

# SECURE TRUST BANK PLC

2017 INTERIM RESULTS

22 AUGUST 2017



*Straightforward transparent banking*



SECTION **1**

**INTRODUCTION  
& BUSINESS REVIEW**

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PAUL LYNAM | CHIEF EXECUTIVE OFFICER

## H1 2017 HIGHLIGHTS

### Strong half year performance with a prudent approach to risk

#### Strong returns and shareholder value

- Total PBT **£13.9m**, underlying PBT **£14.5m**
- Underlying return on required equity at **16.0%\***, statutory return on required equity at **13.3%**
- Increased dividend by **6% to 18p** (2016:17p)
- Equity per share since AIM flotation has increased from **£1.66 to £12.95**, after **£5.03** was paid to shareholders by way of dividends

#### Delivery of proven strategy

- Loan book up **34% to £1.5bn** on H1 2016
- Book remains diversified with Business finance balances at **53%** of lending assets
- Customer numbers of **849,365**, an increase of **39%** on H1 2016
- High levels of customer and employee satisfaction

#### Well positioned to accelerate future growth

- Reduced risk appetite and repositioning the business model from higher risk unsecured consumer credit towards lower risk secured lending, which is considered appropriate in the current environment
- New customer deposits platform will broaden funding and customer options at lower overall funding rates
- 2017 expected to reflect continuing actions to reposition the balance sheet and focus on growth in reduced risk lending activities, wind down legacy non-prime unsecured book and sub prime motor and invest in new business lines
- Ongoing diversification strategy to balance the portfolio across consumer, SME and residential mortgage lending

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

## 2017 DEVELOPMENTS

### Strategic initiatives impacting 2017 results

#### Launch of Residential Mortgage lending – Q1 2017

- Part of long term diversification strategy to balance the portfolio across consumer, business and residential mortgage lending
- Initial focus on owner occupied mortgages with first loan written in June 2017
- Building out distribution partners with a view to continuing expansion throughout 2017 and 2018. In addition there is the potential to extend the product range and proposition where customers are identified as underserved in the market

#### Motor Finance

- Ceased sub-prime and reallocated capital to lower risk business
- Cost of risk\* continuing to reduce from 6.6% in H2 2016 to 6.4% in H1 2017

\*excluding voluntary terminations

#### Deposits platform – H2 2017

- Provides a wider range of retail funding options including ISAs and easy access accounts
- Flexibility will deliver access to a wider range of funds at lower rates
- Focus on enhancing customer proposition and operational efficiencies through full online servicing

#### Managed migration of balance sheet to lower risk lending

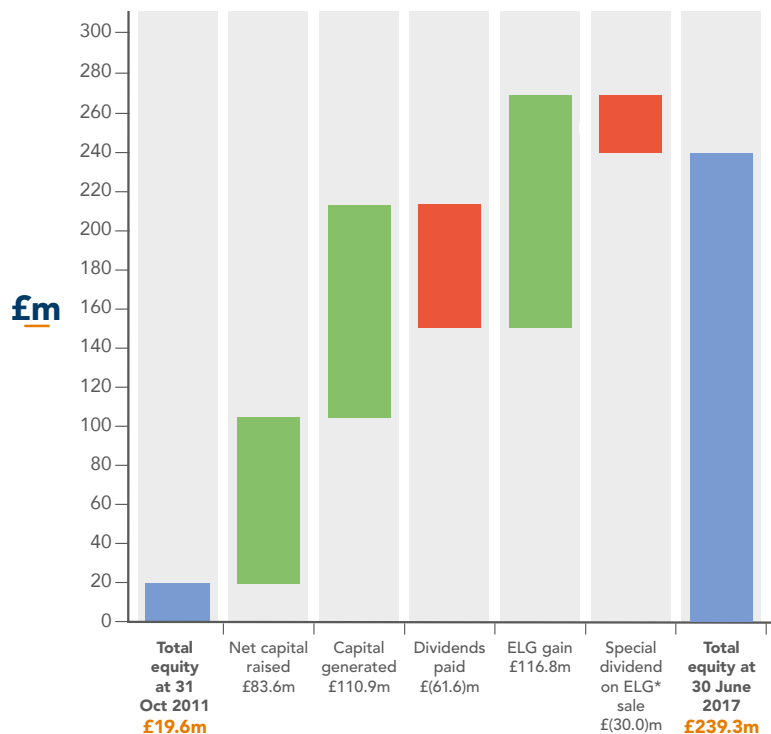
- Unsecured consumer loans down 25% to £48.5m in H1 2017
- Motor lending migrating towards lower yield, lower risk prime lending
- Decision to not engage in parts of SME markets exhibiting signs of overheating

## STRATEGIC GOALS



## STRATEGY

### Very significant shareholder value created since 2011 IPO



- **£227.7m** capital generated since IPO
- Consistently strong dividend payment pattern
- Capital remains strong with Common Equity Tier 1 ratio of **15.3%**
- Leverage ratio of **12.7%** well above the PRA minimum
- Equity per share at IPO **£1.66**
- Equity per share at H1 2017 of **£12.95 (680% increase on equity per share at IPO)** after **£5.03** was paid to shareholders by way of dividends
- Total shareholder return of **236%**

\*ELG: Everyday Loans Group.

## CONTINUED GROWTH IN DIVERSE LOAN BOOK

	Business Finance* 53% of loan book (H1 2016 47%)			Consumer Finance 47% of loan book (H1 2016 48%)			Residential Mortgage Lending Initiated H1 2017
	Real Estate Finance	Asset Finance	Commercial Finance	Retail Lending	Motor Finance	Personal Lending**	Consumer Mortgages
<b>STB product offering</b>	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
<b>% Change</b>	50%	-1%	73%	45%	26%	-25%	–
<b>Loan book H1 2017 £m</b>	541.4	111.5	94.2	394.3	258.4	48.5	0.1
<b>Loan book H1 2016 £m</b>	361.7	112.3	54.5	271.7	205.6	64.6	–
<b>Net Revenue Margin H1 2017</b>	3.9%	4.9%	6.7%	11.1%	15.1%	13.8%	1.8%
<b>Net Revenue Margin H1 2016</b>	4.9%	5.0%	7.0%	11.1%	17.1%	13.9%	–
<b>Repositioning actions to reduce risk</b>	Higher LTGDV repaid and proportionately less development finance	Reduced risk appetite			Ceased sub-prime lending and reallocated capital to lower risk lending	Ceased originations and back book in wind down	

\*Includes £46m of lending to NSF and RentSmart.

\*\*Cessation of Personal Lending originations in Q1 2017.



## SUSTAINABLE LENDING GROWTH

	H1 2017	H1 2016*
	£m	£m
Gross interest income	71.2	62.7
Interest expense	(12.7)	(13.2)
Net interest income	58.5	49.5
Impairment losses	(18.5)	(13.3)
Reported PBT	13.9	12.5
Underlying PBT	14.5	16.2
Basic EPS (pence)	60.6	57.0
Underlying EPS (pence)	63.3	73.1
Annualised underlying ROAA	1.6%	2.2%
Annualised underlying RORE**	16.0%	21.3%
Loan book (£m)	1,509.6	1,128.3
Loan to deposit ratio	114%	108%
Customers	849,365	608,891
Common Equity Tier 1 Ratio	15.3%	20.1%

\*H1 2016 is reported on a continuing basis.

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

### Total Lending Assets £1,510m





SECTION **2**

**FINANCIAL REVIEW**

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NEERAJ KAPUR | CHIEF FINANCIAL OFFICER

## SUMMARY INCOME STATEMENT

### Balancing growth and risk by repositioning the business

£m	H1 2017	H1 2016*	% change
Net interest income	58.5	49.5	18.2%
Net fee, commission and other income	7.3	7.8	(6.4)%
<b>Operating income</b>	<b>65.8</b>	<b>57.3</b>	<b>14.8%</b>
Impairment losses	(18.5)	(13.3)	39.1%
Operating expenses	(33.7)	(31.5)	7.0%
Profit on sale of NSF shares	0.3	–	N/A
<b>Profit before tax</b>	<b>13.9</b>	<b>12.5</b>	<b>11.2%</b>
<b>Underlying profit before tax</b>	<b>14.5</b>	<b>16.2</b>	<b>(10.5)%</b>
Basic EPS (pence)	60.6	57.0	6.3%
Underlying EPS (pence)	63.3	73.1	(13.4)%
Proposed interim dividend (pence)	18	17	5.9%
Cost to income ratio	51.2%	55.0%	
Annualised underlying RORE**	16.0%	21.3%	

#### ➤ 15% increase in operating income

- Maintaining strong growth in both Consumer finance and Business finance sectors whilst moving to lower risk, lower margin lending

#### ➤ Impairment losses up 39%

- Loan impairments have increased year on year partly as a result of increased lending balances (+34%) but also increased expected provisions in the sub prime Motor finance legacy book
- Impairments in Business Finance remain modest

#### ➤ Total expenses increased by 7%

- H1 2016 operating expenses include **£3.5m** in respect of bonuses paid relating to the sale of ELG. Excluding this expense the year on year increase is **£5.7m (20%)** reflecting continuing investment in people, infrastructure and the mortgage proposition

\*H1 2016 is reported on a continuing basis.

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

## KPI SUMMARY

### Increasing asset quality at reduced margins

Key Performance Indicator	H1 2017	H1 2016
Gross revenue margin	11.5%	13.5%
Net interest margin	8.5%	9.5%
Net revenue margin	9.6%	11.0%
Cost of risk	2.7%	2.6%
Annualised underlying ROAA <sup>(1)</sup>	1.6%	2.2%
Annualised underlying RORE <sup>(2)</sup>	16.0%	21.3%

Key Performance Indicator	H1 2017	H1 2016
Cost of funding	1.9%	2.5%
Total cost to income ratio	51.2%	55.0%
Loan to deposit ratio	113.9%	108.2%
Common equity tier 1 ratio	15.3%	20.1%
Leverage ratio	12.7%	15.7%
Annualised underlying ROAE <sup>(3)</sup>	9.9%	15.3%

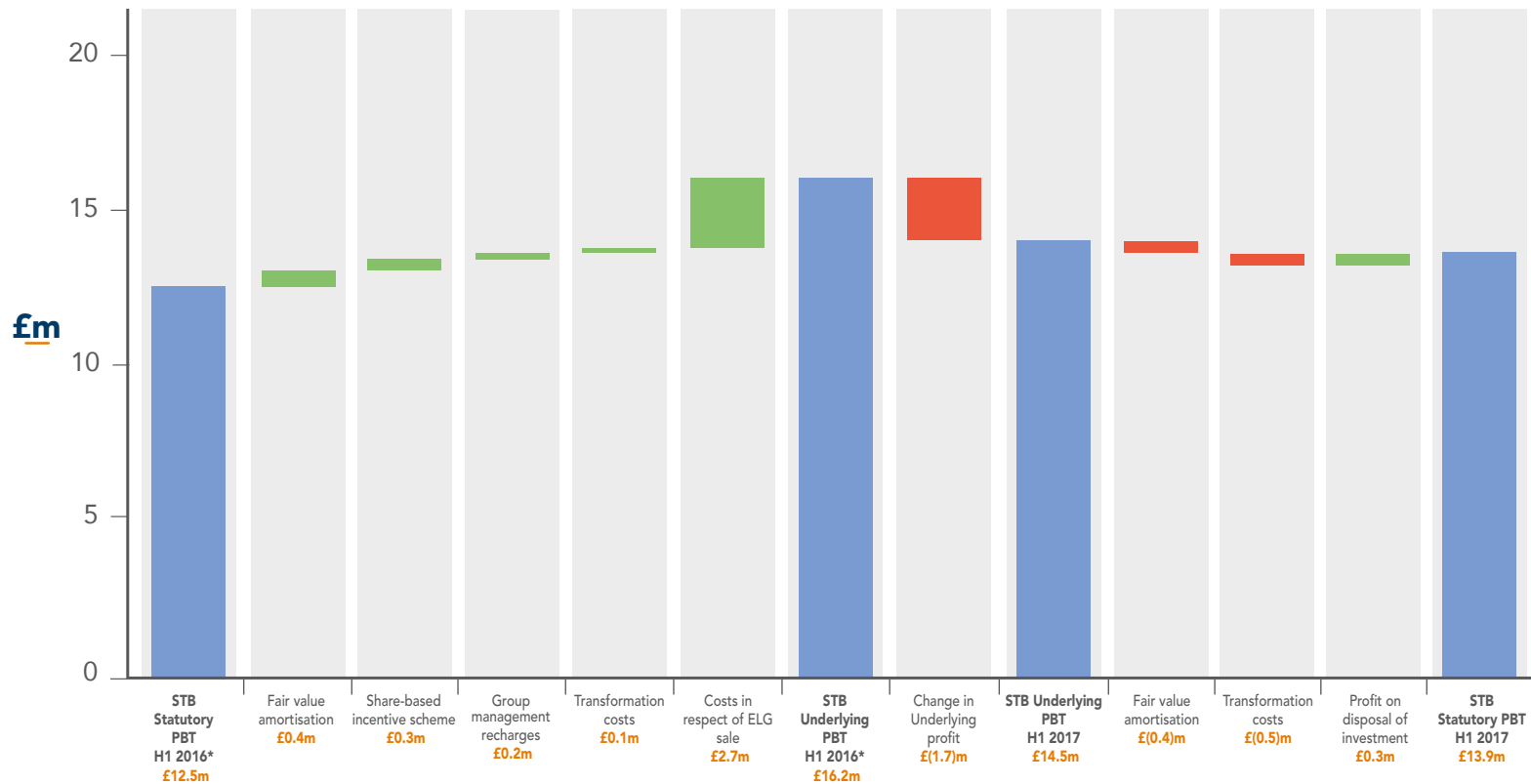
(1) Return on average assets

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

(3) Return on average equity

## UNDERLYING PROFIT BRIDGE

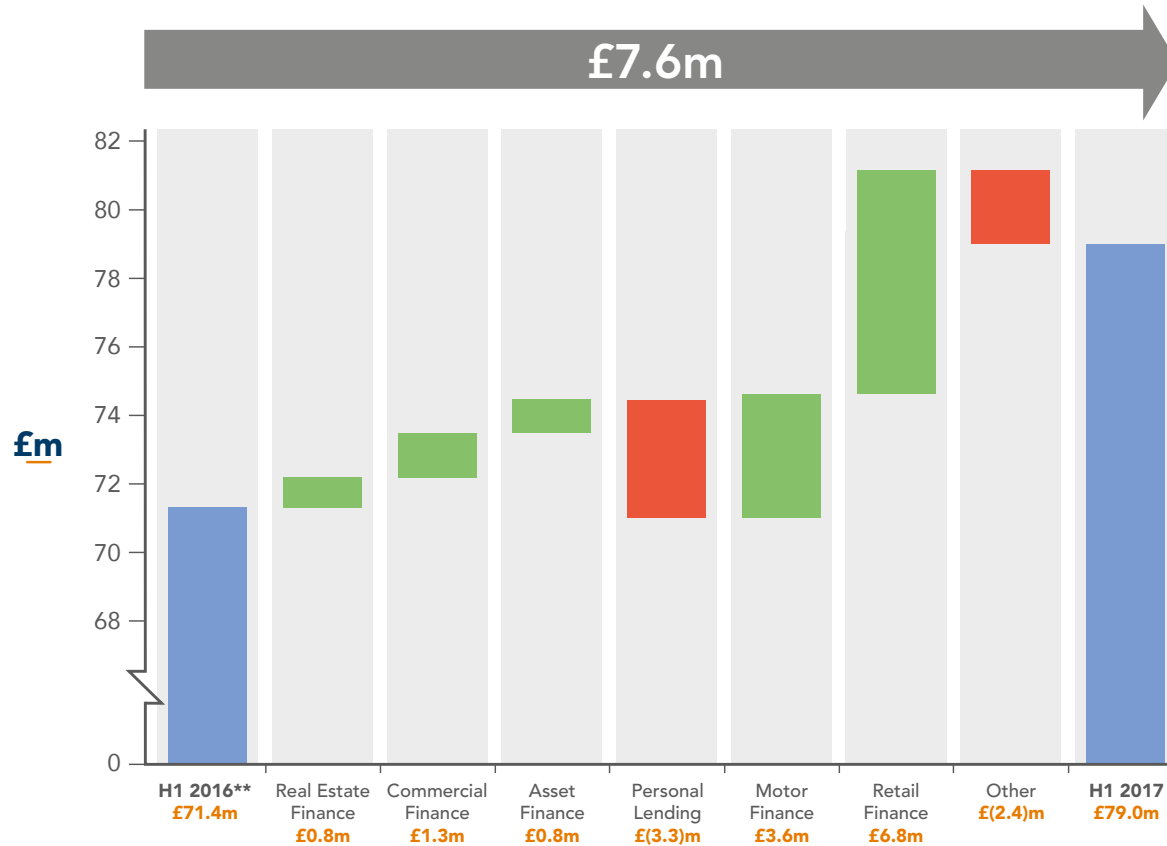
### Reduction in underlying profit reflecting repositioning of the business



\*H1 2016 PBT is on a continuing basis.

## INCOME BRIDGE\*

Increase on H1 2016\*\* of 11%

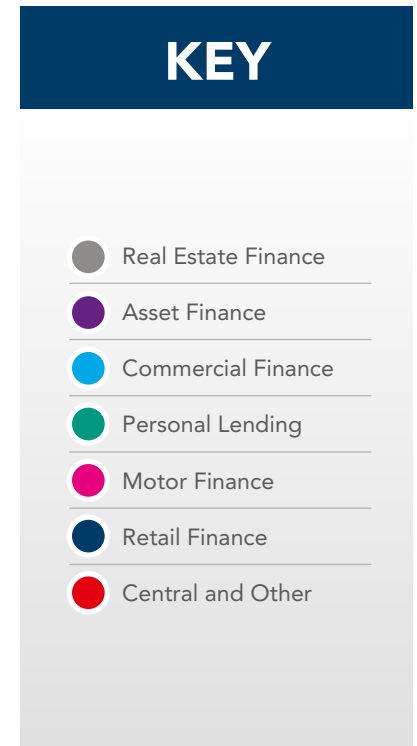
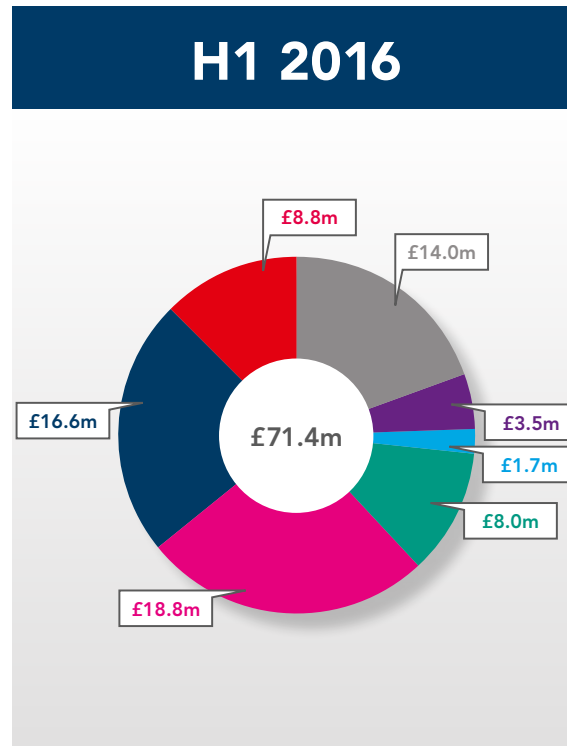
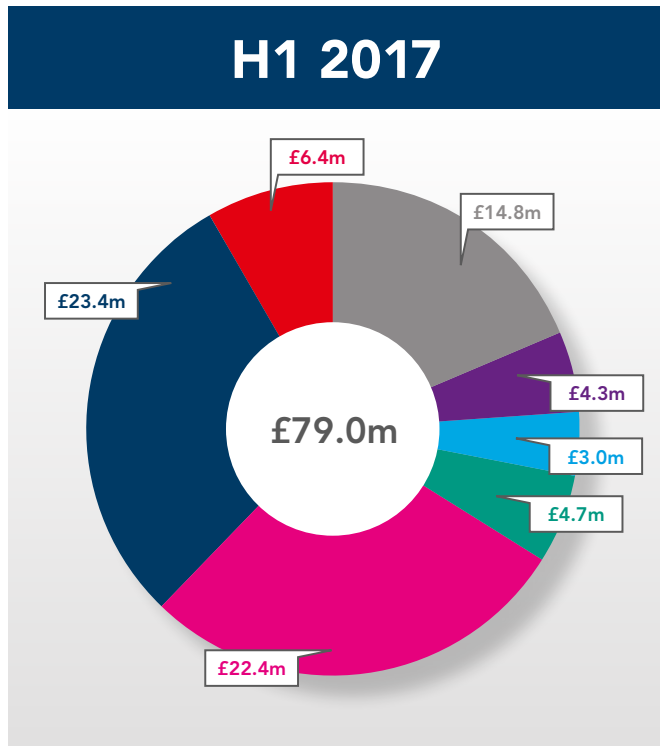


\*Income before interest expense, commission expense and impairment losses.

\*\*H1 2016 is reported on a continuing basis.

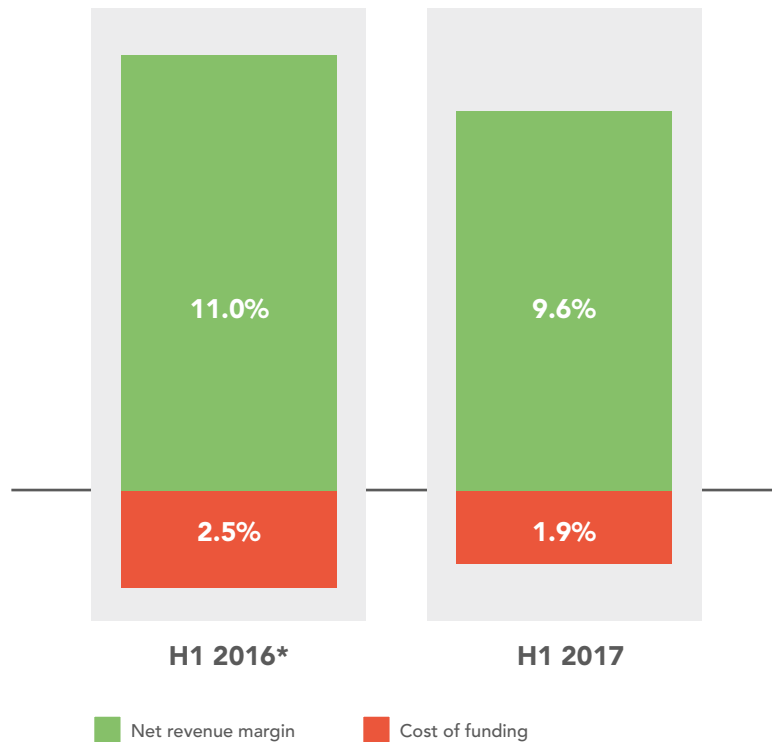
# INCOME ANALYSIS

Changing mix with focus on growth of lower risk lending activities



## NET REVENUE MARGIN SUMMARY

### Change of mix towards lower risk, lower margin lending

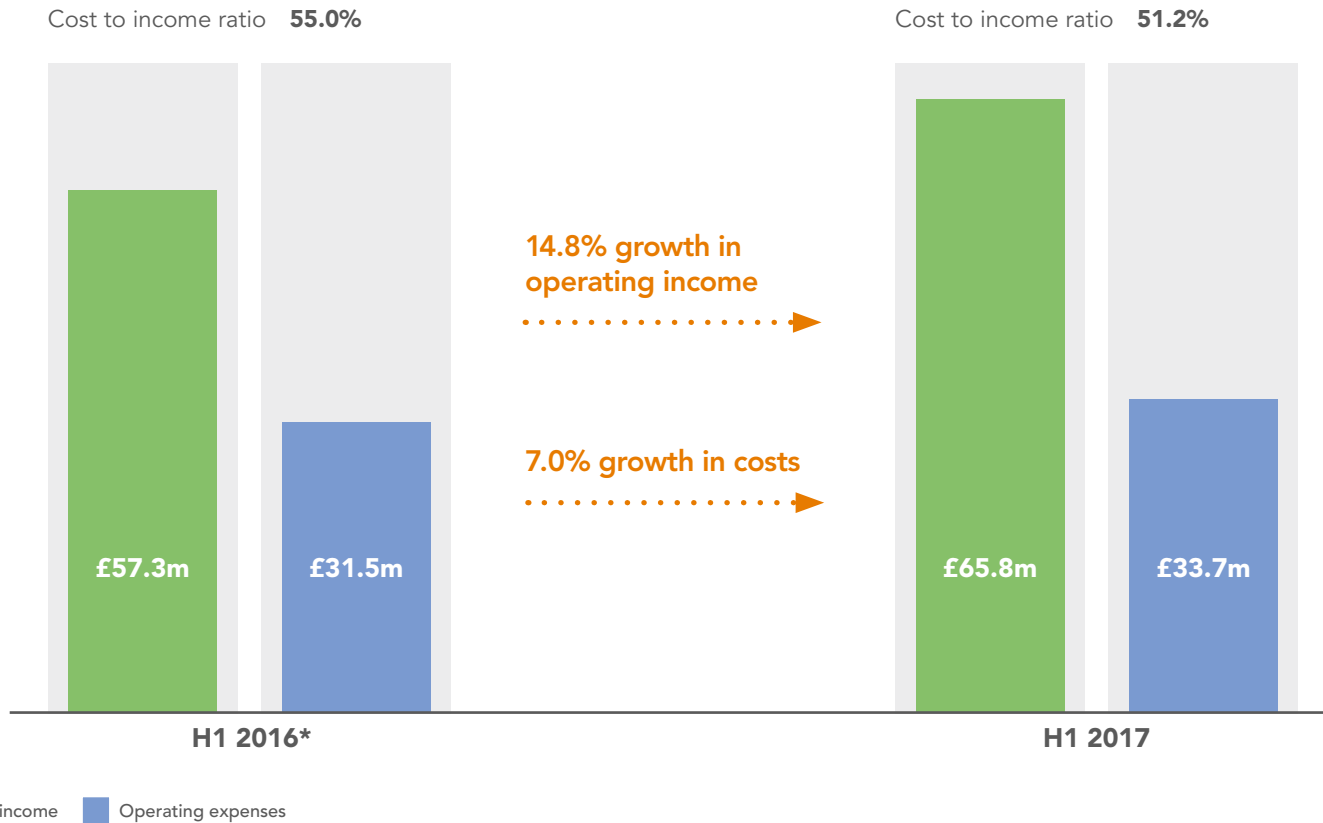


- Reduction in net revenue margins is a reflection of the move to lower risk, lower margin lending and cessation of personal lending originations in Q1 2017
- The reduction in cost of funding reflects the current market for funding with maturing term deposits being replaced with equivalent products at lower fixed rates
- In the future the new deposits platform will provide the ability to offer a wider range of products that are serviced by the customer online, providing retail funding at lower margins

\*H1 2016 is reported on a continuing basis.



## COSTS AND INCOME ANALYSIS



\*H1 2016 is reported on a continuing basis.

## BALANCE SHEET SUMMARY

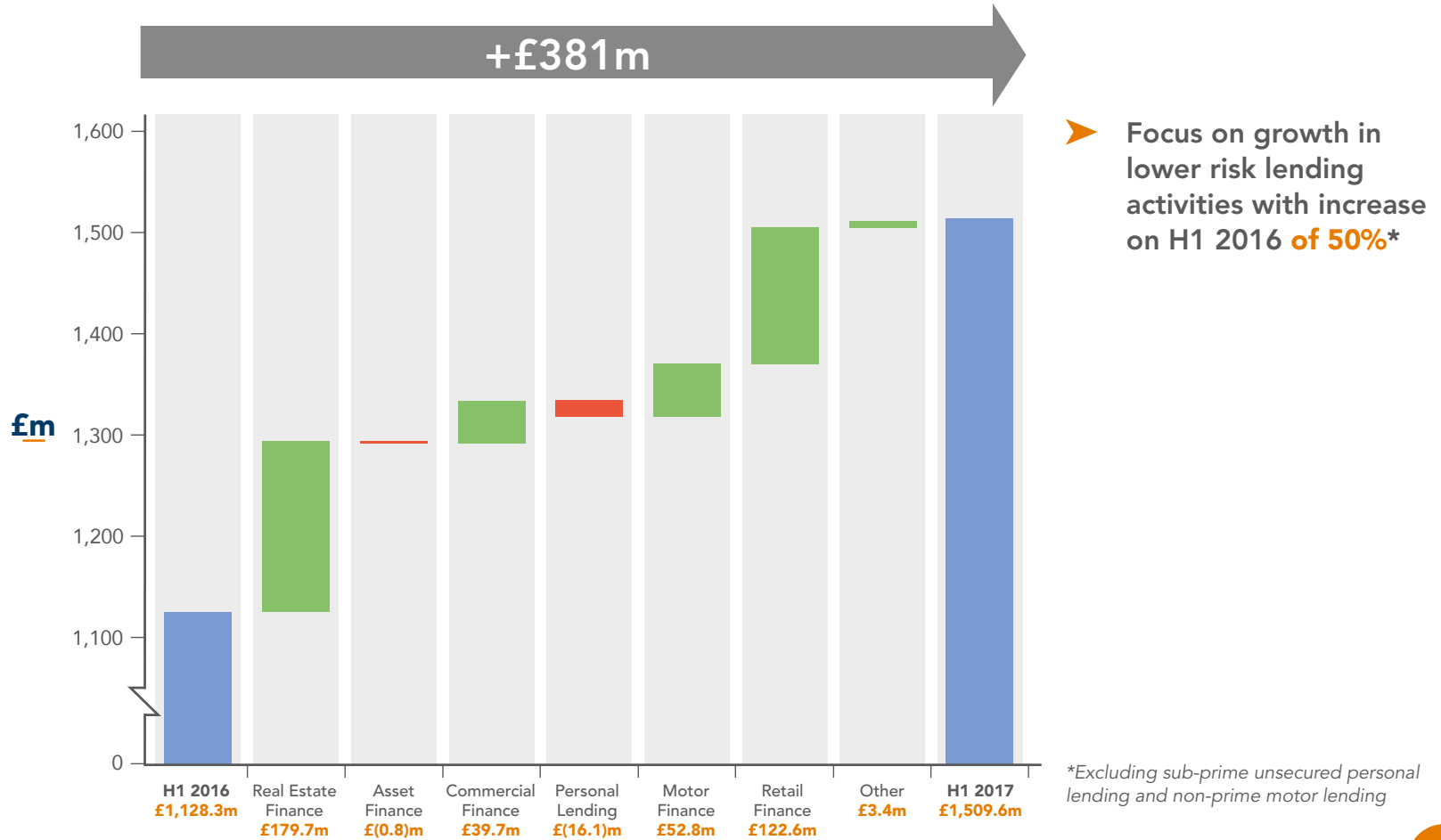
£m	H1 2017	H1 2016
Cash and balances at central banks	114.0	141.8
Loans and advances to banks	25.5	19.1
Debt securities held to maturity	–	19.8
Loans and advances to customers	1,509.6	1,128.3
Other assets	25.3	36.3
<b>Total assets</b>	<b>1,674.4</b>	<b>1,345.3</b>
Deposits from customers	1,325.8	1,042.6
Wholesale funding	63.0	15.0
Other liabilities	46.3	59.3
<b>Total liabilities</b>	<b>1,435.1</b>	<b>1,116.9</b>
Total shareholders' equity	239.3	228.4
<b>Total liabilities and shareholders' equity</b>	<b>1,674.4</b>	<b>1,345.3</b>
<b>Loan to deposit ratio</b>	<b>114%</b>	<b>108%</b>
<b>Customer numbers</b>	<b>849,365</b>	<b>608,891</b>
<b>BoE encumbrance*</b>	<b>9.2%</b>	<b>7.0%</b>

- Customer loans up 34% to £1.5bn
- Customer deposits up 27% to £1.3bn
- Customer numbers up 39% to 849k
- Low utilisation of FLS and 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 FLS and TFS. STB limits asset encumbrance to 25% of total assets on loans that the bank can encumber.

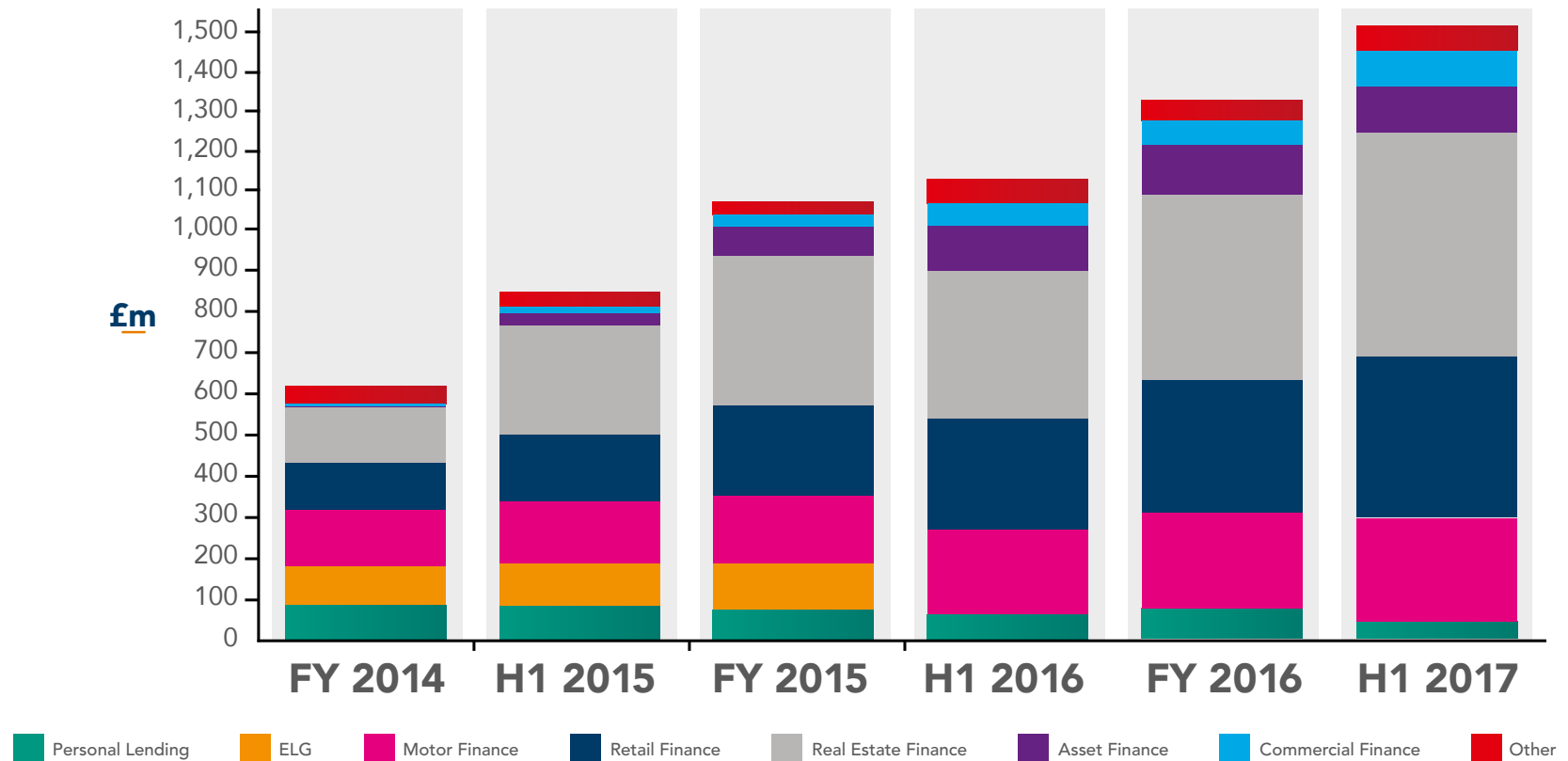
## LENDING BRIDGE

Increase on H1 2016 of 34%



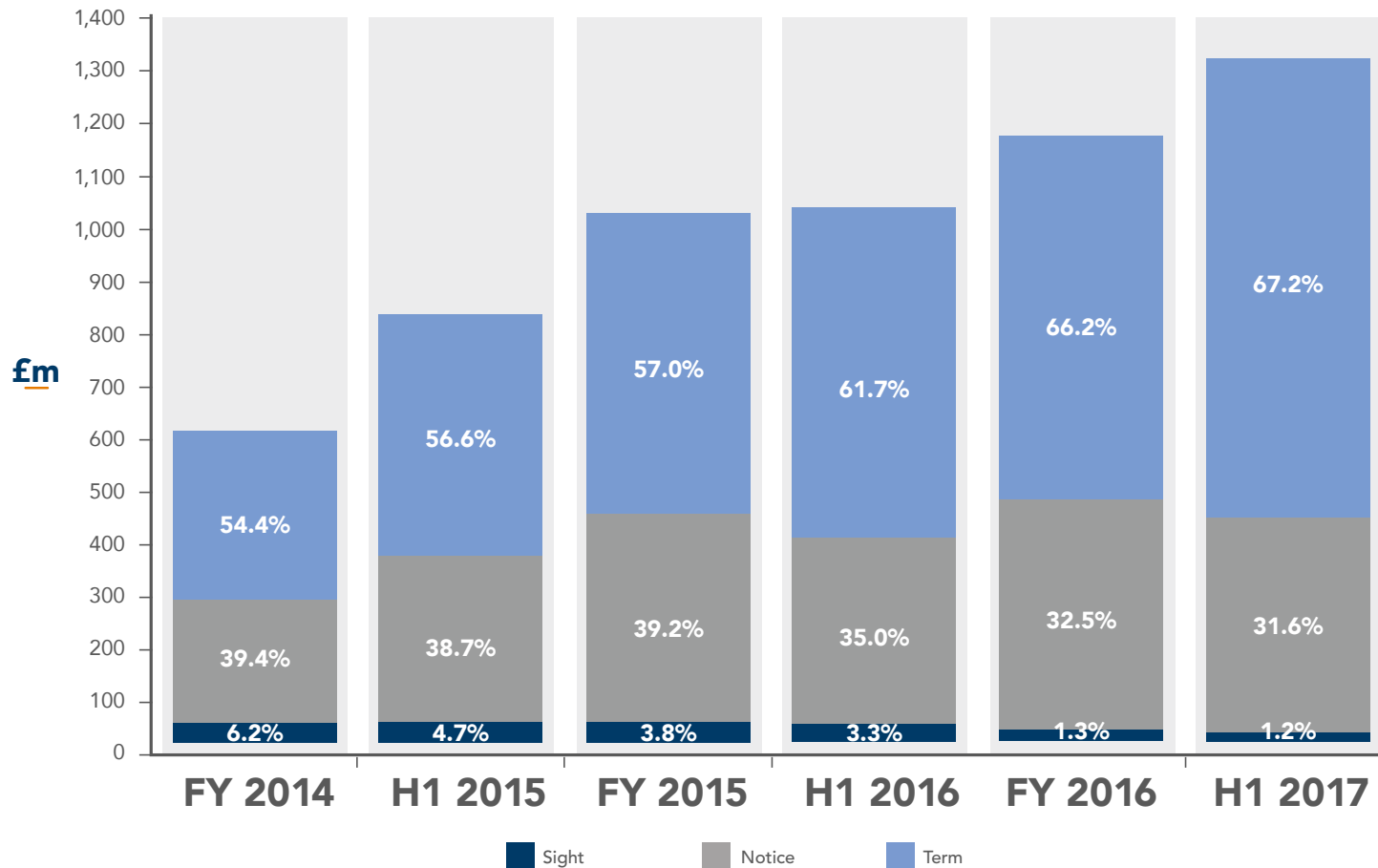
## CUSTOMER LOAN PROGRESSION

**Growth of 34% on H1 2016: Business Finance 41%, Consumer Finance 29%**



## CUSTOMER DEPOSIT PROGRESSION

Increase on H1 2016 of £283m, weighted towards term deposits



## STRATEGY

### Strategic priorities to deliver further growth

- **Balancing growth and risk**
  - Growing the lower risk, lower margin lending with the benefits of this strategy becoming more visible in 2018 and beyond as the legacy books reduce and are replaced by lower risk assets
- **Organic growth**
  - Continuing to invest in the quality of our people and systems to ensure sustainable growth and enhance customer experience, particularly in Retail and Motor businesses
- **Diversification**
  - New retail mortgage product launched in Q1 2017 with first loan written in June 2017
  - New Deposit products to be launched in 2017
  - Run off of personal unsecured and sub-prime motor lending

### Managing competitive, economic and regulatory challenges

- **Strong capital and liquidity base, will protect the Group against an unpredictable economic and regulatory environment including:**
  - The Group continues to monitor the impact on customer sentiment and credit quality following the EU referendum result
  - Basel Committee credit risk consultations
  - IFRS 9
- **Capitalise on potential regulatory opportunities to provide a more level playing field for Challenger Banks including:**
  - MREL (Minimum Requirement for own funds and Eligible Liabilities) capital requirements
  - Basel Committee capital regime consultations
  - Potential FCA interventions in the current account and mortgage markets

## SUMMARY AND OUTLOOK

### Strategic repositioning to generate future momentum

- 34% loan book increase with Real Estate Finance net lending balances up by 50% since 30 June 2016
- Targeting sustained loan growth rate in 2018, albeit Group asset yields will continue to experience risk related effects
- Second half of 2017 to experience similar trends as business repositions
- Impact of legacy impairments expected to be less of a feature in 2018
- Change of mix of lending away from sub-prime unsecured

### Continuing to meet commitment to sustainable growth

- Capital and funding positions remain robust
- Continuing to invest in our teams and systems to ensure sustainable growth and enhance customer experience
- New mortgage product launched for customers currently underserved by the market
- Successful retail funding strategy, supported by a new Deposits platform to be launched in 2017



SECTION **3**

APPENDICES

## CUSTOMER FEEDBACK AND AWARDS

### V12

Customer feedback from feefo<sup>®</sup>  
4.8 stars

- “ The website was easy and straightforward to use and I got a prompt decision on my loan. I would use V12 finance again. ”
- “ Really straightforward and provided all information in a timely manner. ”
- “ Very easy to apply, with good communication when needed. Used numerous times now and every time painless. ”
- “ Online system was easy to understand and complete. Decision was made quickly. ”
- “ V12 finance have been very helpful. I would definitely recommend the finance option. ”
- “ Extremely prompt and efficient service with minimal form filling. ”

### Deposits

Customer feedback from feefo<sup>®</sup>  
4.5 stars

- “ Secure Trust is an efficient and highly professional Bank. My application was as simple as could have been, and my interests have been looked after. ”
- “ The service was excellent and the people I spoke to when taking out the bond were really helpful. The bank offers good rates. ”
- “ Excellent customer service and a pleasure to deal with. ”
- “ Clear, unambiguous and efficient. Very happy with the whole process. ”
- “ Really impressed with the friendly and helpful staff on the phone. Account opened and processed speedily. ”
- “ I found the purchase of Secure Trust’s bond very straightforward and they were very helpful on the phone. I would certainly recommend them for good communication. ”

All scores and comments as of June 2017.

## CUSTOMER FEEDBACK AND AWARDS

### Motor Finance

#### Customer feedback from feefo<sup>ee</sup>

- “ Quick, honest and conscientious. Brilliant company, honest, reliable and fast working. Second time I’ve used them and will definitely use again. ”
- “ Brilliant-friendly-helpful. Brilliant service throughout, very helpful and always send you a reminder for when they will take their payment giving you the option to inform them if you are struggling and giving you options, would recommend highly. ”
- “ Best place for help and to be stress free. I couldn’t get car finance so I got told by a friend to go through carfinance247. I filled in the form and within days I got an email saying that Moneyway will lend me what I needed with low APR. I was so happy, grateful and thankful to Moneyway. I’ve never heard of them but they have helped me and my family. Thank you. ”

- “ Thank you. All the worry was taken away from me very happy customer. I had a few questions and your member of staff on the end of the phone was amazing, explained all my worries I can now say I am very happy. ”
- “ Fantastic service from Moneyway. I would definitely buy using Moneyway again. The service from them is fantastic. I would recommend anyone to use Moneyway. ”



All scores and comments as of June 2017.

## BUSINESS TO BUSINESS FEEDBACK

### Motor Finance

“ At DSG we are always striving to ensure we have a competitive and flexible product offering for our dealers. The relationship with Moneyway brings real strength to our lender portfolio. Moneyway demonstrate a clear desire to constantly identify areas for product development, and a good understanding of how that can then lead to further business development. The management team we work with are in tune with our own passion for innovation, and I am certain that the partnership will continue to grow in 2017. ”

**Richard Hoggart – Group CEO –  
DSG Financial Services Ltd**

### Commercial Finance

“ The business is continuing to grow at a rapid pace and we needed a facility in place that would allow us to hold more stock. We weren't able to access funding from our traditional lender and were delighted that Secure Trust Bank could step in to support our ambitious growth plans. Over the next few years we plan to open more showrooms across the country which will help to cement our position as one of the UK's leading suppliers of quality doors. ”

**Matthew Todd,  
Managing Director – Todd Doors**

### Real Estate Finance

“ Excellent all round service and fast decisions. ”

**Donal McCarthy,  
Portdevon (Acton) LLP**

“ Very happy with service... ”

**Peter Barnett,  
Alliance Developments Ltd**

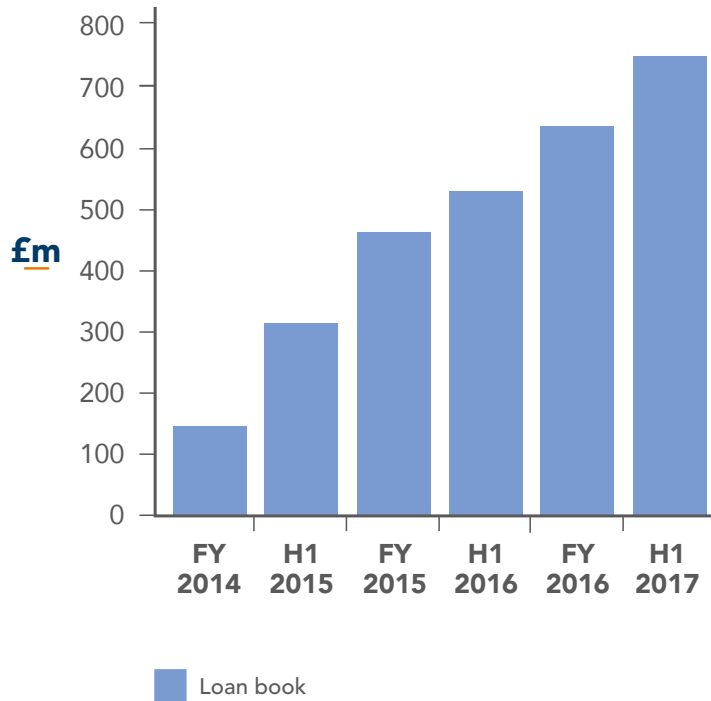
“ It is vital for a bank to share vision of their borrower in order for the investment plan to materialise and this is something that STB does best. ”

**Bernard Spitz,  
68 Halliford Street Ltd**

“ Relationship Managers have been excellent. ”

**Chris Martin,  
Alfred Homes Limited**

## BUSINESS FINANCE



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

## 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

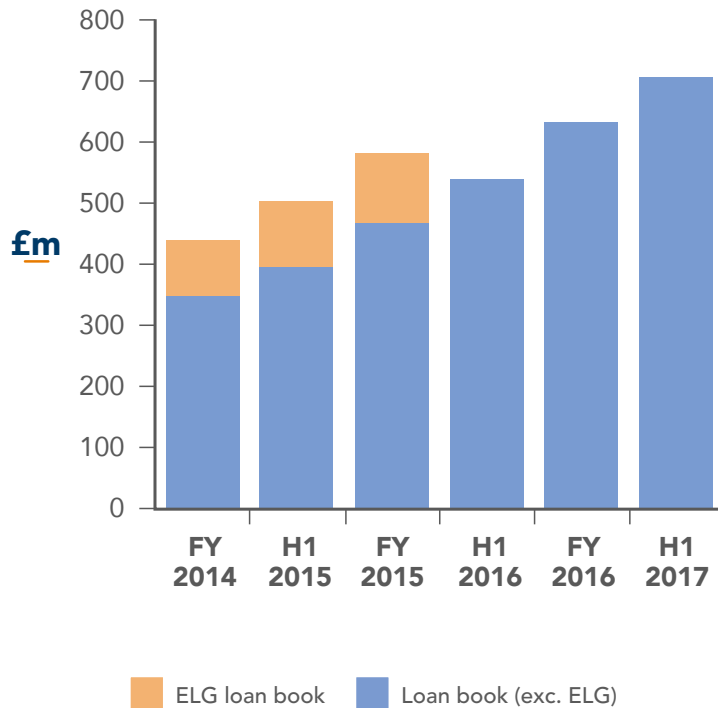
### Business overview – Commercial Finance

- 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**
- Operates from premises in **Manchester** with national coverage via regional teams

### 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**
- Operates via a **partnership** with Haydock Finance, a **well established** asset finance company operating across the UK
- **Route to market** via introducers supported by internal marketing and a targeted web and social media presence

## CONSUMER FINANCE



Consumer Finance	FY 2014	H1 2015	FY 2015	H1 2016*	FY 2016*	H1 2017
Revenue £m	90.2	54.4	115.4	54.6	99.6	50.5
Impairments £m	(15.0)	(10.8)	(24.8)	(15.7)	(31.1)	(17.9)
Net loan book (exc. ELG) £m	342.2	399.2	460.4	541.9	627.6	701.2
ELG loan book £m	93.9	105.3	114.3	-	-	-
Net loan book £m	436.1	504.5	574.7	541.9	627.6	701.2

\*H1 2016 and FY 2016 include ELG results from 1 January to 12 April 2016.



## CONSUMER FINANCE

### Business overview – Personal Lending

- Closed to new business following announcement in **January 2017**
- Advances were from **£1,000 to £15,000**
- **Moneyway** brand offered loans via internet or telephone

### 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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