

Secure Trust Bank

FY17 results

Asset growth set to flow through to earnings

FY17 was a further year of change for Secure Trust Bank (STB) as management completed the shift away from unsecured consumer loans and reduced the risk profile in motor finance. This restricted near-term profits but the pace of loan book growth has remained strong and looks set to feed into substantial earnings growth as the cost of risk subsides, more than offsetting the lower returns earned on lower risk lending. The shares have begun to respond to this prospect following the results, but the valuation suggests further upside.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	129.5	27.0	116.4	79.0	16.2	4.2
12/18e	160.5	37.0	160.7	83.0	11.7	4.4
12/19e	181.4	47.0	202.5	90.0	9.3	4.8
12/20e	204.7	55.1	234.4	100.0	8.1	5.3

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Estimates remain on an IAS 39 basis prior to first IFRS 9 report for H118. 2017 figures are on a continuing basis.

FY17 results

STB reported loan book growth of 27% to £1.6bn (ex-discontinued) with the largest increases being in real estate and retail point-of-sale lending. The bank has repositioned its balance sheet away from higher-risk lending, including unsecured consumer and sub-prime motor loans. Impairments were increased by provisions against the remaining sub-prime book and this, together with investment in new products and regulatory compliance, acted as a drag on 2017 profit, but even so, underlying, continuing profit was stable at £27.0m vs £27.3m. Capital ratios including the CET1 at 16.5% provide headroom for further growth in the loan book.

Outlook

The economic background remains benign and STB has withdrawn from the higher risk areas of consumer finance where there could be stress and where regulators have raised warning flags. STB sees good potential for profitable growth in business, retail, motor and consumer mortgage lending. The new deposit platform completed in 2017 will help support this growth, providing greater flexibility and containing funding costs. New management has been brought into motor finance tasked with developing in the prime and near-prime segments. Following the period of adjustment in 2017, STB appears well placed to generate attractive earnings growth.

Valuation

Updating our DDM calculation for our new estimates (now including 2020 – see changes on page 6) gives a fair value of c 2,350p compared with c 2,300p previously. A price of 2,350p would imply a prospective P/E for FY18 and FY19 of 14.6x and 11.6x, respectively, which seems plausible for a specialist bank with a conservative risk appetite but positioned for strong growth.

Financial services

12 April 2018

Price 1,887.5p
Market cap £349m

Net debt/cash (£m)	N/M
Shares in issue	18.5m
Free float	81%
Code	STB
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	17.1	4.9	(15.4)
Rel (local)	17.1	11.9	(14.8)
52-week high/low	2455.0p	1512.5p	

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 Arbutnot Banking Group's shareholding is now less than 20%.

Next events

AGM and trading update	16 May 2018
H118 results	8 August 2018

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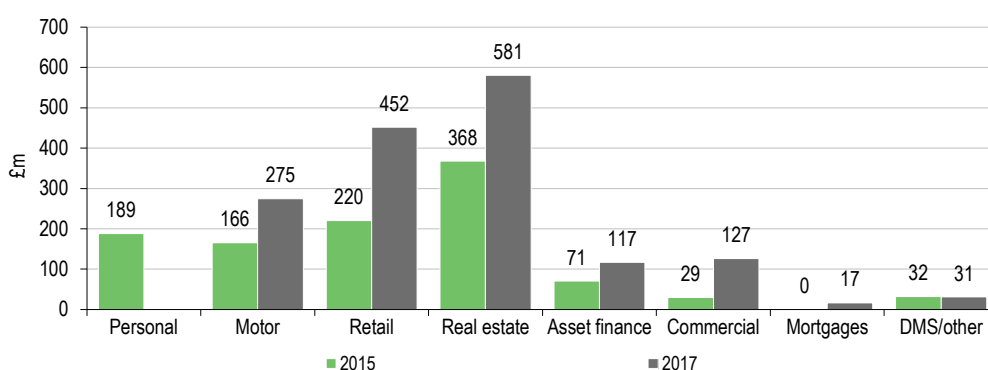
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FY17 results: A year of repositioning

Following a year of substantial change in 2016, during which STB sold its Everyday Loans business (ELG), became independent from Arbutnot Banking Group and was listed on the main market of the London Stock Exchange, 2017 saw management repositioning the bank for sustainable growth. As with the sale of ELG, the theme of the changes in 2017 was a reduction in unsecured and higher risk (and higher return) lending. The scale of the two-year rebalancing is evident in Exhibit 1, with the removal of the personal loans segment following the sale of the remaining personal loan assets (PLD) in December 2017 and growth in the other secured/lower risk segments. What is not evident in these numbers is the shift within motor finance (Moneyway) away from sub-prime towards near-prime and prime lending. Given the average duration of loans and that the change began in 2016, we would estimate that the more traditional sub-prime part of the book now accounts for less than a quarter of the total. New managers have been appointed to take this process further.

Exhibit 1: Loan book profile 2015 and 2017



Source: Secure Trust Bank, Edison Investment Research

Focusing on the change between 2016 and 2017 alone, Exhibit 2 compares movements in both the end-period loan book and new business volume. Looking at the absolute changes between the two years, the largest increases in both the loan book and new business volume were seen in **real estate** and **retail**. The real estate business (formed in 2013) lends to SMEs to fund residential developments and residential investment. The development loans support new builds, conversions and refurbishment. The investment lending is against portfolios of rental properties (not regulated buy-to-let). The loan term is typically up to five years with a maximum LTV of 60% and the emphasis has been moving towards investment loans (which have a much lower risk weighting) with 72% of the book in this category at end-2017. Retail Finance mainly comprises the V12 point-of-sale retail finance business acquired in 2013. This provides unsecured finance on a fixed rate and term to prime customers. The typical loan would be for £1,000 for 24 months. The products include both retail-subsidised, interest-free and interest-bearing loans.

Other points to note here are the doubling of the commercial loan book and the appearance of the newly launched consumer mortgage business. Commercial loans includes invoice financing in the form of factoring or discounting, a field in which STB believes the team has established a strong reputation and there is good scope for growth. The mortgage business is addressing a segment of the market it believes is underserved by high-street lenders including the self-employed, contract workers (including zero hours), older borrowers or those with a recently restored credit history. Finally, looking at the last column in Exhibit 2, the differentials in new business volumes as a percentage of opening balance are a function of both variations in average duration and the growth in each area, which explains the high figures shown for retail and commercial, both areas where growth has been strong and duration is relatively low.

Exhibit 2: Loan book and new business analysis

£m except where stated	Loan book		Change %	New business volume		Change %	% of opening balance
	2016	2017		2016	2017		
Personal (discontinued)	65.5	0	(100.0)	39	0	(100.0)	
Motor	236.2	274.6	16.3	146.8	142.8	(2.7)	60
Retail	325.9	452.3	38.8	396.3	520.0	31.2	160
Real estate	451	580.8	28.8	218	286.5	31.4	64
Asset finance	117.2	116.7	(0.4)	84.7	50.9	(39.9)	43
Commercial	62.8	126.5	101.4	39.5	52.6	33.2	84
Consumer mortgages	0	16.5	N/A	0	16.4		
DMS/other	62.4	30.9	(50.5)	40	7.9	(80.3)	13
Total ex-discontinued	1255.5	1598.3	27.3	964.3	1077.1	11.7	86

Source: Secure Trust Bank, Edison Investment Research

Next we turn to the profit and loss result for 2017 (Exhibit 3). In our table, we have concentrated on the continuing business with the net result from the discontinued personal loan activity shown as one line at the post-tax level. We would highlight the following points:

- Net interest income increased by 24% and total operating income by 21%, modestly lagging the overall loan book growth of 27%, reflecting the move towards a lower risk profile described above.
- Operating expense was contained at 11% but allowed for investment in staff and systems to underpin future growth.
- Impairments increased by more than 40% as a result of overall growth and an increase in provisions against the remaining sub-prime motor book; here the cost of risk increased by c 90bp to 8.1%.
- Pre-tax profit on the continuing business increased by 29% but was marginally down after allowing for underlying adjustments, which were lower in 2017 (+£2.0m) because 2016 (+£7.9m) bore exceptional costs related to the ELG sale and higher costs arising from the repositioning of the business.
- A lower tax rate (20% versus 27%) allowed underlying, continuing earnings per share to increase by 3% to 116.4p.
- The dividend for the year of 79p represented an increase of 5% compared with the ordinary payment for 2016.

Exhibit 3: Profit and loss

£m unless stated	2016	2017	% change
Gross interest income	118.8	141.3	18.9
Interest expense	(26.3)	(26.7)	1.5
Net interest income	92.5	114.6	23.9
Net fees and commissions	14.5	14.9	2.8
Total operating income	107.0	129.5	21.0
Operating expenses	(64.3)	(71.3)	10.9
Impairment charges on loans	(23.3)	(33.5)	43.8
Other income	0.0	0.3	
Pre-tax profit – continuing	19.4	25.0	28.9
Underlying pre-tax profit – continuing	27.3	27.0	(1.1)
Tax	(5.2)	(5.1)	(1.9)
Profit after tax – continuing operations	14.2	19.9	40.1
Discontinued operations (including profit on ELG sale in 2016)	123.3	3.9	(96.8)
Profit after tax reported	137.5	23.8	(82.7)
Underlying profit after tax	20.6	21.5	4.4
Basic EPS – continuing (p)	77.9	107.7	38.3
Underlying EPS – continuing (p)	113.0	116.4	3.0
Dividend per share (p)	75.0	79.0	5.3
Special dividend following ELG sale (p)	165.0		

Source: Secure Trust Bank, Edison Investment Research

Our next table collates the numbers for customers, loans and deposits and key ratios. As shown, the end-period loan to deposit ratio was marginally lower in a period in which the bank experienced good demand for its savings products (see below for further discussion of funding). The interest yield on the book was down by 94bp as a result of the change in mix towards lower risk and lower return assets. As noted above, the cost of risk (impairment charge as a percentage of average loans) lagged this change in yield with an increase of 24 bp. Positively, the cost/income ratio fell by five percentage points as income growth outpaced cost growth and the net effect of this and the changes in net interest margin and impairment rate was to leave underlying pre-tax profits marginally lower.

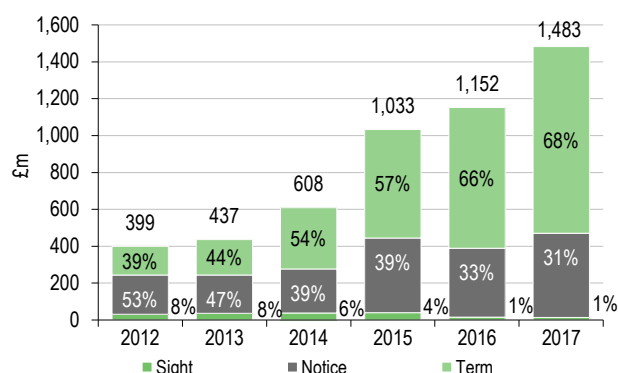
Exhibit 4: Customers, loans, deposits and key ratios

	2016	2017	% change
Customers (number)	989,528	998,276	0.9
Loan book	1,256	1,598	27.3
Deposits	1,152	1,483	28.8
Loan to deposit ratio (%)	109.0	107.8	
Interest revenue as % average lending balances	10.7	9.8	
Interest expense as % average deposits	(2.5)	(2.0)	
Net interest margin (%)	8.2	7.7	
Impairment charge % average loans	(2.1)	(2.3)	
Cost/income ratio (%)	60.1	55.1	
Underlying return on average equity (%)	9.9	8.9	
Total risk exposure	1,264	1,446	14.4
CET1 ratio (%)	18.0	16.5	
Leverage ratio (%)	14.5	12.3	

Source: Secure Trust Bank, Edison Investment Research

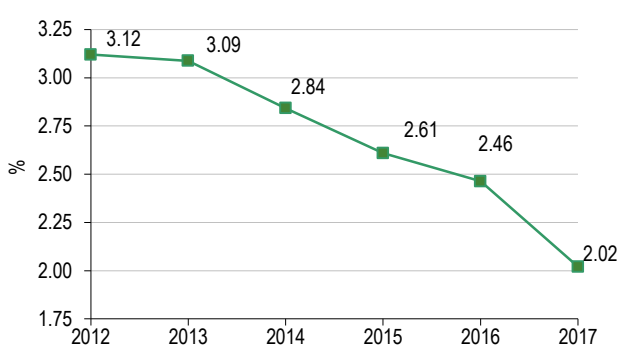
The next two charts show the progression of STB's retail savings balances and cost of funding. Exhibit 5 shows the overall expansion of the deposit base as funding has expanded to support loan growth. The proportion of term deposits has increased as STB has managed product mix to minimise any asset/liability mismatch. In Exhibit 6, the significant decline in interest cost reflecting market conditions is evident. From here, STB expects the ending of the Term Funding Scheme to result in competitors being more active in the market pushing deposit rates up. Helping to mitigate this is the new IT platform for the savings business that was implemented in October 2017. This provides greater flexibility, allowing STB to diversify its product range and react more quickly to market changes, thereby containing its cost of funding.

Exhibit 5: Savings balance analysis



Source: Secure Trust Bank, Edison Investment Research

Exhibit 6: Interest cost % of average deposits



Source: Secure Trust Bank, Edison Investment Research

Outlook

The economic outlook in the UK has remained broadly stable in recent months with estimates for GDP growth in 2018, 2019 and 2020 in a range between 1.1% and 1.9%, according to forecasters including the IMF, OECD, Bank of England and Office of Budget Responsibility (OBR).

Unemployment is an important indicator for the health of consumer lending and tends to lag GDP changes. Here, forecasts are not flagging noticeably higher risks with the OBR, for example, showing only a small increase from the 2017 level of 4.4% to 4.6% by 2020 (labour force survey basis). Similarly, the level of redundancies has not shown any marked trend over the last year, remaining at a relatively low level following a post-crisis decline (most recent reading 3.8 per 1,000 employees compared with a 2009 peak of 12 per 1,000).

While STB has shifted its asset mix towards lower risk assets, it still sees good potential to grow its loan book across its business. The bank's relatively small size and flexibility in comparison with the large incumbent banks enables it to focus on specific areas in the market where it believes attractive returns are available. On a longer view, it seeks to achieve a balance between business finance, consumer finance and consumer mortgages. As the latter business is still at a very early stage, a portfolio acquisition would be attractive on the right terms as it would help accelerate the business towards a profitable scale. Elsewhere within the business, M&A would also be considered to augment the asset finance and commercial finance activities. Exhibit 7 summarises STB's outlook comments by business area.

Exhibit 7: Outlook commentary by segment

Segment	Outlook comments
Business finance	
Real estate	Committed to further growth with a cautious approach to credit quality. Still interested in development lending and looking for ways to mitigate its capital impact. Seeking to diversify by geography and product.
Asset finance	Current origination relationship with Haydock Finance subject to an assessment following the sale of a controlling stake in that business to Apollo Global Management. Although recent loan pricing has been described as unappealing, this is an area where STB would consider acquisition.
Commercial finance	STB sees good prospects for growth, aims to increase its regional footprint and would be interested in an acquisition.
Consumer finance	
Retail finance	Looking to continue growth across a range of product areas and is investing in systems and staff to support this.
Motor finance	Developing systems to support new products and support credit quality. Will continue to focus on non-prime segment while shifting the mix to lower risk lending.
Consumer mortgages	Continue to add to distribution partners and the product range. Portfolio acquisition would be of interest on the right terms.

Source: Secure Trust Bank, Edison Investment Research

Our own forecasts for the group loan book are set out in the table below. A salient feature within the more-than-doubling of the loan book between 2017 and 2020 is the notably strong growth we expect for the business finance activities, reflecting STB's commentary on opportunities in real estate and commercial finance, in particular where STB addresses underserved or relatively fragmented sections of the market. In the consumer finance sector, faster growth is expected in the retail point-of-sale business, V12, where a continuation of the trend seen recently seems possible assuming the company is able to broaden its coverage by retail area and gain further market share.

Exhibit 8: Loan book estimates

£m	2017	2018e	2019e	2020e
Motor vehicles	275	300	335	350
Retail finance	452	500	590	650
Total retail lending	727	800	925	1,000
Mortgage lending	17	150	300	500
Real estate finance	581	900	1,235	1,285
Asset finance	117	120	200	225
Commercial finance	127	200	310	360
Total commercial lending	824	1,220	1,745	1,870
Other	31	30	30	30
Total lending	1,598	2,200	3,000	3,400

Source: Secure Trust Bank, Edison Investment Research

As highlighted in our FY17 results commentary, the move to a lower risk asset profile both in terms of segment exposure and within motor has led to a reduction in interest yield and our forecast assumes this continues. Interest revenue as a percentage of average assets is expected to trend down from 9.8% for FY17 to 8.5% for FY20. STB has commented that the ending of the Funding for Lending Scheme and the Term Funding Scheme could put upward pressure on funding costs, but against this the bank should benefit from its new savings platform and, on the asset side of the equation, price competition in mortgages could ease as those banks relying more on this cheap funding reprice. Our estimates factor in broadly stable funding costs with a reduction in net interest margin driven primarily by the asset yield.

The countervailing positive factor should be a reduction in cost of risk (ignoring IFRS 9 effects) as higher risk loans roll off the book and here the mix change results in a one-point reduction between 2017 and 2020, on our estimates. Should the economic environment be less benign than most forecasts currently project then STB should also benefit from a more resilient loan book than would previously have been the case.

They are not factored into our estimates but acquisitions remain under consideration in the areas highlighted and these could accelerate growth, particularly in the mortgage business.

Overall, the outlook for STB should be more positive now that it has effectively completed its repositioning towards lower risk assets and, as we set out in the next section, the scene appears to be set for strong EPS growth following a pause during the period of adjustment.

Financials

Exhibit 9 shows the headline changes in our estimates for FY18-19 and new estimates for FY20. Although we have adopted more conservative assumptions for FY19, earnings growth over this period is still expected to be very strong at 38%, 26% and 16%, respectively.

Exhibit 9: Estimate changes

	Operating income (£m)			Normalised PBT (£m)			Normalised EPS (p)			Dividend (p)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017	136.5	129.5	(5.1)	30.7	27.0	(12.0)	132.8	116.4	(12.4)	79.0	79.0	0.0
2018e	161.7	160.5	(0.8)	40.5	37.0	(8.6)	174.2	160.7	(7.8)	83	83.0	0.0
2019e	182.2	181.4	-0.4	55.5	47.0	-15.3	234.4	202.5	-13.6	90.0	90.0	0.0
2020e	N/A	204.7	N/A	N/A	55.1	N/A	N/A	234.4	N/A	N/A	100.0	N/A

Source: Edison Investment Research. Note FY17 'new' figures are actual.

STB has signalled the impact on opening reserves of implementation of **IFRS 9** in the current year. This is put at between £22m and £27m, mainly affecting motor and retail finance businesses. We have factored the middle of the range of this balance sheet adjustment into our estimates but have not yet forecast the potential P&L change in calculating impairment provisions. This is something that should be more realistic once STB has reported first-half figures under the new standard.

Purely as an illustration, were STB provisioning calculations to be in line with average result of the European Banking Authority's last survey of impact assessment (adding 13% to impairments) then this would reduce pre-tax profit by £5m while a higher impact of 20% would give a reduction of nearly £8m (the survey indicated an impact of up to 18% for 75% of respondents).

As a reminder, while underlying cash flows will not be affected, IFRS 9 introduces significant changes to disclosure and recognition of credit losses. The standard divides financial instruments into three stages of credit quality. In the first category (performing), a 12-month expected credit loss will be recognised, while for the second and third stages, comprising exposures where there has been a significant increase in credit risk or those where there is objective evidence of deterioration, an estimate of expected lifetime credit losses will be made. This is expected and intended to bring forward the recognition of credit losses. While this may smooth loss-recognition, the new accounting could give rise to lumpiness in provisioning where loans move in and out of the category where a lifetime assessment is made and at turning points in the economic cycle. Given the nature of the calculations it is not easy to assess the impact of the new standard over a number of years and in particular it may be inappropriate to simply add a certain number to the basis points of impairment provisions previously assumed.

The **capital position** at the end of 2017 remained strong with a CET1 ratio of 16.5% (down from 18.0%, reflecting loan growth). The total capital ratio was 16.8% and leverage ratio 12.3%. Looking ahead, our estimates including business mix and retained earnings suggest a CET1 that falls to 13.3% for FY18 then stabilises at around 10.7% for FY19 and FY20. From a regulatory capital perspective, the impact of IFRS 9 is subject to a transitional arrangement under which the impact on capital is phased in over a number of years, so STB's capital headroom should not be significantly weakened even if accounting provisions surprise on the upside at some point in our forecast period.

Valuation

We have updated our comparative table, which includes a selection of specialist lenders and challenger banks. This now excludes both Shawbrook and Aldermore, which were acquisition targets last year and were both purchased on multiples of 2x 2016 NAV.

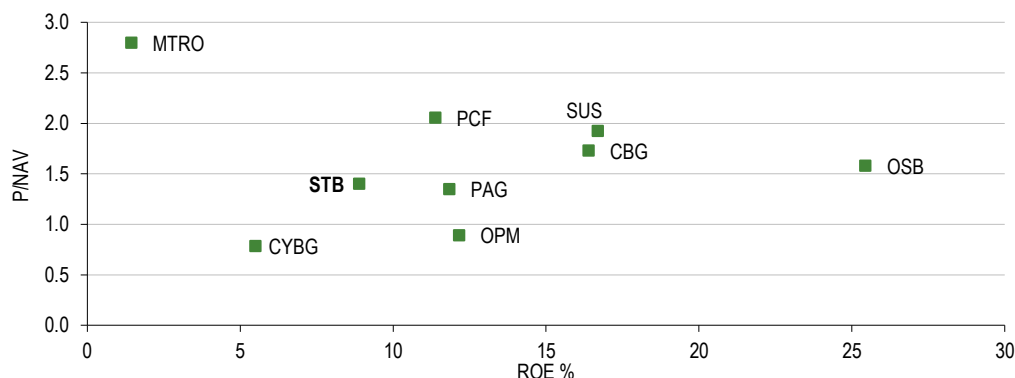
Exhibit 10: Specialist lender comparative table						
	Price (p)	Market cap (£m)	2018 P/E (x)	Yield (%)	ROE (%)	Price to NAV (x)
Secure Trust Bank	1,887.5	348.7	11.7	4.2	8.9	1.4
1PM	46.0	39.6	6.3	0.0	12.2	0.9
Close Brothers	1,458.0	2,207.8	10.6	4.1	16.4	1.7
CYBG	301.6	2,669.6	11.5	0.0	5.5	0.8
Metrobank	3,462.0	3,064.7	27.9	0.0	1.5	2.8
OneSavings Bank	375.8	918.2	6.7	3.4	25.5	1.6
Paragon	482.8	1,258.6	9.7	3.3	11.8	1.3
Private and Commercial Finance	33.0	70.0	12.9	0.0	11.4	2.1
S&U	2,450.0	293.8	11.9	4.3	16.7	1.9
Average			12.1	2.1	12.2	1.6
Source: Bloomberg, Edison Investment Research, company data. Note: Priced at 11 April 2018						

STB trades on P/E and price to book multiples just below the average for this group while the yield is at the higher end of the range. The normalised ROE of 8.9% recorded for FY17 is below the group average but this is in a period in which it had generous capital headroom and earnings were depressed by the changes in asset mix described earlier.

Consistent with this when looking at our comparison of P/NAVs and ROE values in Exhibit 11, STB appears towards the more expensive area of the scatter (left, upper area), but our estimates suggest that its ROE could trend towards 20% (pre-IFRS 9 impact) by 2020, so arguably the market

is only partly reflecting this potential in the current valuation. Metrobank remains an apparent outlier, implying a market expectation that it will indeed deliver both continued growth and much higher returns.

Exhibit 11: Challenger banks/specialist lenders P/NAV vs ROE



Source: Bloomberg, Edison Investment Research

Our ROE/COE calculation points to a value of c 2,580p on assumptions including an ROE of 15.5% (average for our three forecast years), nominal growth of 4% and 10% cost of equity. As before, we focus on the output of a DDM model that incorporates the strong initial growth seen in our explicit forecasts and then more conservative assumptions and this gives a value of c 2,350p (c 2,300p previously). This valuation in turn would imply prospective P/E for FY18 and FY19 of 14.6x and 11.6x, respectively.

For reference, we include a share price performance table for a similar group of companies (this time including Provident Financial). This shows a strong bounce in STB's price over the last month, particularly following the results. Even so, the one-year performance is below average, as is the movement from the 12-month high, reflecting the weak period seen prior to this that probably reflected a softening in estimates accompanying the shift in asset mix and drag on earnings created by the lag before impairments responded to this change. As evidence of the positive impact of the changes made accumulates, there should be scope for further relative strength in the shares.

Exhibit 12: Recent share price performance in context

%	1 month	3 months	1 year	YTD	From 12m high
Secure Trust Bank	17.1	4.9	(15.4)	5.0	(24.5)
1PM	(3.2)	(14.0)	(21.0)	1.1	(23.6)
Close Brothers	(7.7)	(1.1)	(9.2)	0.7	(15.0)
CYBG	(4.4)	(7.9)	6.2	(11.2)	(11.7)
Metrobank	(13.8)	(5.2)	2.9	(3.4)	(14.6)
OneSavings Bank	(10.8)	(8.4)	(8.4)	(8.9)	(21.3)
Paragon	(4.6)	(5.3)	11.6	(1.6)	(7.2)
Private and Commercial Finance	6.5	23.6	23.4	15.8	(2.9)
Provident Financial	(3.1)	0.8	(71.0)	0.9	(72.4)
S&U	5.4	3.6	15.5	7.2	0.0
Average ex-Provident Financial	(1.7)	(1.1)	0.6	0.5	(13.4)

Source: Bloomberg, Edison Investment Research. Priced at 10 April 2018.

Exhibit 13: Financial summary

Year-end December	2016	2017	2018e	2019e	2020e
£m except where stated					
Profit and loss					
Net interest income	92.5	114.6	146.1	166.7	189.8
Net commission income	14.5	14.9	14.4	14.7	14.9
Total operating income	107.0	129.5	160.5	181.4	204.7
Total G&A expenses (exc non-recurring items below)	(64.3)	(71.3)	(85.7)	(95.2)	(107.0)
Operating profit pre impairments & exceptionals	42.7	58.2	74.8	86.2	97.8
Impairment charges on loans	(23.3)	(33.5)	(39.7)	(41.2)	(42.7)
Other income	0.0	0.3	0.0	0.0	0.0
Operating profit post impairments	19.4	25.0	35.0	45.0	55.1
Non-recurring items	0.0	0.0	0.0	0.0	0.0
Pre tax profit - continuing basis	19.4	25.0	35.0	45.0	55.1
Corporation Tax	(5.2)	(5.1)	(6.2)	(7.7)	(9.4)
Tax rate	26.8%	20.4%	17.7%	17.0%	17.0%
Bank tax surcharge	0.0	0.0	(0.8)	(1.6)	(2.4)
Profit after tax - continuing basis	14.2	19.9	28.0	35.8	43.3
Discontinued business	123.3	3.9	0.0	0.0	0.0
(Loss)/profit for year	137.5	23.8	28.0	35.8	43.3
Minority interests	0.0	0.0	0.0	0.0	0.0
Net income attributable to equity shareholders	137.5	23.8	28.0	35.8	43.3
Company reported pre-tax earnings adjustments	7.9	2.0	2.0	2.0	0.0
Reported underlying pre-tax earnings (ex discontinued)	27.3	27.0	37.0	47.0	55.1
Reported underlying earnings after tax	20.6	21.5	29.7	37.4	43.3
Average basic number of shares in issue (m)	18.5	18.5	18.5	18.5	18.5
Average diluted number of shares in issue (m)	18.6	18.6	18.6	18.6	18.6
Reported diluted EPS (p)	77.3	107.0	150.8	192.4	232.9
Underlying diluted EPS (p)	113.0	116.4	160.7	202.5	234.4
Ordinary DPS (p)	75.0	79.0	83.0	90.0	100.0
Special DPS (p)	165.0	0.0	0.0	0.0	0.0
Net interest/average loans	8.15%	7.72%	7.69%	6.41%	5.93%
Impairments/average loans	2.04%	2.30%	2.09%	1.58%	1.33%
Cost income ratio	60.1%	55.1%	53.4%	52.5%	52.3%
Balance sheet					
Net customer loans	1,321.0	1,598.3	2,200.0	3,000.0	3,400.0
Other assets	189.0	293.3	328.7	448.3	508.0
Total assets	1,510.0	1,891.6	2,528.7	3,448.3	3,908.0
Total customer deposits	1,151.8	1,483.2	2,115.4	2,912.6	3,301.0
Other liabilities	122.2	159.3	175.0	277.1	322.7
Total liabilities	1,274.0	1,642.5	2,290.4	3,189.7	3,623.7
Net assets	236.0	249.1	238.4	258.6	284.3
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	236.0	249.1	238.4	258.6	284.3
Reconciliation of movement in equity					
Opening shareholders' equity	141.2	236.0	249.1	238.4	258.6
Profit in period	137.5	23.8	28.0	35.8	43.3
Other comprehensive income	(1.8)	2.9	(24.0)	0.0	0.0
Ordinary dividends	(13.1)	(14.0)	(14.8)	(15.5)	(17.6)
Special dividend	(30.0)	0.0	0.0	0.0	0.0
Share based payments	0.2	0.4	0.0	0.0	0.0
Issue of shares	2.0	0.0	0.0	0.0	0.0
Share issuance costs	0.0	0.0	0.0	0.0	0.0
Closing shareholders' equity	236.0	249.1	238.4	258.6	284.3
Other selected data and ratios					
Period end shares in issue (m)	18.5	18.5	18.5	18.5	18.5
NAV per share (p)	1,277	1,348	1,290	1,400	1,539
Tangible NAV per share (p)	1,229	1,292	1,234	1,343	1,483
Return on average equity	72.9%	9.8%	11.5%	14.4%	16.0%
Normalised return on average equity	9.9%	8.9%	12.6%	15.8%	17.6%
Average loans	1,134.6	1,484.6	1,899.2	2,600.0	3,200.0
Average deposits	1,067.5	1,321.7	1,812.7	2,519.1	3,106.8
Loans/deposits	114.7%	107.8%	104.0%	103.0%	103.0%
Risk exposure	1,264.0	1,446.1	1,887.6	2,496.5	2,719.8
Common equity tier 1 ratio	18.0%	16.5%	13.3%	10.8%	10.7%

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

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