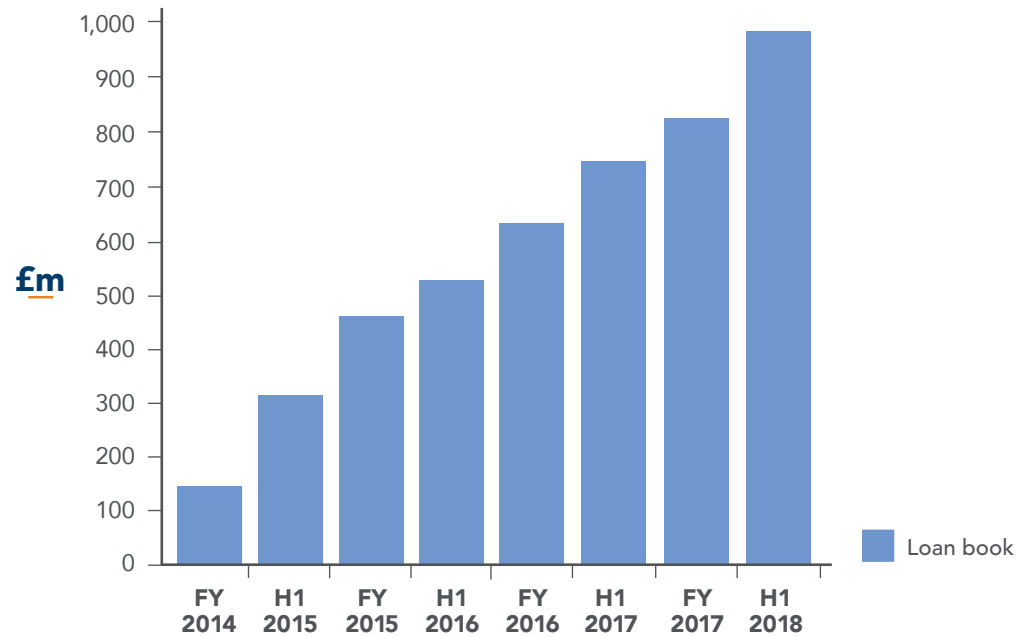
Simon Parson,
Managing Director
at Avon Steel

Real Estate Finance

“ We have a very good experience with Secure Trust Bank. The bank has spent a considerable amount of time ensuring they have a deep understanding of the scheme and our relationship team have therefore been able and proactive in working with us to design a facility bespoke to our business needs. We are very appreciative of the support Secure Trust Bank has given to our business. ”

Charles Silver,
Heyford Park Developments

BUSINESS FINANCE



Business Finance	FY 2014	H1 2015	FY 2015	H1 2016	FY 2016	H1 2017	FY 2017	H1 2018
Revenue £m	2.6	9.2	24.3	19.2	40.8	22.1	48.0	28.3
Impairments £m	-	(0.3)	(0.3)	(0.2)	(0.9)	(0.6)	(0.9)	(1.6)
Loan book £m	143.3	312.4	468.0	528.5	631.0	747.1	824.0	980.2

BUSINESS FINANCE

Business overview – Real Estate Finance

- Supports SMEs over a financing term of up to 5 years with prudent loan to value levels
- Strength of the proposition is supported by: **the speed of decision making and experience in our ability to structure transactions**
- **Main products** available: residential development, residential investment, commercial investment and mixed development
- **Route to market** via introducers served by a team of Real Estate Finance regional managers

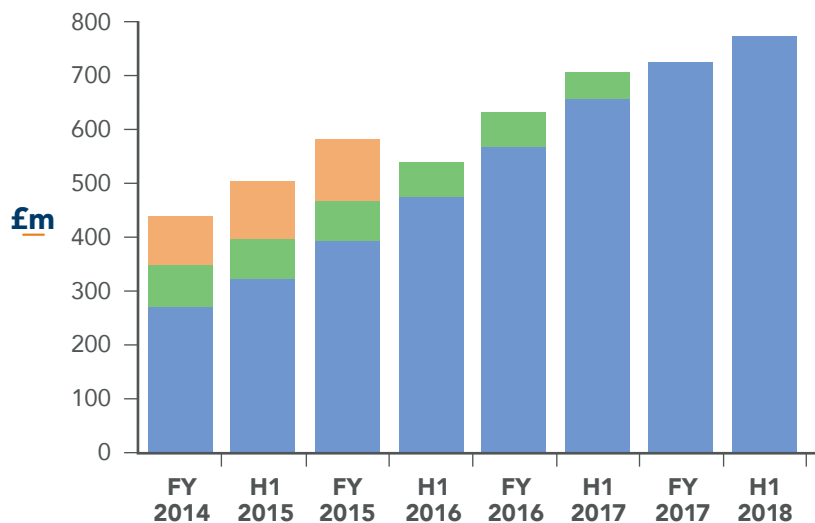
Business overview – Commercial Finance

- Provides a full range of asset based lending solutions including invoice factoring and discounting
- Also provides SME commercial owner occupiers with finance to buy the property they trade from
- Key factors to the strength of the business: **the speed of decision making and strong risk management**
- Investing in regional offices to supplement main premises in **Manchester**

Business overview – Asset Finance

- Supports SMEs to acquire commercial assets, such as building equipment, commercial vehicles and manufacturing equipment, and who may not be adequately served by the traditional banks
- Hire purchase and finance lease arrangements up to **5 years**

CONSUMER FINANCE



Consumer Finance*	FY 2014	H1 2015	FY 2015	H1 2016	FY 2016	H1 2017	FY 2017	H1 2018
Revenue £m	90.2	54.4	115.4	54.6	99.6	50.5	105.8	53.2
Impairments £m	(15.0)	(10.8)	(24.8)	(15.7)	(31.1)	(17.9)	(38.0)	(15.4)
Loan book (exc. ELG and PLD) £m	254.6	315.6	386.1	477.3	562.1	652.7	726.9	778.6
ELG loan book £m	93.9	105.3	114.3	-	-	-	-	-
PLD loan book £m	87.6	83.6	74.3	64.6	65.5	48.5	-	-
Loan book £m	436.1	504.5	574.7	541.9	627.6	701.2	726.9	778.6

■ ELG loan book
 ■ PLD Loan book
 ■ Loan book (exc. ELG and PLD)

*Revenue and impairments include ELG results to 12 April 2016 and PLD results to 21 December 2017.

CONSUMER FINANCE

Business overview – Retail

- Targeting **Prime Credit Portfolio Customers**
- **Active across a range of retail markets** including cycle retailers, season tickets, jewellery and art
- Term ranges **up to 84 months**, loan size **up to £25,000**
- Growth opportunities include entry into new sectors and the ability to pitch for full national retailer contracts

Business overview – Motor

- **Prime lending product** offering greater participation across the risk curve
- Maximum loans of **£25,000** with finance terms **up to 5 years**
- Growth driven by:
 - speed and quality of service
 - relationships with introducers
 - product and channel distribution innovation

STRATEGY CONTINUES TO DELIVER

Maximise shareholder value:



grów

To maximise shareholder value through strong lending growth by delivering great customer outcomes in both our existing and new markets.



sustain

To protect the reputation, integrity and sustainability of the Bank for all of our customers and stakeholders via prudent balance sheet management, investment for growth and robust risk and operational control. Controlled growth is one of the top strategic priorities for the Bank.



love

To ensure that the fair treatment of customers is central to corporate culture and that the Bank is a highly rewarding environment for all staff and one where they can enjoy progressive careers.

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