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SECURE TRUST BANK PLC

Interim Results for the six months to 30 June 2023

Foundations set for a strong 2023; Launching 'Optimising for Growth' strategic priorities

Secure Trust Bank PLC ('STB' or the 'Group'), a leading specialist lender, is pleased to announce its financial results for the six months to 30 June 2023. STB continued to build momentum, delivered solid income growth, managed costs effectively and delivered a significant increase of 14.6% in continuing profit before tax pre impairments. STB is declaring an interim dividend of 16.0 pence per share for HY 2023 (HY 2022: 16.0 pence per share). The Group achieved a continuing profit before tax of £16.5 million (HY 2022: £17.1 million).

The Group has laid the foundations for a strong 2023 and expects a significant improvement in profitability during the second half of the year.

David McCreadie, Chief Executive, said:

"Our specialist lending businesses have significant growth potential in large addressable markets. We have grown our lending balances by 45% since the start of 2021 and are optimising for growth by being simpler, enhancing our customer experience and leveraging our distribution networks.

We have laid strong foundations for the rest of the year and are on track to meet our target cost optimisation savings. I am pleased with our positive operational performance and we continue to help our customers and business partners during these challenging times.

We have demonstrated our ability to grow and are well placed to realise our ambitions. We have a clear focus and strengthened capital position, and will scale the Group further to deliver our return on average equity ('ROAE') target. We remain confident about the future."

Highlights[1]

- **Introducing the Optimising for Growth strategic priorities to drive sustainable and attractive ROAE**
- **8.2% growth in lending balances to £3.2 billion (FY 2022: £2.9 billion)**
- **Cost income ratio remained flat at 56.9% (HY 2022: 57.0%); on track to deliver £4m in annualised savings[2]**
- **Profit before tax pre impairment up 14.6% to £39.3 million (HY 2022: £34.3 million)**
- **Profit before tax of £16.5 million (HY 2022: £17.1 million) adversely affected by a material impairment of £7.2 million relating to a long-running problem debt case within Commercial Finance. The aggregate cost of impairments for Commercial Finance since inception is 0.6% including this impairment**
- **Arrears stable at low levels in Consumer Finance divisions**
- **Expect significant improvement in profitability during the second half of the year through loan book growth and cost leverage**

Optimising for Growth

At its core, the Group's strategic priority is to grow our loan book and revenue, which in turn drives cost efficiency. This will be enhanced by the simplification and streamlining of the Group's operating model. Combined, these initiatives will deliver sustainable, value-creating returns on equity at attractive levels. Optimising for Growth has three core strategic priorities and we have made good progress against all of them during the year:

- **Simplify** - Since the start of 2021 we have taken action to simplify the Group into a focused and more cost-efficient specialist lending business, with four core lending segments. The sale of our Debt Managers (Services) Limited's loan portfolio completed the simplification of the lending activities for the Group. The next phase of our simplification is around increased integration of shared services, the streamlining of operational processes and enhanced digitalisation of our business. Project Fusion, our cost efficiency programme, is key to mitigating ongoing cost inflation that the business faces and is on track to deliver on its £4m annualised cost savings[2] target by year-end. Combined, these initiatives give us high confidence in driving our cost income ratio to below 50% in the medium term.

- **Enhance Customer Experience** - STB has a long track record of achieving high customer satisfaction scores for our consumer lending businesses and savings products. We are proud of our performance but will not take it for granted. We will continue to strive to improve our customer experience across all our lending. The delivery of improved customer experience is a key element in driving our growth. In the latest surveys, we achieved 4.6 stars out of 5 (HY 2022: 4.5 stars out of 5), and our Vehicle Finance and Retail Finance teams were recognised by being awarded by Feefo's 'Platinum Trusted Service Award'.
- **Leverage Networks** - STB is built on the importance of strong relationships. We have a wide range of existing relationships with a range of partners, retailers, car dealers, intermediaries, new business originators, and advisers. The Group looks to deepen these existing relationships: to take market share opportunities; to originate new business; to expand our product offering. During the year, we launched AppToPay with a selection of existing retail partners. We maintained our large retail network, working with over 1,400 retailers, as well as our dealer, broker and internet introducer network supporting Vehicle Finance (680). Nearly two-thirds of our private equity group clients have more than one connection to Business Finance.

These three strategic priorities are enabled by our technology platform that has seen significant investment in recent years and which we believe will position the Group for growth and increased market share in large addressable markets, as has been demonstrated in recent years and during HY 2023.

The Group achieved record new business lending during the period, increasing 2.4% compared to the first six months of 2022, while maintaining its disciplined credit and risk approach. The net lending book has grown 8.2% in the period. Net interest margin ('NIM') decreased to 5.4% (HY 2022: 5.7%) reflecting new Tier 2 capital, which reduced NIM by 20 bps in the period but provides capital for growth, and the strategic shift towards lower yielding, lower risk lending in both our Business Finance and Consumer Finance divisions. In line with the Group's strategy, the cost income ratio remained flat at 56.9% (HY 2022: 57.0%), demonstrating our ability to leverage our cost base.

In Consumer Finance, net lending balances grew to £1.6 billion (FY 2022 £1.4 billion) following record new business lending of £863.6 million in the 6 months to June 2023 (HY 2022: £743.4 million). In Business Finance, net lending balances were maintained at £1.5 billion (FY 2022 £1.5 billion) with new business lending of £283.8 million in the 6 months to June 2023 (HY 2022: £377.6 million).

On a continuing basis the Group achieved a profit before tax of £16.5 million (HY 2022: £17.1 million).

The impairment charge of £23.0 million (HY 2022: £17.9 million) reflects a cost of risk of 1.5% (HY 2022: 1.3%), growth in new business, and one material loss of £7.2 million relating to a long running problem debt case within Commercial Finance. The circumstances around the particular case were unique, with a lessons learned exercise confirming no similar concerns across the Commercial Finance portfolio. Impairment charges in the Group's IFRS 9 models reflect a normalisation of provisions within Vehicle Finance and improved macroeconomic scenarios compared to December 2022. The Group is aware of the uncertain economic outlook and retains management overlays to modelled provisions for customer affordability challenges. Arrears within Consumer Finance remain stable at low levels reflecting the impact of credit tightening measures taken in 2022 and a higher proportion of prime lending.

The Directors have approved an interim dividend of 16.0 pence per share for 2023, which is payable on 28 September 2023 to shareholders on the register at the close of business on 1 September 2023. This is in line with the Group policy to return 25% of earnings to shareholders.

The Group achieved a total ROAE of 6.8% (HY 2022: 12.5%) and maintained strong capital ratios. ROAE in HY 2022 benefitted from a one-off £6.1 million gain recognised on the sale of the Debt Manager (Services) Limited's loan portfolio. Excluding the gain/(losses) from discontinued operations, the total continuing ROAE for 30 June 2022 would be 8.4% compared to 7.5% for 30 June 2023.

Financial summary

	Six months to 30 June 2023	Six months to 30 June 2022	Change[3] %
Total profit before tax	**£15.0m**	**£24.7m**	**(39.3)**
Continuing profit before tax	**£16.5m**	**£17.1m**	**(3.5)**
Continuing profit before tax and pre impairments	**£39.3m**	**£34.3m**	**14.6**
Total basic earnings per share	59.4 pence	102.4 pence	(42.0)
Continuing basic earnings per share	65.8 pence	69.1 pence	(4.8)
Ordinary dividend per share	**16.0 pence**	**16.0 pence**	**-**
Total return on average equity	6.8%	12.5%[4]	(5.7)pp
Net interest margin	5.4%	5.7%	(0.3)pp
Cost of risk	1.5%	1.3%	0.2pp
Cost income ratio	56.9%	57.0%	(0.1)pp

	30 June 2023	31 December 2022	Change[3] %
Total lending balances	£3,158.5m	£2,919.5m	8.2
Customer deposits	£2,648.9m	£2,514.6m	5.3
Common Equity Tier 1 ('CET 1') ratio	**13.0%**	**14.0%**	**(1.0)pp**
Total capital ratio	**15.2%**	**16.1%[5]**	**(0.9)pp**

Other highlights

- Customer deposits grew to £2,648.9 million (FY 2022: £2,514.6 million) through a combination of growth in fixed term funds and Access accounts. Savings markets have repriced following the Bank of England Base Rate increases and predictions of further increases, resulting in a cost of funds of 3.9% (HY 2022: 1.4%). Funding costs are expected to continue to increase as maturing deposits reprice in a higher interest rate environment.
- Tier 2 capital of £90.0 million issued to refinance existing 2018 Tier 2 capital with 2023 first call dates and support growth, with the buy-back of existing Tier 2 capital completed in the period, providing additional growth capital for the Group.
- Customer satisfaction remains high, as measured by Feefo, 4.6 stars (HY 2022: 4.5 stars)
- Listed as an official UK Best Workplace™ for the fourth year running, ranking 12 out of 87 companies (large organisations category), a significant improvement from 2022 (ranked 29 out of 67).
- We have made progress against our ESG strategy that was launched at the start of 2023, especially around Equity, Diversity and Inclusion, Climate Action, Customer Trust and Education and Skills.

Outlook

We remain confident about the future despite near term uncertainties. We are committed to navigating our businesses carefully during these uncertain times and will continue to be flexible in how we react during this period of economic uncertainty. We will continue to monitor inflation and the impact it will have on the cost of living. Further increases in the Bank of England Base Rate are predicted and this will have a direct impact on customer pricing. Despite these challenges, we have significant growth potential and will continue to capture opportunities with our usual focus on disciplined credit and risk management.

Our Optimising for Growth strategic priorities will support the delivery of our medium-term targets. We are well placed to realise our ambitions and have shown resilience and agility through the challenges of the last few years. During the first half of the year, we have laid the foundations for a strong 2023 and expect a significant improvement in our profitability during the second half of the year and in 2024, through loan book growth and cost leverage.

The Group plans to host a Capital Markets event on 8 November, with a focus on our Retail Finance business and more detail on delivering our medium-term targets.

Medium-term targets	30 June 2023 Actual	Target
Net interest margin	5.4%	>5.5%
Cost income ratio	56.9%	<50%
Total return on average equity	6.8%	14% - 16%
CET 1 ratio	13.0%	>12.0%
Compound Annual Growth Rate[6]	15.9%	>15.0%

Footnotes:
1. Performance metrics presented below relate to continuing operations unless otherwise stated. For further details see the Appendix to the 2023 Interim Report.
2. Cost savings relative to operating expenses for the 12 months ended December 2021.
3. pp represents the percentage point movement
4. HY 2022 benefitted from a one-off £6.1 million gain recognised on the sale of the Debt Manager (Services) Limited's loan portfolio.
5. The total capital ratio have also been restated to reflect the prior year restatement of land and buildings from fair value to historic cost. Further details are provided Note 1.3.1 to the Interim Report (page 31).
6. Compound Annual Growth Rate is the annual growth rate calculated as the annualised compound growth in continuing loans and advances to customers since 31 December 2020.

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, 9 August 2023 at 10.00am, which can be accessed by registering at: https://brrmedia.news/STB_IR23

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

Dial +44 (0)330 551 0200
Confirmation code (if prompted): Secure Trust Bank

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This announcement contains inside information.

The person responsible for the release of this information on behalf of STB is Mark Stevens, Company Secretary.

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 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 STB's control, the COVID-19 pandemic, expected credit losses in certain scenarios involving forward looking data, any adverse experience in inherent operational risks, any unexpected developments in regulation, or regulatory 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.