

# Secure Trust Bank PLC



Simple, straightforward banking

## 2013 YEAR END RESULTS

20<sup>th</sup> March 2014



# Introduction

PAUL LYNAM – Chief Executive Officer



# Strategy – Continues to Deliver



1. Protect the reputation and sustainability of the bank via prudent balance sheet management, investment for growth and robust risk and operational control



2. Maximise shareholder value by:

- a. Strong organic lending growth
- b. Promotion of existing and development of new commission based income streams
- c. Very selective acquisitions



3. Making Secure Trust Bank a great place for staff to work and enjoy progressive careers



All underpinned by our philosophy of treating customers fairly and providing them with simple, straightforward banking solutions



## 2013 Highlights



- Acquisition of the V12 Finance Group in January
- Acquisition of the trade and certain assets of Debt Managers Holdings Limited in January
- Distribution agreement with Sainsbury's Bank to introduce new customers now live
- Direct to market Personal Unsecured Lending proposition now live
- New Everyday Loans offices opened in Belfast, Edinburgh and Ipswich during 2013, with Hull and Portsmouth offices opened in January 2014
- Season ticket finance propositions have been developed for both Premier League football clubs and Railway franchises
- Secured SME lending commenced – Secure Trust Real Estate Finance operational and Secure Trust Invoice Finance build progressing



# The Times – 11<sup>th</sup> March 2014



## Invoice financing could offer cashflow boost for SMEs

Small businesses are owed £291 billion in unpaid invoices and have been advised that they should use invoice financing to get hold of the cash so they can grow.

Donald Kerr, managing director of Lloyds Banking Group's commercial finance business, said that small and medium-sized enterprises limited by cashflow problems because of unpaid invoices could get paid sooner if they

used invoice financing, which generally charged a much lower fee than other loans. They could also offer to secure new loans against their assets, such as buildings and machinery, which could increase their chance of getting funding. Lloyds calculates the value of untapped SME assets at £770 billion in the UK.

"Businesses are holding back their own growth potential," Mr Kerr said.

*The Times, 11 March 2014*

# Delivering Strong Performance



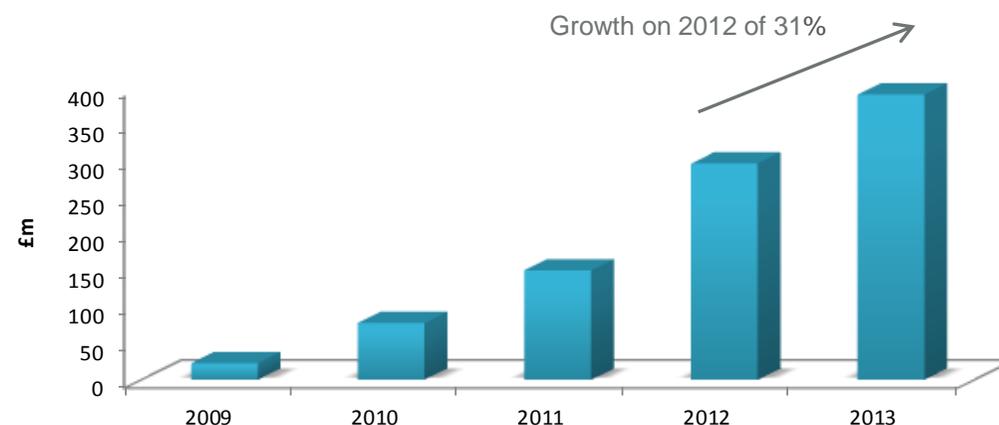
- Strong operating performance
  - Growth in loan book of **31%** over the last year to **£391m** (2012 : £298m)
  - Operating income increased **68% to £79.0m** (2012 : £47.0m)
  - Increase in year-on-year underlying profit before tax of **52% to £25.2m** (2012 : £16.6m)
  - Basic EPS of **78.3p** (2012 : 108.9p)
  - Underlying EPS of **118.2p** (2012 : 89.2p)
  - Customer numbers increased by **51% to 350,861** (2012 : 231,713)
- Risk management
  - Loan to Deposit ratio of **90%** (2012 : 75%)
  - Impairments of **£15.6m** (2012 : £8.9m) remained below the level priced for but are expected to increase as the book continues to mature
  - No exposure to wholesale markets or interbank funding
  - Tier 1 Capital ratio of **19.7%** (2012 : 23.3%)
  - Controlled and balanced lending portfolio
  - Leverage ratio of **6.7x** (2012 : 5.8x) (Basel II)

# Sustainable Positive Progress



	<u>2013</u>	<u>2012</u>
	<u>£m</u>	<u>£m</u>
Gross interest income	73.8	44.9
Funding costs	(12.9)	(8.6)
Net interest Income	60.9	36.3 *
Excess funding costs pre acquisitions	-	(1.9)
Net Interest Income	60.9	34.4
Impairment losses	(15.6)	(8.9)
Reported PBT	17.1	17.2
Underlying PBT	25.2	16.6
Basic EPS (pence)	78.3	108.9
Underlying EPS (pence)	118.2	89.2
Annualised underlying ROAA	3.7%	3.2%
Annualised underlying ROAE	31.5%	31.5%
Loan Book (£m)	391.0	297.6
Loan to Deposit ratio	90%	75%
Customers	350,861	231,713
Tier 1 Capital ratio	19.7%	23.3%

Lending assets £'m (excludes pre IPO acquired portfolios and OneBill)



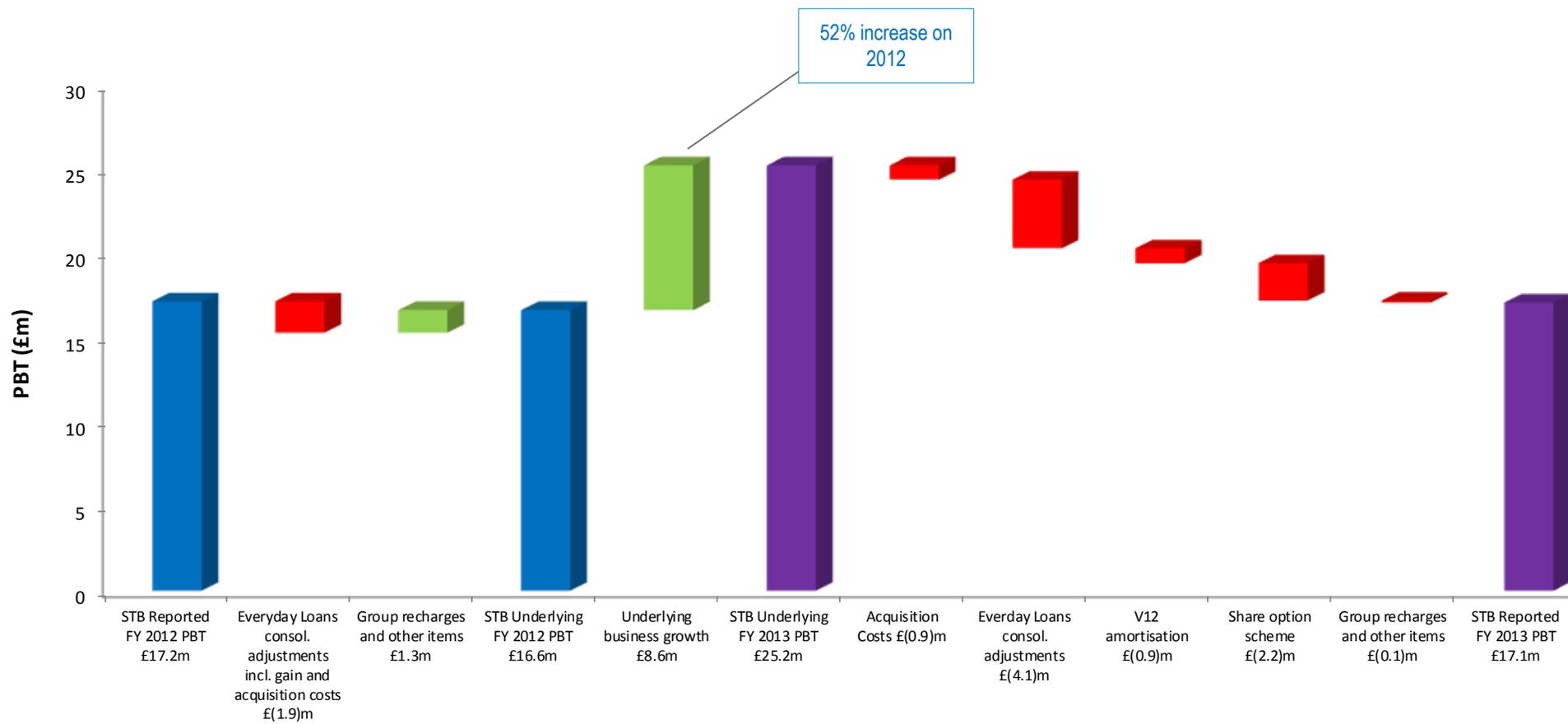
\* Pre excess funding costs in 2012

# Business Review

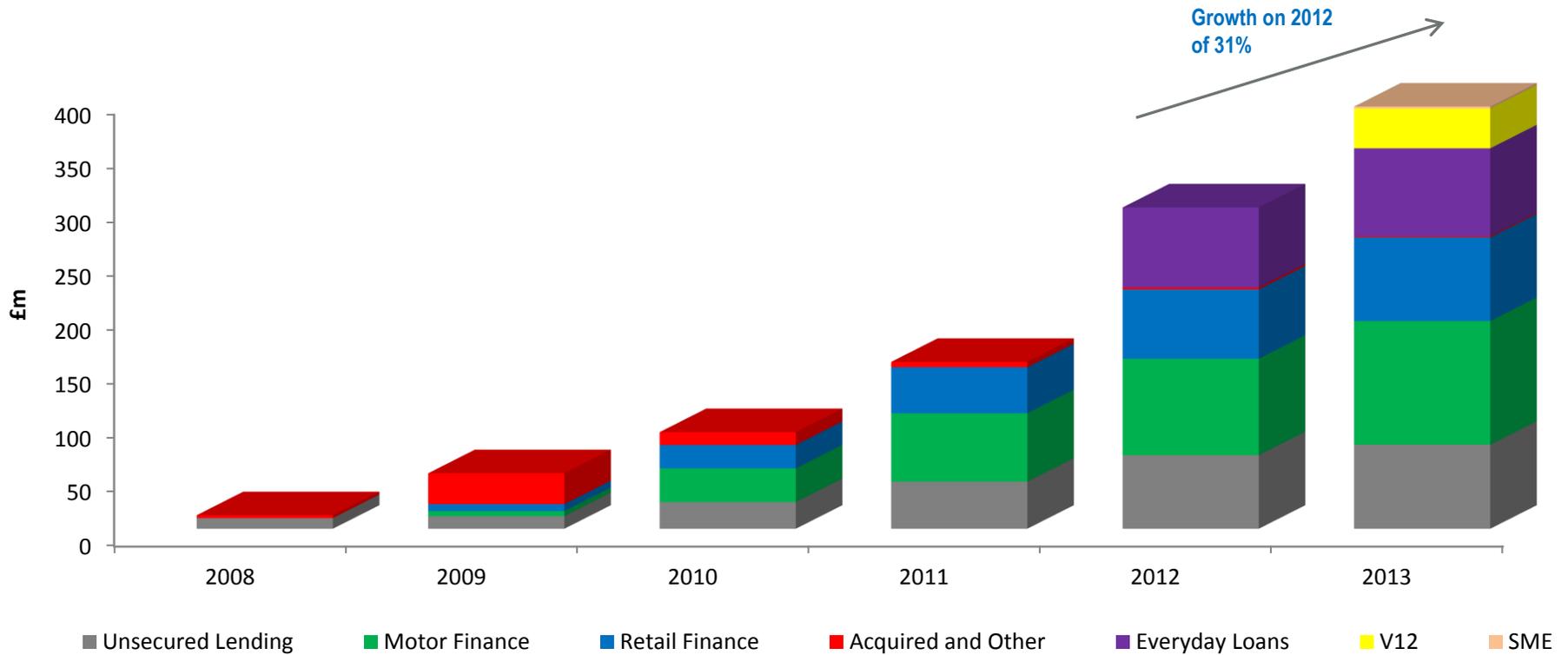
NEERAJ KAPUR – Chief Financial Officer



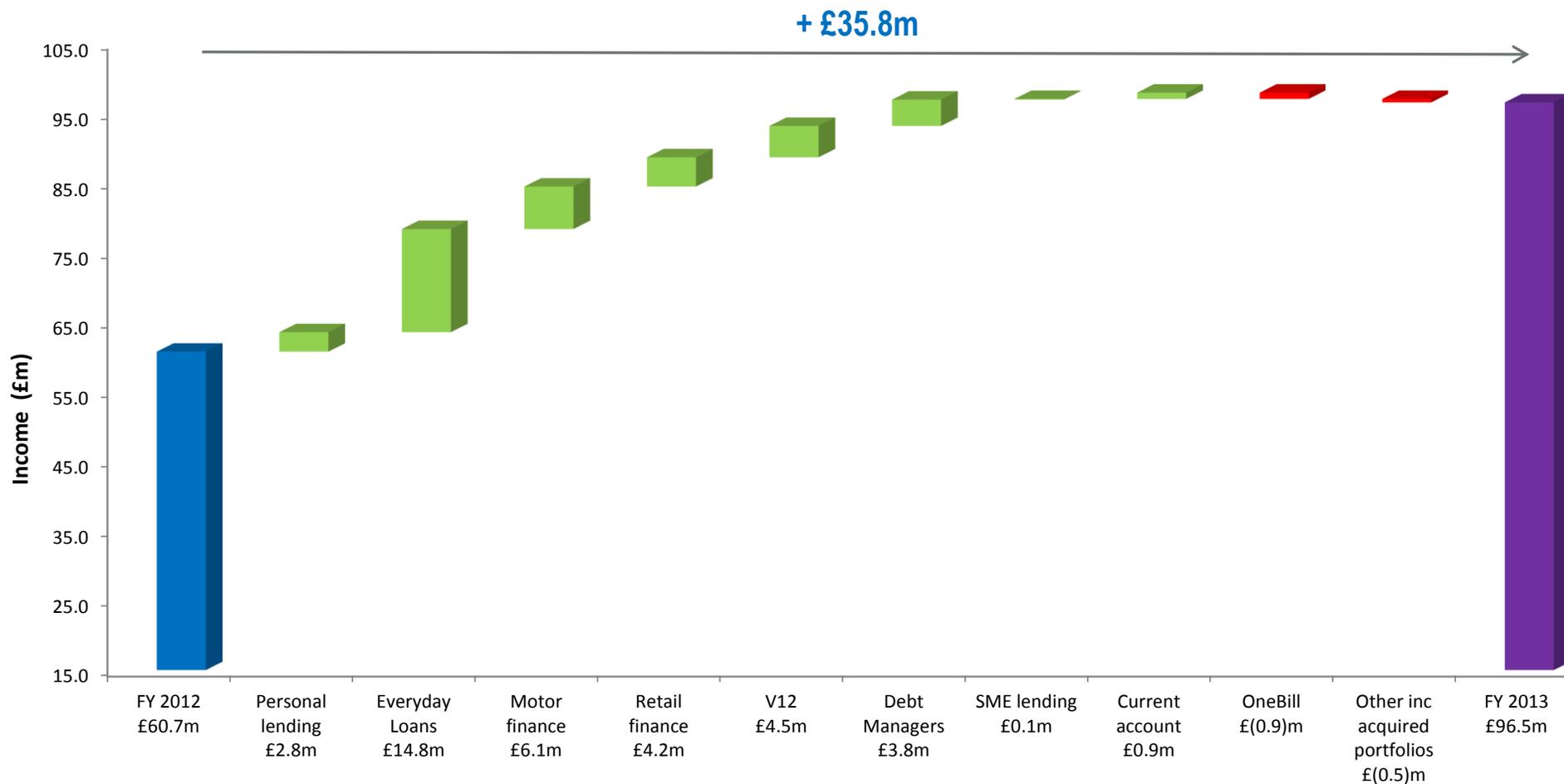
# Underlying Profit Bridge



# Customer Loan Progression

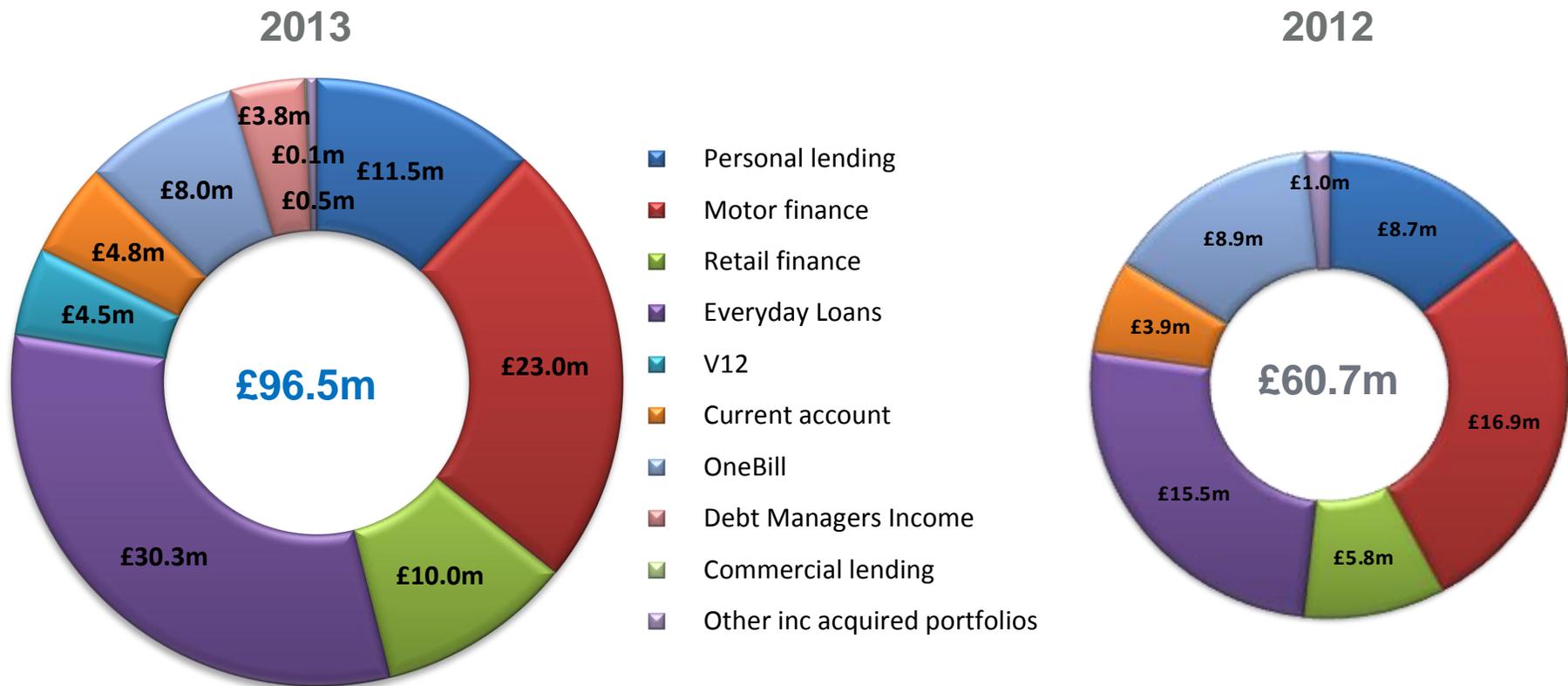


# Income Bridge (before cost of funds and impairment losses)



# Income Analysis

Total income through lending and transactional channels is split as follows:



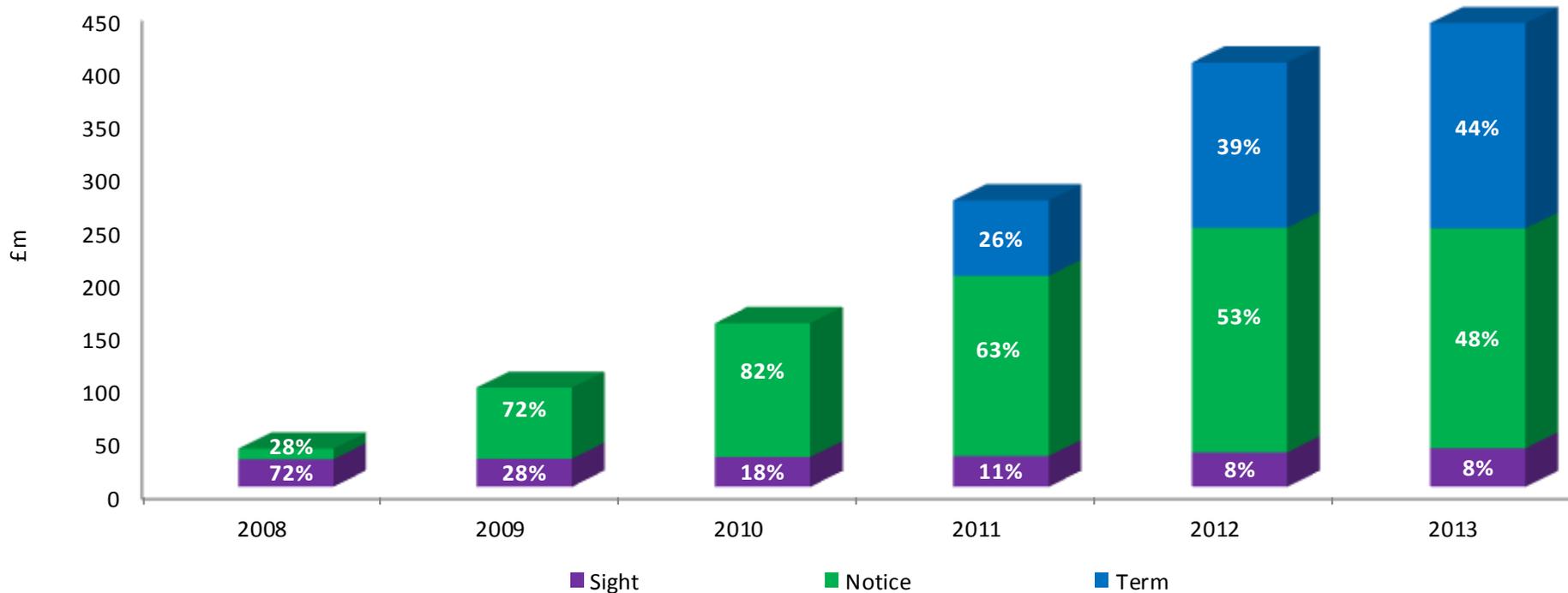
# Balance sheet summary

£m	Dec-13	Dec-12	Dec-11	Dec-10	Dec-09
Loans and advances to banks	110.0	155.3	139.5	68.2	50.3
Loans and advances to customers	391.0	297.6	154.6	89.5	51.4
Other assets	24.9	21.7	13.8	23.0	14.0
<b>Total assets</b>	<b>525.9</b>	<b>474.6</b>	<b>307.8</b>	<b>180.7</b>	<b>115.8</b>
Deposits from customers	436.6	398.9	272.1	153.8	93.3
Other liabilities	27.7	19.8	12.0	11.1	10.4
<b>Total Liabilities</b>	<b>464.3</b>	<b>418.7</b>	<b>284.0</b>	<b>164.9</b>	<b>103.7</b>
<b>Total shareholders' equity</b>	<b>61.6</b>	<b>55.9</b>	<b>23.8</b>	<b>15.8</b>	<b>12.0</b>
<b>Total liabilities and shareholders' equity</b>	<b>525.9</b>	<b>474.6</b>	<b>307.8</b>	<b>180.7</b>	<b>115.8</b>
<b>Loan to Deposit ratio</b>	<b>90%</b>	<b>75%</b>	<b>57%</b>	<b>58%</b>	<b>55%</b>

# Deposit progression



Increase in average tenor of deposits – fixed term deposits now 44% of total deposits



# 2014 outlook



- 2014 has started as we expected:
  - Lending balances continue to grow with significant opportunities being targeted
  - Real benefits of V12 Group acquisition to be realised in 2014
    - Halfords partnership already secured
    - A number of Premier League football clubs have agreed to use V12 to provide their season ticket funding for next season
  - Build on new five-year deal with ActSmart and a renewal of a term contract with Evans Cycles will provide the foundation for continued growth within the Cycle market
  - Build on new partnership with Sainsbury's Bank
  - Demand for deposit products remains strong and continues to attract new fixed rate deposits with 3, 5 and 7 year maturities
  - Clear opportunities to compete in the Invoice Finance market have been identified, and Secure Trust Bank Invoice Finance (STB IF) will look to exploit these
  - Further expansion into SME lending activities, predominantly through the commercial property market

# Summary



- In 2013 we continued to deliver on our stated and proven strategy
- Strong operating and financial performance with growth in underlying profitability
- Maintained our prudent approach to risk management
- Successful identification and development of new lending activities
- Broadened our distribution channels
- Successfully integrated 3 acquisitions into group
- We remain confident in our outlook

# Appendices



# Summary income statement

£m	2013	2012
Net interest income	60.9	34.4
Net fee, commission and other income	18.1	12.6
<b>Operating Income</b>	<b>79.0</b>	<b>47.0</b>
Impairment losses	(15.6)	(8.9)
Operating expenses	(40.3)	(27.2)
Gain on acquisition	0.4	9.8
Other operating expenses *	(6.4)	(3.6)
<b>Profit before tax</b>	<b>17.1</b>	<b>17.2</b>

\* Includes non-recurring costs, provision for option costs, acquisition costs, intangible amortisation and recharges

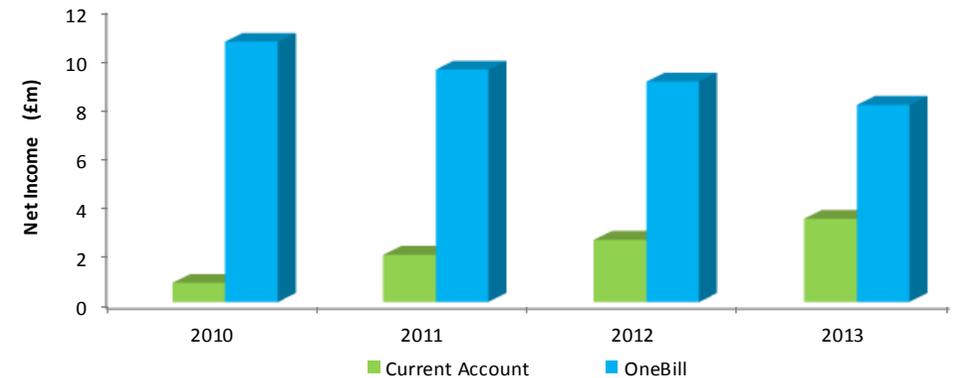
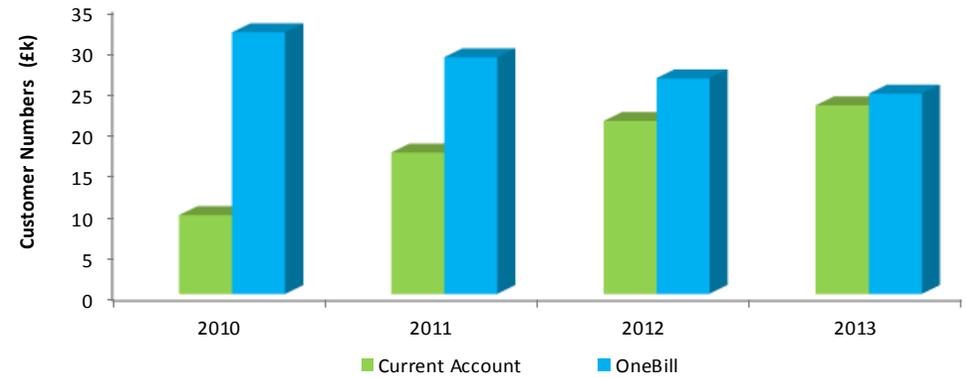
# Fee Based Accounts

- Current Account

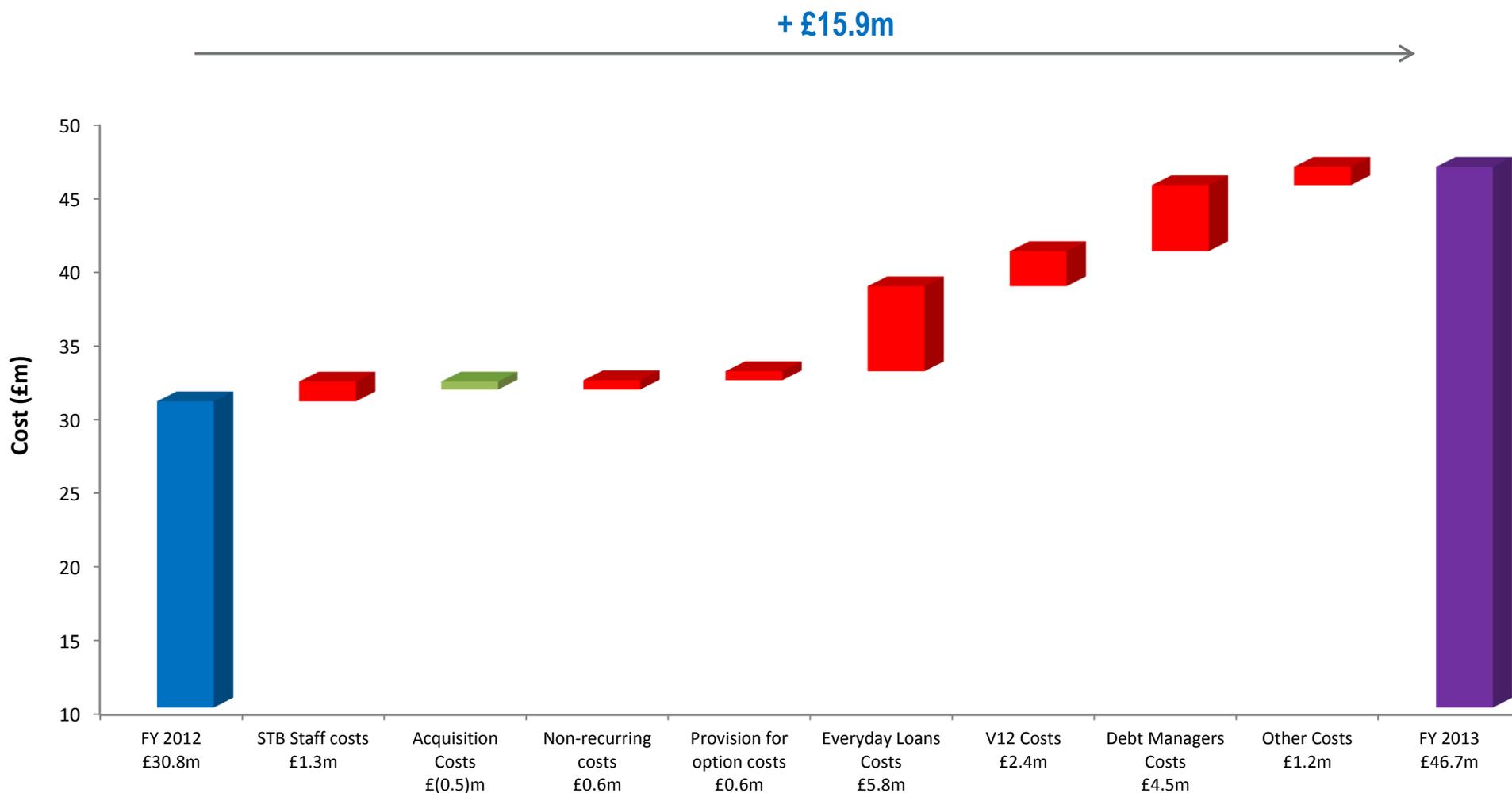
- Continued growth in customer numbers to 23k (December 2012: 21k)
- Dialogue with DWP re Universal Credit continues

- OneBill

- Continued decline in customer numbers in line with expectations
- Project to develop the next generation of the OneBill product is continuing

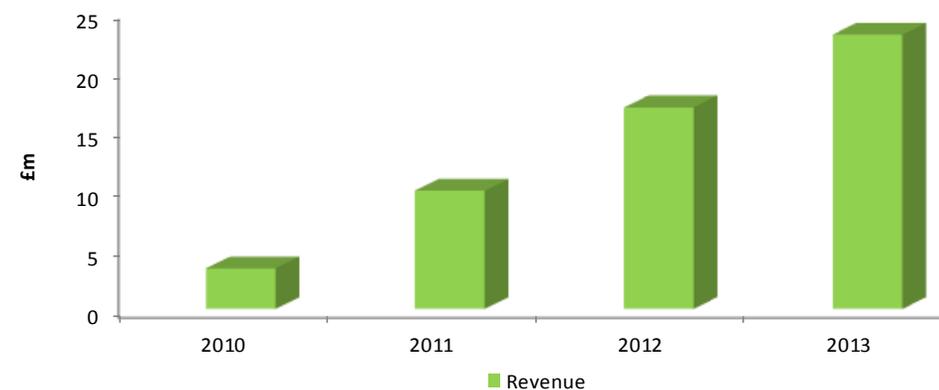
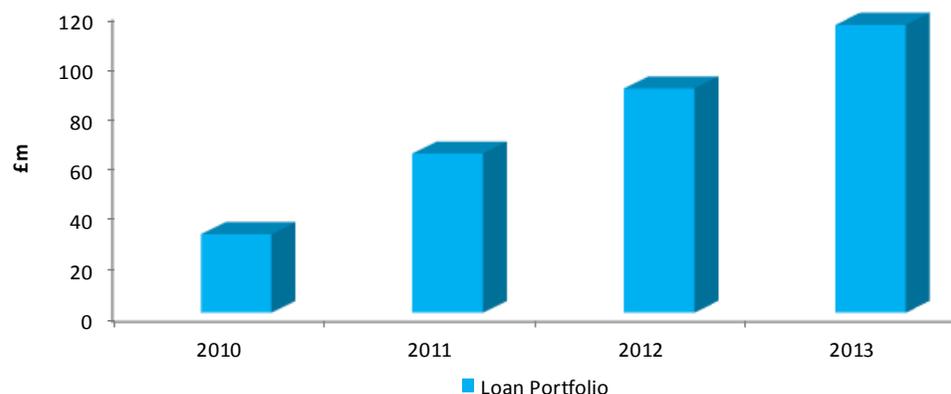


# Operating Costs Bridge



# Motor Finance

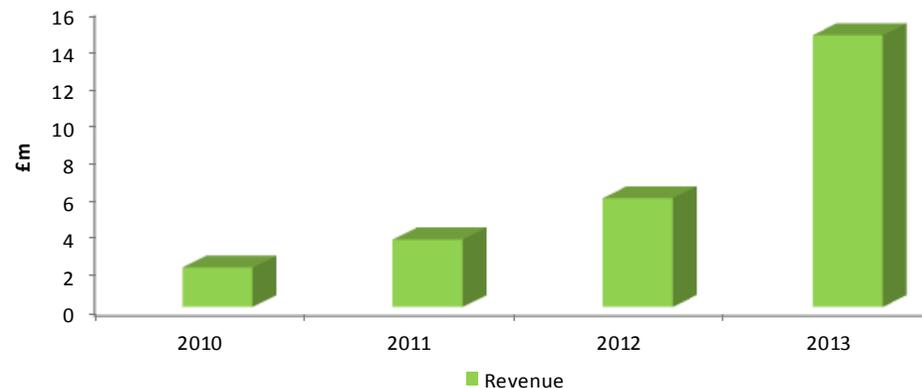
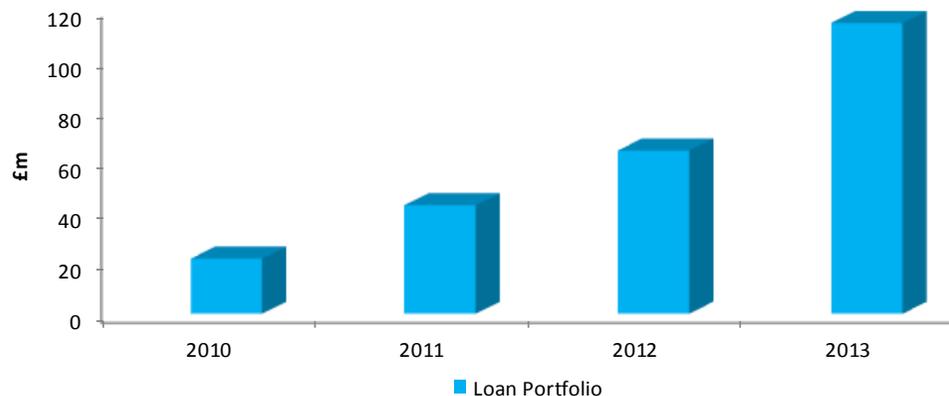
- The UK market for both new and used cars has seen double-digit growth
- We have remained selective as to the source of proposals and together with robust underwriting criteria, continue to price for risk
- Our position in this marketplace is to continue supporting dealerships in delivering their customer sales opportunities



# Retail Finance (Including V12)



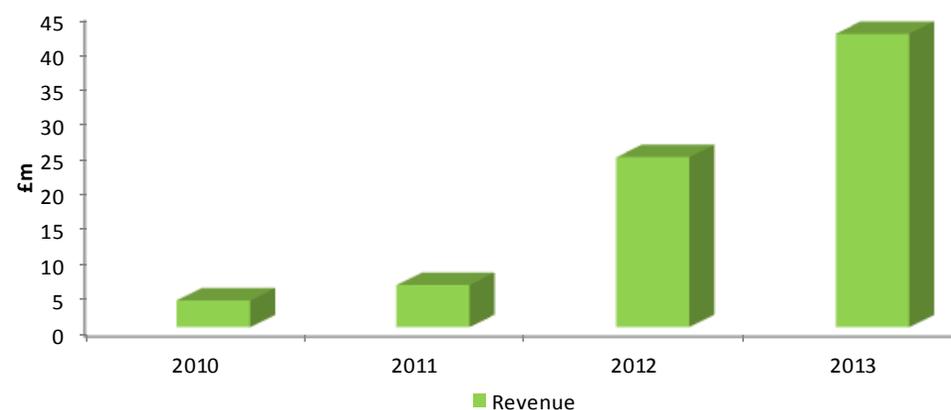
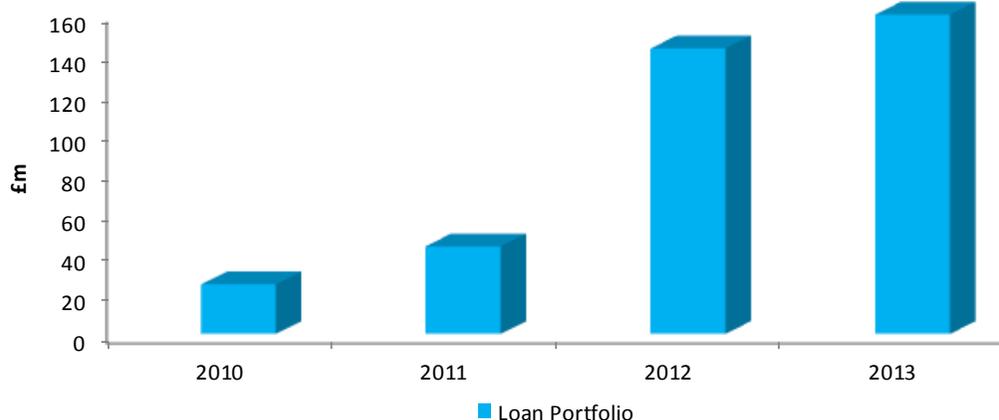
- The UK market for instalment credit has seen on-going growth, particularly on-line
- Our portfolio of Retailers continues to increase whilst we explore not only new sectors, with Premier League football clubs and Railway season tickets, but also new customer propositions with the partnership with Halfords
- Within the portfolio, Cycle has seen strong growth which has been consistent with the historic trend



# Personal Lending (Including Everyday Loans)



- Many of our larger competitors have driven down pricing within the unsecured marketplace, seemingly to attract volume
- We have avoided this approach, yet have seen good organic growth to date
- New routes to market have been developed, including a direct channel and we are also increasingly able to cross-sell and monetise leads flowing into the Group from all introductory sources



## Recent Acquisitions



- New business volumes have increased and credit quality is improving
- Investment in new offices in Belfast, Edinburgh and Ipswich in 2013, and Hull and Portsmouth in Q1 2014. More offices planned
- Move into the guarantor lending space
- Rationalising datacentre into STB facility to generate efficiency savings



- Acquired on 2<sup>nd</sup> January 2013, V12 is a specialist retail finance provider based in Cardiff
- V12's strength in online finance will help bring new technologies and platforms to the STB Group, enabling the Bank to develop further its offering within the market. The business now takes responsibility for STB's retail finance activities
- The first year has seen the integration of the STB & V12 sales teams to deliver the growth in the retail finance sector
- Growth in 2014 will be further supported by partnerships with Halfords and a number of Premier League football clubs and Railway franchises
- New lending volumes have grown by more than 50% since acquisition



- Acquired on 15th January 2013 Debt Managers has completed a successful integration with the STB group
- Developed a significant new prospect pipeline which should begin to deliver in 2014
- Commenced a number of IT projects which will significantly enhance the efficiency and effectiveness of our activity

# Forward Looking Statements



This document is a summary only of certain information contained in the announcement dated 20<sup>th</sup> March 2014 and should be read in conjunction with the full text of the announcement.

This document contains forward looking statements with respect to the business, strategy and plans of the Secure Trust Bank PLC and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Secure Trust Bank PLC'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. Secure Trust Bank PLC'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 UK domestic and global economic and business conditions, risks concerning borrower credit quality, market related risks including interest rate risk, inherent risks regarding market conditions and similar contingencies outside Secure Trust Bank PLC's control, any adverse experience in inherent operational risks, any unexpected developments in regulation or regulatory and other factors. The forward looking statements contained in this document are made as of the date hereof, and Secure Trust Bank PLC undertakes no obligation to update any of its forward looking statements.