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SECURE TRUST BANK PLC

Preliminary Results for the 12 months to 31 December 2024

Solid growth and improved cost to income ratio

Tangible book value per share increased to £18.64

David McCreadie, Chief Executive, said:

"Secure Trust Bank has remained focused on its medium-term targets and strategic priorities, delivering on balance sheet growth, stabilising net interest margin, and delivering cost efficiencies. The business has delivered an 18.0% increase in its adjusted[1] profit before tax pre impairments. We have continued to grow our loan book towards our £4 billion target, at which point we expect to deliver an adjusted[1] return on average equity of 14-16%. As such, we remain confident in achieving our medium-term targets which we will have largely delivered by the end of 2025."

Financial Highlights[2]

- **8.8% growth in lending balances to £3.6 billion (2023: £3.3 billion) driven by record new lending volumes**
- **Total profit before tax of £29.2 million decreased by 12.6% (2023: £33.4 million)**
- **Adjusted[1] profit before tax pre impairments up 18.0% to £100.9 million (2023: £85.5 million)**
- **Adjusted[1] profit before tax of £39.1 million down 8.2% (2023: £42.6 million)**
- **Net Interest Margin ('NIM') stable at 5.4% (2023: 5.4%) with improvement in H2 2024 (H2 2024: 5.5%; H1 2024: 5.3%)**
- **Adjusted[1] cost income ratio improved by 310 bps to 50.9% (2023: 54.0%) (H2 2024: 48.4%, H1 2024: 53.7%). Statutory cost income ratio at 55.8% (2023: 57.5%)**
- **Project Fusion delivered the initial target of £5 million[3] of annualised cost savings by the end of 2024, and will deliver a further £3 million[3] of cost savings in 2025**
- **Cost of risk increased to 1.8% (2023: 1.4%) impacted by the pause in our collection processes in Vehicle Finance during H2 2023 and collections challenges in H1 2024**
- **Tangible book value per share increased 4.7% to £18.64 per share (2023: £17.80 per share)**
- **Exceptional costs of £9.9 million (£6.5 million), includes £6.9 million of potential redress and costs relating to motor commissions**

Secure Trust Bank PLC ('Secure Trust Bank', 'STB' or the 'Group') achieved net lending growth of 8.8% (£293.2 million), primarily driven by the Consumer Finance business, which grew by 13.4% (£225.7 million). Business Finance saw growth of 4.2% (£67.5 million), which was driven by the Real Estate Finance business with growth of £97.6 million combined with a small year-on-year reduction in Commercial Finance, which continued to be impacted by a subdued market. This resulted in a stable NIM of 5.4% (2023: 5.4%), reflecting improvement in the second half of the year (H2 2024: 5.5%; H1 2024: 5.3%).

Customer deposits reached a record level of £3.2 billion (2023: £2.9 billion) through a combination of growth in Access accounts and ISAs. This increase alongside the use of ILTR funding enabled us to repay £160.0 million of TFSME funding in 2024 ahead of maturity. A further £60.0 million of TFSME funding was repaid by the end of February 2025, leaving £170.0 million outstanding.

Project Fusion, the Group's cost optimisation programme, continued to contribute to our adjusted[1] cost income ratio which improved from 54.0% in 2023 to 50.9%, limiting cost growth to 4.1%. Adjusted[1] cost income ratio was 48.4% for H2 2024, reflecting the ongoing growth of the loan book and tight cost control.

The impairment charge of £61.9 million (2023: £43.2 million) was significantly impacted by the pause in our collection processes in Vehicle Finance during the second half of 2023 following the FCA's Borrowers in Financial Difficulty ('BiFD') review. Delayed repossession and recovery activities created operational challenges in the first half of 2024 and resulted in an elevated stock of defaulted loans. Strategic initiatives to recover a proportion of these defaults were hampered by the market environment following the Court of Appeal judgment in October 2024. Initiatives to reduce these excess default balances in Vehicle Finance are underway in 2025. The credit quality of new lending in the Vehicle Finance business has improved over time and arrears levels have reduced over the year from 12.2% to 10.0%. Retail Finance cost of risk improved to 1.0% (2023: 1.4%) reflecting the quality of business written and IFRS 9 model enhancements. The impairment charge for the year also reflects a loss of £5.6 million in Commercial Financial due to a client failing through challenges in the market in which it operated.

On an adjusted[1] basis the Group achieved a profit before tax of £39.1 million (2023: £42.6 million), a decrease of 8.2%. Total profit before tax of £29.2 million (2023: £33.4 million) was impacted by exceptional items (£9.9 million) in 2024 (2023: £6.5 million). The Group achieved an adjusted[1] return on average equity ('ROAE') of 8.0% (2023: 9.6%) and a common equity tier 1 ratio of 12.3% (2024: 12.7%).

Further information on exceptional items relating to BiFD and motor commissions are detailed below. The remaining costs were for the Group's organisational redesign (£1.5 million) relating to employee redundancies, which will deliver the additional annualised savings under Project Fusion of £3 million[3] to be realised in 2025.

Capital ratios have reduced in the period by 0.4 percentage points due to the exceptional items impact of 0.3 percentage points and capital generated being utilised to support growth in Risk Weighted Assets ('RWAs') and dividends.

Financial summary[2]

	2024	2023	Change[4] %
Total statutory profit before tax	**£29.2m**	**£33.4m**	**(12.6)**
Adjusted[1] profit before tax	**£39.1m**	**£42.6m**	**(8.2)**
Adjusted[1] profit before tax and pre impairments	**£100.9m**	**£85.5m**	**18.0**
Total basic earnings per share	103.4 pence	129.6 pence	(20.2)
Continuing basic earnings per share	103.4 pence	140.8 pence	(26.6)
Total ordinary dividend per share	**33.8 pence**	**32.2 pence**	**5.0**
Total return on average equity	5.5%	7.3%	(1.8)pp
Adjusted[1] return on average equity	8.0%	9.6%	(1.6)pp
Net interest margin	5.4%	5.4%	-
Cost of risk	1.8%	1.4%	0.4pp
Adjusted[1] cost income ratio	50.9%	54.0%	(3.1)pp
Cost income ratio	55.8%	57.5%	(1.7)pp
Net lending balances	£3,608.5m	£3,315.3m	8.8
Customer deposits	£3,244.9m	£2,871.8m	13.0
Tangible book value per share	£18.64	£17.80	4.7
CET 1 ratio	**12.3%**	**12.7%**	**(0.4)pp**
Total capital ratio	**14.6%**	**15.0%**	**(0.4)pp**

Optimising for Growth: Further strategic progress

The Group has made good progress against its strategic priorities of **Simplify**, **Enhance Customer Experience** and **Leverage Networks** during the year. This strategic progress has driven our loan book growth and cost efficiency.

- As at the end of 2024 Project Fusion has delivered £5 million of annualised cost savings[3], and will deliver another £3 million[3] of cost savings in 2025, which has mostly been obtained by the Group's organisational redesign.

- Vehicle Finance will complete its move to a single technology platform, which will facilitate applicants to be matched to our most suitable product offering based on their credit profile.

- Market share gains in 2024 for both Retail Finance and Vehicle Finance, and will maximise the opportunities from their strong networks.

Other highlights

- Customer satisfaction remains high, as measured by Feefo, 4.7 stars (2023: 4.6 stars)

- Listed as an official UK Best Workplace™ for the sixth year running, ranking 26 out of 105 companies (large organisations category) and, in the first year of rankings, for a new category of Development, ranking 26 out of 100 companies (large organisations category).

- We recently became members of Partnership for Carbon Accounting Financial ('PCAF'), which underlines our ongoing commitment to measure and monitor our environmental impacts as part of our Environmental, Social and Governance ('ESG') strategy, which enhanced our Scope 3 emissions reporting.

- Our initiatives in energy efficiency and cost control led to a 55.5% reduction in Scope 1 and Scope 2 CO_2e emissions. This surpasses our target of a 50% reduction by December 2025, compared to the 2021 baseline.

Regulatory and legal developments

As highlighted at the end of 2023, we have been working on improving our collections processes, procedures and policies following the FCA's review of BiFD across the industry. The BiFD review resulted in payments to customers for historical distress and inconvenience which were materially provided for in the 2023 accounts. The majority of customer communications have now been distributed, and we expect to complete activities by the middle of 2025. This was a delay on our initial timetable, as we took additional time to ensure the quality and clarity of our correspondence was appropriate for our customers. We incurred an additional £1.5 million of cost (treated as exceptional) during 2024, primarily in relation to managing the programme.

In light of legal and regulatory developments, including the FCA's ongoing review of the historical discretionary commission arrangements ('DCA') in the motor finance market (January 2024), and the Court of Appeal's judgement (October 2024) which is currently under appeal, the Group has recognised costs of £6.9 million (£5.2 million potential redress, £1.7 million costs, of which £6.4 million is recognised as a provision) for both DCA and fixed commission structures.

The Vehicle Finance business sometimes operated DCAs until June 2017, stopping using them well ahead of the FCA banning their use in January 2021. Only 4% of our Vehicle Finance commission payments had these arrangements. Not all of the fact pattern in the three Court of Appeal cases is the same as how the Group operated. A key feature of their fact pattern was the linked sale by a dealer of the vehicle and the direct introduction of the finance by that same dealer. Sales by a dealer made up only 20% of our motor commission payments. 80% of motor commission was not paid through dealers but through brokers and various other introducers. Due to the uncertain outcomes (including the nature, extent and timing) of the legal and regulatory developments, we have undertaken scenario analysis with a number of different assumptions, which have been probability weighted to estimate a potential exposure. As and when new information becomes available, these assumptions will be updated accordingly and so the provision could be materially higher or lower. Further information can be found in Note 29 to the Financial Statements.

Dividend

The Directors are proposing a final dividend of 22.5 pence per share for 2024, which will be payable on 22 May 2025 to shareholders on the register at the close of business on 25 April 2025. The total dividend payable for 2024 is 33.8 pence per share (2023: 32.2 pence per share). This is in line with the Board's decision to move to a progressive dividend policy for the 2024 financial year, reflecting feedback from shareholders. The total dividend pence per share represents a 5% increase against prior year.

Outlook

Although 2024 has left us on balance with a more positive economic outlook, the expected stability and optimism for growth that was promised from a change in UK government has not yet materialised. Interest rates have started slowly to come down following a period of stabilised inflation figures, but concerns exist over growth in the UK economy and the perceived adverse impact of the new Chancellor's Budget on the market, businesses and consumer confidence. There has also been additional geopolitical uncertainty due to the change of legislature in the US, notably how new economic policy will influence global markets.

2024 has been extremely challenging for specialist banks due to the regulatory and legal developments that have taken place with respect to historical motor finance commissions. We are acutely aware that the perceived risk of these proposed developments is dampening investor sentiment to the sector. We are hopeful that the industry will receive the clarity it needs on motor finance commissions mid 2025, and that we can move forward with confidence and renewed focus on delivering against our strategic objectives.

Subject to no adverse changes in the economy and trading environment, we expect by the end of 2025 we will be well positioned to have largely delivered against our £4 billion net lending target.

Medium-term targets	2024 Actual	Target
Net lending balance	£3.6bn	£4bn
Net interest margin	5.4%	>5.5%
Adjusted[1] cost income ratio	50.9%	44-46%
Adjusted[1] return on average equity	8.0%	14% - 16%
CET 1 ratio	12.3%	>12.0%

Footnotes:
1. Adjusted metrics exclude exceptional items of £9.9 million (2023: £6.5 million). Details can be found in Note 8 to the Financial Statements.
2. Performance metrics relate to continuing operations, unless otherwise stated. Further details of the metrics can be found in the Appendix to the 2024 Annual Report and Accounts.
3. £5.0 million cost savings relative to operating expenses for the 12 months ended December 2021. The additional £3.0 million cost savings relative to annualised operating expenses for the six months ending 30 June 2024.
4. pp represents the percentage point movement.

Results presentation

This announcement together with the associated investors' presentation are available on:www.securetrustbank.com/results-reports/results-reports-presentations

Secure Trust Bank will host a webcast for analysts and investors today, 13 March 2025 at 9:00am, which can be accessed by registering at: https://brrmedia.news/STB_FY24

For those wishing to ask a question, please dial into the event by conference call:

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Forward looking statements

This announcement contains forward looking statements about the business, strategy and plans of STB and its current objectives, targets and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about STB's or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. STB's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors. These include economic and business conditions, risks from failure of clients, customers and counterparties, market related risks including interest rate risk, risks regarding market conditions outside STB's control, expected credit losses in certain scenarios involving forward looking data, operational risks, legal, regulatory, or governmental developments, and other factors. The forward looking statements contained in this announcement are made as of the date of this announcement, and (except as required by law or regulation) STB undertakes no obligation to update any of its forward looking statements.