Metro Bank Holdings PLC
Interim results
Trading update H1 2023
1 August 2023

Metro Bank Holdings PLC (LSE: MTRO LN)

Interim results for half year ended 30 June 2023

Highlights

- **Underlying profit before tax of £16.1 million (H2 2022: loss of £2.6 million)** represents the third consecutive quarter of underlying profitability, reflecting improved operating margins driven by the actions taken as part of the turnaround plan to optimise the balance sheet and control cost inflation for sustainable profitability.

- **Statutory profit before tax of £15.4 million (H2 2022: loss of £10.5 million)** reflects the significant reduction in exceptional items and has supported capital accretion in the half.

- **Total underlying revenue was up 21% YoY but remained flat HoH at £285.6 million (H2 2022: £285.9 million, H1 2022: £236.2 million)** reflecting improved lending yields offset by increased cost of deposits and limited loan growth given capital availability.

- **Total underlying operating expenses reduced 3% both YoY and HoH to £258.2 million (H2 2022: £266.5 million, H1 2022: £266.3 million)**, driving positive jaws of 24% YoY and 3% HoH, despite persistent high inflation, as a result of the continued focus on cost discipline and the successful implementation of initiatives that enable the bank to scale appropriately.

- **The bank's service-led core deposit franchise remains resilient to increased competition in the market and continues to attract new customers,** opening 106,000 Personal Current Accounts and 23,000 Business Current Accounts in the half. The bank remained ranked first for customer service in Stores in the CMA survey.

- **Customer deposits reduced 3% HoH to £15.5 billion (31 December 2022: £16.0 billion)** in line with prevailing market conditions, though the bank saw net deposit inflows in June, a trend that continued in July.

- **The bank's MREL ratio was 18.1% as at 30 June 2023, up 40bps from 17.7% as at 31 December 2022 and up 70bps from 17.4% as at 1 January 2023,** reflecting the disciplined origination strategy and statutory profit for the half.

Daniel Frumkin, Chief Executive Officer at Metro Bank, said:

"I am encouraged by the activity across the business. Our statutory profitability in H1, making this the third consecutive quarter of underlying profitability, demonstrates that our strategy is working. We continue to win new customers every day through our service-led franchise, at the same time as showing ongoing cost discipline and pursuing our targeted store expansion. Whilst we remain watchful of macro-economic headwinds, we have the expertise, capability and infrastructure in place to unlock our future growth potential."

Key Financials

£ in millions	30 Jun 2023	31 Dec 2022	Change from FY 2022	30 Jun 2022	Change from H1 2022
Assets	£21,747	£22,119	(2%)	£22,566	(4%)
Loans	£12,572	£13,102	(4%)	£12,364	2%
Deposits	£15,529	£16,014	(3%)	£16,514	(6%)
Loan to deposit ratio	81%	82%	(1pp)	75%	6pps
CET1 capital ratio	10.4%	10.3%	10bps	10.6%	(20bps)
Total capital ratio (TCR)	13.2%	13.4%	(20bps)	13.8%	(60bps)
MREL ratio	18.1%	17.7%	40bps	18.3%	(20bps)
Liquidity coverage ratio	214%	213%	1pp	257%	(43pps)

£ in millions	H1 2023	H2 2022	Change from H2 2022	H1 2022	Change from H1 2022
Total underlying revenue[1]	£285.6	£285.9	-	£236.2	21%
Underlying profit/(loss) before tax[2]	£16.1	(£2.6)	n.m.	(£48.0)	n.m.
Statutory profit/(loss) before tax	£15.4	(£10.5)	n.m.	(£60.2)	n.m.
Net interest margin	2.14%	2.11%	3bps	1.73%	41bps
Lending yield	4.50%	3.93%	57bps	3.40%	110bps
Cost of deposits	0.66%	0.25%	41bps	0.14%	52bps
Cost of risk	0.18%	0.33%	(15bps)	0.29%	(11bps)
Coverage ratio	1.54%	1.41%	13bps	1.36%	18bps
Underlying EPS	7.8p	(2.0p)	n.m.	(28.5p)	n.m.
Tangible book value per share	£4.42	£4.29	3%	£4.30	3%

1. Underlying revenue excludes grant income recognised relating to the Capability & Innovation fund.
2. Underlying profit/(loss) before tax is an alternative performance measure and excludes impairment and write-off of property, plant & equipment (PPE) and intangible assets, transformation costs, remediation costs and costs incurred as part of the holding company insertion.

Investor presentation

A presentation for investors and analysts will be held at 9.30AM (UK time) on 1 August 2023. The presentation will be webcast on:

https://webcast.openbriefing.com/mb23h1/

For those wishing to dial-in:

From the UK: 0800 358 1035

From the US: +1 855 979 6654

Access code: 332501

Other global dial-in numbers: https://www.netroadshow.com/events/global-numbers?confId=52736

Financial performance for the half year ended 30 June 2023

Deposits

£ in millions	30 Jun 2023	31 Dec 2022	Change from FY 2022	30 Jun 2022	Change from H1 2022
Demand: current accounts	£7,106	£7,888	(10%)	£7,770	(9%)
Demand: savings accounts	£7,218	£7,501	(4%)	£7,817	(8%)
Fixed term: savings accounts	£1,205	£625	93%	£927	30%
Deposits from customers	**£15,529**	**£16,014**	**(3%)**	**£16,514**	**(6%)**
Deposits from customers includes:					
Retail customers (excluding retail partnerships)	£5,647	£5,797	(3%)	£6,267	(10%)
SMEs[3]	£5,066	£5,080	-	£4,892	4%
	£10,713	**£10,877**	(2%)	**£11,159**	(4%)
Retail partnerships	£1,910	£1,949	(2%)	£1,871	2%
Commercial customers (excluding SMEs[3])	£2,906	£3,188	(9%)	£3,484	(17%)
	£4,816	**£5,137**	(6%)	**£5,355**	(10%)

3. SME defined as enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million, and have aggregate deposits less than €1 million.

- **Total deposits of £15.5 billion as at 30 June 2023 reduced by 3% from the full year position** reflecting the impact of the cost of living crisis as well as seasonal factors such as tax payments in January, partially offset by growth in June, a trend that continued in July. The core customer deposit base continues to be predominantly Retail and SME with low average balances, and therefore a significant majority of customer deposits are protected by the Financial Services Compensation Scheme.

- **The strength of the underlying service-led core deposit franchise is highlighted by continued growth in customer numbers in the first half,** opening 106,000 new Personal Current Accounts and 23,000 new Business Current Accounts, representing HoH growth in account openings of 8% for PCA and 20% for BCA. Average customer deposit balances have however reduced from the full year position, a theme consistent across the industry as customers manage impacts of the cost of living crisis.

- **The bank re-entered the Fixed Term Deposit (FTD) market in the first half as guided at full year, adding additional duration to the book, FTDs now make up 8% of the total deposit base (31 December 2022: 4%) and non-interest bearing deposits now total 46% (31 December 2022: 49%).** Cost of deposits has increased to 0.66% (H2 2022: 0.25%), reflecting the increase in FTDs, higher pass-through rates on interest bearing liabilities and increased price competition in the market.

- The bank's market share of Cash ISAs, Retail Easy Access and Business Easy Access is well below its current natural market share of Personal and Business Current Accounts, representing significant opportunity for organic deposit growth supported by recent and continuing investments in digital and switching capabilities.

- **Stores remain at the heart of the bank's service offering and while geographic expansion is planned in areas where significant opportunity exists, the bank is disciplined in the cost that it will attach to future store openings and their operation.** The bank remains committed to opening stores in the North of England and these stores are still expected to be opened in 2024 and 2025. The store proposition and the deposit franchise it underpins are increasingly valuable in a more normalised interest rate environment.

Loans

£ in millions	30 Jun 2023	31 Dec 2022	Change from FY 2022	30 Jun 2022	Change from H1 2022
Gross loans and advances to customers	**£12,769**	**£13,289**	**(4%)**	**£12,535**	**2%**
Less: allowance for impairment	(£197)	(£187)	5%	(£171)	15%
Net loans and advances to customers	**£12,572**	**£13,102**	**(4%)**	**£12,364**	**2%**
Gross loans and advances to customers consists of:					
Retail mortgages	£7,591	£7,649	(1%)	£6,785	12%
Commercial lending[4]	£2,659	£2,847	(7%)	£2,993	(11%)
Consumer lending	£1,410	£1,480	(5%)	£1,269	11%
Government-backed lending[5]	£1,109	£1,313	(16%)	£1,488	(25%)

4. Includes CLBILS.
5. BBLS, CBILS and RLS.

- **Total net loans as at 30 June 2023 were £12.6 billion, down 4% compared to £13.1 billion at 31 December 2022** as the bank continues to focus on optimising risk-adjusted return on regulatory capital through the strategic allocation of RWAs, noting that unfulfilled demand exists across all lending products. Yields continue to improve reflecting further rate rises and decisions on mix optimisation. The loan to deposit ratio remained stable at 81% (31 December 2022: 82%).

- **Retail mortgages of £7.6 billion remained flat compared to the full year position (31 December 2022: £7.6 billion) as they were constrained to replacement levels**. Owner occupied mortgages represent 72% of total portfolio (31 December 2022: 72%). £779 million of retail mortgages matured in the first half at an average yield of 2.28% and a further £1.1 billion is expected to mature in the second half at an average yield of 2.38%. The DTV of the portfolio was 58% (31 December 2022: 56%) reflecting updated valuations. The bank has signed up to the Mortgage Charter to provide additional support and ensure the best outcomes are achieved for customers potentially requiring support.

- **Commercial lending reduced by 7% to £2.7 billion** reflecting the continued reduction in the buy-to-let and real estate portfolios. 90% of term lending excluding Professional-Buy-To-Let and Bounce Back Loan Scheme (BBLS) is floating rate and the book remains highly collateralised. Commercial real estate is down 9% compared to 31 December 2022 and now makes up 23% of the book.

- **Consumer lending reduced by 5% to £1.4 billion (31 December 2022: £1.5 billion)** as the bank continued to optimise lending mix and capital allocation. High quality application volumes remain strong and for originations in the first half the average customer income was £49,000 (H2 2022: £48,000, H1 2022: £46,000). Non-performing loans for consumer unsecured were 4.8% at 30 June 2023 (31 December 2022: 3.4%) in line with the expected maturity profile, and the portfolio has prudent ECL coverage of 6.6% (31 December 2022: 5.1%).

- **Government backed lending is now closed to new borrowers and continues to reduce as loans are repaid.** The bank continues to have a strong record of claims made to the British Business Bank being upheld.

- **The loan portfolio remains highly collateralised and prudently provisioned.** In H1 2023 the average DTV for retail mortgages was 58% (31 December 2022: 56%) and for commercial lending 55% (31 December 2022: 55%). The ECL provision as at 30 June 2023 was £197 million with a coverage ratio of 1.54%, compared to £187 million with a coverage ratio of 1.41% as at 31 December 2022. The level of Post-Model Overlays and Adjustments remained appropriate at 12% of the ECL stock, or £24 million.

- **Cost of risk decreased to 0.18% for the half (H2 2022: 0.33%)**. The bank has seen several months in the first half where repayments and ECL releases from the commercial book lowered the risk costs. The credit quality of new lending continues to be strong although the macro-economic environment remains uncertain and the bank has retained its prudent approach to provisioning.

- **Overall arrears levels have remained broadly stable and there have been no significant signs of increased stress. Non-performing loans increased to 2.9% (31 December 2022: 2.6%)** driven by maturation of the consumer portfolio and impacts of cost of living on the retail mortgages book, partly offset by successful BBLS claims and repayments of a number of large commercial exposures. Excluding government-backed lending, non-performing loans were 2.5% as at 30 June 2023 (31 December 2022: 2.0%).

Profit and Loss Account

- **Underlying profit before tax of £16.1 million achieved in the first half (H2 2022: loss of £2.6 million)** following completion of the turnaround plan that set out to return the bank to profitability. The balance sheet optimisation strategy has transformed the balance sheet to maximise return on regulatory capital whilst margins have been improved through disciplined cost control. Growth in profitability from here remains constrained as the bank assertively manages its capital position.

- **Statutory profit before tax of £15.4 million (H2 2022: loss of £10.5 million)** reflects significantly reduced exceptional items as one-off remediation programs have been delivered and the holding company was successfully inserted.

- **Net interest margin (NIM) of 2.14% for the half is up 3bps compared to 2.11% in H2 2022** and 1.73% in H1 2022 reflecting the strategy to optimise lending mix for risk adjusted return on regulatory capital and continued rate rises. NIM growth is limited by continued pressure on deposit pricing, the increased mix of FTDs and the capital constraints on asset growth.

- **Underlying net interest income remained broadly flat HoH at £221.5 million (H2 2022: £223.3 million)** as the bank's ability to grow lending remains constrained by capital and benefits seen from assets maturing into higher rate environments are offset by increased deposit costs.

- **Underlying net fee and other income increased marginally HoH to £63.3 million (H2 2022: £62.6 million, H1 2022: £55.3 million).** The YoY increase of 14% better reflects the seasonal nature of fee income largely driven by customer activity, the second half includes higher FX income as customers travel more and we have seen growth in safe deposit box income as more customers return to using stores post-pandemic.

- **Underlying costs reduced 3% to £258.2 million (H2 2022: £266.5 million)** despite rising inflation, reflecting the bank's continued focus on cost discipline, automation initiatives and investment in infrastructure to enable the bank to deliver significant increases in volume with only marginal increases in cost, and therefore improve operational leverage.

Capital, Funding and Liquidity

Capital ratios	**Position 30 June 2023**	**Position 31 December 2022**	**Minimum requirement including buffers[6]**	**Minimum requirement excluding buffers**
Common Equity Tier 1 (CET1)	10.4%	10.3%	8.2%	4.7%
Tier 1	10.4%	10.3%	9.8%	6.3%
Total Capital	13.2%	13.4%	11.9%	8.4%
Total Capital + MREL	18.1%	17.7%	20.2%	16.7%

6. Based on capital requirements at 30 June 2023 plus buffers, excluding any confidential PRA buffer, if applicable.

- **As at 1 January 2023 the bank's MREL ratio was 17.4% following a step down in the IFRS 9 ECL relief on 1 January 2023,** as such the current position reflects the capital accretion of net 70bps as the bank achieved statutory profitability in the half and assertively managed asset origination volumes and RWA.

- **Total capital ratio reduced by 20bps in the half** reflecting the impact of the haircut to the Tier 2 instrument, arising from implementation of the holding company in May 2023.

- **Effective 1 January 2023** the Prudential Regulation Authority (PRA) reduced the bank's Pillar 2A capital requirement from 0.50% to 0.36%.

- **Effective 5 July 2023** the Countercyclical Buffer (CCyB) increased from 1% to 2%. Following the CCyB increase, the bank is now operating within both the Tier 1 and MREL buffers and continues to strategically manage RWA allocation to ensure all regulatory minimum requirements are met and the group is able to gradually accrete capital headroom.

- **On 28 July 2023** the Bank of England's Resolution Directorate agreed to a further extension of the eligibility of the £250 million 9.139% Tier 2 Notes (the "Notes") issued by Metro Bank PLC with respect to MREL for Metro Bank Holdings PLC for the remaining life of the instrument (June 2028).

- **Total RWAs as at 30 June 2023 were £7.8 billion (31 December 2022: £8.0 billion)** reflecting the bank's decision to strategically limit asset and liability growth to accrete capital in the near term.

- **Strong liquidity and funding position maintained**. Customer loans continued to be funded fully by customer deposits with a loan to deposit ratio of 81% compared to 82% at the end of 2022. The Liquidity Coverage Ratio (LCR) was 214% compared to 213% at 31 December 2022, and the Net Stable Funding Ratio (NSFR) was 132% compared to 134% at 31 December 2022, both remain significantly above their respective requirements.

- **The Treasury portfolio of £8.0 billion includes £5.3 billion of investment securities, of which 77% are rated AAA and 23% rated AA.** The average repricing duration excluding cash is 1.1 years and £560 million of securities are due to mature in H2 2023 at an average yield of 3.7%. Of the total investment securities, 91% is held at amortised cost and 9% is held at fair value through other comprehensive income.

- **UK leverage ratio was 4.4% as at 30 June 2023 (31 December 2022: 4.2%).**

- The bank's AIRB application is still in progress. As previously highlighted, the bank continues to review its options, across the capital stack, to strengthen its capital base.

Outlook and Guidance

- Guidance for 2023 has been re-affirmed including the ROTE target of mid-single digit by 2024.

	2022	**2023**
NIM	1.92%	NIM accretion over 2023 tempered by limited ability to leverage balance sheet
Lending yield	3.67%	Continue optimising mix for maximum risk-adjusted returns on regulatory capital
Cost of deposits	0.20%	Pricing will reflect rate environment and competitive pressures, expect strong account acquisition to offset lower average customer balances
Underlying costs	£533m	Inflationary pressures expected to moderately outweigh cost initiatives
Cost of risk	0.32%	Watchful of economic cycle but not yet seeing significant signs of stress
RWA	£8.0b	Managed for optimal risk-adjusted returns on regulatory capital as lending growth constrained by capital availability
MREL	17.7%	Continue to operate within buffers with increasing headroom to regulatory minima

Metro Bank Holdings PLC

Summary Balance Sheet and Profit & Loss Account

(Unaudited)

Balance Sheet	**YoY change**	**HoH change**	**30 Jun 2023** ***£'million***	**31 Dec 2022** ***£'million***	**30 Jun 2022** ***£'million***
Assets					
Loans and advances to customers	2%	(4%)	£12,572	£13,102	£12,364
Treasury assets[7]			£8,023	£7,870	£9,036
Other assets[8]			£1,152	£1,147	£1,166
Total assets	**(4%)**	**(2%)**	**£21,747**	**£22,119**	**£22,566**
Liabilities					
Deposits from customers	(6%)	(3%)	£15,529	£16,014	£16,514
Deposits from central banks			£3,800	£3,800	£3,800
Debt securities			£573	£571	£577
Other liabilities			£875	£778	£706
Total liabilities	**(4%)**	**(2%)**	**£20,777**	**£21,163**	**£21,597**
Total shareholder's equity			**£970**	**£956**	**£969**
Total equity and liabilities			**£21,747**	**£22,119**	**£22,566**

7. Comprises investment securities and cash & balances with the Bank of England.
8. Comprises property, plant & equipment, intangible assets and other assets.

Profit & Loss Account	YoY change	HoH change	Half year ended 30 Jun 2023 *£'million*	31 Dec 2022 *£'million*	30 Jun 2022 *£'million*
Underlying net interest income	22%	(1%)	£221.5	£223.3	£180.9
Underlying net fee and other income	14%	1%	£63.3	£62.6	£55.3
Underlying net gains on sale of assets			£0.8	-	-
Total underlying revenue	**21%**	**-**	**£285.6**	**£285.9**	**£236.2**
Underlying operating costs	(3%)	(3%)	(£258.2)	(£266.5)	(£266.3)
Expected credit loss expense			(£11.3)	(£22.0)	(£17.9)
Underlying profit/(loss) before tax			**£16.1**	**(£2.6)**	**(£48.0)**
Impairment and write-off of property plant & equipment and intangible assets			-	(£1.5)	(£8.2)
Transformation costs			-	(£2.3)	(£1.0)
Remediation costs			£0.8	(£2.3)	(£3.0)
Holding company insertion			(£1.5)	(£1.8)	-
Statutory profit/(loss) before tax			**£15.4**	**(£10.5)**	**(£60.2)**
Statutory taxation			(£2.7)	(£0.5)	(£1.5)
Statutory profit/(loss) after tax			**£12.7**	**(£11.0)**	**(£61.7)**

Key metrics	Half year ended 30 Jun 2023	31 Dec 2022	30 Jun 2022
Underlying earnings per share – basic	7.8p	(2.0p)	(28.5p)
Number of shares	172.6m	172.5m	172.4m
Net interest margin (NIM)	2.14%	2.11%	1.73%
Cost of deposits	0.66%	0.25%	0.14%
Cost of risk	0.18%	0.33%	0.29%
Arrears rate	3.5%	3.2%	3.1%
Underlying cost:income ratio	90%	93%	113%
Tangible book value per share	£4.42	£4.29	£4.30

Enquiries

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About Metro Bank

Metro Bank services 2.8 million customer accounts and is celebrated for its exceptional customer experience. It is the highest rated high street bank for overall service quality for personal customers and the best bank for service in-store for personal and business customers, in the Competition and Markets Authority's Service Quality Survey in February 2023. Metro Bank has also been awarded "2023 Best Lender of the Year – UK" in the M&A Today, Global Awards, "Best Mortgage Provider of the Year" in 2022 MoneyAge Mortgage Awards, "Best Business Credit Card" in 2022 Moneynet Personal Finance Awards, "Best Business Credit Card 2022", Forbes Advisor, "Best Current Account for Overseas Use" by Forbes 2022 and accredited as a top ten Most Loved Workplace 2022. It was "Banking Brand of The Year" at the Moneynet Personal Finance Awards 2021 and received the Gold Award in the Armed Forces Covenant's Employer Recognition Scheme 2021.

The community bank offers retail, business, commercial and private banking services, and prides itself on giving customers the choice to bank however, whenever and wherever they choose, and supporting the customers and communities it serves. Whether that's through its network of 76 stores open seven days a week, 362 days a year; on the phone through its UK-based contact centres; or online through its internet banking or award-winning mobile app, the bank offers customers real choice.

Metro Bank Holdings PLC (registered in England and Wales with company number 14387040, registered office: One Southampton Row, London, WC1B 5HA) is the listed entity and holding company of Metro Bank PLC.

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