EDISON

Secure Trust Bank

FY21 results and outlook

FY21 earnings beat with momentum

Banks

Secure Trust Bank (STB) reported FY21 PBT of £56.0m (£57.4m normalised, we forecast £52.7m) and a ROE of 15.9%. The beat was driven by provision reversions: the loan loss ratio was 0.1% versus 0.3%. The numbers otherwise were in line with our expectations. Revenue was flat year-on-year, but pre-provisions profit fell by 18% since costs rose 12% as STB invested for growth. We are forecasting 15–17% annual loan growth for FY22–23 as management sees good risk-adjusted opportunities despite the inflation uncertainty. This is backed by a strong capital base (CET1 14.5%) and good returns (forecast ROE of 10.2% and 12.3% for FY22e and FY23e). We have increased our fair value to 2,491p/share (from 2,234p) mainly due to rolling the model forward one year.

Year end	Operating income (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/20	166.1	19.1	81.0	44.0	15.9	3.4
12/21	164.5	57.4	246.8	61.1	5.2	4.8
12/22e	186.5	40.8	167.2	41.8	7.7	3.3
12/23e	215.2	56.4	232.0	58.0	5.5	4.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Loan momentum

After being flat during the first six months of 2021, loans grew an annualised 17% in the second half. The growth has been broad based across the portfolio, in both the retail and business segments. We expect this growth to continue into the next two years, which will allow STB to leverage off its structural investments in people and technology. We see net interest income growing 13–15% pa in FY22–23, while costs only increase 4–5% pa, allowing pre-provision profit to significantly increase from £60.5m in FY21 to £101.2m in FY23e. Provisions are expected to normalise this year and we are estimating net loan losses of 1.3% in FY22e and 1.4% in FY23e of average loans.

A focused specialist diversified lender

A key attractive feature of STB is that it is a niche high-yield lender that is also diversified across the various segments. STB has a track record of being nimble in responding to market changes and opportunities, which includes exiting when risk-adjusted returns are not appealing. Over the last 12 months STB has also simplified its structure by selling some loan portfolios that no longer fit this strategy. It sold its retail mortgages and asset finance in 2021 and has recently agreed to sell its debt management services. At the same time, STB is embracing technology not because it wishes to position itself as a fintech company, but because this allows it to grow in some of its key segments such as retail lending and vehicle finance.

Valuation: Fair value of 2,491p per share

We obtain a fair value (FV) of 2,491p per share using a net asset value (NAV) approach. We continue to assume a sustainable return on equity (ROE) of 13.5%, a 10% cost of equity (COE) and 2% annual growth. The FV is the present value of the (ROE-g)/(COE-g) formula at end 2022 discounted to FY21. The 2,491p value implies an FY22e P/BV of 1.4x; STB is currently trading on a 0.74x P/BV ratio.

7 April 2022

Price	**1,286p**
Market cap	**£239m**
Net debt/cash (£m)	N/M
Shares in issue	18.6m
Free float	84.5%
Code	STB
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	2.0	(6.2)	5.3
Rel (local)	(6.0)	(5.8)	(2.7)
52-week high/low		1,390p	1,025p

Business description

Secure Trust Bank is a well-established specialist bank addressing niche markets within consumer and commercial banking.

Next events

Q1 trading update	May 2022

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Edison profile page

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Investment summary

FY21 beat driven by impairments

STB had already flagged in its November 2021 update and its pre-close statement in January 2022 that earnings would be coming up ahead of expectations and loan momentum was strong. Earnings were indeed ahead of expectations due to the significant reversion of provisions. The level of provisions for FY21 was only 0.1% of average loans and this boosted the ROE to 15.9%, which is an exceptional level of profitability. Revenue and expenses were as we expected, flat and up 12%, respectively. This substantial increase in costs related to investments that will help the bank to significantly expand its balance sheet in the next couple of years. Loan balances grew 7% year-on-year (12% if we consider only core lending) and interest margins remained resilient. STB followed its new 25% dividend pay-out policy and its FY21 DPS was 61.1p (we had forecast 56.6p) for a 4.8% yield.

Strong loan growth expected, FY22e upgraded

Inflation has been rising ahead of expectations and this may have an adverse impact on forecast economic growth. However, the consensus expectations are for healthy GDP growth (4.4% and 1.7% in 2022e and 2023e) and low unemployment, while lending margins remain good. STB sees attractive lending opportunities and its acquisition of App2Pay (announced in November 2021 and still subject to regulatory approval) will open up a new market in the digital buy now pay later (BNPL) business to complement its existing retail lending business. Economies of scale come into play as the balance sheet increases and should help the cost to income ratio decline from 63% in FY21 to 58% in FY22e and 53% in FY23e. We see the net interest margin (NIM) remaining relatively steady at 6.2% and we estimate this will lead to ROEs of 10.2% in FY22e and 12.8% in FY23e. We estimate that the balance sheet expansion will lead to the CET1 ratio dropping down to 12.3% by FY23e, which is still a comfortable level. We are increasing our FY22e PBT and EPS estimates by 12% and 7%, respectively.

Valuation: 2,491p per share

We have increased our FV from 2,234p per share to 2,491p after rolling our model forward one year. We discount the present value at the end of FY22 based on the (ROE-g)/(COE-g) formula back to FY21. All other assumptions remain the same: sustainable ROE of 13.5%, a 10% COE and 2% annual growth. STB is trading at very undemanding market multiples with an FY22e P/BV of 0.74x and P/E ratios of 7.7x for FY22e and 5.5x for FY23e.

Sensitivities

In our view the main risk factors are:

- **Macro cycle**– rising inflation and interest rates may have a negative impact on the economic outlook. The Russian-Ukrainian war has further increased economic uncertainty
- **Fast growth** – strong balance sheet growth can sometimes bring asset quality surprises, although this is mitigated by the relatively short duration in STB's loan book.
- **M&A** – acquisitions bring execution risks and, especially in the finance world, balance sheet surprises. However, they can also have a positive transformational impact adding scale and the opportunity to improve a previously non-core activity.

FY21 beat driven by impairments

STB's FY21 reported PBT was £56m while its normalised PBT £57.4m was 9% ahead of our forecasts (as shown in Exhibit 1) and almost triple that reported in FY20. This beat was essentially due to the significant provision reversals that continued into H221. Loan losses for the full year were only £4.6m (0.2% of loans) versus our forecast of £7.9m (0.3% of loans). The reported FY21 ROE was 15.9% (we forecast 14.9%) was boosted by this extraordinary (but welcome) level of provision reversions.

Impairments aside, STB's numbers were fairly close to our expectations. Net interest income and operating income were relatively flat versus FY20. Pre-provision profit did fall by 18% year-on-year (but was 2% above our forecasts). This decline was due to the 12% increase in operating expenses as STB made some investment spending that was held back from FY20 as well as investing to position the bank for the strong lending expansion planned by management. The investments have been in both people and technology.

Loan growth was ahead of our forecasts. We were expecting loans as a whole to be relatively flat year-on-year at the end of FY21. However, loans grew more than 8% (an annualised 17%) in the last six months of FY21, after declining by 1% in the first six months. If we adjust for the sale of the mortgage business in June 2021 and consider just the core loans, growth was 11.6% year-on-year.

Balance sheet funding remained good with a loan to deposit ratio of 120% (as forecast) and a robust CET1 ratio of 14.5% (we had forecast 14.4%), which supports future balance sheet expansion.

The dividend per share was 61.1p versus our forecast of 56.6p, as the board elected to follow the targeted 25% pay-out ratio.

Exhibit 1: FY21 results versus FY20 and FY21 forecasts

£m unless stated					
Year end 31 December	**FY20***	**FY21**	**Y-o-y %**	**FY21e**	**Vs exp**
Gross interest income	192.5	180.0	-6%	180.2	0%
Interest expense	(41.6)	(29.2)	-30%	(31.3)	-7%
Net interest income	**150.9**	**150.8**	**0%**	**149.0**	**1%**
Net fees & commissions	15.2	13.7	-10%	15.6	-12%
Total operating income	**166.1**	**164.5**	**-1%**	**164.6**	**0%**
Operating expenses	(92.6)	(104.0)	12%	(105.3)	-1%
Pre-provision profit	**73.5**	**60.5**	**-18%**	**59.3**	**2%**
Impairment charges on loans	(51.3)	(4.5)	-91%	(7.9)	-43%
Losses on modification of financial assets	(3.1)	1.5	-148%	1.3	15%
Profit before tax reported	19.1	56.0	193%	52.7	6%
Profit before tax normalised	**19.1**	**57.4**	**193%**	**52.7**	**9%**
Tax	(3.7)	(10.4)	181%	(10.2)	2%
Tax rate	19.4%	18.6%		19.4%	-4%
Net attributable income	**15.4**	**45.6**	**196%**	**42.5**	**7%**
Diluted EPS (p)	81.0	239.4	196%	226.5	6%
Diluted underlying EPS (p)	81.0	246.8	205%	226.5	9%
Dividend per share (p)	44.0	61.1	39%	56.6	8%
Key ratios and balance sheet					
Cost income ratio	55.7%	63.2%		64.0%	
NIM (NII/average loans)	6.3%	6.2%		6.3%	
Impairment charge % average loans	2.1%	0.2%		0.3%	
Impairment charge (incl. loan modification losses) % avg loans	2.3%	0.1%		0.3%	
Loan/deposit ratio	118.4%	120.3%		120.0%	
CET1 ratio	**14.0%**	**14.5%**		**14.4%**	
ROE%	**5.9%**	**15.9%**		**14.9%**	
Customer loans	2358.9	2530.6	7%	2400.0	5%
Customer deposits	1,993	2,103	6%	2,000.0	5%

Source: Secure Trust Bank, Edison Investment Research *Note: FY20 accounts were restated. The previous PBT was £20.1m vs restated £19.1m

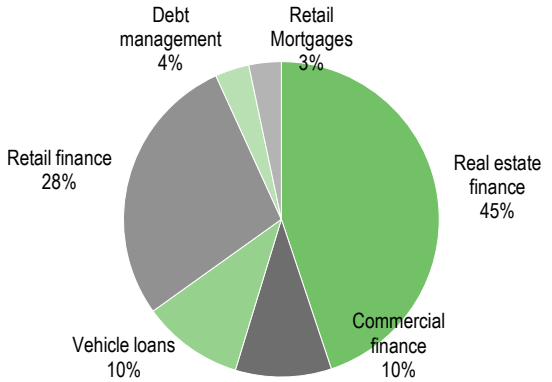
Momentum picking up

The lending pick-up was broad based in the second half of 2021 with all four key loan portfolios growing an annualised 10% or more.

STB had slowed down its real estate finance lending out of caution in 2020, and it was flat during the first six months of 2021 before ending 2021 5% higher year-on-year. There was a similar picture in vehicle finance (as STB now refers to its motor finance division). Vehicle lending was considerably affected by lockdowns but is now rebounding. Vehicle lending growth was flat in the first six months of 2021, before finishing the year up 8% year-on-year.

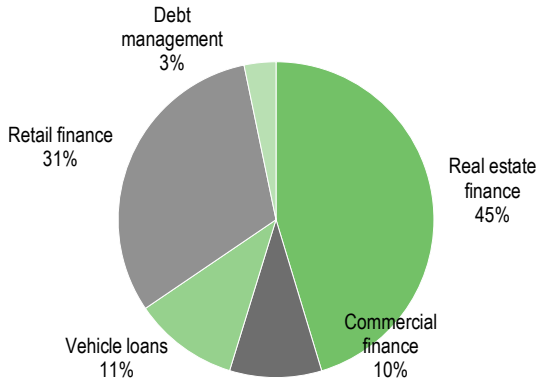
Commercial finance (essentially invoice discounting) and retail finance had even stronger momentum in FY21, increasing 36% and 16% year-on-year, respectively. Exhibits 2 and 3 show the loan breakdowns in FY20 and FY21.

Exhibit 2: Loan portfolios FY20



Source: Secure Trust Bank

Exhibit 3: Loan portfolios FY21



Source: Secure Trust Bank

Outlook

COVID-19 fears have given way to concerns about inflation and its impact on economic growth. These concerns have been exacerbated recently by the war in Ukraine. Consensus forecasts as collected by the Bank of England (BoE; Exhibit 4) still looks quite supportive for UK banks. The economy continues to grow at a good pace, while unemployment remains low. The latter is particularly important for banks since unemployment levels are a key factor for their asset quality.

Exhibit 4: UK economic forecasts

%	2019	2020	2021	2022e	2023e
GDP*	1.5	(9.4)	7.5	4.4	1.7
Private consumption*	1.2	(10.5)	6.2	5.5	1.5
Inflation (CPI)*	1.7	1.0	2.5	5.8	2.3
Unemployment (Q4)*	3.8	4.4	4.6	4.1	4.1
Budget deficit, % of GDP	(2.1)	(12.5)	(9.2)	(4.5)	(3.0)
Gross debt, % of GDP	85.4	108.0	111.5	105.8	104.9

Source: ONS historical data, *Bank of England average independent forecasts March 2022

Inflation is a key risk

Inflation is STB's cloud in a relatively rosy outlook. Private consumption and GDP could be negatively affected if price inflation continues to outpace wage growth. Interest rates are rising, and this could put further pressure on consumers, especially with big ticket items such as mortgages, which are mostly floating rate in the UK. This problem would be exacerbated if central banks end up having to compensate for the excessively accommodative policy actions with very punishing interest rate hikes to contain inflation.

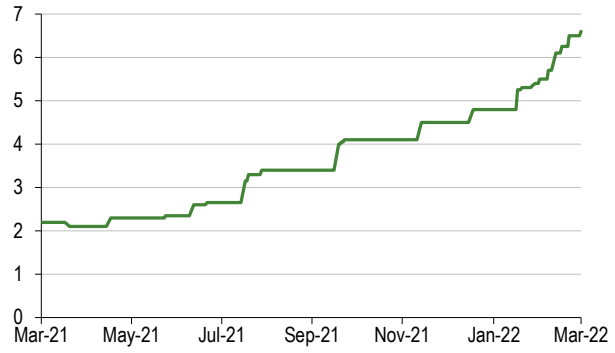
Exhibits 5 and 6 show the rising inflation and interest rates expectations. Current market expectations (based on overnight bank swaps) are that the BoE policy rate will be slightly above 2% by December 2022. The compares with market expectations of 1.2% back in December 2021. We feel that this is not a particularly onerous level of interest rates for banks and in fact it will likely help bank interest margins since some of their funding is essentially interest free. In the case of STB the potential uplift to margins is muted because most of the lending is at fixed rates and STB does not have many demand deposits.

The BoE-collected inflation forecasts for 2023 of 2.3% also reflects the market's relative optimism regarding the transitory element of the current quite elevated inflation levels. However, clearly there is still significant uncertainty and a materially worse outcome than the current consensus cannot be ruled out.

The transient element in inflation is driven by supply chain constraints as economies rebound from various lockdowns and as consumers spend the money they saved during the pandemic.

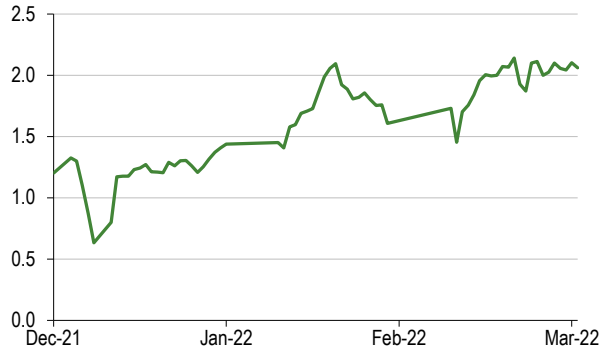
These supply-side problems have led to soaring materials and food prices. Some of this has now subsided, but there are other sources of elevated inflation such as energy and commodity prices. These are also expected to come down as bottlenecks are resolved. The Ukrainian war has pushed up oil, gas and food prices, but this should also be (hopefully) a transitory effect.

Exhibit 5: UK inflation expectations for Q422 y-o-y (%)



Source: Refinitiv

Exhibit 6: BoE policy rate expectations for Q422* (%)



Source: Refinitiv. Note: Based on overnights swaps.

A focused specialist diversified lender

Although STB's management acknowledges some uncertainty in the macroeconomic outlook, it is keen on the lending opportunities that it sees in its niches. We note that STB has a good track record of nimbleness in reacting to changing lending conditions. This is helped by the relatively short duration of its loan book. Management's medium-term average annual growth target of 15%+ loan growth is testament to this optimism.

A key feature of STB is that although it is a specialist lender, it is well diversified across several retail and business segments. At the same time, management is comfortable with completely exiting segments that do not fit its desire for attractive risk-adjusted margins in niches it can be competitive in. STB sold its asset finance and consumer mortgages businesses in July 2021, closed the OneBill banking product and in March 2022 announced the sale of a debt management service business (which is still waiting for regulatory approval to be concluded). These sales aim not only to reinforce focus on the preferred segments, but also to simplify the corporate structure.

STB maintains its two-prong growth strategy of using both organic growth and acquisitions to take advantage of opportunities.

Embracing technology

Although the bank does not see itself as a fintech company, technology is an important tool for both growth and client retention and will be key in STB's plans for the digital BNPL business in retail finance and also the prime personal contract purchase (PCP) solutions for used vehicles in vehicle finance. In 2021 it invested £1.7m in vehicle finance and savings.

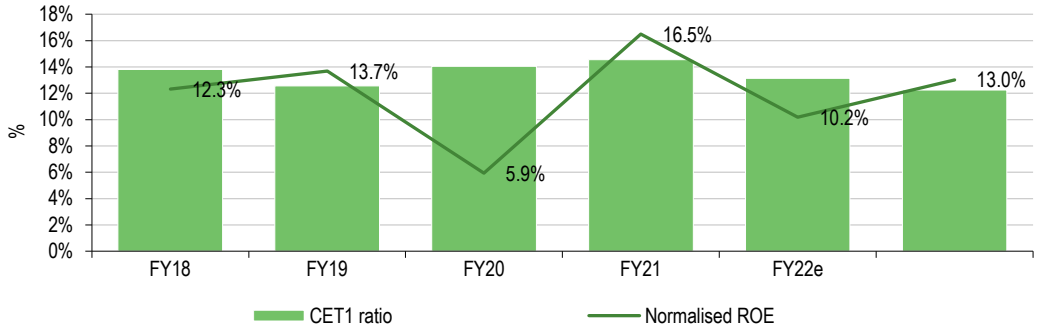
On 25 November 2021, STB announced it was buying AppToPay (as we discussed in our note in November 2021). This is still subject to regulatory approval and would help STB move into digital BNPL products. It aims to start offering digital products in 2022.

STB has adjusted its medium-term targets as a result of the expected debt management services (DMS), which is expected to add about 50bp to capital. The DMS business had high interest margins but also correspondingly higher costs and it contributed a £0.5m loss in FY21. STB has adjusted its medium-term **NIM** target from 6%+ to 5.5%+ (it was 6.2% in FY21) and the **cost to**

income ratio from 50–55% to 50% or less (63% in FY21). The other targets have remained the same: **ROE** of 14–16% (FY21:15.9%), **CET1** ratio of more than 12.0% (FY21: 14.5%) and 15%+ loan growth (FY21: 7%).

These targets continue to seem to us appropriately ambitious and at the same time achievable and consistent with STB's business model. If achieved, this means attaining a value-creating ROE well above the COE (we use 10% as the benchmark), while maintaining a solid capital base.

Exhibit 7: STB's ROEs and CET1 ratios*



Source: Secure Trust Bank, Edison Investment Research. Note: *We show data labels for ROEs only.

Exhibit 8: Management's outlook commentary, by segment

Segment	Outlook comments in management's annual report
Business finance	
■ Real estate	The macroeconomic environment 'less adversely impacted than expected' with very few defaults. STB remains upbeat in this segment.
■ Commercial finance	STB is seeing 'healthy levels of new business and low client attrition'. Segment starts 2022 'with a strong new business pipeline and a stable customer base'.
Consumer finance	
■ Retail finance	'Management anticipate further lending growth from our existing retail partners and our operational plans are focused on improving the customer journey for both our channel partners and customers. The planned launch of new Buy Now Pay Later products using the technology from the proposed acquisition of AppToPay will promote additional lending'.
■ Vehicle finance	STB is 'looking to increase the lending growth from the new Prime Hire Purchase and PCP products launched in 2021'. STB 'will utilise the technology investment and enhanced customer journeys delivered by our vehicle Transformation Programme across all our products to improve growth and enhance earnings.'
■ Debt management	STB announced in March 2022 that a sale of this portfolio has been agreed with Intrum UK Finance and the deal is expected to complete in late Q222.

Source: Secure Trust Bank, Edison Investment Research

Strong loan growth expected for 2022–23

We are forecasting loan growth of 17% and 15% for 2022 and 2023, respectively. We forecast a loan balance of £2,960m for year-end 2022, which is similar to our previous forecast of £2,985m despite the 2021 loan book being about 6% above our forecasts. This is because we were already assuming rapid loan growth in 2022 (24% year-on-year on previous 2021 estimates).

We expect to see rapid loan growth in all the core lending segments, as shown in Exhibit 9. We retain the debt management loan book in our forecasts until the sale is completed; it represents 4% of the loan book.

Exhibit 9: Loan book balance estimates

£m unless stated	2019	2020	2021	2022e	2023e
Real estate finance	962	1,052	1,110	1,260	1,420
Asset finance	28	10	0	0	0
Commercial finance	252	231	313	370	420
Business finance	**1,242**	**1,293**	**1,423**	**1,630**	**1,840**
Vehicle finance	324	244	263	320	400
Retail finance	689	658	765	930	1,100
Debt management	82	82	80	80	80
Retail mortgages	106	78	0	0	0
Consumer finance	**1,201**	**1,062**	**1,108**	**1,330**	**1,580**
Other	8	4	0	0	0
Total lending	**2,450**	**2,359**	**2,531**	**2,960**	**3,420**
Year-on-year %					
Real estate finance	25	9	5	14	13
Commercial finance	29	-8	36	18	14
Vehicle finance	17	-25	8	22	25
Retail finance	15	-4	16	22	18
Total lending growth (y-o-y%)	**21**	**-4**	**7**	**17**	**15**

Source: Secure Trust Bank accounts, Edison Investment Research

We show the impairments assumptions in Exhibit 10. The loan losses tend to be centred in vehicle finance and retail finance. We are assuming a 3% loan loss ratio in 2022 and 2023 for both segments, and 1.3% and 1.4%, respectively, for the whole loan book. This compares with the 0.2% loss ratio (0.1% if we add loan modification losses) in 2021, which was an outlier year as was 2020 (2.3% with loan modification losses). Clearly, the outcome may end up being different from these assumptions.

Exhibit 10: Loan book impairment assumptions

% of average loans	2019	2020	2021	2022e	2023e
Real estate finance	(0.0)	(0.5)	(0.0)	(0.1)	(0.2)
Commercial finance	(0.0)	(0.5)	(0.1)	(0.2)	(0.0)
Vehicle finance	(4.6)	(7.3)	(0.0)	(3.0)	(3.0)
Retail finance	(3.1)	(2.2)	(0.7)	(3.0)	(3.0)
Total loans	**(1.5)**	**(2.1)**	**(0.2)**	**(1.3)**	**(1.4)**
Total loans including loan modification losses	**(1.5)**	**(2.3)**	**(0.1)**	**(1.3)**	**(1.4)**
(£m)					
Impairments	(32.6)	(51.3)	(4.5)	(36.7)	(44.7)
Impairments + loan modifications	(32.6)	(54.4)	(3.0)	(36.7)	(44.7)

Source: Secure Trust Bank, Edison Investment Research

Valuation

We continue to value STB on an NAV approach using the (ROE-g)/(COE-g) formula. We maintain our assumptions of a sustainable ROE of 13.5%, a 10% COE and a 2% increase in long-term earnings. The FV has increased from 2,234p to 2,491p, reflecting moving forward one year. This is equivalent to a P/BV multiple of 1.44x, compared to the trading FY22e P/BV of 0.75x, suggesting significant upside our FV.

STB is still trading below its book value despite its track record of value-creating ROEs. We are estimating a 10.2% ROE this year and 12.8% in FY23e.

Exhibit 11: STB valuation (net asset value approach*)

ROE (%)	13.5%
COE (%)	10.0%
Long-term growth (%)	2.0%
Book value/share in FY22e (p)	1,733
Indicated fair value for FY22 per share (p)	**2,491**
Fair value of P/BV FY22 (x)	**1.44**
P/BV FY21 (x)	0.79

Source: Edison Investment Research. Note: *(ROE-g)/(COE-g).

Exhibit 12 compares STB's market multiples with some of its peers. STB is trading at a 16% premium in terms of P/E to its peers (7.7x vs 6.6x; we remove Metrobank from the average since it is loss making). However, we feel the size of this premium is almost inconsequential as the whole sector is trading at very depressed ratings, a reflection of macro concerns. STB's dividend yield is 55% higher than its peers. Its FY22 ROE is 14% below its peers (10.2% vs 11.8%) but it is trading at a wider FY21 P/BV discount of 28%, which is attractive from a valuation point of view.

We continue to see STB as a well-capitalised bank with a good business model that is still intact, and the FY21 results have shown that management seems to have kept a good control on asset quality. We therefore believe that market multiples suggest room for the share price to recover strongly as it starts to move back to a growth stage and earnings growth is boosted as impairments come down.

Exhibit 12: Challenger/specialist lender comparative table

	Price (p)	Market cap (£m)	P/E (x) FY21	P/E (x) FY22e	Divid. yield FY21 (%)	ROE (%) FY21	ROE (%) FY22e	P/BV (x) FY21
Secure Trust Bank	**1,286**	**238.8**	**5.2**	**7.7**	**4.8**	**16.0**	**10.2**	**0.81**
Close Brothers	1,191	1,791.9	9.3	n.m.	5.0	13.9	11.8	1.15
Virgin Money	172	2,473.6	5.0	5.6	0.0	15.0	8.5	0.45
Metrobank	90	154.9	n.m.	n.m.	0.0	(15.0)	(10.5)	0.15
OneSavings Bank	567	2,544.0	7.3	7.1	4.6	18.7	19.6	1.26
Paragon	500	1,227.9	9.1	8.1	5.2	10.3	0.0	1.01
Provident Financial PLC	307	778.0	8.2	8.2	0.0	11.0	12.0	1.23
S&U	2,430	295.1	10.7	4.1	3.7	8.1	18.9	1.63
Average ex-Metrobank			**8.3**	**6.6**	**3.1**	**12.8**	**11.8**	**1.1**
STB versus average ex-Metrobank			(37%)	16%	54%	25%	(14%)	(28%)

Source: Refinitiv, Edison Investment Research. Note: Priced at 31 March 2022.

Exhibit 13: Recent share price performance in a peer group context, %

	1 month	3 months	1 year	YTD	From 12m high
Secure Trust Bank	**-1.5**	**-3.8**	**6.7**	**-3.8**	**-9.9**
Close Brothers	1.7	-15.2	-23.2	-15.2	-29.3
Virgin Money	-7.8	-3.5	-9.2	-3.5	-21.5
Metrobank	-0.7	-6.5	-22.3	-6.5	-39.2
OneSavings Bank	13.2	2.2	32.9	2.2	-4.3
Paragon	-1.1	-11.7	9.3	-11.7	-19.2
Provident Financial PLC	5.7	-14.6	41.3	-14.6	-20.1
S&U	-6.4	-10.0	8.0	-10.0	-17.6
Average	**0.7**	**-8.5**	**5.3**	**-8.5**	**-21.6**
STB versus average	-2	5	1	5	12

Source: Refinitiv, Edison Investment Research. Note: Priced at 31 March 2022.

Financials

We expect FY22 and FY23 to have a more normalised level of impairments and profitability. After loan loss ratios of 2.3% and 0.1% in FY20 and FY21, we are forecasting 1.3% and 1.4% in FY22e and FY23e. We are forecasting relatively steady margins at 6.2% and that net interest income will increase by 13% and 16% in FY22e and FY23e driven mostly by asset growth. We estimate total revenue growth to be similar at 13% and 15%, respectively.

We are expecting some operating gearing to kick in as STB grows into its cost structure after its recent investments. We estimate operating expenses rise 4–5% pa in FY22e and FY23e. As a result, we estimate the pre-provision profit will grow from £60.5m in FY21 to £101.2m in FY23e.

Normalised PBT is forecast to fall from £57.4m to £40.8m in FY22e due to the higher (and more usual) level of impairments. We then estimate that PBT increases to £56.4m in FY23e. This is equivalent to ROEs of 10.2% in FY22e and 12.8% in FY23e.

Despite the good profitability, we estimate that such rapid loan growth (along with the IFRS 9 transition deduction relating to loan impairments) will eat into STB's capital, but we expect it to remain healthy. We note that the five-year phase-in of the deduction of these impairments from regulatory capital ends in FY22. We estimate that STB's CET1 will decline from 14.5% in FY21 to 12.3% in FY23.

Exhibit 14: Financial summary

Year end December (£m except where stated)	2019	2020	2021	2022e	2023e
Profit and loss					
Net interest income	145.4	150.9	150.8	170.4	197.6
Net commission income	20.1	15.2	13.7	16.1	17.6
Total operating income	165.5	166.1	164.5	186.5	215.2
Total G&A expenses (exc non-recurring items below)	(94.2)	(92.6)	(104.0)	(109.0)	(114.1)
Operating profit pre impairments & exceptionals	71.3	73.5	60.5	77.5	101.2
Impairment charges on loans	(32.6)	(51.3)	(4.5)	(36.7)	(44.7)
Losses on modification of financial assets	0.0	(3.1)	1.5	0.0	0.0
Profit before tax normalised	**38.7**	**19.1**	**57.4**	**40.8**	**56.4**
Corporation Tax	(7.6)	(3.7)	(10.4)	(9.0)	(13.0)
Tax rate	19.6%	19.4%	18.1%	22.0%	23.0%
(Loss)/profit for year	31.1	15.4	47.0	31.9	44.4
Minority interests	0.0	0.0	0.0	0.0	0.0
Net income attributable to equity shareholders	**31.1**	**15.4**	**47.0**	**31.9**	**44.4**
Company reported pre-tax earnings adjustments	2.4	0.0	1.4	0.0	0.0
Reported underlying earnings after tax	33.5	15.4	47.0	31.9	44.2
Average basic number of shares in issue (m)	18.5	18.6	18.6	18.6	18.6
Average diluted number of shares in issue (m)	18.6	19.0	19.1	19.1	19.1
Reported diluted EPS (p)	167.3	81.0	239.4	167.2	228.0
Underlying diluted EPS (p)	180.2	81.0	246.8	167.2	232.0
DPS (p)	87.2	44.0	61.1	41.8	58.0
Net interest/average loans	6.44%	6.32%	6.17%	6.21%	6.19%
Impairments incl losses on loan modifications /average loans	1.44%	2.28%	0.12%	1.34%	1.40%
Cost income ratio	56.9%	55.7%	63.2%	58.4%	53.0%
Balance sheet					
Net customer loans	2,450	2,358.9	2,530.6	2,960.0	3,420.0
Other assets	2,681.6	302.3	355.3	365.8	422.7
Total assets	**2,680.7**	**2,661.2**	**2,885.9**	**3,325.8**	**3,842.7**
Total customer deposits	2,020.3	1,992.5	2,103.2	2,466.7	2,923.1
Other liabilities	408.4	401.1	480.3	536.0	563.8
Total liabilities	**2,428.7**	**2,393.6**	**2,583.5**	**3,002.7**	**3,486.9**
Net assets	252.0	267.6	302.4	323.2	355.8
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	**252.0**	**267.6**	**302.4**	**323.2**	**355.8**
Reconciliation of movement in equity					
Opening shareholders' equity	237.1	252.0	267.6	302.4	323.2
Equity restatement adjustment	(2.1)	0.0	0.0	0.0	0.0
Profit in period	31.1	15.4	45.6	31.9	43.4
Other comprehensive income	0.0	(0.2)	0.1	0.0	0.0
Ordinary dividends	(15.5)	0.0	(11.9)	(11.1)	(10.8)
Special dividend	1.2	0.0	0.0	0.0	0.0
Share based payments	0.3	(0.7)	1.0	0.0	0.0
Issue of shares	0.0	1.1	0.0	0.0	0.0
Share issuance costs	0.0	0.0	0.0	0.0	0.0
Closing shareholders' equity	**252.0**	**267.6**	**302.4**	**323.2**	**355.8**
Other selected data and ratios					
Period end shares in issue (m)	18.5	18.6	18.6	18.6	18.6
NAV per share (p)	1,364	1,436	1,622	1,733	1,908
Tangible NAV per share (p)	1,315	1,395	1,585	1,704	1,876
Return on average equity	**12.7%**	**5.9%**	**16.0%**	**10.2%**	**12.8%**
Return on average TNAV	14.8%	6.4%	18.9%	12.4%	16.4%
Average loans	2,258.9	2,389.0	2,444.8	2,745.3	3,190.0
Average deposits	1,967.8	2,010.3	2,002.8	2,284.9	2,694.9
Loans/deposits	121.3%	118.4%	120.3%	120.0%	117.0%
Risk exposure	2,118.1	1,999.7	2,087.4	2,411.1	2,765.2
Common equity tier 1 ratio	**12.6%**	**14.0%**	**14.5%**	**13.1%**	**12.3%**

Source: Secure Trust Bank, Edison Investment Research

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Management team

Chairman: The Rt Hon Lord Forsyth	CEO: David McCreadie
Michael Forsyth served in government for 10 years and as an MP for 14 years before joining the House of Lords in 1999. A director of J&J Denholm and Denholm logistics, he has also held a number of other directorships. Lord Forsyth was appointed to the board in 2014 and as chairman in October 2016.	David McCreadie was appointed to the board on 17 December 2019 and appointed CEO on 5 January 2021. Previously he was an executive director and managing director of Tesco Bank, with a responsibility for the banking and insurance businesses, from 2015 to 2019. David joined Tesco Personal Finance in 2008 and was a member of the executive team that built Tesco Bank. He was previous CEO of Kroger Personal Finance and spent 22 years at The Royal Bank of Scotland (RBS) holding roles in branch banking, consumer finance and several group central functions.
CFO: Rachel Lawrence	
Rachel Lawrence was appointed as CFO in May 2020. She has considerable experience in finance and banking start-ups gained from a career spanning more than 20 years. She has held senior finance roles at Metro Bank, Shawbrook and Pearl Assurance. Her previous position was at AIB Group (UK), where she held the position of CFO since 2016. She is a qualified chartered management accountant.	

Principal shareholders	(%)
St James Place	13.7%
Invesco	9.7%
30 St Investment	8.1%
Unicorn Investment Funds	7.7%
Fidelity International (FIL)	6.2%
Premier Miton Group	5.9%
Arbuthnot Banking Group	5.7%
Wellington	5.0%

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