METRO BANK

Unlocking Growth
Capital Package Overview

October 2023

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Strategic pillars have delivered

Revenue	Costs	Infrastructure	Communications	Balance sheet optimisation
+21% vs. 1H22	*-3% vs. 1H22*	*Risk and resilience, technology platforms*	*Engaged colleagues; brand recognition*	

Service-led model providing core deposits

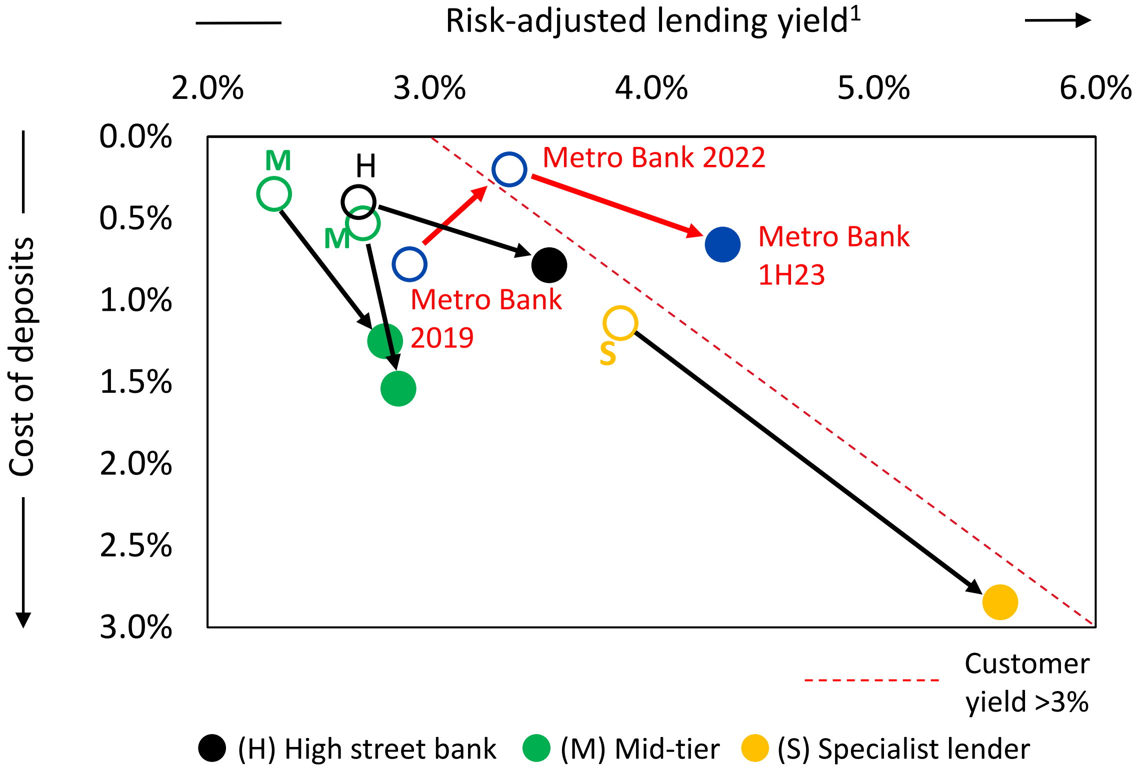
Diversified asset generating capability

Scalable cost base ready for revenue growth

Resilient risk and control environment

Strategic optionality to leverage unique position once capital structure is optimised

Structural advantage in risk-adjusted spreads FY22 – 1H23



RoTE

- **RoTE in excess of 9% in 2025 and low double-digit to mid-teens thereafter over the medium term**

1. Income on loans to customers/average customer loans less loan losses/average customer loans. Peer data is latest reported.

UK's only full-service challenger bank with optionality for asset rotation

	Mortgages	Commercial	SME	Asset finance	Invoice Finance	Unsecured personal loans	Credit cards/ overdrafts	Auto finance
Product offering	✓✓✓	✓✓	✓	✓✓	✓✓	✓✓✓	✓	✓
Scaleable	✓✓✓	✓✓	✓✓	✓✓	✓✓	✓✓✓	✓	✓✓
Systems	✓✓✓	✓✓	✓✓	✓	✓✓	✓✓✓	✓	✓✓
Expertise	✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓✓	✓✓✓	✓	✓✓
Potential opportunity	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓	✓✓	✓✓	✓✓✓
NIM accretion	✓	✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓✓	✓✓✓	✓
Risk-adjusted return on regulatory capital	✓✓✓	✓✓✓	✓✓	✓✓	✓✓✓	✓	✓✓	✓

Unique growth opportunity with significant margin accretion potential

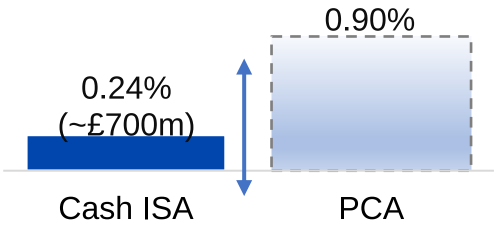
- **The Capital Package is underpinned by gradual shift in asset side growth towards specialist mortgages and commercial lending**
  - The anticipated reduction in consumer lending growth coupled with the natural run-off in the government backed lending schemes and a loan portfolio sale is expected to lead to a loan book contraction in 2023E
  - This is expected to be followed by **double digit CAGR in 2024E-2028E**, as the transaction seeks to rotate assets to deploy capital in an optimal manner in commercial and specialist mortgage markets, building on its relationship led lending model and competitive advantage in terms of raising low-cost relationship deposits

Deposit growth – other opportunities to increase market share over the medium term

Cash ISA

~£310bn market[1] with material growth expected

Metro Bank market shares[1]

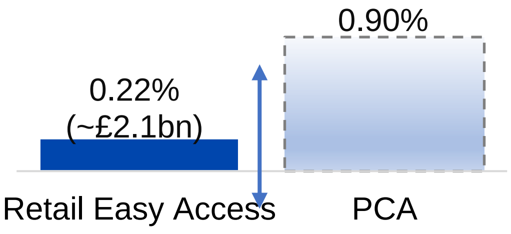


~£2bn deposit growth opportunity[2]

Retail Easy Access

~£950bn market[1]

Metro Bank market shares[1]

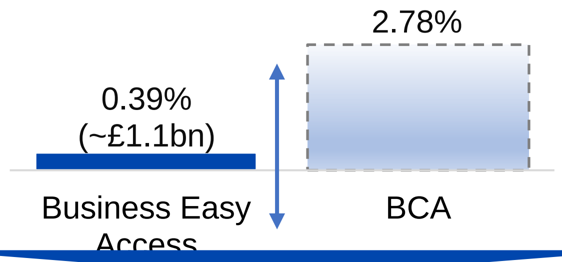


~£6bn deposit growth opportunity[3]

Business Easy Access

~£280bn market[1]

Metro Bank market shares[1]



~£7bn deposit growth opportunity[4]

~£15bn combined deposit growth opportunity

Key growth drivers

- Improved ISA capability – digital/ automated switching from 1Q24
- Enhanced pricing capabilities from 1Q24
- New digital origination capabilities – mobile acquisition from 1Q24
- Continued customer number growth
- Engagement activities to drive share of wallet within existing base

- **The Capital Package is underpinned by continued success in raising deposits and driving current account growth, supported by new store openings and new products**
  - The bank's new instant access / savings initiatives are expected to support the group's growth agenda, driving **an increase in share of IA products in the deposit mix over time**
  - **Current account balances are expected to continue to grow** supported by planned releases of new deposit products, continued maturation of Metro Bank's store footprint which helped to grow PCAs by 106k and BCAs by 23k in H1 2023, as well as a targeted store opening plan over the medium term
  - Expected deposit growth will support **continued momentum in fee income**

1. Source - BoE Bankstats Table A6.1 for market size and internal Metro Bank data. As at May-23. 2. Opportunity calculated by applying the current Personal non-interest bearing market share to ISA market. As at May-23. 3. Opportunity calculated by applying the current Personal non-interest bearing market share to Personal demand market. As at May-23. 4. Opportunity calculated by applying the current Business non-interest bearing market share to Business demand market. As at May-23.

Executive Summary

Capital Package Secured

- Secured £325m capital raise: £150m of new equity and £175m of new MREL issuance
- £600m debt refinancing
- In discussions regarding a sale of up to £3.0bn mortgage portfolio in Q4 2023

Significantly Strengthens the Balance Sheet

- Capital package takes Metro Bank out of the CRD IV Combined Buffer
- Delivers a pro forma 30 June 2023 CET1 ratio in excess of 13% and MREL ratio in excess of 21.5%
- Refinancing extends the call date of the existing MREL Senior Instrument to 2028

Provides Runway for Growth

- Provides opportunity to grow assets significantly over the coming years
- Metro Bank expects to deliver RoTE in excess of 9% in 2025 and low double-digit to mid-teens thereafter over the medium term

Continued positive trading in Q3

- Made a statutory profit after tax in Q3 and continued momentum in Personal and Business Current Account growth and customer acquisition

Capital Package Overview

Equity raise

- £150m firm placing at 30p per share, underpinned by equity commitments from a number of existing shareholders and new investors
- To complete in Q4 2023, subject to shareholder approval
- Spaldy Investments Limited, Metro Bank's largest shareholder is contributing £102m and upon completion will be a c.53% shareholder
- CEO, Daniel Frumkin, will subscribe up to £2m and CFO, James Hopkinson, will subscribe up to £60,000

Debt refinancing

- New MREL issuance of £175m of new fixed-rate senior notes in 6NC5 format (call date April 2028 / maturity date April 2029) with a coupon of 12%, upsizing the MREL Senior Instrument exchange
- Liability management exercise via consent solicitation securing 100% support from noteholders identified and expected to reach the 75% voting thresholds required for 100% noteholder participation in:
  - A 40% haircut, rising to 45% if 75% (by value) of noteholders of the Tier 2 Instrument do not enter into lock-up agreements supporting the Debt Refinancing by 13 October 2023, on the existing £250m Metro Bank Tier 2 Instrument, combined with a 60% notional exchange into a new Holdings 10NC5 Tier 2 Instrument at a 14% coupon; and
  - A 100% (falling to 95% if 75% (by value) of noteholders of the MREL Senior Instrument do not enter into lock-up agreements supporting the Debt Refinancing by 13 October 2023) notional exchange on the existing £350m MREL Senior Instrument for a new MREL Senior Instrument at a 12% coupon
- To complete in Q4 2023, subject to noteholder approval

Loan portfolio sale

- Metro is also in discussions regarding a sale of an up to £3.0bn mortgage portfolio in Q4 2023, at a price which is currently expected to be CET1 ratio and MREL ratio accretive, reducing RWAs by c.£1bn (assuming a c. £3bn Asset Sale) and reinvesting proceeds into cash at a higher yield, subject to pricing

- ***Transaction results in:***
  - ***Illustrative pro-forma 30 June 2023 CET1 in ratio excess of 13%***
  - ***MREL ratio in excess of 21.5%***
  - ***RoTE in excess of 9% in 2025 and low double-digit to mid-teens thereafter over the medium term***

The equity raise, debt refinancing and asset sale will put Metro Bank in a strong position to accelerate earnings growth. Metro Bank is expected to deliver a RoTE in excess of 9% in 2025 and low double-digit to mid-teens thereafter over the medium term

The Capital Package is expected to deliver

Loan Growth

- Asset rotation towards specialist mortgages (with average LTVs assumed to be in-line or below current profile) and commercial lending
- Loan book contraction in 2023E owing to the portfolio sale; double digit CAGR from 2024E to 2028E driven by shift towards specialist mortgages and commercial lending

Funding

- Overall deposit balances are expected to continue to increase with double-digit growth in 2024E followed by low to mid-single digit growth in 2025E and 2026E
- An increase in share of Instant Access and cash ISA products is expected over time. Current account balances are still expected to grow notwithstanding the recent increase in deposit outflow rates in advance of the announcement of the Capital Package

Margins

- NIM step up approaching 3% in 2026E
- Steady growth in 2024E NIM supported by the loan portfolio sale whereby additional cash is redeployed into treasury portfolio at higher yields

Costs

- Cost reduction plan launched in Q4 2023, cost savings of £30m assumed per year (75% phasing in 2024E and 100% phasing from 2025E onwards) with a 40% restructuring cost expensed in 2023E. Low single digit operating cost growth y-o-y after the cost reduction plan as the bank benefits from significant economies of scale
- Cost:income ratio will continue to reduce y-o-y but expected to remain above 60% until 2027E

RoTE

- **RoTE in excess of 9% in 2025 and low double-digit to mid-teens thereafter over the medium term**

Capital

- 40% blended risk weight
- Illustrative pro forma 30 June 2023 CET1 ratio in excess of 13% and MREL Ratio in excess of 21.5%

Note: Guidance predicated on sale of £3bn mortgage portfolio excluding; pro forma 30 June 2023 CET1 ratio in excess of 13%, MREL Ratio in excess of 21.5% and RoTE in excess of 9% in 2025 and low double-digit to mid-teens thereafter over the medium term

Timetable and Conditions of the Capital Package

Timetable

- Publication of shareholder circular and prospectuses
- Launch of consent solicitation process for the debt refinancing and documents for the new MREL raise in the coming weeks
- Expected completion of the Capital Package in Q4 2023

Conditions of Capital Package

- Subject to a number of conditions including:
  - Interconditionality between the Equity Raise, new MREL Raise and the Debt Refinancing. Metro Bank has received commitments from shareholders for the Equity Raise and commitments from investors for the £175m MREL issuance; and expects to receive over 75% approval from debtholders for the debt refinancing (enabling 100% take-up of the debt refinancing);
  - Shareholder approval of the Equity Raise (special and ordinary resolutions), including independent shareholder approval (ordinary resolution of independent shareholders) of a Rule 9 waiver for the purposes of the City Code on Takeovers and Mergers;
  - Approval of the consent solicitations for the Debt Refinancing by the requisite majorities of the holders of the existing MREL Senior Instrument and Tier 2 Instrument. Note Metro Bank has received 100% support from noteholders identified and expects to achieve the 75% voting thresholds required for 100% noteholder participation (enabling 100% take-up of the debt refinancing);
  - Formal PRA Change of Control approval for Spaldy Investments Limited having been received; and
  - Formal PRA notifications and permissions having been made and granted, as applicable

Strategic pillars have delivered

Revenue	Costs	Infrastructure	Communications	Balance sheet optimisation
+21% vs. 1H22	*-3% vs. 1H22*	*Risk and resilience, technology platforms*	*Engaged colleagues; brand recognition*	

Service-led model providing core deposits

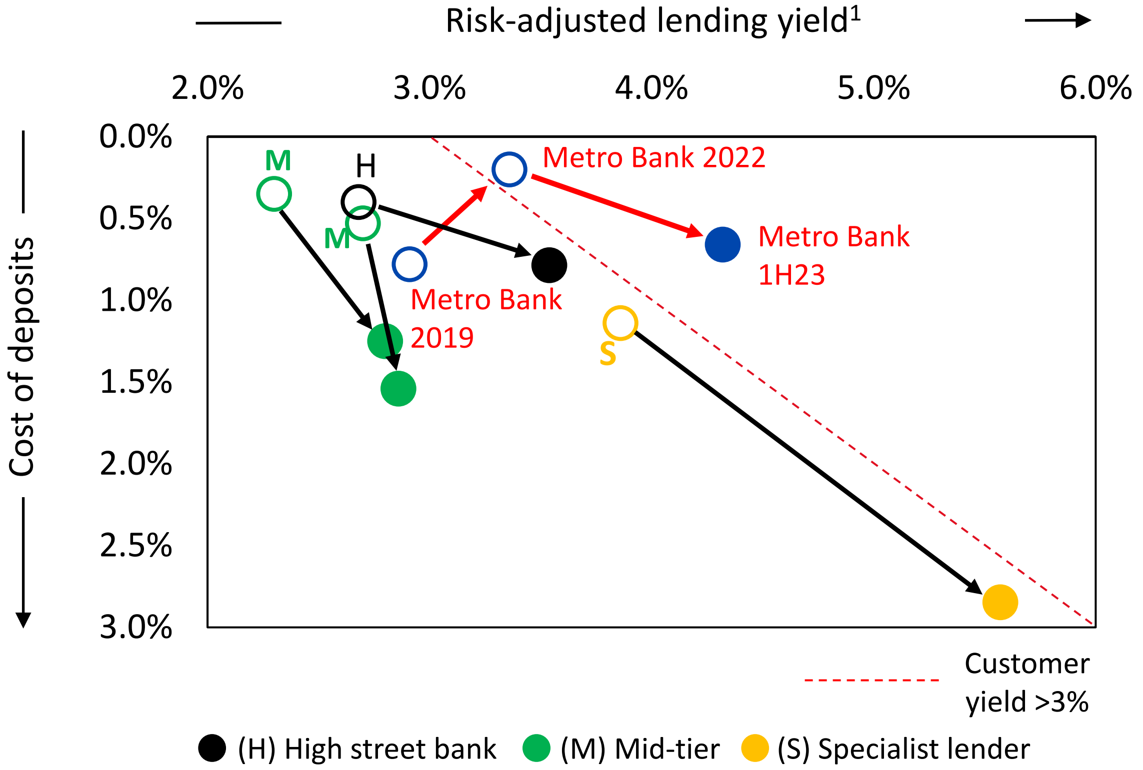
Diversified asset generating capability

Scalable cost base ready for revenue growth

Resilient risk and control environment

Strategic optionality to leverage unique position once capital structure is optimised

Structural advantage in risk-adjusted spreads FY22 – 1H23



RoTE

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1. Income on loans to customers/average customer loans less loan losses/average customer loans. Peer data is latest reported.

Q&A

Appendix

Committed to being the #1 community bank – the model works

We're the best high street bank
for in-store service quality for the 10th time running[1]

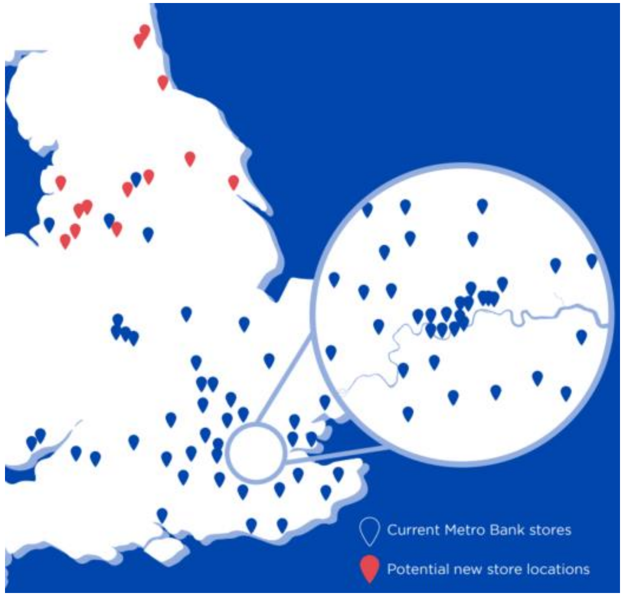
Strong colleague engagement
95% of our Voice of the Colleague scores are above Glint Global Benchmark

Community focused
METRO BANK | WE ARE ENGLAND CRICKET
OFFICIAL CHAMPION OF WOMEN'S AND GIRLS' CRICKET
First ever champion of women's and girls' cricket

+50% increase in accounts opened
during weekends and before 9am or after 3pm on weekdays vs. 1H22

+11% Safe Deposit Box visits
during weekends and before 9am or after 3pm on weekdays vs. 1H22

Local Business Manager in every store
>120 Local Business Managers across our 76 stores



We have **76 stores** and we **plan to open 11 more** by end 2025[2]

Our stores are **open early 'til late, seven days a week**

Customer recognition and industry awards

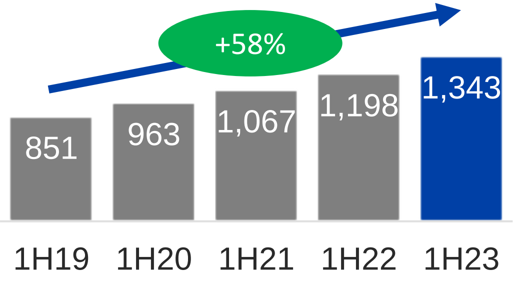
CMA	MORTGAGE STRATEGY AWARDS 2023	Forbes ADVISOR BEST OF 2023	METRO BANK
CMA 2022 #1 high street bank for in-store service quality[1]	**British Large Mortgage Loan Lender**	**British Business Credit Card**	**Top 10 Most Loved Workplace®** certified[3]

1. #1 high street bank for overall service quality in every CMA survey Aug 2018 – Feb 2023. Competition and Market Authority's Service Quality Survey in February 2023. 2. Partially funded by the Capability and Innovation Fund. Final locations to be determined. 3. Backed by Best Practice Institute (BPI) research and analysis.

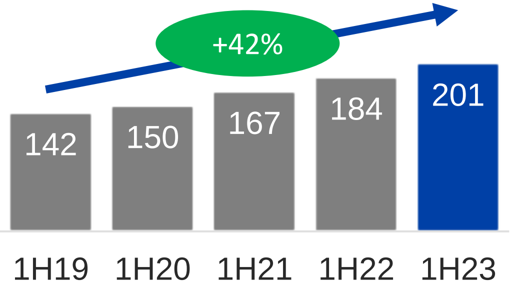
Service-led core deposit model advantaged through the cycle

Strong growth in customer numbers driving deposit balances

Personal current accounts, '000



Business current accounts, '000



+129k new current accounts in 1H23

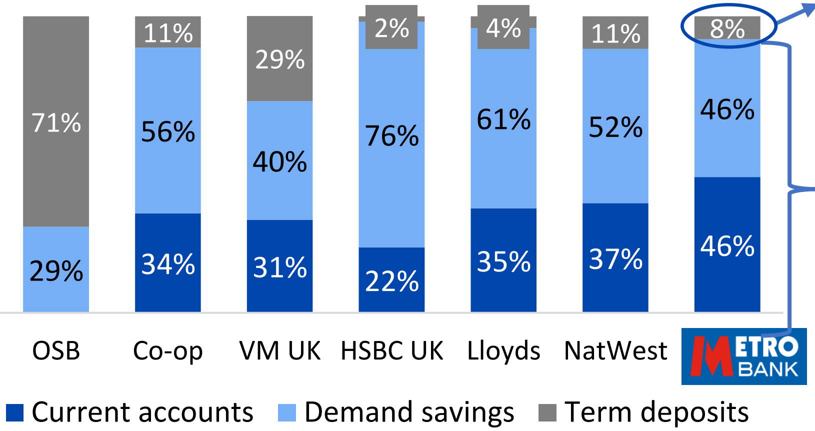
Deposit franchise is positioned for continued customer growth

- ✓ Our high street franchise continues to grow at pace
- ✓ Deposit pricing discipline embedded
- ✓ Tactically growing fixed rate deposits
- ✓ Continued investment in digital capabilities

Opportunity to further enhance growth

- **Existing stores still growing**
- **New Communities** – 11 new stores in the North of England 2024-25[1]
- **Growth in underweight deposit products** e.g. Cash ISA and Easy Access
- **New current account propositions**
- **Enhanced Business Overdraft** helps win transactional relationships
- **Capability** e.g. digital, automated ISA transfers/ switching

Deposit mix[2], %



Growth opportunity in fixed term deposits

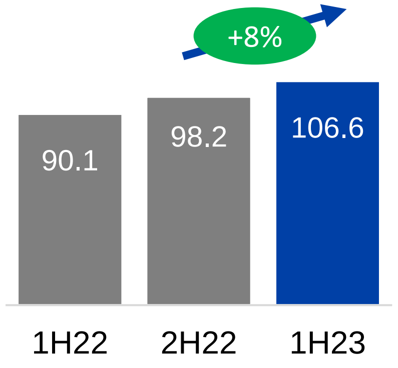
Continued focus on growing core service-led deposits

1. Partially funded by the Capability and Innovation Fund. Final locations to be determined. 2. Metro Bank, Lloyds, NatWest and Co-op as at 1H23; OSB, HSBC UK as of FY22; VMUK as of 1H23 (March). For HSBC – Demand Savings assumed as Interest-bearing liabilities net of Subordinated instruments, debt securities, Repos and Due to Banks.

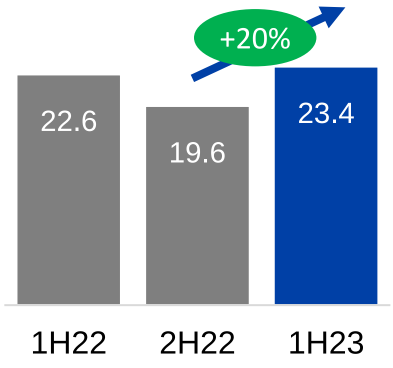
Market-wide reductions in current account balances partially offset in June and July

Customer acquisition remains strong

Personal current account openings, '000



Business current account openings, '000



Service-led core deposit franchise remains resilient

+207k new account openings in 1H23

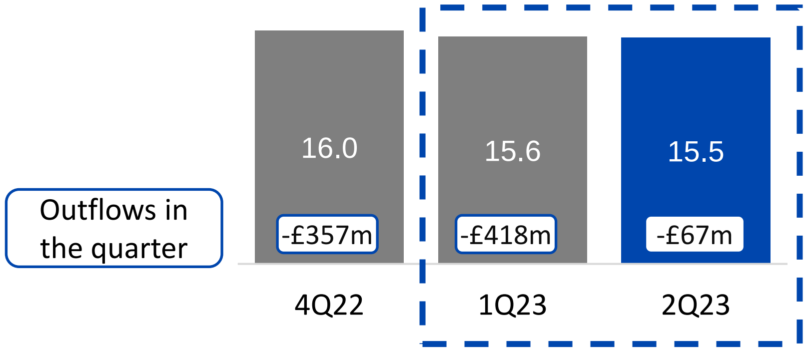
+129k new current accounts in 1H23

+£88m deposit inflows in June

- Seeing increased direct debits to Energy & Utility companies as well as lenders
- Average balances impacted by cost of living

Deposits shows signs of stabilising, seeing positive trends

Deposits from customers, £bn



Significant majority of deposits insured by FSCS

Strong funding and liquidity, significantly above regulatory minima

81%
Loan: deposit ratio

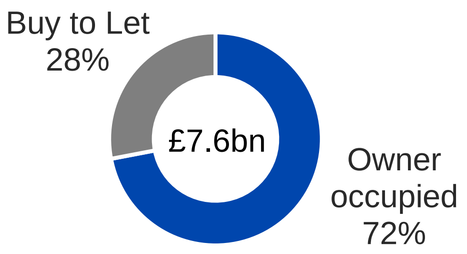
214%
Liquidity coverage ratio

132%
Net stable funding ratio

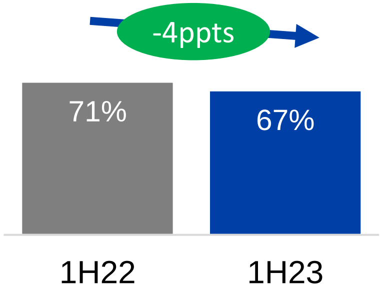
Lending managed for risk adjusted returns, with asset rotation upside potential

Mortgages (59% of lending) – credit quality remains stable

Loans to customers, £bn



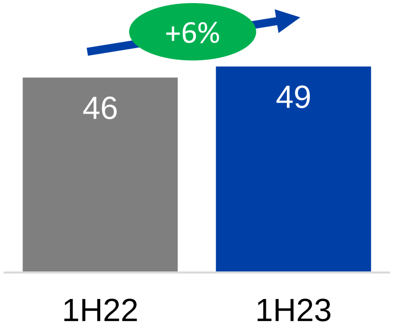
New lending loan-to-value, %



- Average portfolio LTV of 58% with none >100% LTV
- Buy to Let was 14% of new lending in 1H23
- 15% of Owner occupied and 11% of Buy to Let will mature in 2H23

Consumer (11% of lending) – portfolio continues to mature

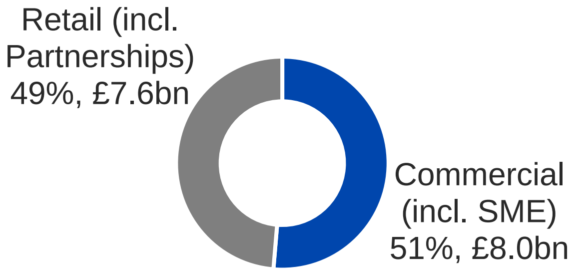
Average borrower salary, £k



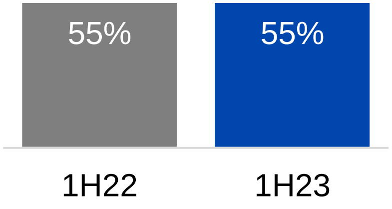
- 51% of originations in 1H23 were in our top 3 risk buckets[2]
- 1H23 NPLs at 4.8% vs. 3.4% in 2H22 driven by portfolio maturation

Commercial[1] (30% of lending) – stable performance, growth opportunity

Deposits, £bn



Average loan-to-value of commercial term loans



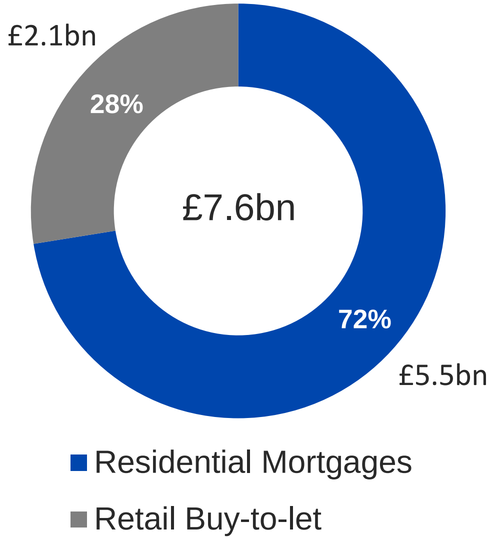
- 90% of term lending ex. PBTL and BBLS is floating rate
- Term lending book is highly collateralised
- CRE down 9% vs. 2H22, 23% of Commercial book ex. Gov't schemes, LTV stable at 45%

- **The Capital Package is expected to deliver a NIM step up approaching 3% in 2026E driven by:**
  - Steady growth in 2024E NIM supported by the loan portfolio sale whereby additional cash is redeployed into treasury portfolio at higher yields
  - **Asset rotation in the residential mortgage portfolio**, where current blended yield is expected to see material uplift as current book runs off and new business comes on at rates consistent with the recent step up in base rates
  - **Investment portfolio** where current blended yield is also expected to see a material uplift, driven by churn in the fixed rate portfolio
  - **Overall mix shift in asset side to higher yielding commercial and specialist mortgage lending**
  - Metro maintaining a continued competitive advantage in terms of deposit gathering and cost of funds

1. Including Government-backed lending. 2. Internal credit risk metrics.

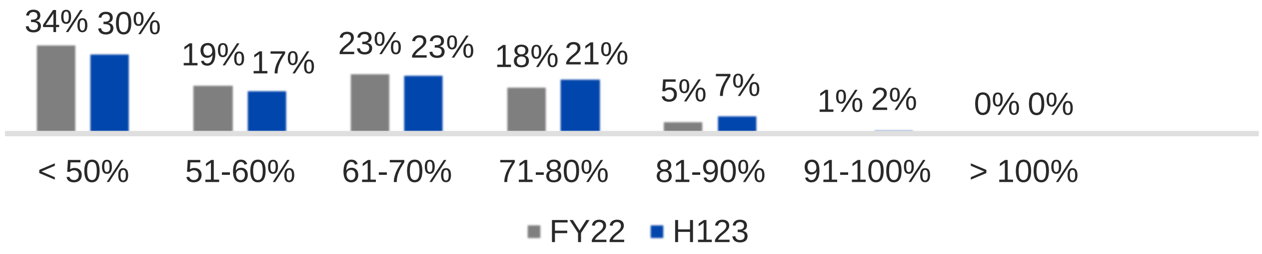
Retail mortgages – overview

Retail mortgage portfolio

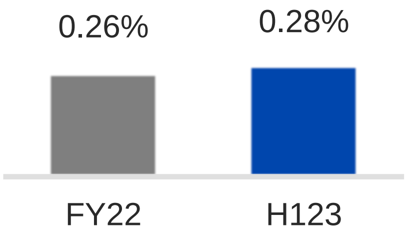


Retail mortgages loan-to-value

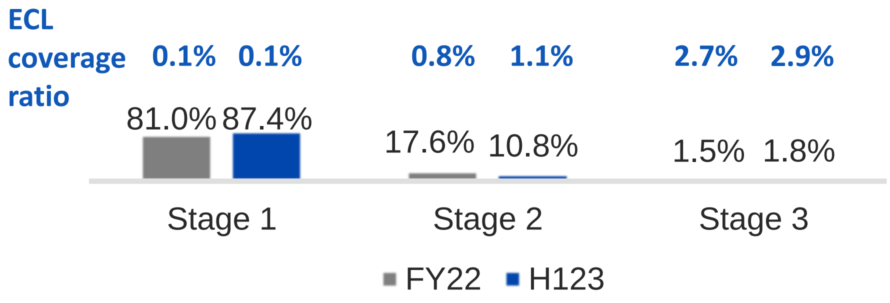
Average retail LTV: 58% at 1H23 vs 56% at FY22



ECL coverage ratio



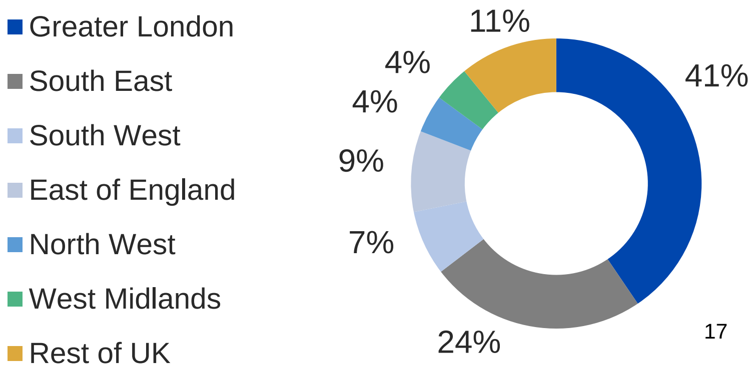
Balance by IFRS9 stage



Mortgage lending remained stable in 1H23

- LTV remains low; none >100% and only 2% between 91% and 100%
- LTV up slightly since FY22 driven by falling house prices (average up from 56% at FY22 to 58% at 1H23)
- As at 30 June 2023 retail mortgage balances were £7.6bn, of which £2.6bn (34%) with a weighted average rate of 2.54% will reprice[1] in the next 18 months
- New lending volumes have reduced in 1H23 (£0.5b in 1H23. £2.2b in 2022)
  - Average new lending LTV reduced from 68% (2022) to 67% (1H23)
  - Credit quality has remained stable, average credit scores have been stable across 2021/2022/1H23
  - Buy-to-let mix has reduced (14% in 1H23. 34% in 2022)
- Stage 2 balance reduction as a result of improvement in macroeconomics. This improvement has been held back as overlays in anticipation of expected interest rate hikes not fully captured in macroeconomic forecast

Retail mortgages geographical split

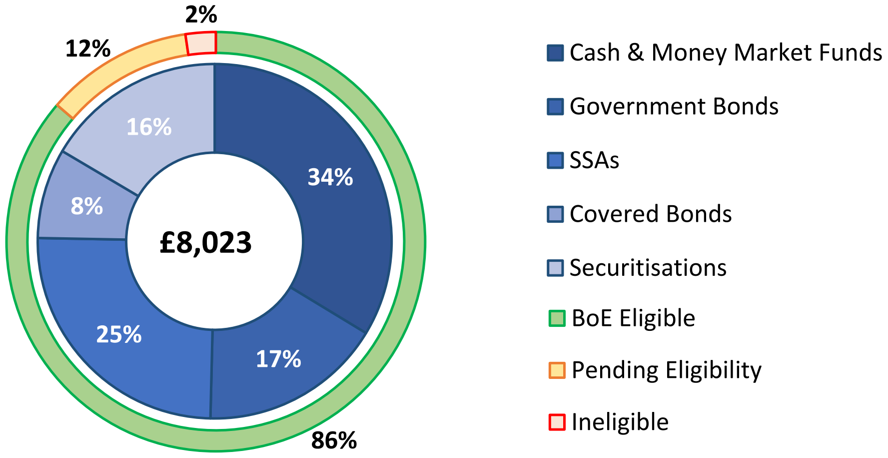


1. Accounts with an initial fixed rate deal finishing by the end of 2024.

Low risk Treasury Portfolio, with upside as fixed-rate position churn

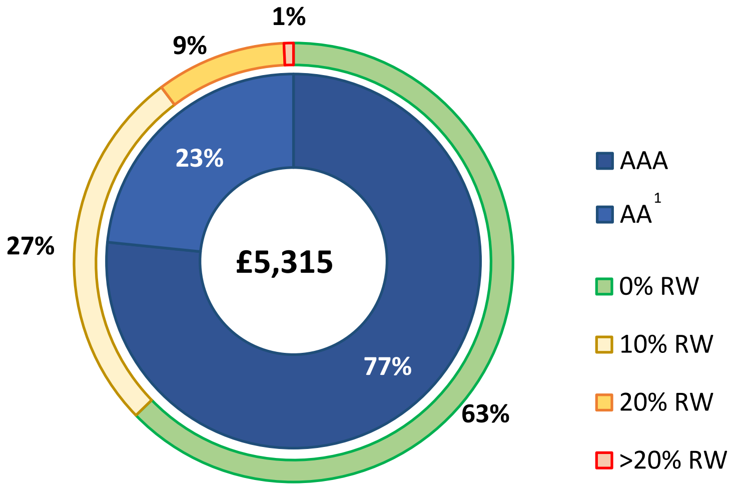
Portfolio composition and central bank eligibility

£m



Non-cash portfolio credit rating and Risk Weights

£m



£m	Carrying value	Fair value	Δ
Amortised Cost	4,826	4,502	*(324)*
Fair Value through OCI	489	489	-

Low risk Treasury portfolio

- Investment income up 250% vs. 1H22 at £111m; effective yield of 2.8% (1H22: 0.7%)
- Low risk density (1H RWA exit of ~£270m)
- Weighted average portfolio repricing duration
  - 1.1 years including cash
  - 1.6 years excluding cash
- In 2H23, there are £560m securities maturing at a yield of 3.7%
- As at 30 June 2023 investment balances were £5.3bn, of which £1.5bn (28%) with a weighted average yield[2] of 3.17% will mature in the next 18 months

Strong funding and liquidity, significantly above regulatory minima

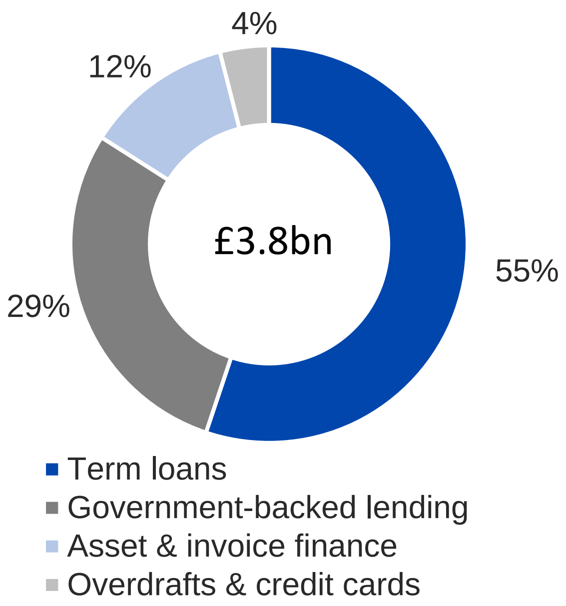
214%
Liquidity coverage ratio

132%
Net stable funding ratio

1. 99% of AA rated securities are UK Government gilts. 2. At current rates.

Commercial lending – overview

Commercial lending portfolio



Portfolio composition

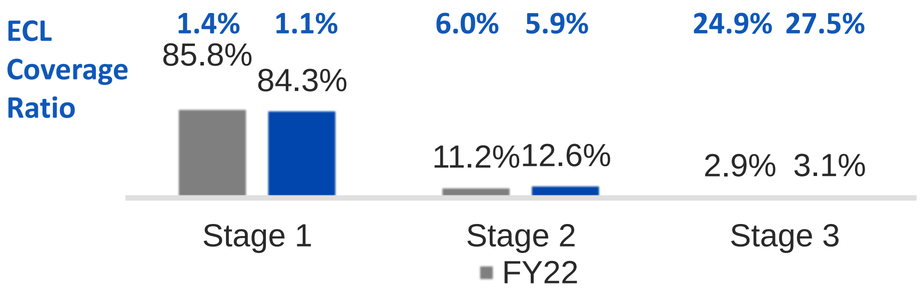
Segment	30 Jun 2023	31 Dec 2022
Term loans	55%	55%
CBILS, CLBILS & RLS	12%	13%
BBLS	17%	19%
Asset & Invoice Finance[1]	12%	10%
Overdrafts & credit cards	4%	3%

Term loans by industry sector[2]

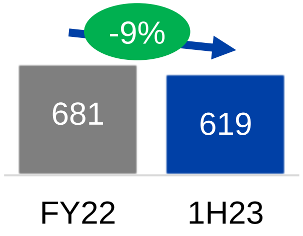
Industry sector (£m)	30 Jun 2023	31 Dec 2022
Real estate (PBTL)	615	731
Real estate (other term loans)	619	681
Hospitality	346	372
Health & Social Work	327	334
Legal, Accountancy & Consultancy	170	196
Other	459	507

Excluding BBLS

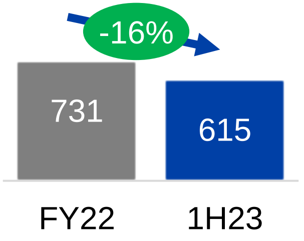
Balance by IFRS9 stage



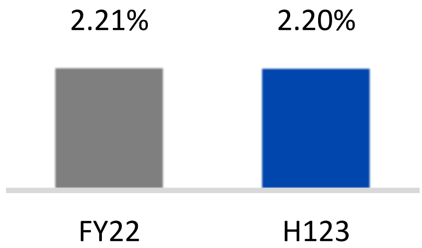
CRE balances, £m



PBTL balances, £m

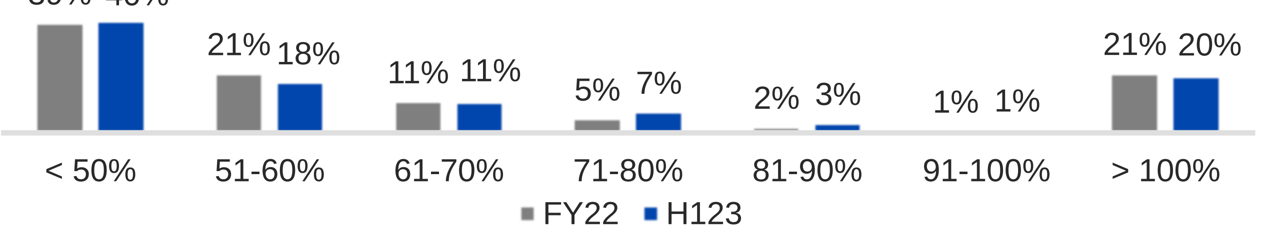


ECL coverage ratio



Commercial term lending loan-to-value[2]

Average commercial LTV 55% at 1H23 vs 55% at FY22

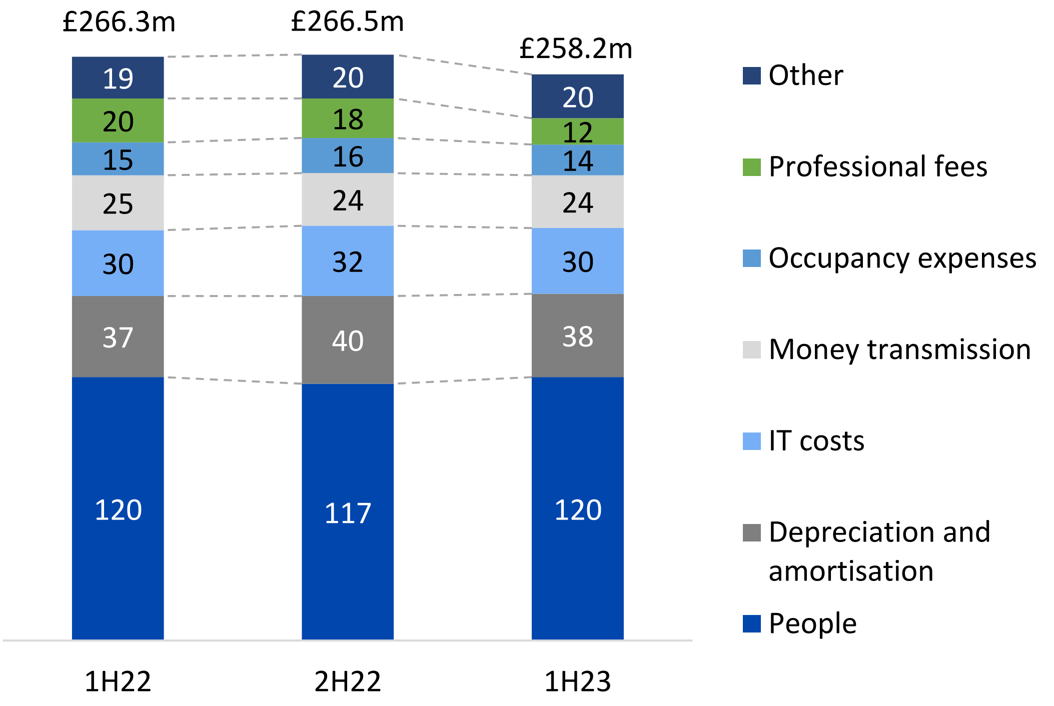


1. Asset and Invoice Finance include a small amount of RLS lending. 2. Commercial term loans excluding BBLS, AF, IF.

Continued disciplined cost management despite inflation

Continued cost discipline – costs down 3% both Y/Y and H/H

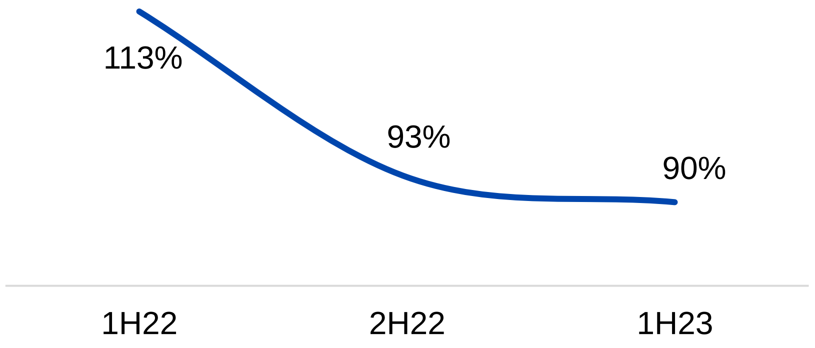
Underlying costs, £m



- We have supported majority of our colleagues with pay increases in each period
- Continued reduction in the number of contractors in 2022 yielding benefit in 1H23
- Launched Agile methodology for change within a fixed capacity model

Cost: income ratio continues to improve

Underlying cost: income ratio, %



The Capital Package is expected to deliver:

- **Low single digit operating cost growth y-o-y after the cost reduction plan** as the bank benefits from significant economies of scale putting capital to work in operational segments where lending volumes had recently been capital constrained
- Recognising the cost dynamics of Metro Bank's relationship banking model, **the cost income ratio is expected to continue to reduce y-o-y but remain above 60% until 2027E**