2023 Interim Results

9 August 2023

Secure Trust Bank Group

Reporting basis

Throughout this document reference is made to statutory results which reflects both continuing and discontinued operations as reported in the Interim Report for the 6 months ended 30 June 2023. Unless otherwise stated, financial metrics and key performance indicators relate to continuing operations. Continuing operations include the Retail Finance, Vehicle Finance, Real Estate Finance and Commercial Finance businesses only and discontinued operations includes the Debt Management Services, Consumer Mortgages and Asset Finance business.

Contents

Interim 2023 Overview

David McCreadie
Chief Executive Officer

Well positioned for profitable growth

Vision

To be the most trusted specialist lender in the UK

Purpose

To help more consumers and businesses fulfil their ambitions

- Established position in our specialist lending markets
- Proven flexibility in adapting to challenging market conditions
- Excellent growth potential in large addressable markets
- Continuing net lending balances + 45% since FY 2020
- Proven ability to generate retail deposits
- Strengthened capital base provides capacity for further growth
- Growing net lending balances further will drive attractive return on capital

Foundations set for a strong 2023

Customer lending

£3.2bn

+ 8.2% on FY 2022, **+ 14.8%** on HY 2022

Net Interest Margin

5.4%

5.7% HY 2022

Profit before tax pre impairments

£39.3m

+ 14.6% on HY 2022

Retail deposits

£2.6bn

+ 5.3% on FY 2022, **+ 15.6%** on HY 2022

Cost Income Ratio

56.9%

57.0% HY 2022

Interim dividend

16.0p

16.0p HY 2022

Confident in delivering a significant increase in profitability in H2 2023

Optimising for growth: our strategic priorities

Simplify

Enhance customer experience

Leverage networks

Key enabler: Strengthen technology platform

Driving market share gains in large, addressable markets

Significant strategic progress in H1 2023

Simplify

- Simplification of business portfolio completed
- Closure of DMS operations on schedule
- Increased digitalisation of processes
- Property footprint reduced further
- Cost efficiency programme on track to deliver £4m annualised savings

Enhance customer experience

- Single collections platform in Vehicle Finance
- Open banking payments
- Confirmation of payee
- Savings product range extended
- Achieved Feefo's Platinum Trusted Service Awards
- Commercial Finance "Asset Based Lender of the Year"

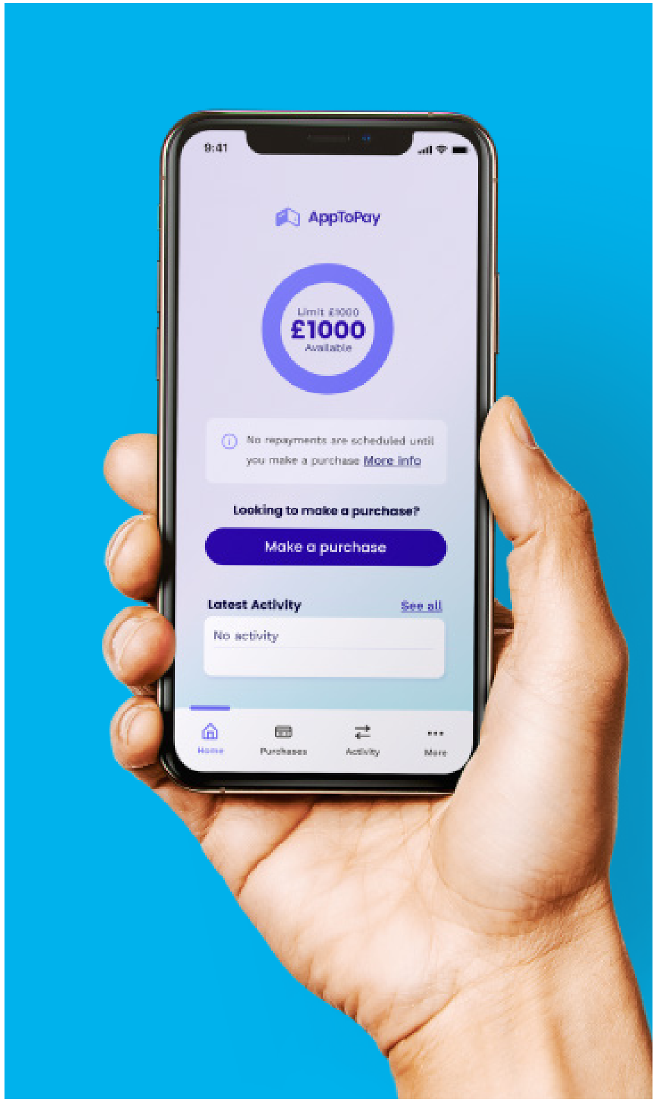
Leverage networks

- Expanded distribution in Consumer Finance
- Pilot launch of AppToPay with existing retailers
- Stock Funding relationships expanded
- Increased volume of repeat business in Real Estate Finance and Commercial Finance

Technology platform

Technology platform supports growth and efficiency

- **Major upgrades to technology capability in recent years**
  - New consumer product launches in Vehicle Finance, including Stock Funding
  - New collections platform in Vehicle Finance
  - Self-service capability in Retail Finance
  - Pilot launch of AppToPay in Retail Finance
  - CRM platform in Real Estate Finance
- **Flexible technology and ease of integration**
  - Embedded in partners' sales processes and platforms
  - Automated credit decisions
  - Electronic credit agreements
- **Platform proven to be scalable**
  - 45% continuing loan book growth since 31 December 2020
  - 33% deposit book growth since 31 December 2020
  - Significant capacity to support growth ambitions



Outcome and progress

All business units delivering strong performance

Consumer Finance

Retail Finance

V12 Retail Finance | AppToPay

- Leveraging furniture and jewellery retailer relationships
- 12% growth in lending balances
- £614m of new lending
- Market share growth to 12.9% (FY 2022 – 11.4%)

Vehicle Finance

V12 Vehicle Finance Powered by Secure Trust Bank | moneyway

- >650 dealer and broker relationships
- 18% growth in lending balances
- £250m of new lending
- Market share growth to 1.3% (FY 2022 – 1.1%)

Business Finance

Real Estate Finance

SecureTrust Bank | Real Estate Finance

- Support for existing customers
- 10% growth in lending balances
- £252m of new lending
- Portfolio LTV - 56%

Commercial Finance

SecureTrust Bank | Commercial Finance

- Deeper relationships with introducers
- Reduction in spot lending balances
- Average lending balances broadly maintained
- Strong revenue growth

Financial Review

Rachel Lawrence
Chief Financial Officer

Income Statement

14.6% increase in profit before tax pre impairments

£m	HY 2023	HY 2022	% Change*
Net interest income	81.0	73.1	10.8
Net fee income and commission	8.1	7.9	2.5
Operating income	**89.1**	**81.0**	**10.0**
Operating expenses	(50.7)	(46.2)	9.7
Fair value gains/(losses)	0.9	(0.5)	(280.0)
Profit before tax pre impairments	**39.3**	**34.3**	**14.6**
Impairment charge	(22.8)	(17.2)	32.6
Profit before tax from continuing operations	**16.5**	**17.1**	**(3.5)**
Discontinued operations	(1.5)	7.6	(119.7)
Total profit before tax	**15.0**	**24.7**	**(39.3)**

KPI			
Net interest margin (NIM)	5.4%	5.7%	(0.3)pp
Net revenue margin (NRM)	6.0%	6.3%	(0.3)pp
Cost of risk	1.5%	1.3%	0.2pp
Cost income ratio (CiR)	56.9%	57.0%	(0.1)pp
Total return on average equity**	6.8%	12.5%	(5.7)pp
Continuing return on average equity	7.5%	8.4%	(0.9)pp
Total earnings per share	59.4p	102.4p	(42.0)
Continuing earnings per share	65.8p	69.1p	(4.8)

* pp represents a percentage point movement
** HY 2022 includes a one-off gain of £6.1 million on disposal of DMS loan portfolios

- **10.0% increase in operating income**
  - Sustained growth in the net lending book
- **9.7% increase in operating expenses with cost income ratio flat**
  - Costs reflect growth and inflation
- **Profit before tax pre impairments £39.3m, 14.6% higher than HY 2022**
  - Growth in operating income has outweighed growth in costs
- **Continuing PBT of £16.5m impacted by a single £7.2m loss in Business Finance**
  - PBT excluding this single loss was £23.7m, a 38.6% increase on HY 2022

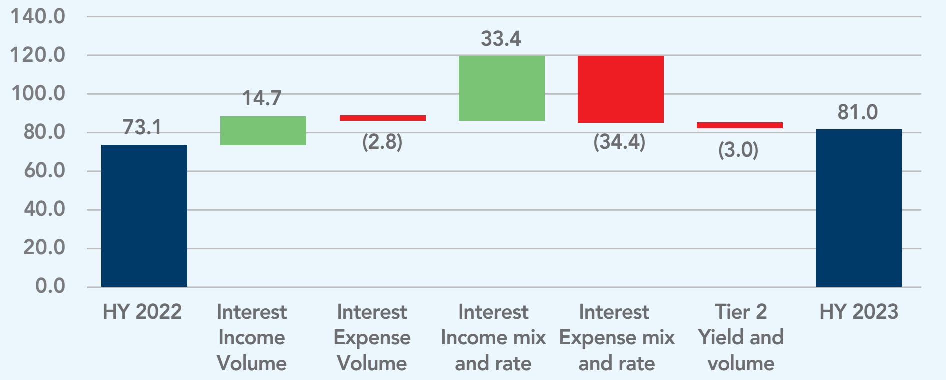
Operating Income

10.0% increase in operating income as a result of higher lending balances

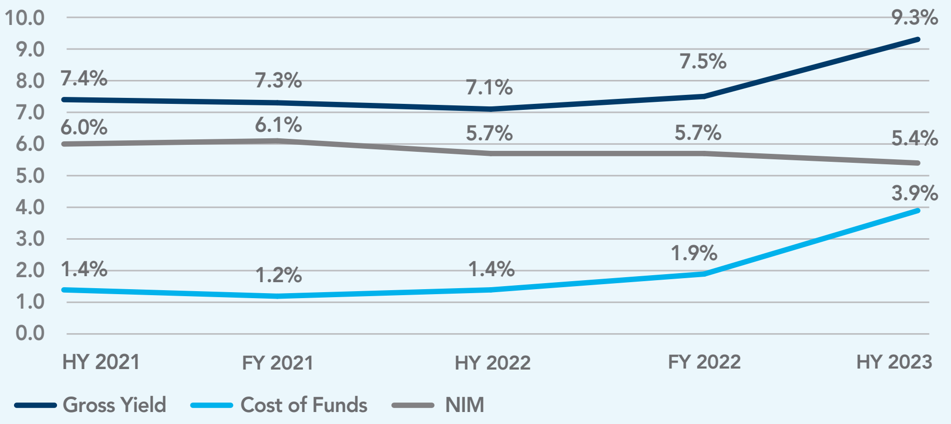
- **10.8% increase in net interest income to £81.0m, and 0.3pp reduction in NIM to 5.4%**
    - 16.3% increase in average net lending balances
    - Rate increases substantially off-set between assets and liabilities
    - New Tier 2 debt reduces NIM by 0.2pp but provides capital for growth
    - Flattening yield curve will facilitate margin expansion
    - Expect to return to a NIM of 5.5% for FY 2023 with margin expansion from 2024 onwards

- **Net fee income increased by 2.5% to £8.1m**

Net Interest Income £m



NIM %

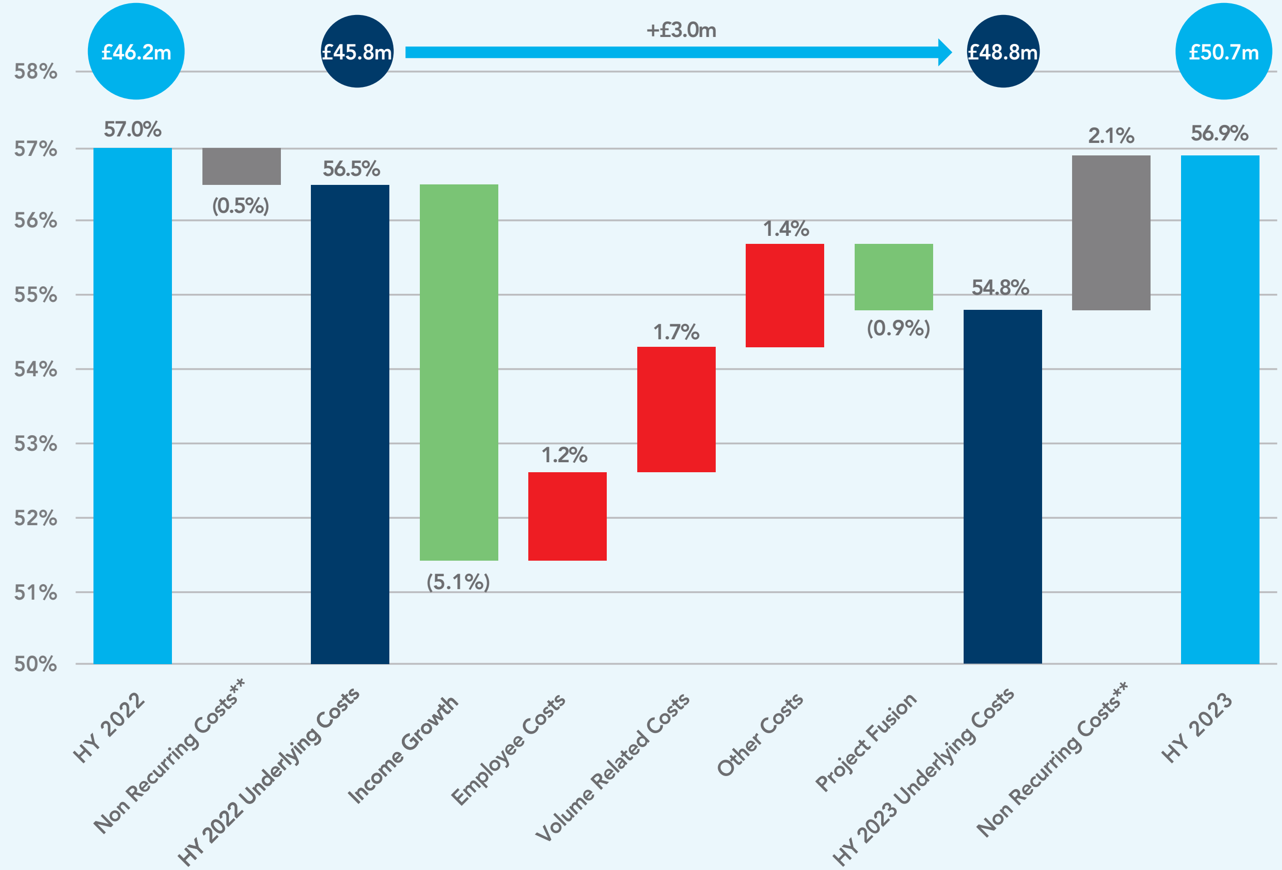


Operating Expenses

Underlying Cost income ratio (CiR) improvement to 54.8% with cost growth limited to £3.0m

- **On a statutory basis H1 2023 operating costs up £4.5m and CiR flat**
- **Excluding non-recurring cost CiR improves from 56.5% to 54.8%, a 1.7pp decrease**
    - Growth drives increased net interest income and costs, with a net reduction of 3.4% in CiR
    - Inflationary pressures in both salaries and other operating costs increase CiR by 2.6%
- **Project Fusion efficiency programme delivered a 0.9% reduction in CiR**
    - £0.8m of additional cost savings in H1 2023, on track for £4.0m* annualised by year end

Cost Income Ratio



** Non recurring costs are amounts not directly related to trading activities in the period

* Project Fusion savings measured against FY 2021 cost base

Arrears* performance

Resilient and improving asset quality in our Consumer Finance businesses

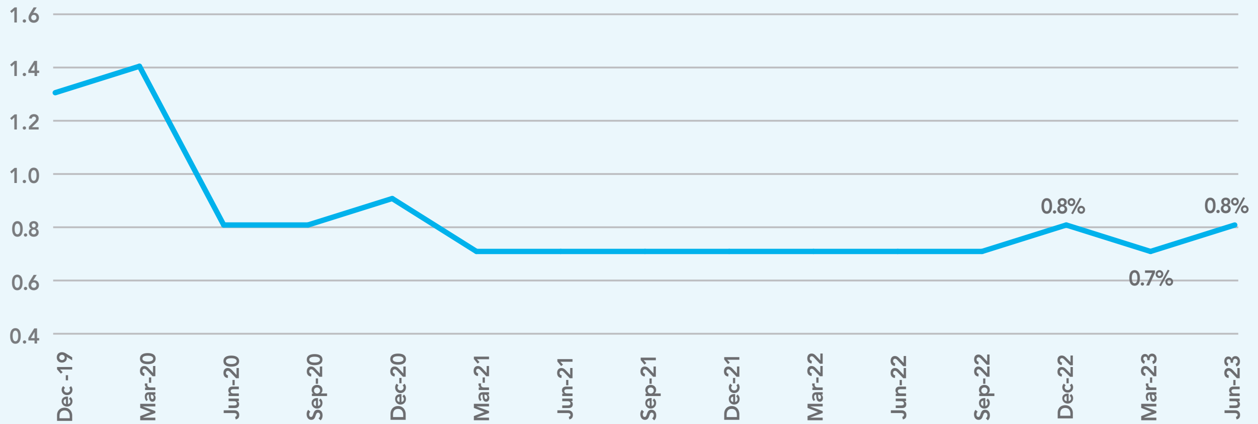
Retail Finance

- Shift to higher quality prime interest free credit
- Sustained lower levels of arrears

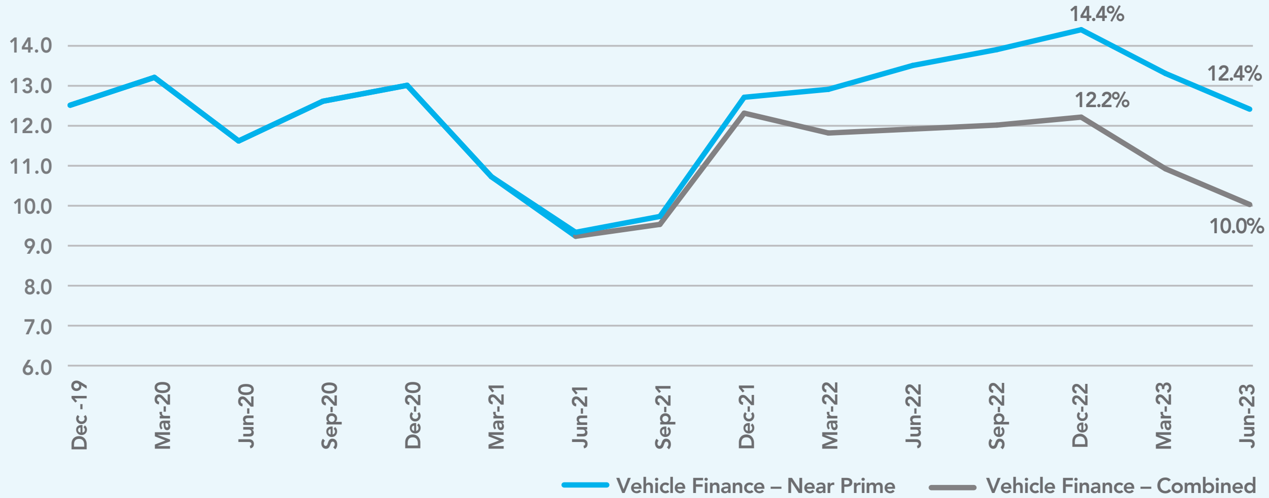
Vehicle Finance

- Stable levels of Near Prime arrears post pandemic volatility
- Book arrears reducing as Prime segment grows

Arrears % – Retail Finance



Arrears % – Vehicle Finance



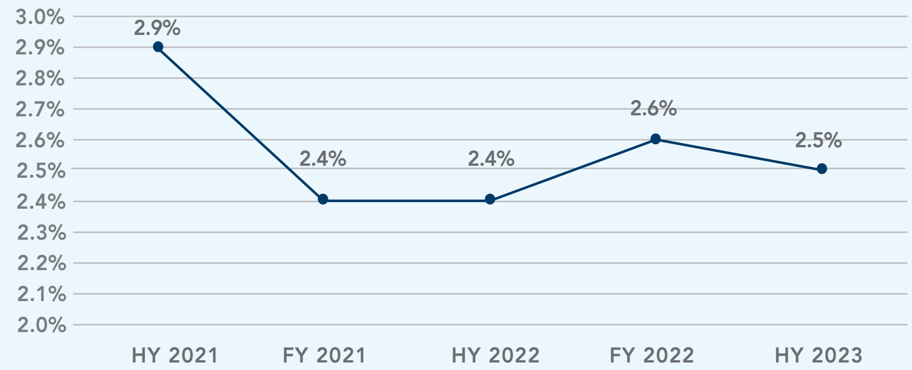
* Arrears: Customers who are 1-3 payments down

Impairment charges and provisions

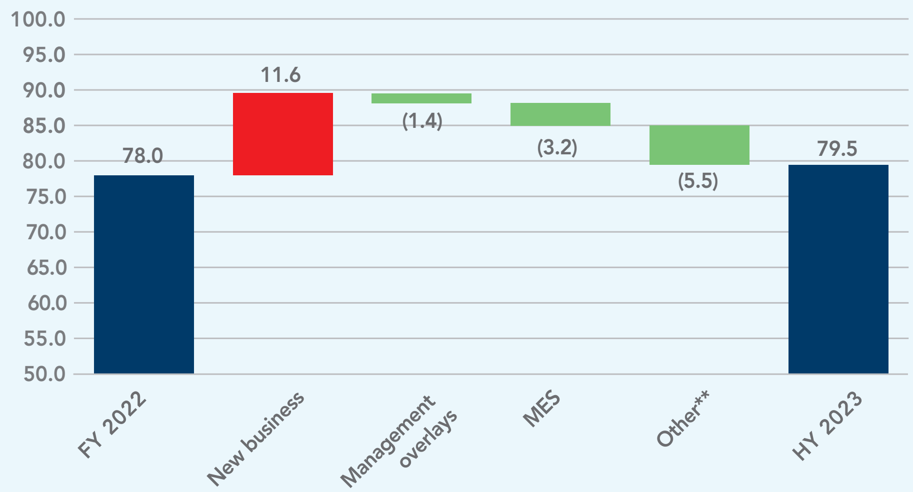
Small decrease in coverage ratio to 2.5%

- **Cost of risk of 1.5% reflects the impairment charge on a large Commercial Finance loan**
- **Coverage ratios decreased to 2.5% from December 2022 2.6%**
    - Reduction in Vehicle Finance coverage as a result of IFRS9 models now reacting to management actions in H2 2022
    - No material changes in other businesses
- **Impairment provisions increased by £1.5m in HY 2023. Driven by:**
    - + £11.6m new lending
    - £3.2m release from new MES assumptions, no change to scenario weightings
    - Customer affordability overlay retained in full at £2.8m due to current economic environment

Group Coverage Ratio



IFRS9 Provision Movement £m



* Inclusive of gains on modification of financial assets
** Stage changes, ageing, maturities, write-offs and other changes to credit risk parameters

Summary Balance Sheet

Strong lending growth of 8.2%

	HY 2023	FY 2022	% Change
Cash and BoE reserve account	318.3	370.1	(14.0)
Loan and advances to banks	33.3	50.5	(34.1)
Loans and advances to customers	3,158.5	2,919.5	8.2
Other Assets**	40.8	39.7	2.8
Total Assets	**3,550.9**	**3,379.8**	**5.1**
Deposits from customers	2,648.9	2,514.6	5.3
Wholesale funding	394.3	392.8	0.4
Tier 2 Instruments	92.9	51.1	81.8
Amounts due to other credit institutions	15.0	7.7	94.8
Other liabilities	66.6	87.2	(23.6)
Total liabilities	**3,217.7**	**3,053.4**	**5.4**
Total shareholders' equity**	333.2	326.4	2.1
Total liabilities and shareholders's equity	**3,550.9**	**3,379.8**	**5.1**
Loan to deposit ratio	**119.2%**	**116.1%**	**3.1pp**
Customer numbers*	**1,187,148**	**1,092,467**	**8.7**
Tangible book value per share (£)	17.46	17.11	2.0

- Loans and advances to customers increase of 8.2% (year on year growth 14.8%)
- Deposits from customers have grown by 5.3%
- £90m Tier 2 issued in February 2023 and £50m existing Tier 2 capital redeemed
- Loan to Deposit ratio increased by 3.1pp with loan growth funded by surplus liquid funds held at year end
- Shareholders equity increased by 2.1% to £333.2m. Tangible book value per share increased by 2.0% to £17.46 (6.1% increase from HY 2022)

* Customer numbers exclude discontinued operations
** FY 2022 restated to reflect the prior year restatement of land and buildings from fair value to historical cost

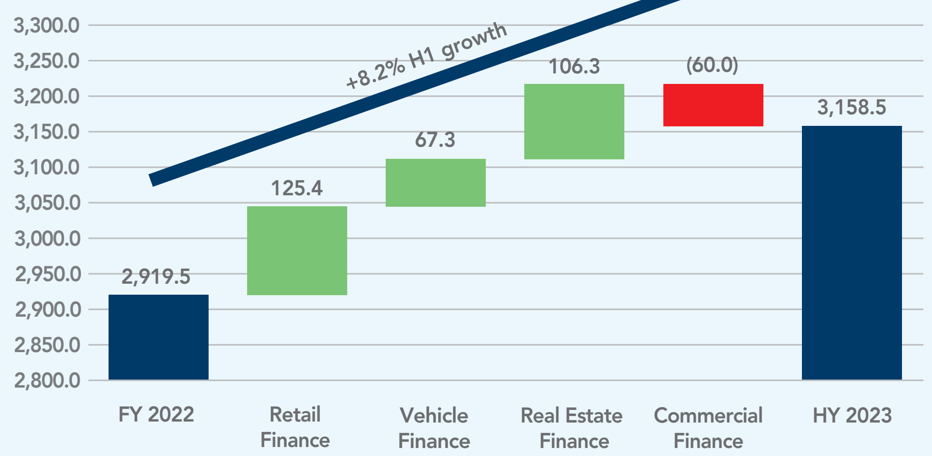
Loans and advances to customers and new business

Continued strong momentum in customer lending

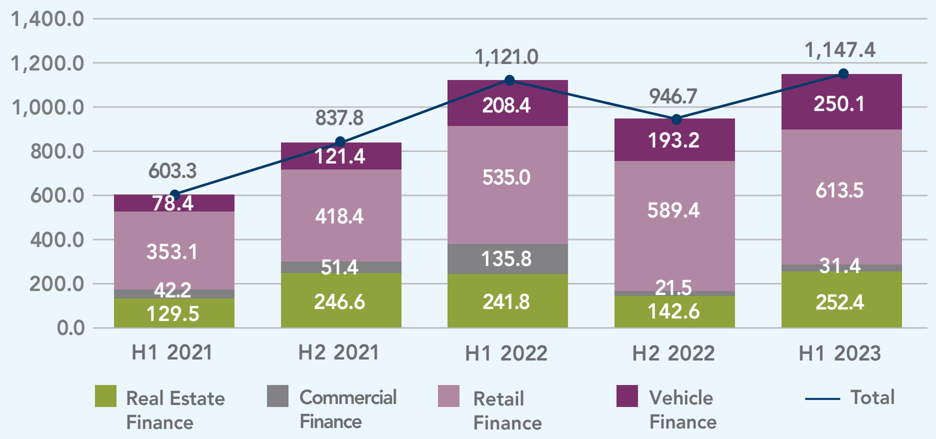
- **Net loans and advances increased by 8.2% to £3.2bn**
    - Retail Finance – 11.9% growth to £1.2bn, continued focus in expanding high quality retailer relationships
    - Vehicle Finance – expansion into new products and networks delivered 18.0% growth in lending to £0.4bn
    - Real Estate Finance – 9.5% growth to £1.2bn, continuing to work with larger customers to take advantage of market opportunities
    - Commercial Finance – 15.9% contraction to £0.3bn, reflects seasonality and a cautious approach to new clients in a challenging economic environment

- **New business lending increased by 2.4% on H1 2022**
    - Growth across Consumer Finance was strong at 16.2%
    - A more challenging economic environment dampened growth in new lending in Business Finance

Net Loans and Advances £m



New Business £m



Capital

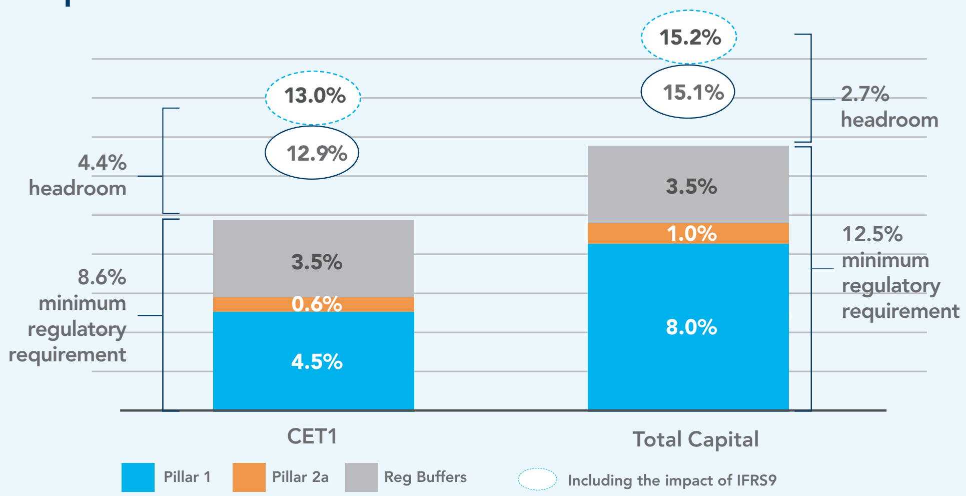
Healthy capital ratios with significant headroom over regulatory minimums

- **CET1 ratio reduced by 1.0% to 13.0%:**
  - Profits generated 0.5%
  - Dividends consumed 0.1%
  - IFRS 9 transitional relief unwinding consumed 0.4%
  - Growth in lending utilised 1.0%
- **£90m new Tier 2 issued in Q1 2023 to support growth and improve the efficiency of capital stack. £50m of Tier 2 with a 2023 first call date was redeemed early**
- **Significant headroom of 4.4% in CET1 and 2.7% in TCR to regulatory minimums**

	HY 2023	FY 2022
CET1	13.0%	14.0%
Eligible Tier 2	£56.7m	£49.9m
Total Capital	£0.4bn	£0.4bn
Leverage	10.1%	10.7%
RWAs	£2.5bn	£2.3bn

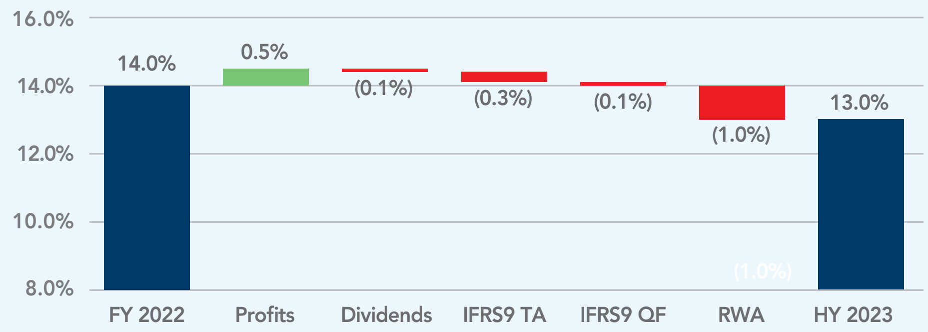
* FY 2022 restated to reflect the prior year restatement of land and buildings from fair value to historical cost

Capital Base*



*As at 30 June 2023 excluding any applicable PRA buffer

CET1 Movement



Funding and liquidity

Funding levels increased to support lending growth

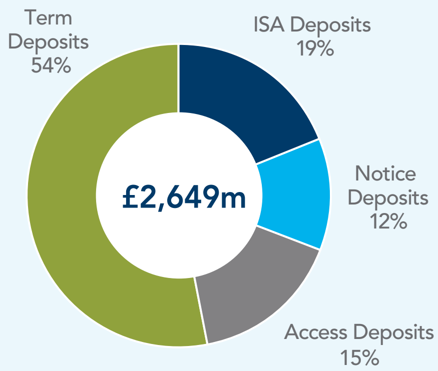
- Customer deposits grew by 5.3%, with increases mainly through growth in Access and ISA products
- Mix of fixed term deposits, including ISAs, remained stable (73%) with reductions in Notice accounts offset by growth in Access accounts
- Cost of funds has increased in line with the higher interest rate environment
- >95% of all retail deposits reported are fully protected under the Financial Services Compensation Scheme
- Liquid assets (HQLA) comprise balances held with the Bank of England, with operating cash held as instant access with A1 rated institutions

TFSME

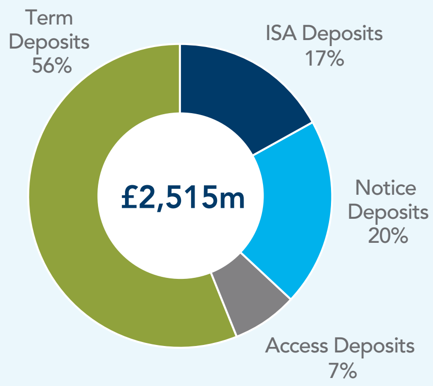
- TFSME drawing (including interest) stood at £394.3m with no ILTR drawings in the year

Regulatory metrics remained strong with average LCR of 217.0% and average NFSR of 150.9% both well in excess of regulatory minimums

HY 2023



FY 2022



£m	HY 2023	FY 2022	% Change
Deposits from customers	2,648.9	2,514.6	5.3
Wholesale funding	394.3	392.8	0.4
Tier 2 Instruments	92.9	51.1	81.8
Amounts due to other credit institutions	15.0	7.7	94.8
Total Funding	**3,151.1**	**2,966.2**	**6.2**

Strategy and Outlook

David McCreadie
Chief Executive Officer

Optimising for growth

Vision
To be the most trusted specialist lender in the UK

Purpose
To help more consumers and businesses fulfil their ambitions

Our Strategic Pillars

- Grow
- Sustain
- Care

Our Strategic Priorities

- Simplify
- Enhance Customer Experience
- Leverage Network

Looking ahead

The Group has laid the foundations for a strong 2023

- Clear focus on our attractive specialist lending businesses
- Diversified and resilient business model a key strength
- Strong capital and liquidity positions
- Focused on our Optimising for Growth strategic priorities
- Expect a significant increase in PBT for H2 2023

- Capital markets event to be held 8 November 2023
  - Delivering our medium term targets
  - Focus on Retail Finance business

Medium term targets

Significant strategic progress:

- Delivered significant lending and deposit growth
- Benefiting from Group simplification
- Technology investment delivered enhanced customer experiences
- Expanded our distribution
- Sustained growth in chosen markets

Group is on track to deliver all medium term targets

Lending Book CAGR[1]	Net Interest Margin	Cost Income Ratio	Total Return on Average Equity	CET1 Ratio
Target: 15%+	Target: > 5.5%	Target: < 50%	Target: 14% – 16%	Target: > 12%
15.9%	**5.4%**	**56.9%**	**6.8%**	**13.0%**

[1] CAGR from 31 December 2020


Q
A

Appendices

Business Overview

		Consumer Finance				Business Finance			
		Retail Finance		Vehicle Finance		Real Estate Finance		Commercial Finance	
		HY 2023	HY 2022	HY 2023	HY 2022	HY 2023	HY 2022	HY 2023	HY 2022
Growth	Net Lending Growth	**12%**	32%	**18%**	36%	**10%**	8%	**(16)%**	50%
Volumes	New Business	**£614m**	£535m	**£250m**	£208m	**£252m**	£242m	**£31m**	£136m
	Avg Lending Balances	**£1,102m**	£819m	**£403m**	£296m	**£1,152m**	£1,118m	**£348m**	£352m
	Spot Lending Balances	**£1,180m**	£916m	**£440m**	£333m	**£1,222m**	£1,143m	**£316m**	£360m
Performance	Net Revenue Margin	**6.5%**	7.6%	**11.4%**	12.9%	**2.6%**	2.7%	**7.3%**	5.9%
	Total Revenue	**£49m**	£36m	**£29m**	£22m	**£35m**	£27m	**£18m**	£13m
Asset Quality	Cost of Risk	**1.6%**	1.4%	**2.4%**	8.0%	**0.4%**	(0.0)%	**4.1%**	0.0%

Retail Finance

We help by providing instant credit for the purchase of goods online and in store

	HY 2023	FY 2022	% Change
Lending balances – Spot	£1,180m	£1,055m	12
Lending balances – Average	£1,102m	£899m	23
	HY 2023	**HY 2022**	**% Change***
New business	£614m	£535m	15
Cost of risk	1.6%	1.4%	0.2pp
Net revenue margin	6.5%	7.6%	(1.1)pp
Total Revenue	£49m	£36m	37

* pp represents a percentage point movement

- Net Lending growth of 12% since year end 2022 from increased market share of the retail store and online credit market
- Reflecting strong New Business volumes in lower risk, interest free products through furniture and jewellery retailers
- Net revenue margin reflects focus on lower risk, prime lending
- Cost of risk below expectations, HY 2022 cost of risk benefited by impact on back book of change in LGD assumptions
- AppToPay launched in H1 2023 delivering entry into the digital Buy Now Pay later Market

Vehicle Finance

We help by providing finance solutions for used vehicles

	HY 2023	FY 2022	% Change
Lending balances – Spot	£440m	£373m	18
Lending balances – Average	£403m	£325m	24
	HY 2023	**HY 2022**	**% Change***
New business	£250m	£208m	20
Cost of risk	2.4%	8.0%	(5.7)pp
Net revenue margin	11.4%	12.9%	(1.5)pp
Total Revenue	£29m	£22m	32

* pp represents a percentage point movement

- Distribution expansion and growth of new products driving record new business
- Net lending growth of 18% since year end 2022
- HY 2023 has seen ECL models adapt to lower default trends and credit tightening action taken in 2022
- Arrears are lower than pre-pandemic levels due to increased Prime lending balances
- Net revenue margin reduced with improved credit quality new business

Real Estate Finance

We help by providing financial support for professional property developers and investors

	HY 2023	FY 2022	% Change
Lending balances – Spot	£1,222m	£1,116m	10
Lending balances – Average	£1,152m	£1,115m	3
	HY 2023	**HY 2022**	**% Change***
New business	£252m	£242m	4
Cost of risk	0.4%	(0.0)%	0.4pp
Net revenue margin	2.6%	2.7%	(0.1)pp
Total Revenue	£35m	£27m	30

* pp represents a percentage point movement

- Strong New Business flows in residential investment loans have maintained balance sheet
- Average lending balances increased 3% since year end 2022
- Revenue growth reflects growth in average lending balances and rising interest rates
- Reduced mix of higher yielding development loans led to slightly reduced net revenue margin
- Cost of risk has remained at historically low levels reflecting the low LTV of the lending portfolio

Commercial Finance

We help by providing working capital solutions for SMEs with the benefit of asset based security

	HY 2023	FY 2022	% Change
Lending balances – Spot	£316m	£376m	(16)
Lending balances – Average	£348m	£361m	(4)
	HY 2023	**HY 2022**	**% Change***
New business	£31m	£136m	(77)
Cost of risk	4.1%	0.0%	4.0pp
Net revenue margin	7.3%	5.9%	1.4pp
Total Revenue	£18m	£13m	38

* pp represents a percentage point movement

- New Business reflects a cautious approach to onboarding new clients in the challenging economic environment
- Average lending balances broadly maintained through higher utilisation
- Government backed scheme balances of £20.3m at 30 June 2023 – no Bounce Back Loans provided
- Net revenue margin growth due to portfolio being variable rate and linked to Bank of England base rate
- Cost of risk impacted by £7.2m impairment loss on a large loan

IFRS9 macroeconomic assumptions

Macroeconomic outlook improves from FY 2022 while remaining prudent given near term uncertainties

- A reduction in Base and Severe peak unemployment rates, combined with an increase in Downside has been applied, resulting in a weighted average peak unemployment rate of 5.0% (Dec 2022: 5.3%)
- HPI peak to troughs have been updated to reflect current house price environment
- Scenario weighting remain the same as December 2022

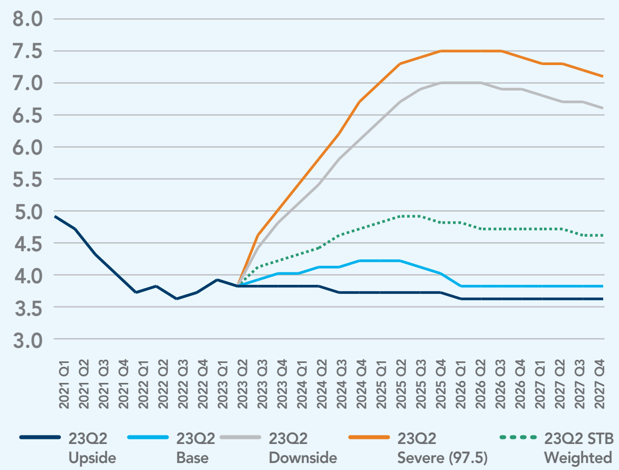
Sensitivities

- Changing the severe scenario weighting to 100% would result in an increase in provisions of **£7.2m** and a change to 100% weighting in the upside scenario would result in a decrease in provisions of **£3.0m** (for both values no change in ECJs is assumed)

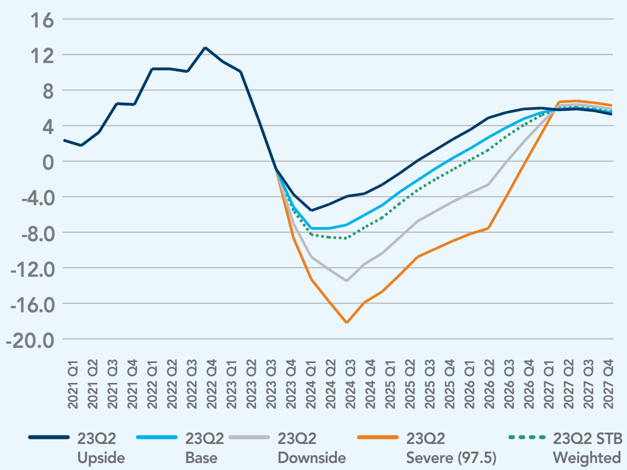
Economic Scenarios and Weightings

Scenario	30 Jun 2023 Weighting	30 Jun 2023 Peak Unemployment	30 Jun 2023 Peak/ Low HPI change	31 Dec 2022 Weighting	31 Dec 2022 Peak Unemployment	31 Dec 2022 Peak/Low HPI change
Upside	20%	3.9%	(4.2)%	20%	4.3%	(7.3)%
Base	50%	4.2%	(9.0)%	50%	4.7%	(11.5)%
Downside	25%	7.0%	(21.0)%	25%	7.1%	(23.5)%
Severe	5%	7.5%	(32.0)%	5%	7.7%	(34.3)%

Unemployment %



HPI %



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- **any form of profit forecast.**

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