EDISON

Secure Trust Bank

H117 results

Progressing with a prudent approach

Financial services

Secure Trust Bank's (STB) first half results were a reminder that the reshaping of the loan book towards one with a lower risk profile does involve some pain. While lower asset yields from new business and maintained impairments from the back book pinch near-term returns, the potential growth of over 30% in FY18 and FY19 earnings is an indicator of gains to come on the back of a higher-quality, more diverse and resilient loan book.

Year end	Operating income (£m)	PBT* (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield (%)
12/16	118.2	32.9	137.7	75.0	11.8	4.6
12/17e	136.5	30.7	132.8	79.0	12.2	4.9
12/18e	161.7	40.5	174.2	83.0	9.3	5.1
12/19e	182.2	55.5	234.4	90.0	6.9	5.5

Note: *PBT and EPS on an underlying basis, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **2016 DPS ex 165p special dividend.

H117 results

STB reported continued strong growth of over 30% in its loan book compared with the same period last year, taking the total to £1.5bn. The adoption of a more risk-averse lending positioning, including the withdrawal from higher-risk unsecured lending and sub-prime motor finance, has trimmed interest yields from 11.7% for H116 to 10.1%. This and an increase in impairments, partly reflecting performance of sub-prime motor loans, resulted in a 10% reduction in underlying pre-tax profits compared with the prior year period. However, the loan book is now positioned to be more resilient in the face of a potential worsening of credit conditions and the capital position remains strong (CET1 15.3%) to exploit organic and inorganic opportunities.

Disciplined approach in deploying capital

Following the sale of Everyday Loans Group for a profit of over £100m last year, STB has had significant excess capital to deploy in the development of the business, even after payment of a special dividend. In this situation a risk for shareholders would be that management is insufficiently disciplined in applying the capital. In contrast, STB has stuck with its cautious view of credit risk, continuing to improve the quality of its loan book and has reviewed quite a large number of acquisition opportunities but held back from a deal as so far none has fully met its criteria.

Valuation

To allow for the near-term profile of profitability we have focused on the output of our dividend discount valuation, which gives a value of c 2,300p (versus previous ROE/COE-derived valuation of 2,480p) and would imply a prospective P/E of 13.2x (FY18e) and a P/NAV of 1.8x, which seem reasonable given the potential further growth as STB deploys capital and realises the benefits of the changes in the make-up of its loan book.

25 August 2017

Price	**1,625.0p**
Market cap	**£300m**
Net debt/cash (£m)	N/M
Shares in issue	18.5m
Free float	79.9%
Code	STB
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(15.3)	(29.6)	(26.2)
Rel (local)	(15.6)	(28.7)	(32.1)
52-week high/low		2,455.00p	1,625.00p

Business description

Secure Trust Bank is a well-established specialist bank addressing niche markets within consumer and commercial banking. It is launching a non-standard mortgage business. Former parent Arbuthnot Banking Group's shareholding is now less than 20%.

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Edison profile page

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H117 results review

STB's first half results saw continued strong growth of over 30% in the loan book compared with H116, while the change in mix towards secured and lower-risk lending resulted in a reduction in the overall interest yield that still left net interest income up 18%. Underlying expenses increased by a similar percentage, while a 39% increase in the impairment charge, reflecting costs relating to the higher-risk back book, led to a 10% reduction in underlying pre-tax profits. Management views this as a necessary near-term cost of the move to a more resilient loan book, which should perform better in the event of more difficult economic conditions and provides a firmer base for future growth.

Key figures are highlighted below and in Exhibit 1. Comparisons are with H116 unless stated.

- Overall loan book growth was 34% to £1.5bn.
- Operating income (net interest plus net fee income) increased by 15% to £65.8m.
- Investment has been made to support loan and deposit growth and underlying costs increased 20%. Absence of one-off Everyday Loans Group (ELG) related costs allowed the reported cost/income ratio to fall from 55% to 51%.
- The percentage impairment charge increased modestly from 2.6% to 2.7% of average loans.
- Underlying adjustments include stripping out a £0.3m profit on the sale of STB's NSF shareholding and adding back £0.9m for transformation costs and fair value amortisation. The H116 item included adding back £3.5m of bonus payments relating to the ELG sale and stripping out £2.5m for discontinued operations.
- The underlying H117 return on average equity was an annualised 9.8% versus 15.5% and 16.0% based on equity at a target common equity tier 1 ratio (CET1) of 12%.
- The CET1 ratio was 15.3% versus 18% at the end of 2016 as loan growth resulted in a 13% increase in total risk exposure during the half year.
- The interim dividend was 18p (+6%).

Exhibit 1: Selected figures from H117 results

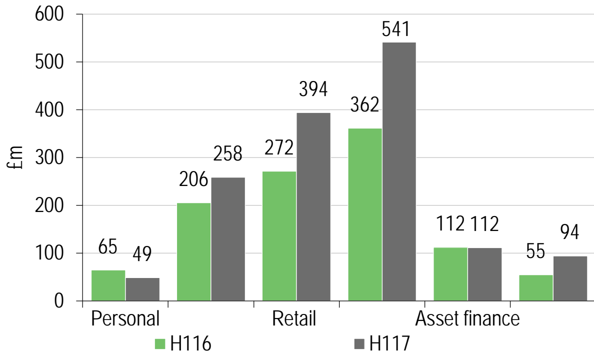
£m except where shown	H116	H216	H117	% change vs H116
P&L				
Gross interest income	60.6	69.4	71.2	17.5
Interest expense	(11.1)	(15.2)	(12.7)	14.4
Net interest income	49.5	54.2	58.5	18.2
Net fee income	7.8	6.7	7.3	(6.4)
Total G&A expenses	(31.5)	(34.0)	(33.7)	7.0
Impairment losses	(13.3)	(14.4)	(18.5)	39.1
Reported pre-tax profit	12.5	12.5	13.9	11.2
Adjustments for underlying profit	3.7	4.2	0.6	(83.8)
Underlying profit before tax	16.2	16.7	14.5	(10.5)
Basic EPS (p)	56.6	45.5	60.6	7.1
Underlying EPS (p)	78.6	58.5	63.3	(19.4)
Other				
Loan book	1,128	1,321	1,510	33.8
Deposits	1,043	1,152	1,326	27.2
Loan to deposit ratio	108%	115%	114%	
Cost/income ratio	55.0%	55.8%	51.2%	
Underlying return on average equity	15.5%	9.2%	9.8%	
Customers (number)	608,891	754,968	849,365	39.5
Total risk exposure	1,085	1,264	1,426	31.5
CET1 ratio	20.1%	17.4%	15.3%	
Leverage ratio	15.7%	14.2%	12.7%	

Source: Secure Trust Bank, Edison Investment Research

Lending

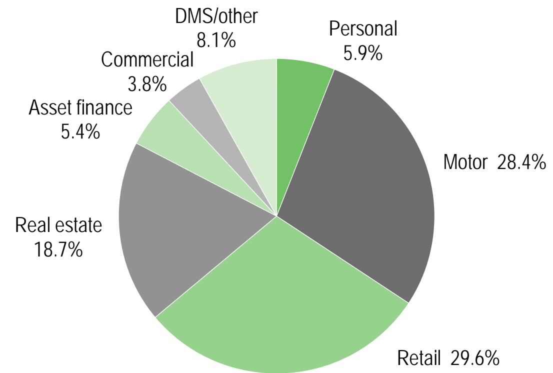
Following the April 2016 sale of ELG, the loan book has continued to move towards secured and lower-risk lending. Exhibit 2 shows an analysis of the continuing business customer loans for H117 and H116; the most rapid increases in loans outstanding were in invoice (Commercial), real estate and retail point of sale (Retail) finance.

Exhibit 2: STB segmental customer loans H117/H116



Source: Secure Trust Bank

Exhibit 3: Segmental interest and fee income H117



Source: Secure Trust Bank

In absolute terms the largest increase has been in **real estate** lending, which includes loans for companies investing in residential property (professional buy-to-let), for development of residential property and commercial development. Investment lending accounted for 67% of the real estate book compared with 63% at the end of December. The development element of the book has been broadly stable with repayments of lending on prime central London developments, at STB's request, balanced by new, less leveraged, lower-margin residential lending. The exposure to commercial development is limited and is mainly mixed rather than pure commercial.

Within **motor finance**, weakening performance in the sub-prime segment prompted a withdrawal from new lending in this area during the first half. The focus is now on writing larger volumes of lower-margin, lower-risk business and in H117 this element of new business was up 37% on H116.

The **retail point of sale** loan book has grown strongly (+45% vs H116) as management identified this as a resilient and short duration area within consumer finance. Lending here is for online or in-store purchase of goods including cycles, other leisure equipment, furniture and consumer electronics.

The Commercial area undertakes **invoice financing** in the form of factoring and discounting and, as a relatively new business, has been making strong progress (loan book +73% vs H116), having financed over £1bn of invoices since formation three years ago.

Asset finance lends to SMEs to fund assets such as building equipment, commercial vehicles and manufacturing equipment. In this sector competition has become intense and STB has been careful not to be drawn into writing unattractive business or incurring greater exposure to assets where valuations may be vulnerable in a slowing economy. Criteria have been tightened, with the book expected to contract this year and next if conditions remain as they are. The residual **personal loans** book continues to run off as expected following the cessation of new lending in January this year.

The STB **mortgage product** was launched in March and therefore at the half year end was still at a formative stage. The business aims to provide finance for customers who are not well served by the incumbent high street lenders; this includes self-employed and contract workers together with those that have complex income or a recently restored credit history. STB has previously indicated that it is targeting near-prime rather than higher-risk borrowers. The fixed-rate mortgages are to be

distributed through intermediaries. The maximum loan to value is 85% and maximum size £2m. Starting with one distributor, the plan is to broaden this progressively as the business becomes more established.

Interest income and impairments

The main contributors to interest income are motor, retail and real estate finance, which together accounted for 78% of the total in the first half (Exhibit 4). Reflecting the rebalancing of the loan book, the overall gross interest yield as a percentage of average lending balances has declined from 11.7% to 10.1% from H116 to H117. Within this move there were marked reductions for motor loans and real estate finance corresponding to the group's move to a lower-risk lending policy. As shown in Exhibit 4, all segments have seen a lower interest yield in the period.

Exhibit 4: Interest income and impairments as % of average lending balances

(%)	Interest income		Impairments	
	H116	H117	H116	H117
Personal loans (continuing)	15.8	14.6	5.2	5.4
Motor finance	19.8	17.8	6.6	7.4
Retail finance	12.5	12.1	3.9	3.7
Real estate finance	7.6	5.9	0.0	0.0
Asset finance	7.7	7.5	0.4	0.9
Commercial finance	2.9	2.5	0.0	0.0
DMS/other	12.9	8.7	0.0	0.0
Total	**11.7**	**10.1**	**2.6**	**2.7**

Source: Edison Investment Research, Secure Trust Bank.

The presence of the back book of riskier loans means that the overall level of impairments as a percentage of average loans of 2.7% is similar to the H116 level (2.6%). Within this there was a noticeable increase in the motor segment where losses in the sub-prime area were a factor. Looking at the half-yearly progression in the impairment rate since H116 there was a tick-up in H216 from 6.6% to 7.7% as post-Brexit vote sterling weakness contributed to inflation and pressure on sub-prime borrowers' finances. However, the position was stabilised in H117 with the impairment rate falling sequentially to 7.4%. STB indicates that the sub-prime portion of loans is being closely monitored and should have largely rolled off during FY18. Additional disclosure for motor finance also shows that provisions for loans where borrowers have exercised their right to terminate their loan early have increased, accounting for 14% of the overall impairment charge reported compared with 10% in H116. Excluding this, the cost of risk in the motor segment would have increased more modestly, from 5.9% to 6.4%.

Funding

The group seeks to maintain a funding profile that minimises any mismatch with customer loans in terms of maturity and interest rate basis. Its funding is mainly sourced from deposits by individuals and SMEs. Its only wholesale deposit exposure (£63m) relates to its limited use of the Funding for Lending and Term Funding schemes. This means STB is not exposed to a squeeze on net interest margin when these schemes end in January and February 2018.

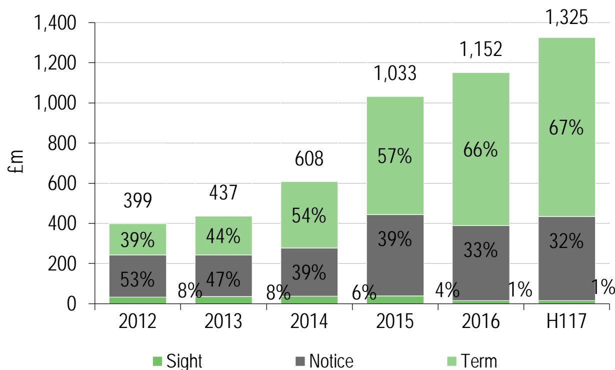
As illustrated in Exhibit 5, the proportion of term deposits has increased over time with a reduction in the level of sight and notice deposits. Management notes that customer demand remains strong and that most customers with medium-term savings bonds reinvest in new STB products.

In order to strengthen the treasury function following the launch of the mortgage business, STB has hired a new treasurer who brings experience in the securitisation market, albeit there are no plans to employ securitisation currently.

Further development of the savings offering will follow the launch of a new deposit platform in the fourth quarter. This will initially provide flexibility for investors in the way in which they receive

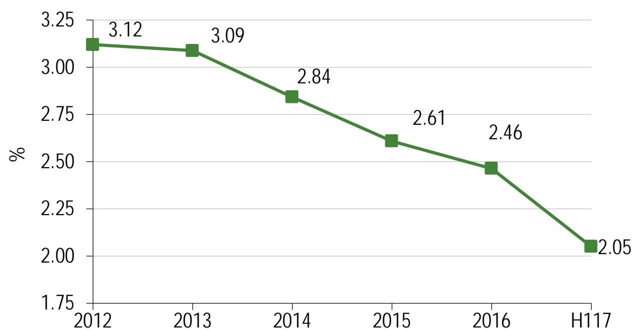
interest, provide a more effective online application process and introduce internet banking. The platform will facilitate new product introductions, improve risk controls and allow a more rapid response to exploit market opportunities, potentially allowing a reduction in funding cost.

Exhibit 5: Customer deposits growth and profile



Source: Secure Trust Bank, Edison Investment Research

Exhibit 6: Interest cost as % of average deposits



Source: Secure Trust Bank, Edison Investment Research

The cost of funding fell further in the first half (Exhibit 6) with maturing deposits being replaced with lower-cost deposits reflecting market conditions.

Capital

As noted, the organic expansion of the loan book has begun to absorb some of the excess capital created through the sale of ELG with the total risk exposure (including operational risk) increasing by 32% compared with H116 while the CET1 ratio fell from 20.1% to 15.3% over the same period.

In the half-year commentary, CEO Paul Lynam flags the uniform application of the 0.5% countercyclical buffer that the Bank of England has decided to reintroduce as unfortunate given banks' differentiated risk exposures. However, he also notes the potential for a review of this and highlights the potential positive impact if a capital floor is introduced into the IRB approach large banks employ when calculating capital requirements. This could be coupled with a lower risk weighting (20% vs current 35%) for residential mortgages with a loan to value of 75% or less. The result would be a substantially narrower capital requirement gap between the large systemic and smaller banks opening up new market opportunities for STB and others. (As things stand a large bank may operate with a c 3% weighting for residential mortgages compared with the 35% used under the standardised approach, while under a new calculation the cap could be 75% of the new standard level, namely 15%.)

Strategy

The bank retains its focus on strong but sustainable growth achieved organically and possibly through acquisitions. There is a strong emphasis on treating customers fairly and ensuring they are satisfied with the service provided. Diversification is seen as important as it provides the flexibility to switch emphasis in response to market conditions and opportunities. This has been evidenced over the last 18 months as STB has undertaken a significant reshaping of the business, including the ELG sale and reduction of risk in the loan book. On a longer view the bank looks to have a broad balance between the SME finance, consumer credit and mortgage lending.

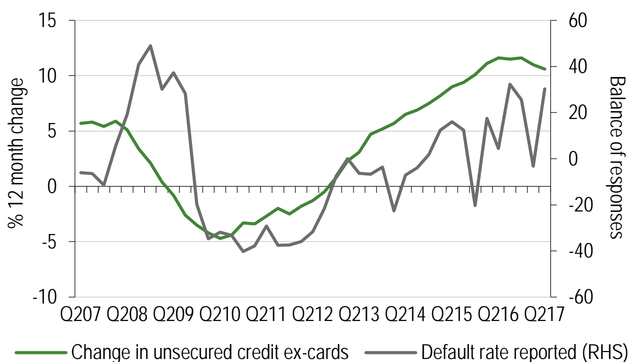
STB reports that it has been involved in a number of discussions regarding potential acquisitions, which did not proceed as terms could not be agreed. One of these would have provided a step-up in the mortgage business and, although a price was agreed, other terms were not acceptable. This is evidence of discipline in the process and consistency in targeting an area already highlighted for

development. If management's cautious outlook for the economic background and parts of the credit market are borne out, opportunities may become available at more attractive prices and on better terms than are currently available, underlining the merits of patience even if this contributes to a near-term drag on returns. STB has an encouraging record of delivering substantial shareholder value since its 2011 IPO with a NAV per share at the end of H117 of 1,295p compared with 166p at flotation after payment of cumulative dividends of 503p.

Background and outlook

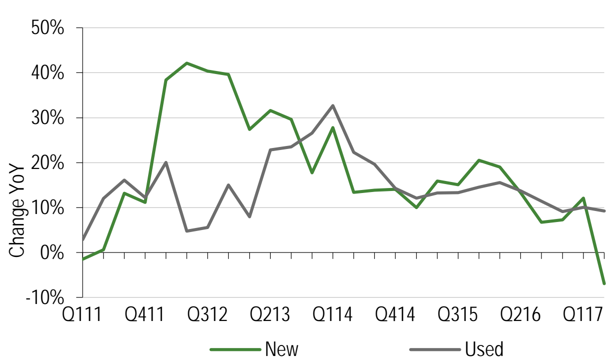
STB has been very clear on its cautionary view of the UK economy and the risk this poses to credit conditions in certain areas of the market. It nevertheless acknowledges that the current fundamentals are solid and unemployment (a key indicator of credit risk) is historically low. Having dipped after the Brexit vote, consensus forecasts for UK GDP growth recovered and have been stable for several months (at just above 1.5% for 2017 and 1.4% for 2018 – source: independent forecasts for the UK economy, HM Treasury). In tune with STB's observations, inflation expectations have ticked up suggesting the potential for further pressure on real wages, which may be increasingly problematic for borrowers who are already at the margin. Some commentary has also pointed to increased risk of recession, while a recent CBI retail sales survey was weaker than expected. Exhibit 7 illustrates the substantial growth in consumer credit following the financial crisis (in this case excluding credit cards). Also shown is the trend in default rate as reported in the Bank of England's Credit Conditions Survey; this already appears to show an uptrend, supporting STB's stance.

Exhibit 7: Consumer credit ex-credit cards



Source: Bank of England

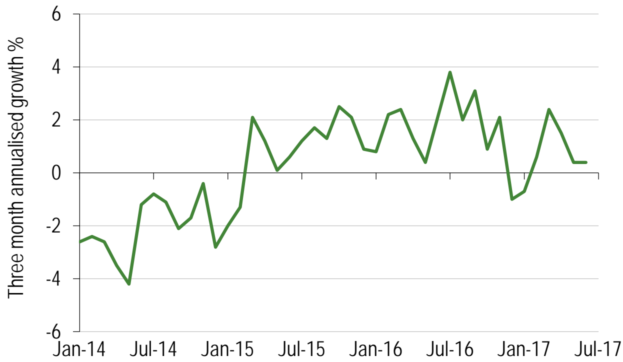
Exhibit 8: Value of car finance through dealerships



Source: Finance & Leasing Association press releases

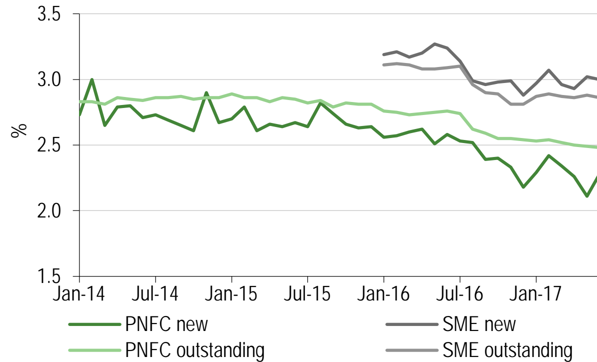
Another area that has attracted regulatory concern is the expansion of motor finance (Exhibit 8). Much of this has been through personal contract purchase contracts for new cars, with risk posed by the potential for falling residual values in addition to credit risk (this is less relevant for STB's hire purchase, non-prime lending). Following a sustained period of rapid growth, new car finance through dealerships has contracted in the latest quarter. However, most of STB's lending is for second-hand car purchases and, as shown, lending volumes here have been resilient. STB's move out of sub-prime should help in the event of a worsening of credit conditions, although clearly risks would remain with transaction volumes and collateral values under threat in a more adverse environment. Positively, there should be scope for STB to expand its book in the near-prime area as it addresses a still underserved part of the market.

Exhibit 9: SME stock of lending % change



Source: Bank of England (BoE)

Exhibit 10: Effective rates on corporate loans



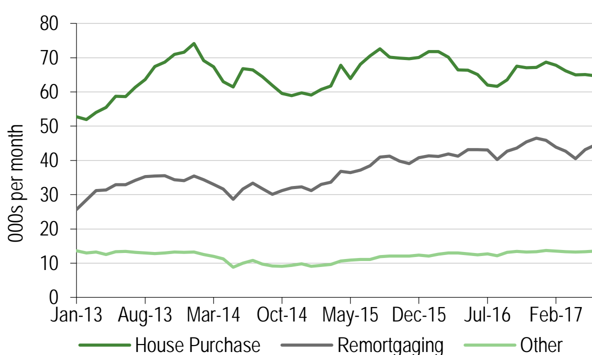
Source: BoE. Note: PNFC = private non-financial corporation.

Turning to SME lending, Bank of England data indicate that lending has continued to grow (Exhibit 9) while rates on new and existing lending have been broadly stable (Exhibit 10). STB has highlighted strong competitive pressures in the asset finance area, but the environment for invoice financing remains more favourable, signalling the benefit of the diversified loan portfolio.

Finally, for completeness, we show two charts illustrating trends in the mortgage market showing a generally stable level of approvals in recent months and some improvement in spread following a contraction (using secured lending to households as a proxy). In the prime mortgage market Virgin Money, as an example, has reported some spread pressure recently, although it expects this to reverse once the Term Funding Scheme ends in 2018. For STB at this stage the key remains the successful build-up of the new business within a niche area of the market.

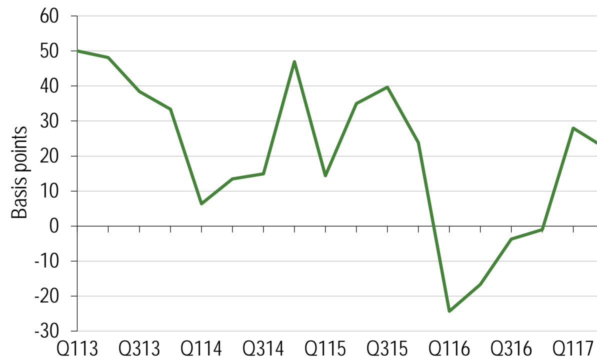
On competitive pricing more generally, STB management shares Virgin Money's view that some of the more aggressive pricing in certain areas of the market is likely to moderate once drawdowns under the Funding for Lending and Term Funding schemes end in Q118, removing a source of cheap finance (the latest figures show outstanding balances for these schemes of £51bn and £83bn respectively).

Exhibit 11: Approvals of loans secured on dwellings



Source: Bank of England

Exhibit 12: Spreads reported



Source: Bank of England. Note: Secured lending to households.

Drawing these points together, the UK economic background remains reasonably supportive and there may be a 'risk' on consensus forecasts that STB's cautious stance proves conservative. However, it would not be difficult for the bank to take on more risk if it feels the circumstances are right, while its rebalancing should protect it from the more problematic areas of lending currently, protecting capital to deploy in support of organic or acquisitive growth.

Financials

Our revised estimates for the loan book are shown below with the main changes being reductions in our assumptions for asset finance, motor finance and mortgage lending. The latter simply reflects a more realistic first year number as the business gets under way, while our asset finance numbers now assume continued contraction, as guided by STB in its statement, and we have tempered growth in motor finance to some extent given the change in risk appetite.

Exhibit 13: Loan book development estimates

£m	2015	2016	2017e	2018e	2019e
Personal unsecured	74	66	30	0	0
Motor vehicles	166	236	265	300	350
Retail finance	220	326	420	515	610
Total retail lending	**460**	**628**	**715**	**815**	**960**
Mortgage lending	**0**	**0**	**10**	**250**	**610**
Real estate finance	368	451	630	840	1,085
Asset finance	71	117	103	50	25
Commercial finance	29	63	115	175	255
Total commercial lending	**468**	**631**	**848**	**1,065**	**1,365**
Other	32	62	60	65	65
Discontinued	114	0	0	0	0
Total lending	**1,075**	**1,321**	**1,633**	**2,195**	**3,000**

Source: Edison Investment Research, Secure Trust Bank data

We assume higher growth than previously in real estate lending that largely offsets these changes, leaving estimated growth in the overall loan book largely unchanged for FY17 and FY18. We have introduced a forecast for FY19 for the first time including a further significant step-up in the level of mortgage borrowing by then and a continuation of strong growth in the real estate book.

As discussed earlier, the withdrawal from higher-risk areas of lending affects our estimates for interest yield and, for FY18, a stable absolute level of impairment and a small increase in costs means that an 4% reduction in operating income results in a 19% reduction in our pre-tax profit estimate. Nevertheless, on our numbers, growth in the loan book and a lower percentage rate of impairments in FY19 as the risk reduction becomes more apparent would mean underlying profit growth for FY18 and FY19 of over 30% per annum. The underlying return on equity would increase from an estimated 10% for the current year to over 16% by FY19.

Exhibit 14: Estimate changes

	Operating income (£m)			Underlying PBT (£m)			Underlying EPS (p)			Dividend (p)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017e	141.0	136.5	(3.2)	33.0	30.7	(7.1)	140.8	132.8	(5.6)	78.0	79.0	1.3
2018e	168.3	161.7	(3.9)	50.2	40.5	(19.2)	213.1	174.2	(18.3)	82	83.0	1.2
2019e		182.2	N/A		55.5	N/A		234.4	N/A		90.0	N/A

Source: Edison Investment Research

In our last note published in March we discussed the **prospective implementation of IFRS 9** for FY18 and the potential impact this will have on recognition of losses by banks. The EBA has since updated its impact assessment for banks across the EU. This now gives an average estimated increase in provisions of 13% compared with the previous survey result of 18%. Similarly, the average estimated impact on capital ratios is now a reduction of up to 45bp in the CET1 ratio compared with up to 75bp previously. Our estimates for FY18 and FY19 are based on the current standard (IAS 39) as we have no indication yet of an estimated impact on STB itself. Mechanically applying a 13% increase in impairment charge to our FY18 estimate would reduce underlying profit by 12% but the actual outcome could be substantially different and it should be remembered that, through the cycle, the impact of the new accounting approach on profits should be broadly neutral.

Valuation

We have updated our comparative valuation table (below), which includes a selection of challenger banks and specialist lenders. We have excluded Provident Financial given its recent profit warning and the substantial share price reaction. Shawbrook is included as the table was compiled just prior to its delisting on completion of the takeover by private equity funds advised by Pollen Street Capital and BC Partners (the cash offer was at 340p).

Exhibit 15: Challenger/specialist lender comparative table

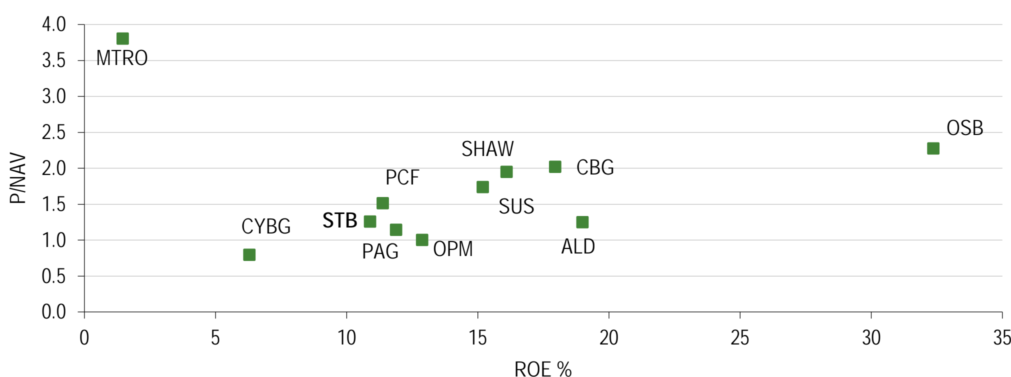
	Price (p)	Market cap (£m)	Historic P/E (x)	Yield (%)	ROE (%)	Price to NAV (x)
Secure Trust Bank	**1,625.0**	**300.2**	**11.8**	**4.6**	**10.9**	**1.3**
1PM	48.0	40.2	8.4	1.0	12.9	1.0
Aldermore	225.9	779.2	9.0	0.0	19.0	1.2
Close Brothers	1,535.0	2,329.5	12.2	3.7	18.0	2.0
CYBG	291.2	2,572.7	Neg.	0.0	6.3	0.8
Metro Bank	3,490.0	3,086.1	Neg.	0.0	1.5	3.8
OneSavings Bank	391.3	951.2	7.9	2.7	32.4	2.3
Paragon	413.4	1,108.5	10.2	3.3	11.9	1.1
Private and Commercial Finance	24.3	51.5	9.7	0.0	11.4	1.5
Shawbrook	339.5	850.4	13.1	0.8	16.1	1.9
S&U	2,030.0	243.2	11.9	4.5	15.2	1.7
Average			**10.5**	**1.9**	**14.1**	**1.7**

Source: Bloomberg, Edison Investment Research, company data. Note: Priced at 23 August

STB trades on a higher than average P/E but also offers the highest yield in this group and trades on a below average price to NAV (P/NAV), albeit with a below average ROE.

We can take a closer look at the relationship between the P/NAV and ROE in the next chart where STB can be seen as quite centrally placed. However, with the potential for a significant uplift in ROE as it deploys surplus capital organically or through acquisition there would appear to be scope for the valuation to rise materially without appearing stretched. Note that Metro Bank's seemingly anomalous position reflects its current marginal profitability, strong growth and the market's expectation that it will be able to deliver high profitability in future.

Exhibit 16: Challenger banks/specialist lenders P/NAV vs ROE



Source: Bloomberg, Edison Investment Research

Updating our ROE/COE calculation for STB and factoring in the same assumptions as in our last note in March (15.5% sustainable ROE, 10% cost of equity and 5% nominal growth) would give a value of c 2,700p compared with 2,480p previously, with the increase reflecting a higher book value at the end of the first half. The assumed return is above the prospective ROEs arising from our 2017 and 2018 estimates (10.2% and 12.6%), but just below the return on required equity reported for H117 of 16.0%. Reversing the ROE/COE calculation to match the current share price would require the assumption of an 11.5% ROE (other assumptions unchanged) to generate a value equivalent to the current share price, which certainly seems cautious. On this occasion we have

chosen to focus more on the output of a dividend discount model that incorporates the profits progression in our forecast period and this produces a value of c 2,300p, which may be more plausible when considered in light of the near-term prospective P/E (13.2x FY18e) and P/NAV (1.8x) multiples implied.

Exhibit 17: Financial summary

Year-end December	2015	2016	2017e	2018e	2019e
£m except where stated					
Profit and loss					
Net interest income	78.9	103.7	120.7	144.8	165.3
Net commission income	13.2	14.5	15.8	16.9	16.9
Total operating income	92.1	118.2	136.5	161.7	182.2
Total G&A expenses (exc non-recurring items below)	(50.5)	(65.5)	(69.1)	(83.4)	(89.5)
Operating profit pre impairments & exceptionals	**41.6**	**52.7**	**67.5**	**78.3**	**92.7**
Impairment charges on loans	(16.8)	(27.7)	(38.1)	(38.6)	(38.0)
Other income	0.0	0.0	0.3	0.0	0.0
Operating profit post impairments	24.8	25.0	29.7	39.7	54.7
Non-recurring items	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	**24.8**	**25.0**	**29.7**	**39.7**	**54.7**
Corporation tax	(5.5)	(6.3)	(5.7)	(7.0)	(9.7)
Tax rate	22.2%	25.2%	19.2%	17.7%	17.7%
Bank tax surcharge	0.0	(0.0)	(0.3)	(1.2)	(2.4)
Profit after tax - continuing basis	19.3	18.7	23.7	31.5	42.6
Discontinued business	9.4	118.8	0.0	0.0	0.0
(Loss)/profit for year	28.7	137.5	23.7	31.5	42.6
Minority interests	0.0	0.0	0.0	0.0	0.0
Net income attributable to equity shareholders	28.7	137.5	23.7	31.5	42.6
Company reported pre-tax earnings adjustments	(9.8)	7.9	1.0	0.8	0.8
Reported underlying pre-tax earnings (ex discontinued 2015/16)	**26.7**	**32.9**	**30.7**	40.5	55.5
Reported underlying earnings after tax	20.8	25.1	24.5	32.2	43.3
Average basic number of shares in issue (m)	18.2	18.5	18.5	18.5	18.5
Average diluted number of shares in issue (m)	18.5	18.6	18.6	18.6	18.6
Reported diluted EPS (p)	104.1	101.8	127.6	169.6	229.4
Underlying diluted EPS (p)	**114.3**	**137.7**	**132.8**	**174.2**	**234.4**
Ordinary DPS (p)	**72.0**	**75.0**	**79.0**	**83.0**	**90.0**
Special DPS (p)	0.0	165.0	0.0	0.0	0.0
Net interest/average loans	9.97%	9.09%	8.17%	7.57%	6.36%
Impairments/average loans	2.12%	2.43%	2.58%	2.02%	1.46%
Cost income ratio	54.8%	55.4%	50.6%	51.6%	49.1%
Balance sheet					
Net customer loans	960.6	1,321.0	1,633.0	2,195.0	3,000.0
Other assets	286.8	189.0	288.2	328.0	448.3
Total assets	1,247.4	1,510.0	1,921.2	2,523.0	3,448.3
Total customer deposits	1,033.1	1,151.8	1,555.2	2,110.6	2,912.6
Other liabilities	73.1	122.2	117.4	147.2	243.3
Total liabilities	1,106.2	1,274.0	1,672.7	2,257.7	3,155.9
Net assets	141.2	236.0	248.5	265.2	292.4
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	**141.2**	**236.0**	**248.5**	**265.2**	**292.4**
Reconciliation of movement in equity					
Opening shareholders' equity	124.9	141.2	236.0	248.5	265.2
Profit in period	28.7	137.5	23.7	31.5	42.6
Other comprehensive income	0.0	(1.8)	2.8	0.0	0.0
Ordinary dividends	(12.6)	(13.1)	(14.0)	(14.8)	(15.5)
Special dividend	0.0	(30.0)	0.0	0.0	0.0
Share based payments	0.2	0.2	0.0	0.0	0.0
Issue of shares	0.0	2.0	0.0	0.0	0.0
Share issuance costs	0.0	0.0	0.0	0.0	0.0
Closing shareholders' equity	**141.2**	**236.0**	**248.5**	**265.2**	**292.4**
Other selected data and ratios					
Period end shares in issue (m)	18.2	18.5	18.5	18.5	18.5
NAV per share (p)	776	1,277	1,345	1,436	1,582
Tangible NAV per share (p)	738	1,229	1,292	1,383	1,529
Return on average equity	21.6%	72.9%	9.8%	12.3%	15.3%
Normalised return on average equity	**15.9%**	**12.1%**	**10.2%**	**12.6%**	**16.4%**
Average loans	821.9	1,134.6	1,493.3	1,907.8	2,222.3
Average deposits	827.9	1,067.5	1,339.7	1,830.6	2,142.8
Loans/deposits	93.0%	114.7%	105.0%	104.0%	103.0%
Risk exposure	998.5	1,270.1	1,540.1	1,921.1	2,452.8
Common equity tier 1 ratio	**13.6%**	**17.4%**	**15.1%**	**12.9%**	**11.2%**

Source: Edison Investment Research, Secure Trust Bank data. Note: Profit on sale of ELG in April 2016 of £116.8m is included with the discontinued business line for FY16.

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