

Secure Trust Bank PLC



Simple, straightforward banking

2014 HALF YEAR RESULTS

22nd July 2014



Introduction

PAUL LYNAM – Chief Executive Officer



Strategy – Continues to Deliver



- Protect the reputation and sustainability of the bank via prudent balance sheet management, investment for growth and robust risk and operational control
- Maximise shareholder value by:
 - Strong organic lending growth
 - Promotion of existing and development of new commission based income streams
 - Very selective acquisitions
- 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



Update on Placing



Transaction Summary

- On 19 June, the Company announced that it had carried out a placing of 2,083,333 new Ordinary Shares raising gross proceeds of £50m and the sales of 1,041,667 Ordinary Shares, raising gross proceeds for parent company Arbuthnot Banking Group of £25m both at a price of £24.00 per share
- The placing was approved at the Company's General Meeting on 8 July and application was made for the new Ordinary Shares to be admitted to trading on the AIM market of the London Stock Exchange Plc. Dealing in the new Ordinary Shares commenced on 9 July

Proposed use of proceeds

- Finance the Group's organic and inorganic growth opportunities, both within its existing offering as well as into new market sectors which meet its target sustainable return objectives
- Equity raise to provide additional benefits beyond funding growth including increase in trading liquidity (c.47% free float post transaction)

H1 2014 Highlights



STB continues to deliver on its sustainable growth strategy and with significant investment in expanding the management team to support future growth

Growth on H1 2013

- Loan Book  22% to £448m (H1 2013: £366m)
- Customer deposits  23% to £477m (H1 2013: £387m)
- Customer numbers  20% to 391,610 (H1 2013: 325,052)

Returns v H1 2013

- Reported PBT  84% to £11.4m (H1 2013: £6.2m)
- Underlying PBT  48% to £15.2m (H1 2013: £10.3m)
- Underlying ROAE⁽¹⁾  7% to 39.8% (H1 2013: 33.3%)
- Interim dividend per share  7% to 16p (H1 2013: 15p)

Security maintained

- CET1 ratio remains c.17%
- Leverage ratio remains c.10%
- Loan to deposit ratio consistent at c.94%
- No exposure to recent conduct failings (Libor etc.), limited exposure to PPI

Management Team strengthened

- Recruitment of;
- Commercial Finance CEO, CFO
 - SME Lending CEO
 - MD Motor Finance
 - Chief Technology Officer
 - Treasurer

UK market offers continuing material growth potential

SME

- £33bn market⁽³⁾
- Lending static, large banks' capital constrained
- Relationship and service driven
- Team being built, with Paul Marston joining on 1 September 2014 to lead the team already in place

Invoice Finance

- £18bn market size⁽⁵⁾
- Strong growth trajectory
- Competitive dynamics are attractive

UK retail mortgages

- £1,280bn total market size⁽⁶⁾
- Portfolios available for acquisition

STB Loan Book

£bn	H1 2014	Market size*	Implied share
STB Existing Markets			
Unsecured personal ⁽¹⁾	0.2	22.8	0.7%
Retail / PoS ⁽¹⁾	0.1	7.5	1.8%
Motor finance ⁽²⁾	0.1	6.8	1.9%
SME ⁽³⁾	0.0	33.2	0.0%
STB New Markets			
Asset finance ⁽⁴⁾	-	8.3	-
Invoice finance ⁽⁵⁾	-	18.3	-
Retail mortgages ⁽⁶⁾	-	1,280	-

Note: 1) Oxford Economics - UK Consumer lending forecasts (February 2014). 2) Bank of England – FLA. 3) Department for Business Innovation & Skills, smaller businesses. 4) Bank of England – FLA. 5) Asset Based Finance Association (ABFA). 6) Bank of England.

*Market size figures relate to new lending.

Delivering Strong Performance



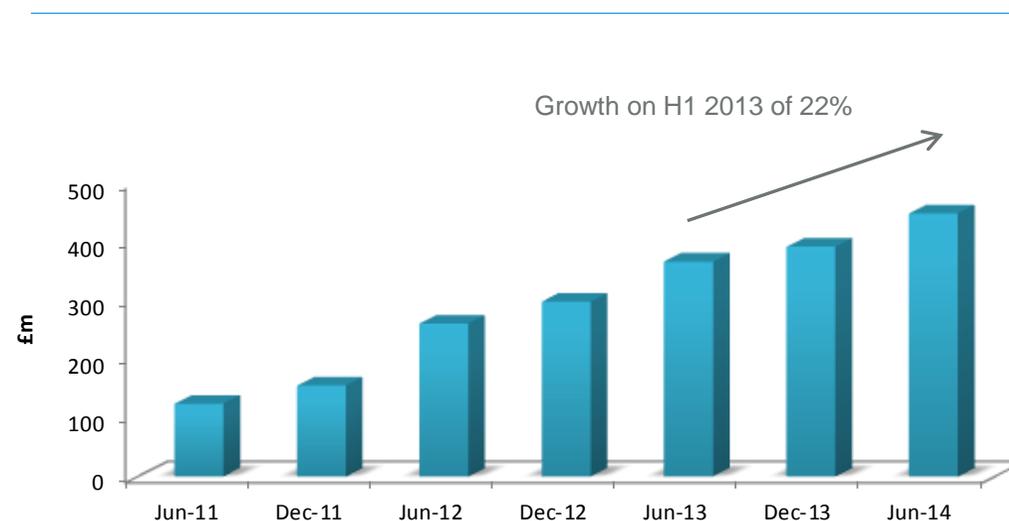
- Strong operating performance
 - Growth in loan book of 22% over the last year to £448m (H1 2013 : £366m)
 - Operating income increased 21% to £43.8m (H1 2013 : £36.3m)
 - Increase in year-on-year underlying profit before tax of 48% to £15.2m (H1 2013 : £10.3m)
 - Basic EPS of 53.6p (H1 2013 : 30.5p)
 - Underlying EPS of 73.8p (H1 2013 : 50.4p)
 - DPS growth of 7% to 16p (H1 2013 : 15p)
 - Customer numbers increased by 20% to 391,610 (H1 2013 : 325,052)
- Risk management
 - Loan to Deposit ratio of 94% (H1 2013 : 95%)
 - Impairments of £6.4m (H1 2013 : £7.6m) 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
 - Controlled and balanced lending portfolio
 - CET1 Capital ratio of 17.3% (H1 2013 : 17.0%)
 - Leverage ratio of 10.4% (H1 2013 : 10.3%) (Basel III)

Sustainable Positive Progress



	<u>2014 H1</u>	<u>2013 H1</u>
	<u>£m</u>	<u>£m</u>
Gross interest income	41.6	34.1
Funding costs	(7.2)	(6.6)
Net Interest Income	34.4	27.5
Impairment losses	(6.4)	(7.6)
Reported PBT	11.4	6.2
Underlying PBT	15.2	10.3
Basic EPS (pence)	53.6	30.5
Underlying EPS (pence)	73.8	50.4
Annualised underlying ROAA	4.5%	3.6%
Annualised underlying ROAE	39.8%	33.3%
Loan Book (£m)	447.8	365.8
Loan to Deposit ratio	94%	95%
Customers	391,610	325,052
CET1 Capital ratio	17.3%	17.0%

Loans and advances to customers £m



Business Review

NEERAJ KAPUR – Chief Financial Officer



Summary Income Statement

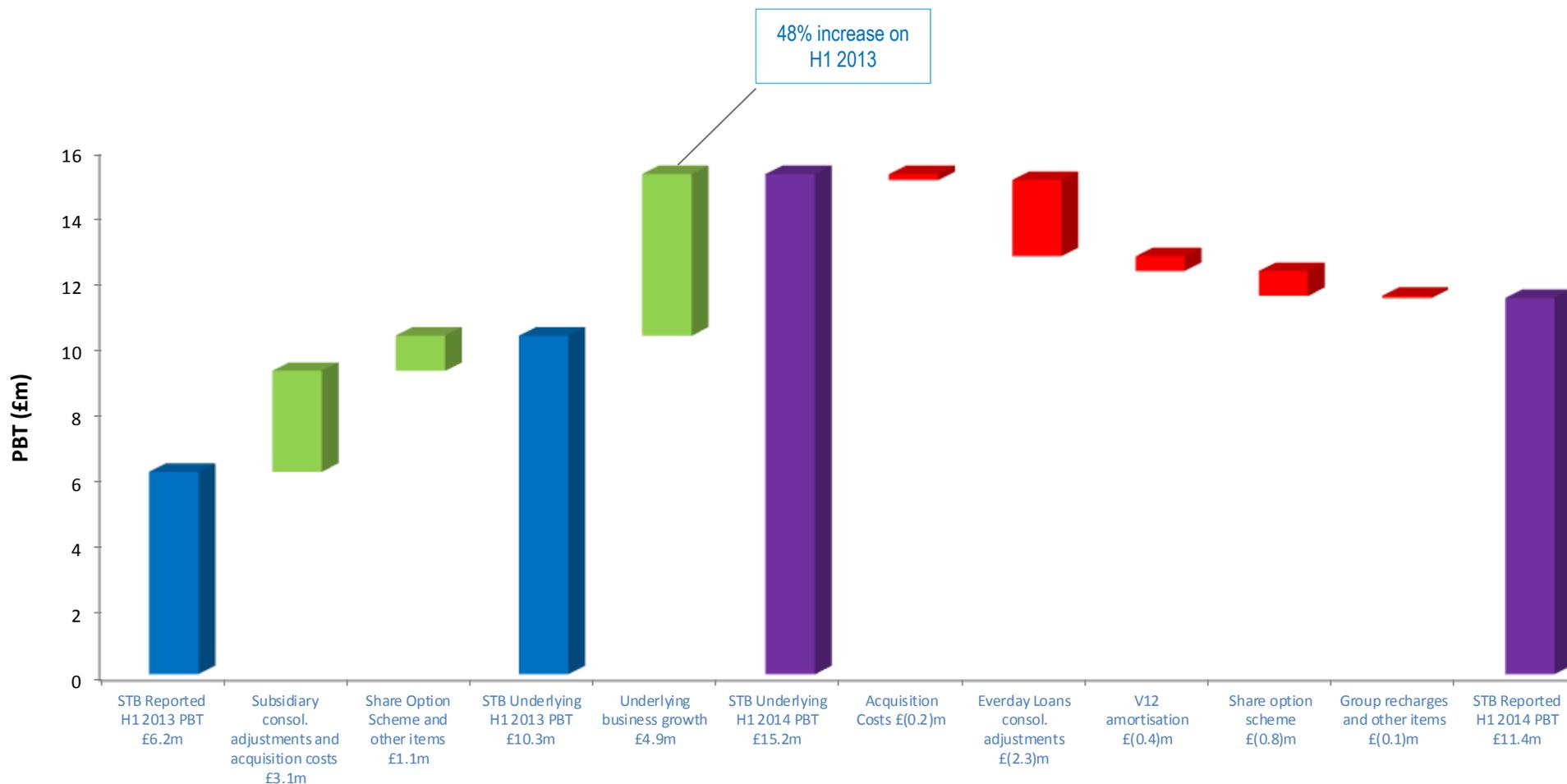
£m	H1 2013	H1 2014	FY 2011	FY 2012	FY 2013
Net interest income	27.5	34.4	17.2	34.4	60.9
Net fee and commission income	8.8	9.4	11.2	12.6	18.1
Operating income	36.3	43.8	28.5	47.0	79.0
Impairment losses	(7.6)	(6.4)	(4.6)	(8.9)	(15.6)
Operating expenses	(15.9)	(23.2)	(13.7)	(27.2)	(40.3)
Gain on acquisition	-	-	-	9.8	0.4
Other operating expenses *	(6.6)	(2.8)	(2.9)	(3.6)	(6.4)
Profit before tax	6.2	11.4	7.3	17.2	17.1

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

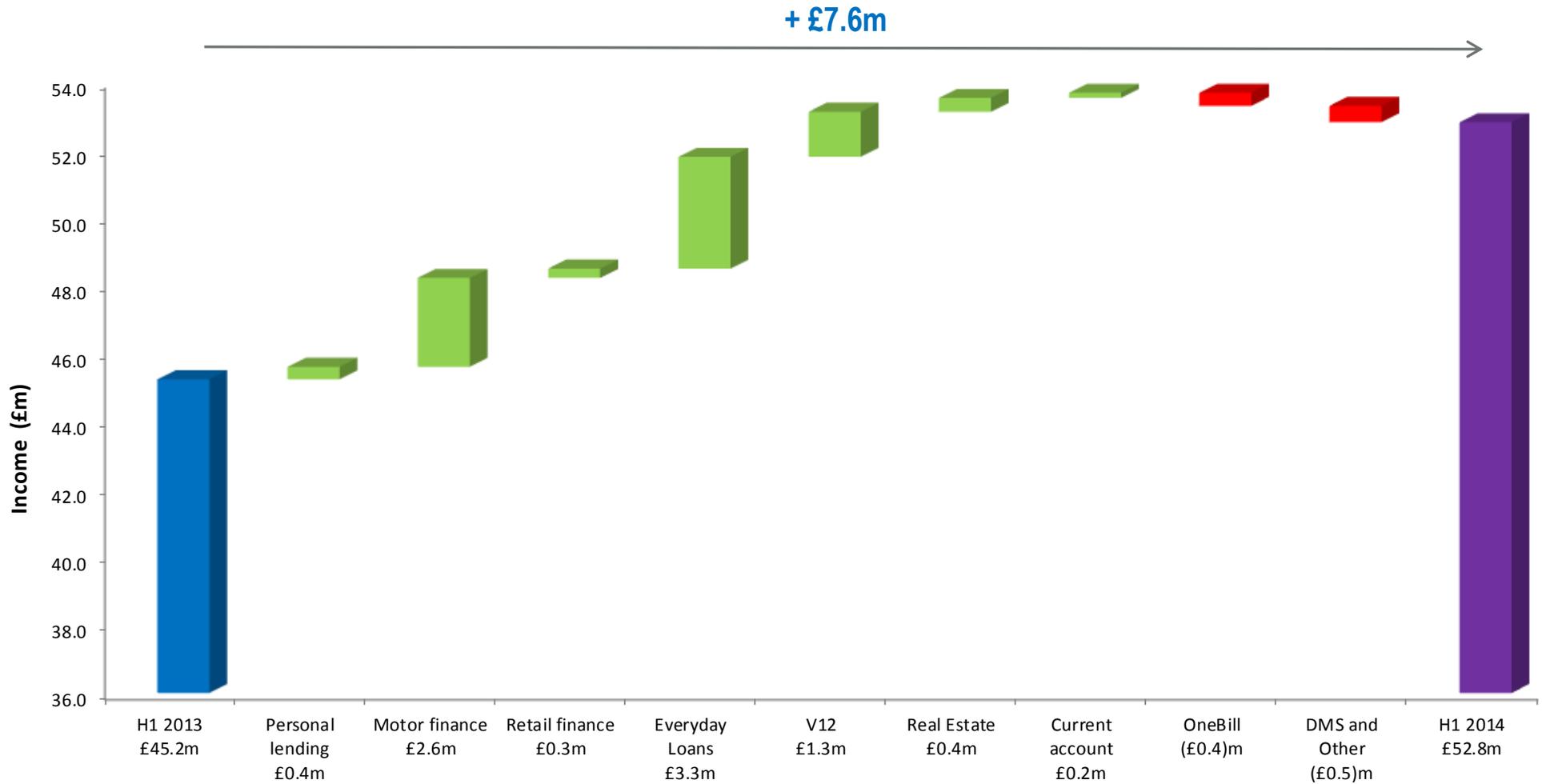
Balance Sheet Summary

£m	H1 2013	H1 2014	FY 2011	FY 2012	FY 2013
Loans and advances to banks	69.1	102.4	139.5	155.3	110.0
Loans and advances to customers	365.8	447.8	154.6	297.6	391.0
Other assets	29.5	19.2	13.7	21.6	24.9
Total assets	464.4	569.4	307.8	474.6	525.9
Deposits from customers	386.7	476.8	272.1	398.9	436.6
Other liabilities	23.7	29.3	11.9	19.8	27.7
Total Liabilities	410.4	506.1	284.0	418.7	464.3
Total shareholders' equity	54.0	63.3	23.8	55.9	61.6
Total liabilities and shareholders' equity	464.4	569.4	307.8	474.6	525.9
Loan to Deposit ratio	95%	94%	57%	75%	90%

Underlying Profit Bridge



Income Bridge (before cost of funds and impairment losses)

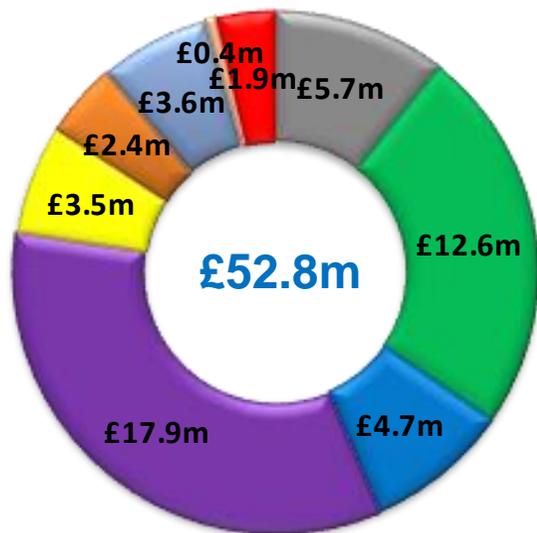


Income Analysis



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

H1 2014

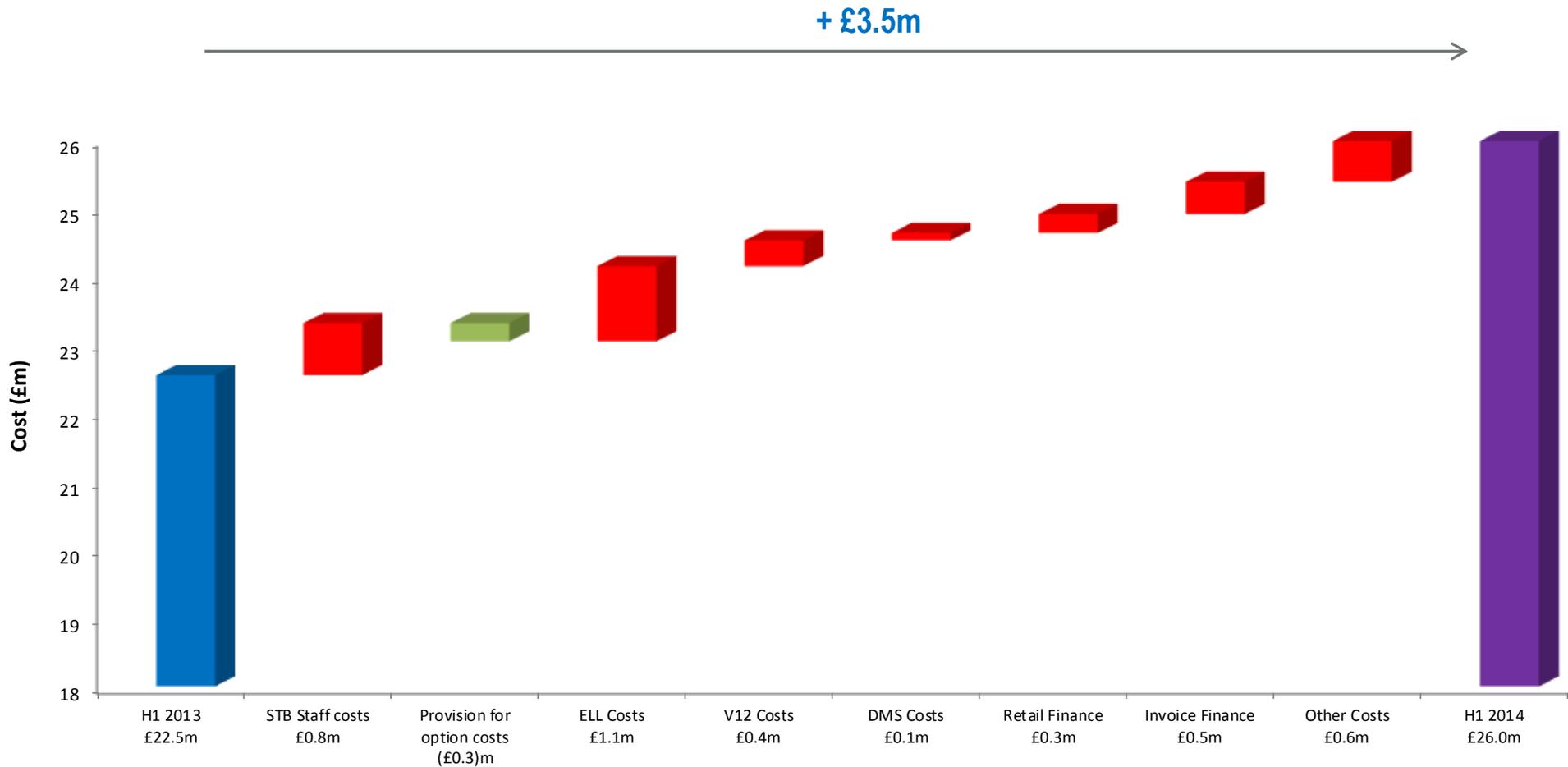


H1 2013

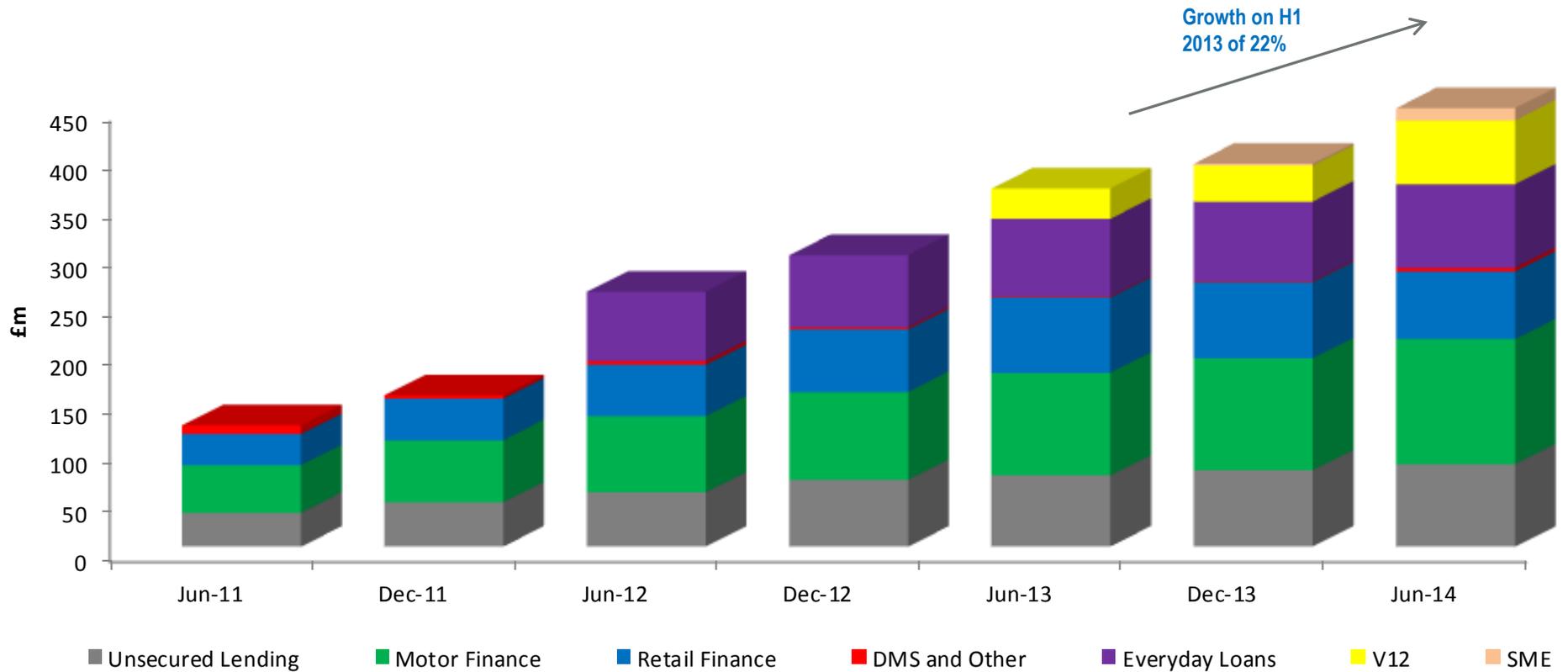


- Personal lending
- Motor finance
- Retail finance
- Everyday Loans
- V12
- Current account
- OneBill
- Real Estate
- DMS and Other

Operating Costs Bridge



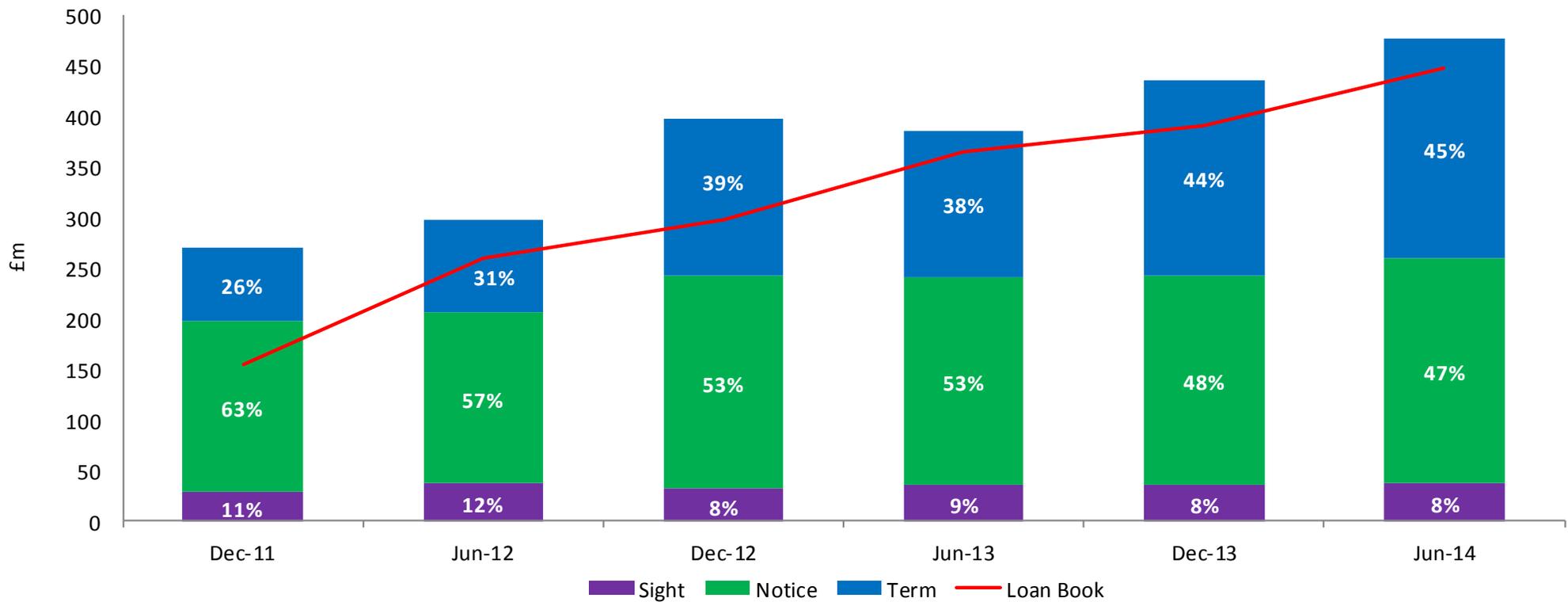
Customer Loan Progression



Deposit Progression



Increase in average tenor of deposits – fixed term deposits now 45% of total deposits



2014 Outlook



Build on strong start in H1 2014 and exploit growth opportunities

- Lending balances continue to grow with significant opportunities being targeted
 - Motor lending growth of 22% y/y, Retail finance lending growth of 24% y/y
- Further benefits of V12 Group acquisition being realised in 2014
 - Halfords partnership already secured
 - A number of Premier League football clubs have agreed to use V12 to provide their season ticket services 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 2, 3 and 7 year maturities
- Clear opportunities to compete in the Invoice Finance market have been identified
- Further expansion into SME lending activities, predominantly through Real Estate Finance
- Continue to work on a diverse pipeline of business development opportunities and believe we are well positioned to make further positive progress during the year

Summary



- We have continued to deliver on our stated and proven strategy
- Continuing strong operating and financial performance with growth in underlying profitability
- Maintained our prudent approach to risk management
- Entry into core Invoice Discounting and Factoring markets in H2 2014
- Head of SME, Paul Marston, joins on 1 September 2014 to lead team already in place and writing real estate loans
- Recruit a team to create a de novo asset finance business with the potential to acquire or partner with an existing asset finance business to accelerate growth
- The large banks continue to retract from our markets and leak capital due to legacy conduct issues and therefore allow us to remain confident in significantly growing our market share over the foreseeable future



Simple, straightforward banking

Appendices



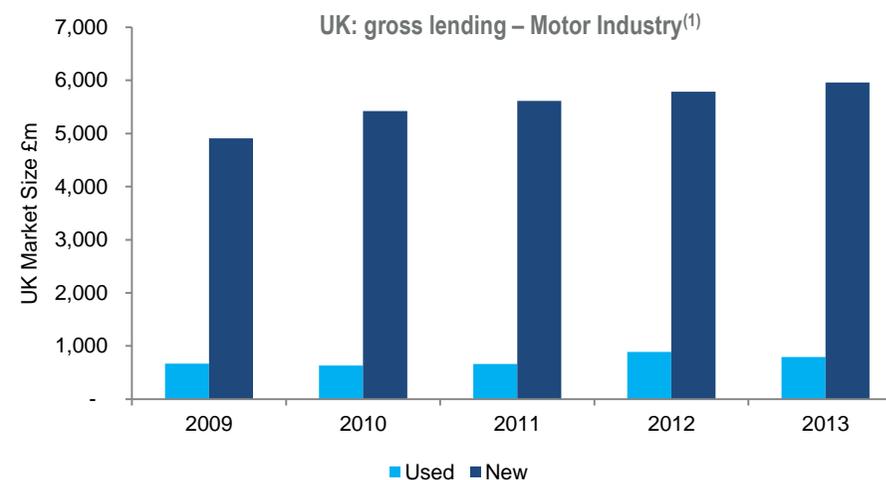
Motor Finance

Business overview

- Grown from standing start in 2009 – 22% y/y growth in H1 2014
- Customers typically from C₁, C₂ and D socio-economic groups
- Focused on used car market
- Maximum loans of £15,000 over 5 years
- Growth driven by:
 - Speed and quality of service
 - Relationships with introducers
 - Product and distribution channel innovation

Potential growth opportunities

- More of the same
- Greater participation across the risk curve
- Average loan size – increase limit to £25,000
- Acquisition of non-bank finance companies
- Scope to create new distribution channels



Motor Finance	2011	2012	2013	2014
	FY	FY	FY	HY
Revenue	9.9	16.9	23.0	12.6
Impairments	(2.3)	(2.7)	(3.6)	(1.3)
Net loans	63.4	89.6	114.7	127.8

Note: 1) Source: Bank of England - FLA

Retail Finance

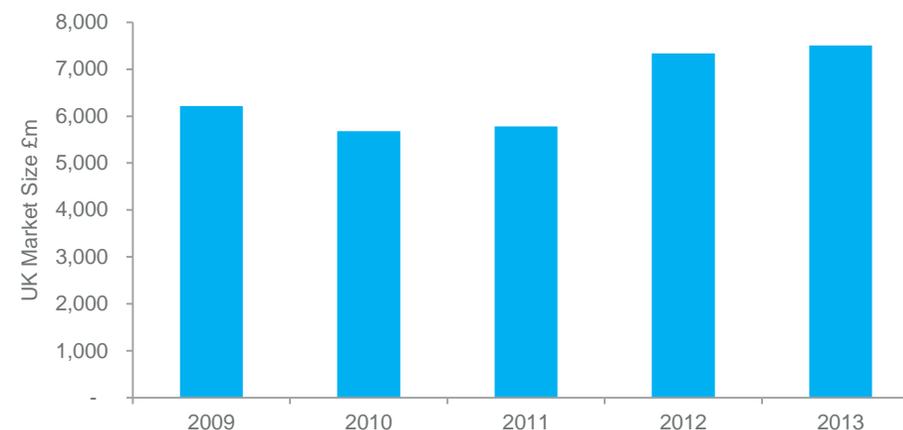
Business overview

- Targeting Prime Credit Portfolio Customers typically from socio-economic groups A, B and C₁
- Active across a range of retail markets, with a particular strength in cycle retailers and musical instrument vendors
- Core clients include DFS, Evans Cycles, PC World and Halfords
- Broad exposure across gym equipment, motor parts, outdoor pursuits, furniture, leisure and jewellery
- Term ranges from 6 to 60 months, loan size ranges from £250 to £25,000

Potential growth opportunities

- More of the same
- Enter into new sectors such as recent entry into season tickets
- Ability to pitch for full national retailer contracts e.g. DFS

UK: gross lending - retail finance / POS⁽¹⁾



Retail Finance	2011	2012	2013	2014
	FY	FY	FY	HY
Revenue	3.6	5.8	14.5	7.9
Impairments	(0.3)	(0.7)	(1.7)	(0.4)
Net loans	42.6	64.2	114.4	134.3

Personal Lending

Business overview - Direct

- Fixed rate, fixed term, unsecured personal loans
- 12 to 60 months duration
- Advances vary from £500 to £15,000
- Only lend to people in employment
- Moneyway brand offers loans via the internet and a phone service utilising an experienced team of UK based advisers

Business overview – Everyday Loans

- Everyday Loans operates through 31 offices where loans are originated, serviced and collected
- Any purpose unsecured loans from £500 to £10,000
- Office staff incentive scheme is geared more to safe collections of loans than to new lending volumes
- Increase throughput from existing Everyday Loans office network

Potential growth opportunities - Direct

- New bank referrals
- Digital marketing
- Peer to peer
- Potential portfolio acquisition

Potential growth opportunities – Everyday Loans

- Increase office footprint
- Pending regulation of payday lenders
- Offices used to distribute new budgeting account
- Use of offices to house SME business, leveraging infrastructure

<u>Personal Lending⁽¹⁾</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>HY</u>
Revenue	6.0	24.2	41.8	23.6
Impairments	(2.1)	(5.3)	(10.3)	(4.7)
Net loans	43.6	142.0	159.2	169.5

Forward Looking Statements



This document is a summary only of certain information contained in the announcement dated 22nd July 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 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.