



# FY 2020 RESULTS PRESENTATION

24 February 2021

# Agenda

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- |          |                          |                      |
|----------|--------------------------|----------------------|
| <b>1</b> | <b>Overview</b>          | Daniel Frumkin (CEO) |
| <b>2</b> | <b>Financial results</b> | David Arden (CFO)    |
| <b>3</b> | <b>Strategic update</b>  | Daniel Frumkin (CEO) |
| <b>4</b> | <b>Q&amp;A</b>           |                      |



# Overview

Daniel Frumkin (CEO)

# Executing the strategy in unprecedented times

## Our strengths

- Customer-centric culture
- Differentiated customer proposition
- Retail and SME deposit balances up, 2.2 million accounts and growing
- Robust balance sheet
- Near-term need to issue MREL removed

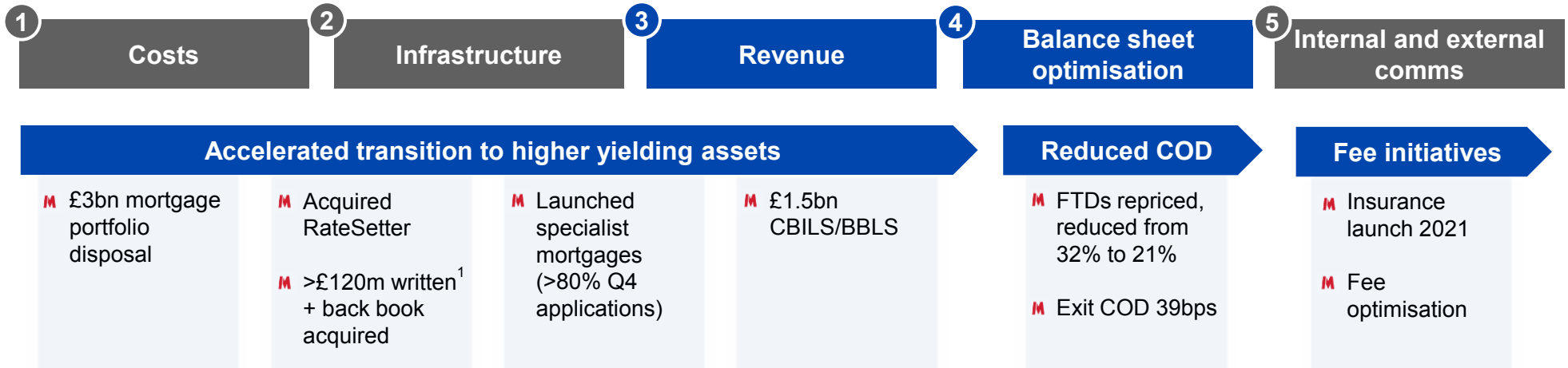
## External challenges

- Lower for longer rate environment presents income challenges, amplified by COVID-19
- Ring-fencing implications for mortgage market competition

## Internal challenges

- Negative operating jaws
- Existing stores consumed capital and are a fixed cost
- Optimise in-store processes
- Meet more customer needs through products and services
- More automated decisioning and risk-based pricing
- More investment in people, processes and platforms

Strategic pillars remain unchanged. Liability-led strategy supplemented by acceleration of asset mix shift in response to longer term impacts of COVID-19.



Status vs Feb-20: ■ Improved ■ Unchanged ■ Worsened

(1) Total gross new lending through RateSetter channels post-acquisition to 16 February 2021

# Supporting our customers, colleagues and communities

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## Customers

- M 100% of store network remained open throughout the pandemic
- M Contact centre open daily and digital services available 24/7
- M Opened stores in new communities
- M Supported vulnerable customers
- M Provided £1.5bn government-backed business loans

## Colleagues

- M Additional COVID-19 leave granted with enhanced sick leave benefits
- M No use of government furlough scheme
- M £2m 'Thank You' fund for colleagues paid in July after the first lockdown
- M Colleagues equipped to work from home
- M Launched Health and Wellbeing hub to support physical and mental wellbeing

## Communities

- M Colleagues given 5 days to AMAZE to volunteer / support in local communities
- M Stores also supported their local communities with a number of initiatives, such as:
  - Delivering bags of hot food to vulnerable families and the elderly
  - Supporting local pharmacies transporting deliveries



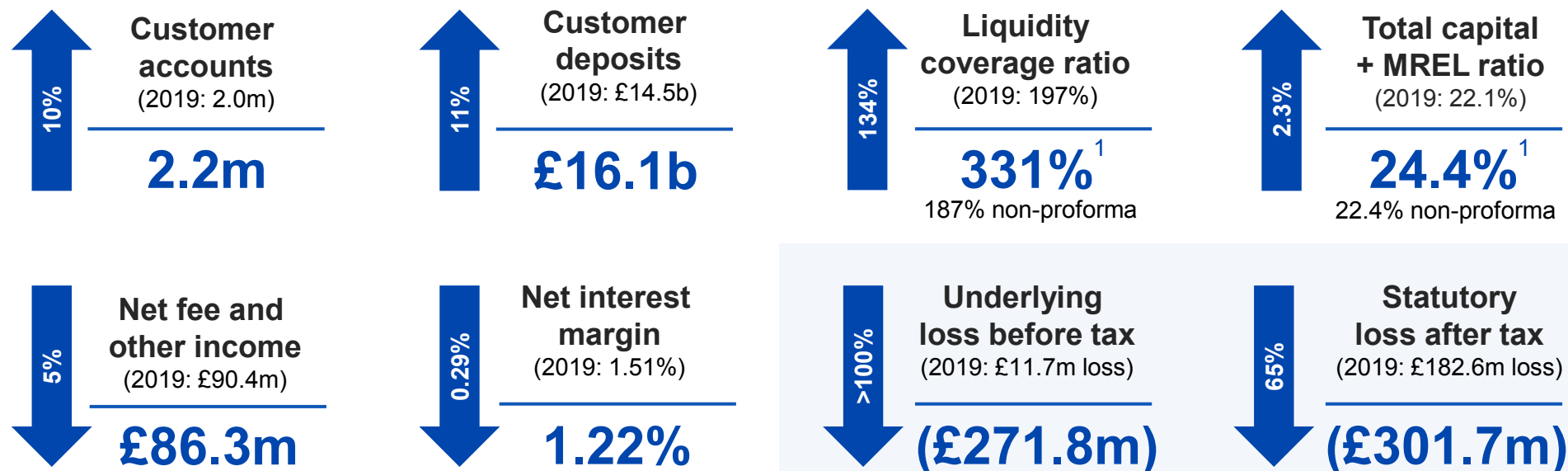
Community banking remains at the heart of what we do



# Financial results

David Arden (CFO)

# Key performance indicators



- M** Strong customer account and core<sup>2</sup> deposit growth
- M** Like for like<sup>3</sup> 'Run the Bank' costs grew 1%
- M** P&L gathered momentum through the year, as the underlying loss in H2 was half the loss in the first six months

**Includes c.£124m of loss related to COVID-19**

ECL charge  
(c.£100m)

Customer activity  
(c.£35m)

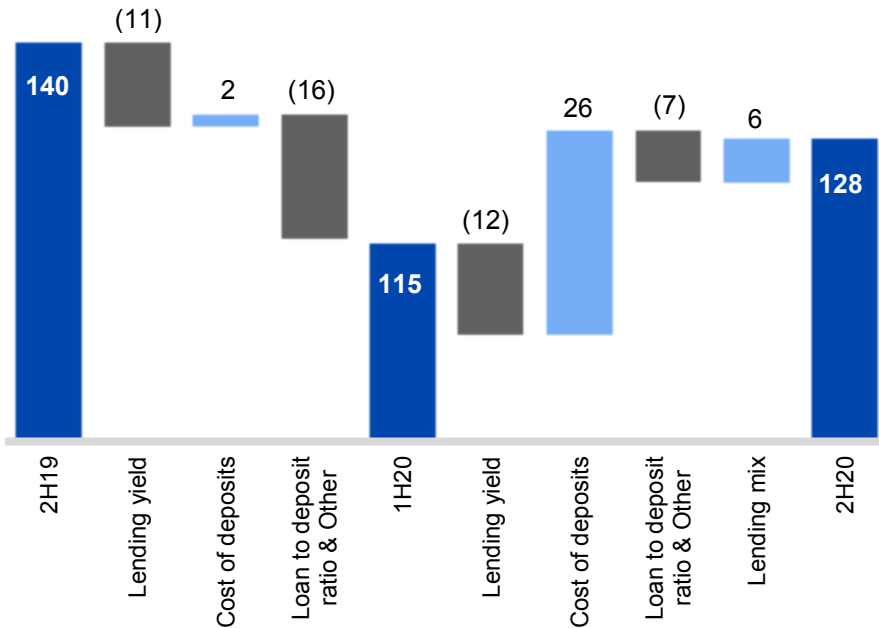
Direct costs  
(c.£6m)

BBLs income  
c.£17m

(1) Pro forma on completion of the residential mortgage portfolio sale, including the settlement of a receivable outstanding at year end  
 (2) Core excludes BBLs and CBILs related deposits which are expected to be transient  
 (3) Adjusted for COVID-19 expenses, RateSetter acquisition, colleague reward and new stores

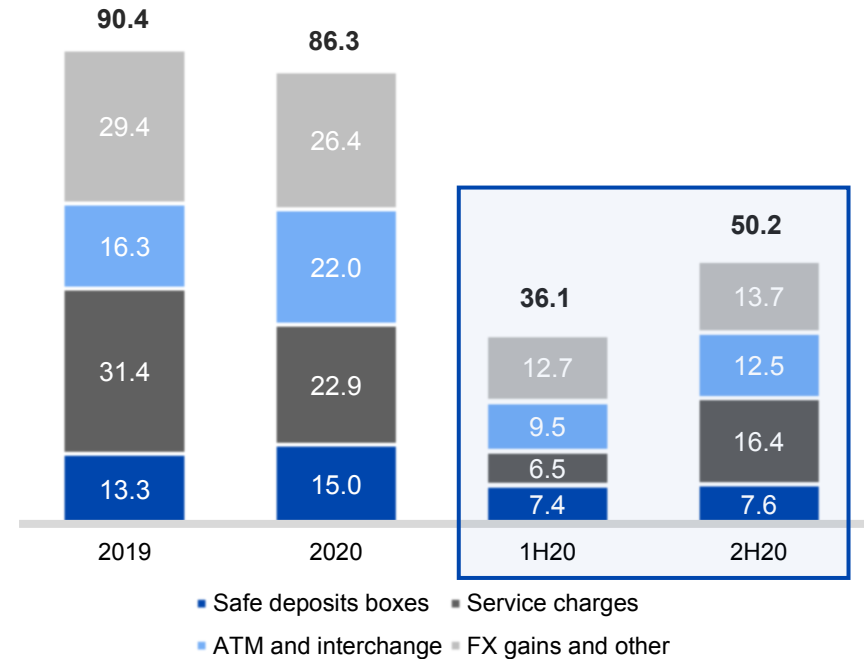
# Revenue

## NIM Bridge (bps)



- M NIM impacted by lower loan to deposit ratio and repricing lag effect following the base rate cut, this is offset by a significant improvement in cost of deposits during H2

## Net fee and other income<sup>1</sup> (£m)



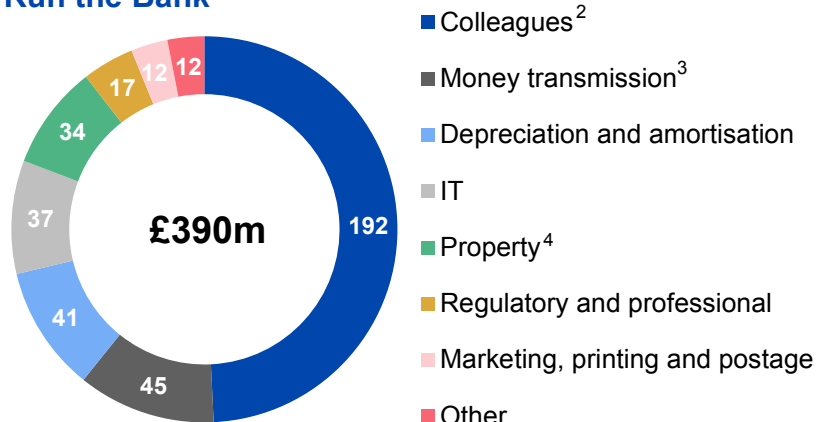
- M Key impacts of COVID-19: fees reducing year on year due to reduced transaction volumes, offset by new stores and safe deposit box utilisation
- M Fees to be supported by new product launches and pricing optimisation in 2021

(1) On an underlying basis

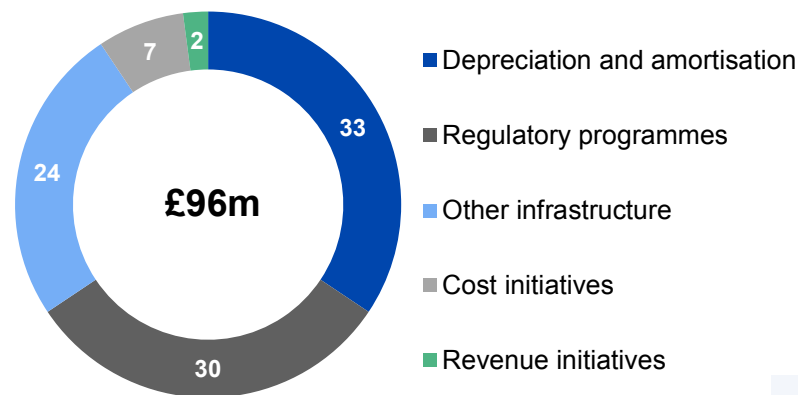


# Operating costs

## Run the Bank<sup>1</sup>

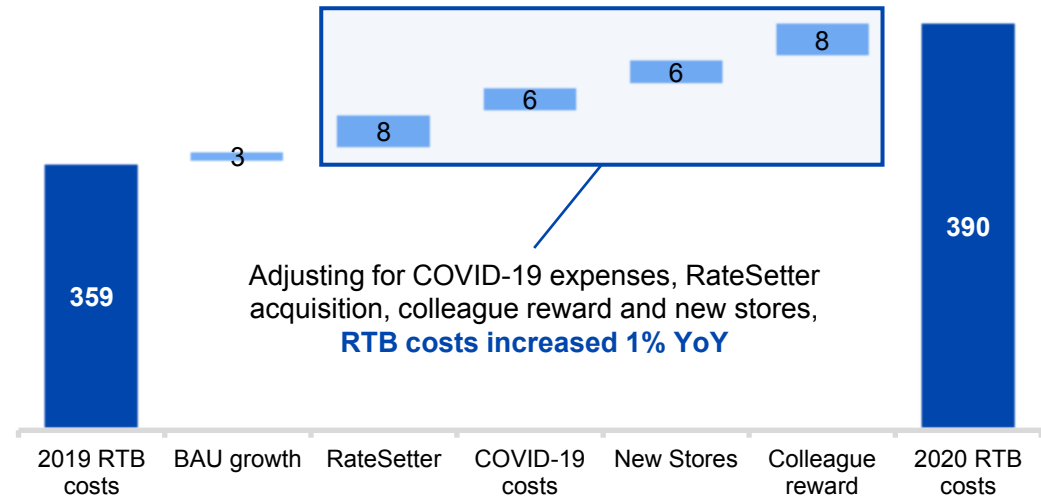


## Change the Bank<sup>1</sup>



## Run the Bank cost growth reflects continued cost discipline

- M** Run the Bank costs increased 1% on a like for like basis as shown below
- M** Property strategy accelerated with exit of central London property and freehold purchases reducing ongoing run costs



## Change the Bank spend on infrastructure enables efficient scaling

- M** The front loaded spend profile remains consistent with Feb-20 guidance<sup>5</sup>

Feb-20 guidance 2020-24	OPEX: £250-300m	£63m spend	c.25% of plan
	CAPEX: £100m	£31m spend	c.31% of plan

(1) Operating expense only  
 (2) Includes non-permanent colleagues and travel expenses  
 (3) Cards, payments and other banking related costs  
 (4) Leases and running costs  
 (5) Excludes C&I, depreciation and amortisation

# Expected credit loss expense

## ECL expense and Cost of Risk

	ECL expense (£m)			Cost of Risk <sup>1</sup> (%)		
	1H20	2H20	Change	1H20	2H20	Change
Retail Mortgages	32	(8)	(40)	0.66	(0.18)	(0.84)
Commercial Lending	71	20	(51)	3.49	0.75	(2.74)
Consumer Lending	9	3	(6)	7.35	4.42	(2.93)
<b>Total ECL</b>	<b>112</b>	<b>15</b>	<b>(97)</b>	<b>1.55</b>	<b>0.20</b>	<b>(1.35)</b>

**M** Neutral macroeconomic outlook provision movement in H2 reflects:

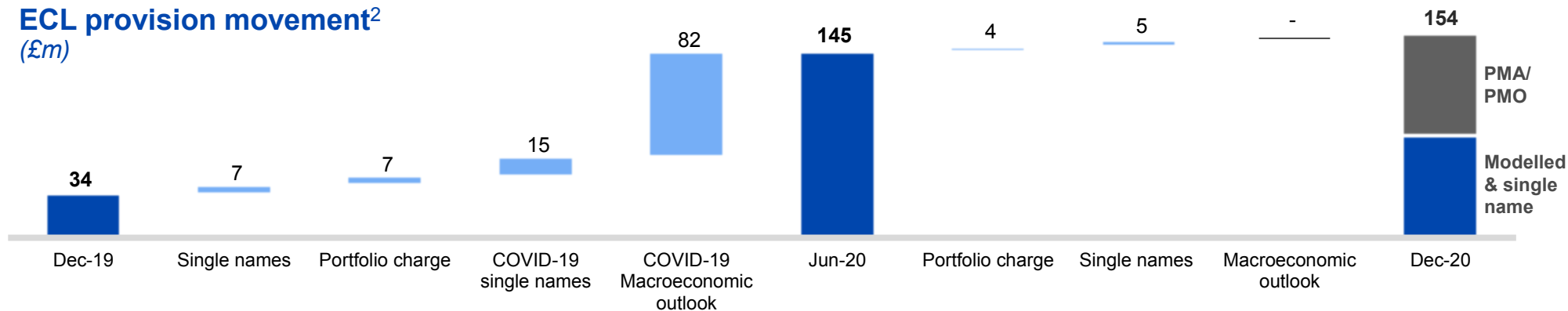
Improvement in modelled macro scenarios vs H1

**M** Offset by:

Increased post model overlays (PMO) and post model adjustments (PMA) capturing:

- uncertainties to economic forecast
- payment deferrals offered to customers
- increased risks to COVID-19 vulnerable sectors
- assessment of the impacts of Brexit
- factors the current models do not incorporate

## ECL provision movement<sup>2</sup> (£m)

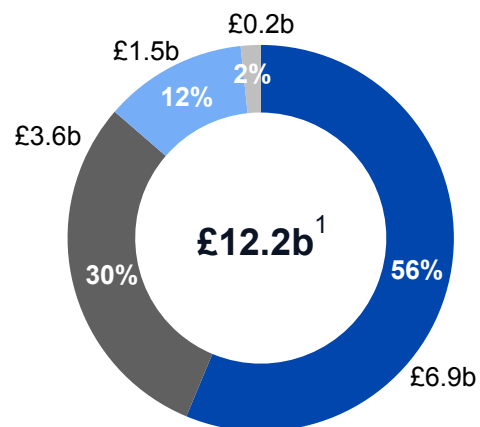


(1) Calculated on an annualised basis

(2) The difference between ECL expense and ECL provision movement relates to adjustments following disposal of the mortgage portfolio in H2, write offs and other movements

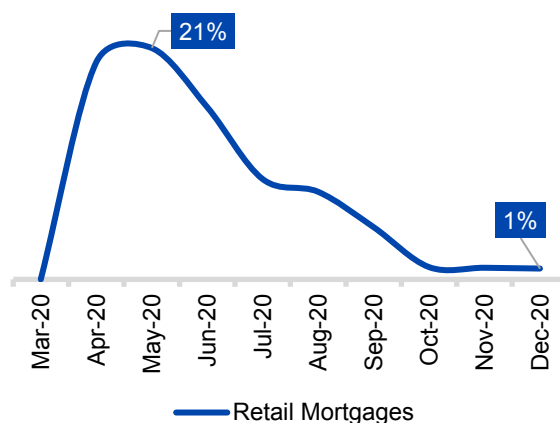
# Asset quality and lending overview

## Lending portfolio

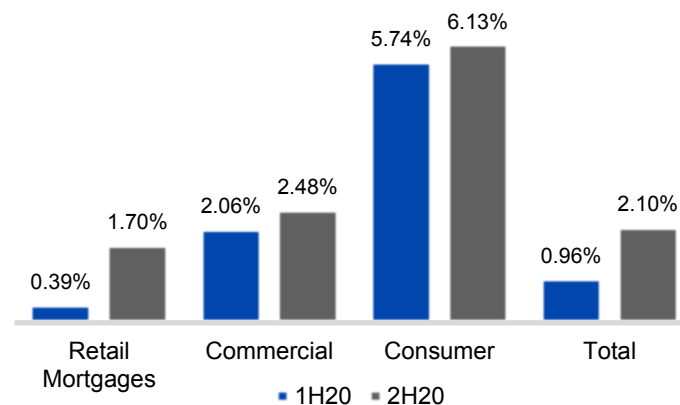


■ Retail Mortgages    ■ Commercial  
■ CBILS / BBLS    ■ Consumer

## Active payment deferrals<sup>2</sup>



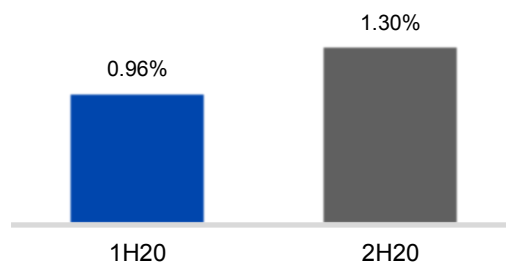
## Non-performing loans



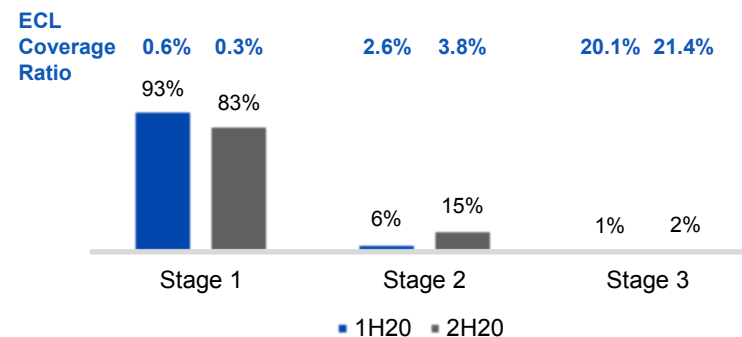
## Average debt-to-value

- M Retail Mortgage 56% reduced from 59% at 1H20 reflecting mortgage book disposal and HPI indexation
- M Commercial term loan 56% vs 60% at 1H20

## ECL coverage ratio



## Balance by IFRS9 stages

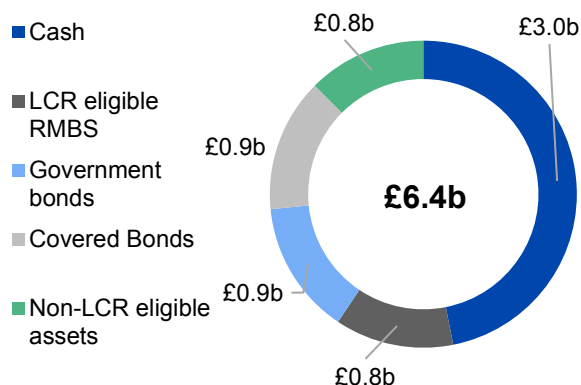


(1) Total gross lending  
 (2) Mortgage payment deferrals were granted to 22% of customers in total

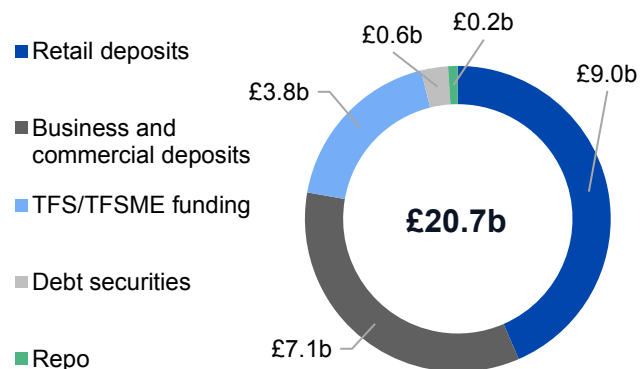
# High quality and liquid balance sheet

## Less competitive FTD pricing expected to reduce excess liquidity going forward

### 88% of treasury assets LCR eligible



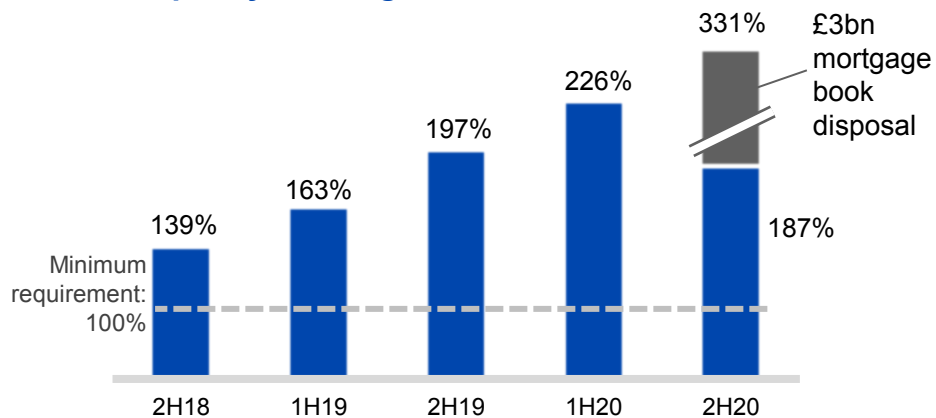
### Primarily deposit-funded balance sheet



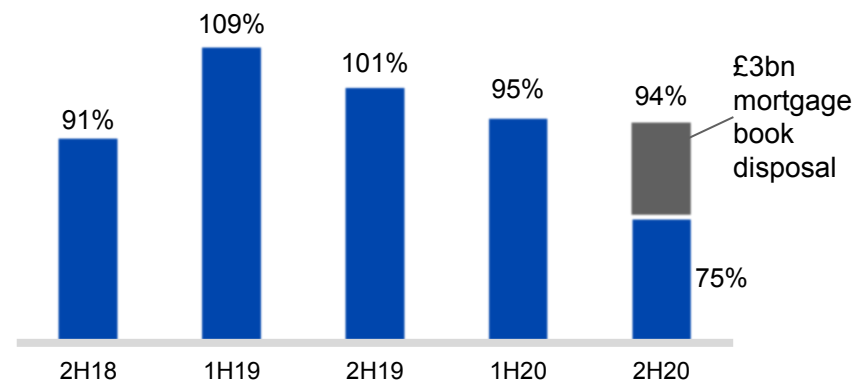
### Approach to TFS and TFSME

- M TFSME regime introduced in March provides access to significant additional funding
- M Introduces further flexibility to our funding plans
- M Rolled over £550m of maturing TFS drawings into TFSME

### Liquidity coverage ratio



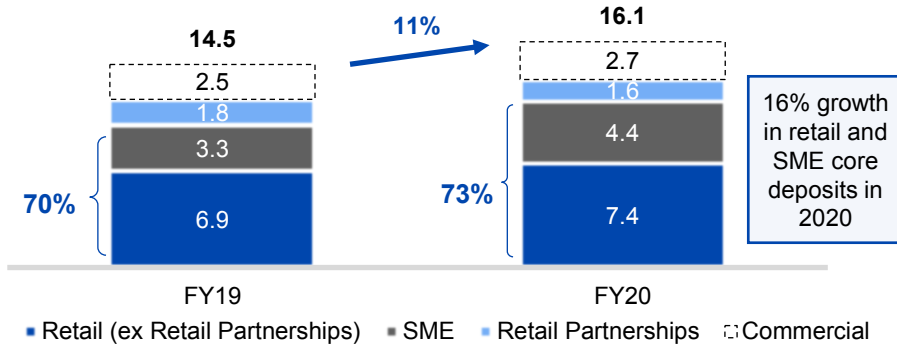
### Loan to deposit ratio



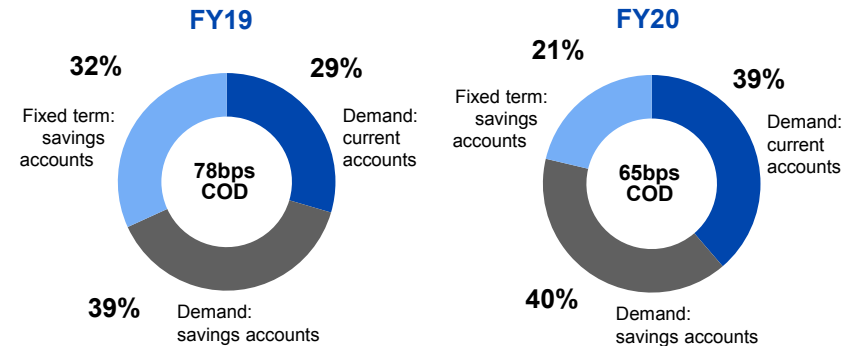
# Deposits

Continued growth in high quality personal and SME deposits structurally reduces the COD, balances funded by BLS may be transient

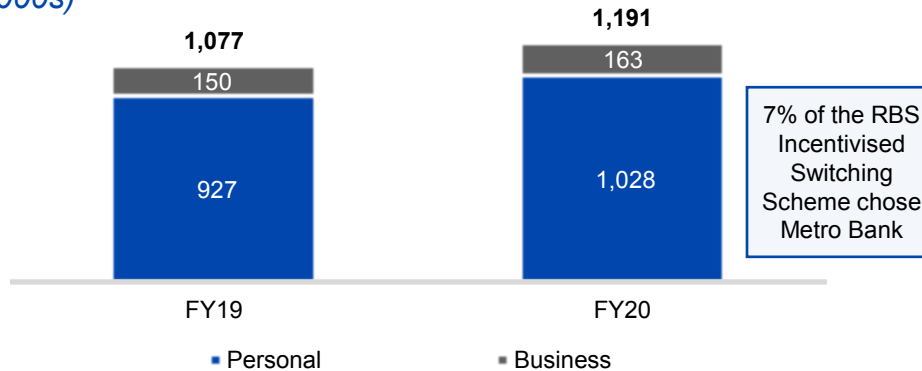
## Deposits by customer type (£b)



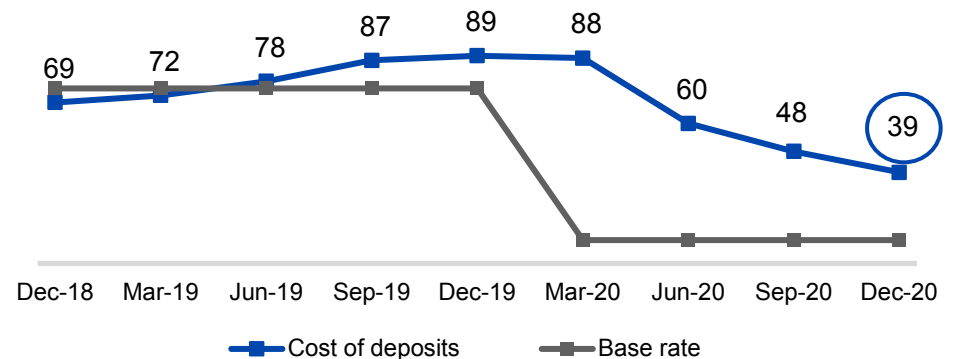
## Favourable mix shift to 39% current accounts



## Current accounts (000s)

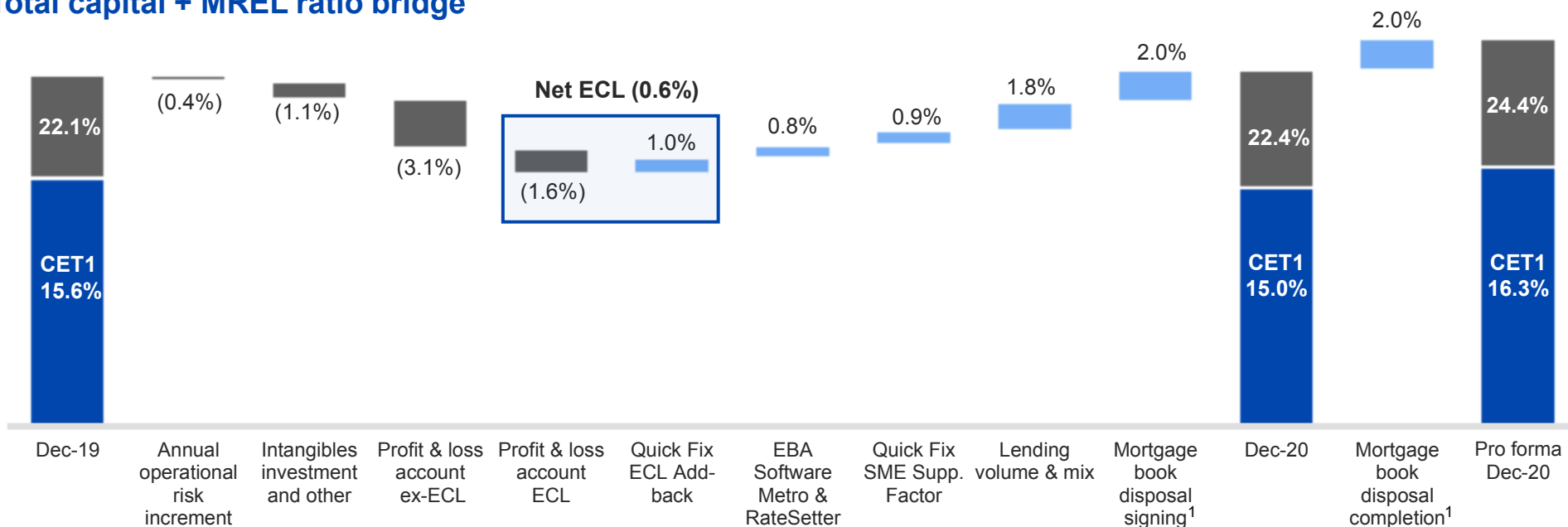


## Base rate cut supported exit COD of 39bps - FTDs continue to roll off



# Capital

## Total capital + MREL ratio bridge



### Regulatory changes in period - CRR 2.5 'Quick Fix'

- IFRS9 transitional agreement revision
- SME supporting factor changes

### EBA software adjustment

- PRA (CP5/21) expects to revert to full deduction of intangibles in 2021, therefore benefit of software uplift not reflected in internal forecasts or lending decisions

### MREL issuance considerations

- No current need to issue MREL in 2021
- End state MREL and requirement to implement HoldCo both delayed to 1 January 2023

(1) 2.0% proforma increase includes the settlement of a receivable at 31 December and the recognition of the remaining 10% on completion

£m	Dec 2020	Dec 2019	Change
Net interest income	250.3	308.1	(19%)
Net fees and other income	86.3	90.4	(5%)
Net gains on sale of assets	4.3	1.6	>100%
<b>Total underlying revenue</b>	<b>340.9</b>	<b>400.1</b>	<b>(15%)</b>
<i>'Run the Bank' costs</i>	<i>(390.4)</i>	<i>(358.6)</i>	<i>9%</i>
<i>'Change the Bank' costs</i>	<i>(95.6)</i>	<i>(41.5)</i>	<i>&gt;100%</i>
Operating costs	(486.0)	(400.1)	21%
Expected credit loss expense	(126.7)	(11.7)	>100%
<b>Underlying loss before tax</b>	<b>(271.8)</b>	<b>(11.7)</b>	<b>&gt;100%</b>
Non-underlying items	(39.6)	(119.1)	(67%)
Statutory taxation	9.7	(51.8)	(>100%)
<b>Statutory loss after tax</b>	<b>(301.7)</b>	<b>(182.6)</b>	<b>65%</b>
Underlying EPS basic	(151.7p)	(10.8p)	(>100%)
<b>Ratios</b>			
Net interest margin	1.22%	1.51%	(0.29%)
Cost of deposits	0.65%	0.78%	(0.13%)
Underlying cost to income ratio	143%	100%	43%
Cost of risk <sup>1</sup>	0.86%	0.08%	0.78%

**M** The P&L gained momentum in the second half with a loss of £88m compared to £183m in the first, driven by lower cost of deposits and recovering customer activity

**M** Lower capitalisation of investment spend drives higher operating cost, as guided

**M** Impairment and write-off of PP&E £(40.6)m: primarily relates to exit of a central London office space

**M** Remediation costs £(40.8)m: ongoing remediation programmes in relation to sanctions procedures and RWA

**M** Transformation costs (£16.7)m: costs associated with the delivery of the cost transformation programme and includes some costs related to the exit of central London property

**M** Business acquisition and integration costs (£5.4)m: costs associated with acquisition of the RateSetter platform, completed in September.

**M** Gain on mortgage portfolio sale (net of costs) £63.7m: includes recognition of 90% of the gain, remaining 10% to be recognised on completion

# Balance Sheet

£m	Dec 2020	Dec 2019	Change	
Loans and advances to customers	12,090	14,681	(18%)	
Treasury assets <sup>1</sup>	6,406	5,554	15%	
Other assets <sup>2</sup>	4,083	1,165	>100%	
<b>Total assets</b>	<b>22,579</b>	<b>21,400</b>	<b>6%</b>	
Deposits from customers	16,072	14,477	11%	
Deposits from central banks	3,808	3,801	-	
Debt securities	600	591	2%	
Other liabilities	810	948	(15%)	
<b>Total liabilities</b>	<b>21,290</b>	<b>19,817</b>	<b>7%</b>	
Shareholders' funds	1,289	1,583	(19%)	
<b>Total equity and liabilities</b>	<b>22,579</b>	<b>21,400</b>	<b>6%</b>	
CET1 capital ratio	15.0%	15.6%	(0.6%)	
Total capital ratio	18.1%	18.3%	(0.2%)	
Total capital + MREL ratio	22.4%	22.1%	0.3%	
Regulatory leverage ratio	5.6%	6.6%	(1.0%)	
Risk weighted assets	7,957	9,147	(13%)	
Loan to deposit ratio	75%	101%	(26%)	
Liquidity coverage ratio	187%	197%	(10%)	

**M** Strong deposit growth, lower new business volume (ex-BBLS and CBILS) and the mortgage portfolio sale reduced LTD to 75%

**M** RWA density reduced due to capital-light government-backed business lending and sale of the mortgage portfolio

**M** LCR at 187% on a non-proforma basis remains strong

**M** Other assets includes the receivable for the mortgage portfolio sale

(1) Comprises investment securities and cash & balances with the Bank of England  
(2) Comprises property, plant and equipment, intangible assets and other assets





# Strategic update

Daniel Frumkin (CEO)

# Powering profitable growth by meeting more customer needs







Continued customer excellence → **Bank of the Year** Money Age 2020    **Banking Brand of the Year** MoneyNet 2021    **#1 High Street Bank<sup>1</sup>** CMA February 2021

Opportunity to deepen customer relationships

## Initiatives

## Enablers

**Enhance products**

 Unsecured personal loans	 Overdrafts
 Credit cards	 Specialist mortgages
 Insurance products	 SME lending

**Broaden existing product offering**

Digital features and customer engagement

Enhance store processes and digital journeys



Develop digital origination journeys

Improved credit scoring

Product partnerships

Investing in store colleagues and training

**Product distribution**

 Digital	 Telephony
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Multi-channel servicing and origination

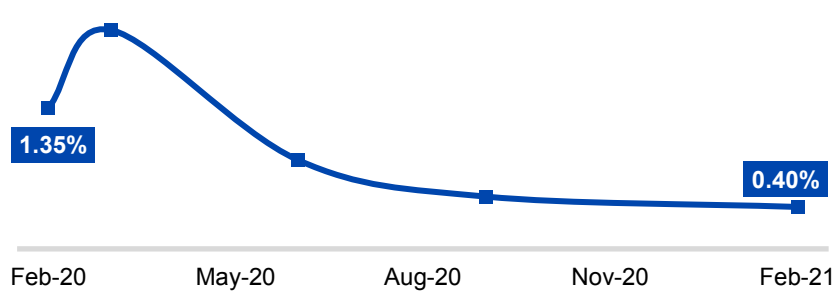
Multi-brand and direct marketing capability

Leveraging existing store estate, no new store openings in 2022 and 2023

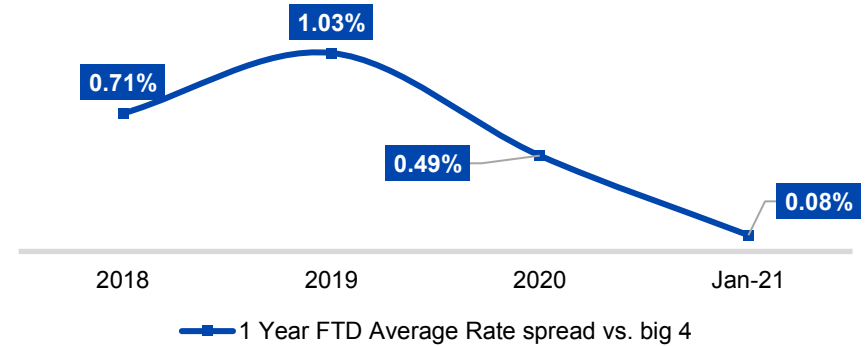
(1) Highest rated high street bank for overall service quality

# Accelerated asset-led strategy due to changing environment

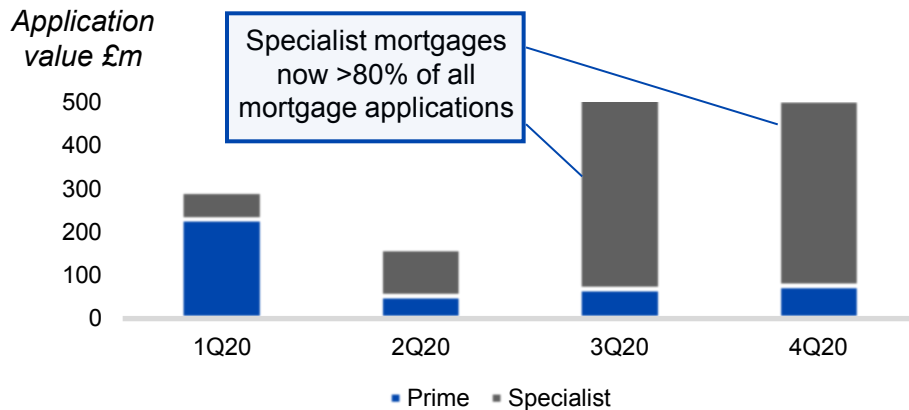
Treasury yields reduced significantly since Feb'20  
RMBS AAA Yield



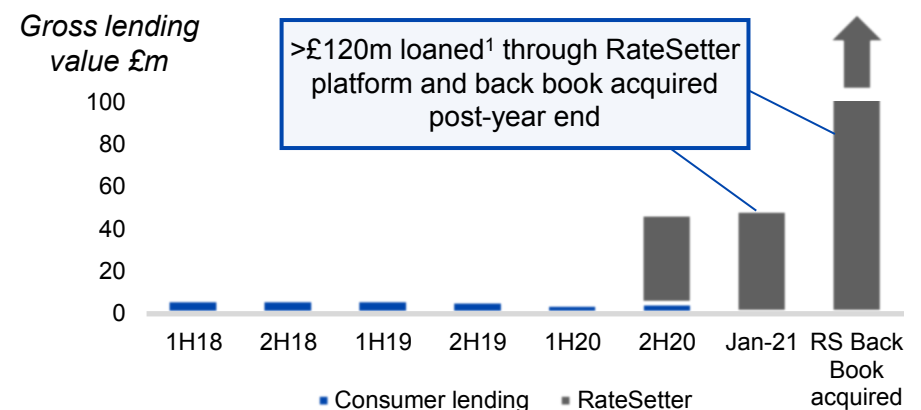
Deposit mix and pricing supports NIM accretion



Acceleration of specialist mortgages strategy



Unsecured lending accelerated through RateSetter



(1) Total gross lending since acquisition via RateSetter channels as at 16/02/2021

(2) Comparison of the average annual retail 1 year fixed term rates between Metro Bank, Lloyds, HSBC, Barclays and Natwest/RBS for January 2018 to January 2021 (Source: MoneyFacts.co.uk)

# Costs and Infrastructure: Containing growth in 'Run the Bank' costs and investing in infrastructure to enable efficient scaling

	Cost	Infrastructure
2020 Actions	<ul style="list-style-type: none"><li>M 'Run the Bank' cost growth of 1% on a like for like<sup>1</sup> basis</li><li>M Accelerated property strategy; <b>exited Central London property, purchased three freeholds</b> of existing stores and <b>shift to continued remote working</b></li><li>M <b>Procurement transformation</b> and <b>IT outsourcing</b> transformed</li><li>M E-forms and <b>process automation</b> across the bank</li></ul>	<ul style="list-style-type: none"><li>M <b>RateSetter platform integrated and originating</b> unsecured consumer lending</li><li>M <b>Regulatory requirements delivered</b> including PSD2, High cost of credit and Cross border regulation</li><li>M <b>IT landscape enhanced</b> with a security operations centre and platform upgrades</li><li>M Moved a <b>significant number of colleagues to work from home almost overnight</b></li></ul>
2021 Priorities	<ul style="list-style-type: none"><li>M <b>Customer service transformation</b></li><li>M Continued development of a <b>strategic collections capability</b> for the bank including meeting BBLS requirements</li><li>M <b>Continued management focus on cost discipline</b>, review of cost performance and discretionary spend</li></ul>	<ul style="list-style-type: none"><li>M Product delivery through <b>digital channels</b></li><li>M Delivery of regulatory requirements and <b>enhancements to regulatory reporting</b></li><li>M <b>IT and Operational resilience</b> programmes</li></ul>

(1) Adjusted for COVID-19 expenses, RateSetter acquisition, colleague reward and new stores

# Revenue and Balance sheet optimisation: Shifting asset mix and enhancing customer proposition to achieve higher return on capital

## Balance sheet optimisation

## Revenue

### 2020 Actions

- £3bn residential mortgage portfolio disposal with an average yield of 2.1%
- Acquisition and integration of RateSetter platform accelerates growth in consumer unsecured lending
- Re-entered high LTV mortgage market as part of specialist mortgages strategy, specialist mortgage applications accounted for >80% of all mortgage applications in 4Q20

- Launched BBLs and CBILs government backed loans including BBLs top-ups
- New products launched enhancing both retail and business customer propositions
- Unsecured consumer lending now originating through the RateSetter platform
- Announced acquisition of RateSetter back book of unsecured consumer loans

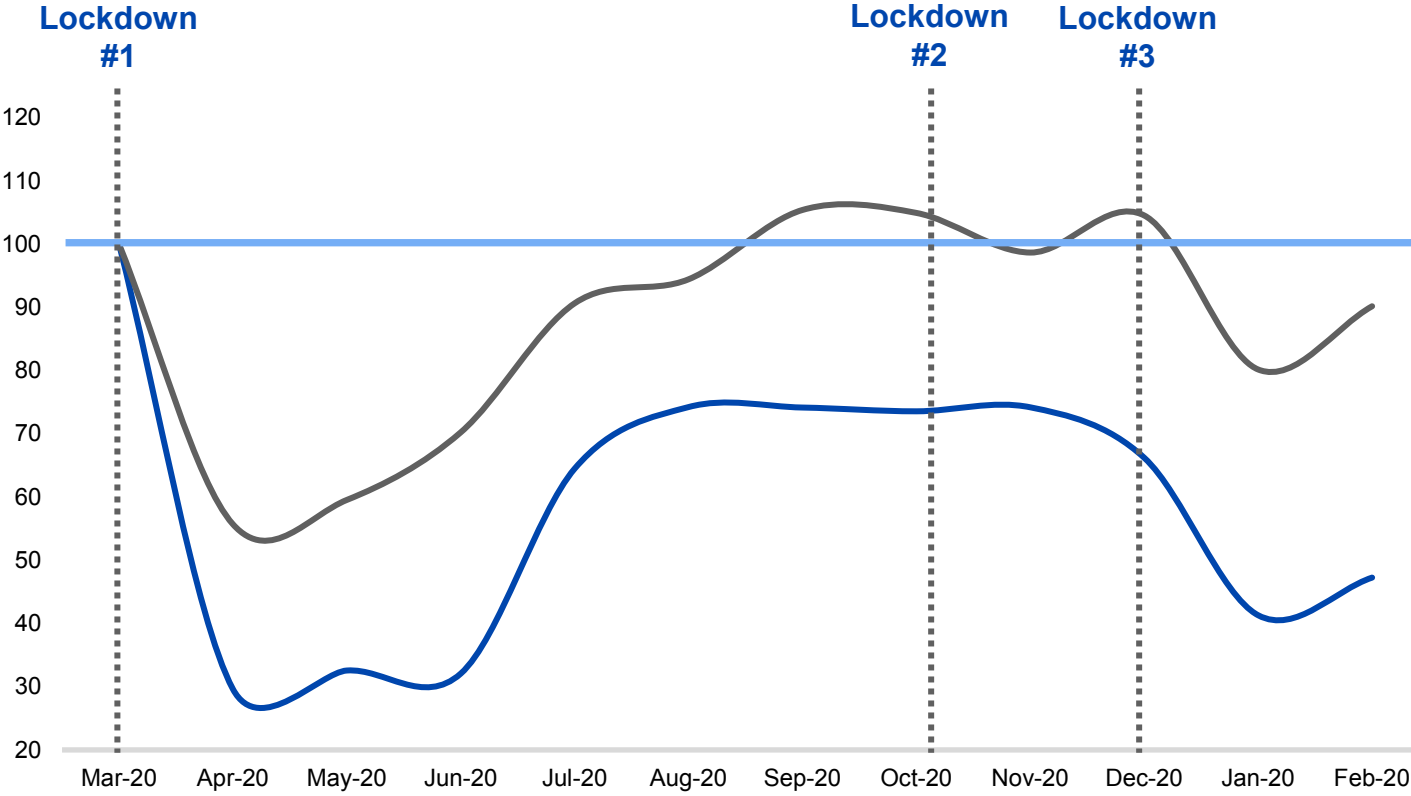
### 2021 Priorities

- Remain dynamic and opportunistic to seek capital efficiencies
- Accelerate unsecured lending and specialist mortgages to drive improved yields and reduce the lag effect on NIM

- Further proposition enhancements for both retail and business customers including insurance, credit cards, small business loans and enhanced business overdrafts
- Focus on opportunity to reach more customers through digital channels
- Furthering range of specialist mortgage products

# Customer activity trends throughout the pandemic

The lockdown impact is clear with reduced store and customer spending activity that recovers post-lockdown – the latest lockdown saw a lower impact than the first



**— Spending activity<sup>1</sup>**

Card transactions follow a similar trend to store footfall with reduced activity but a faster recovery as customers continue spending online.

**— Store activity<sup>1</sup>**

Store footfall reduces during lockdowns, this includes SDB visits, counter and ATM transactions. Activity recovers post lockdown and Feb-21 sees that same recovery begin as vaccines are rolled out.

(1) Activity levels shown as a percentage of pre-pandemic levels

# Summary

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- M** Strategic pillars set out in February 2020 remain unchanged, swift action taken to accelerate asset mix shift
  - Sale of £3bn residential mortgage portfolio at premium
  - RateSetter backbook increases yield with increased exposure to unsecured consumer lending
  - RateSetter platform acquisition brought capabilities and transactional brand to use in aggregator sites
  - Higher yielding specialist mortgages introduced and niche products in development
  
- M** Cost discipline improved
  - 'Run the Bank' cost growth 1% on a like for like<sup>1</sup> basis
  
- M** Continued investment in the customer proposition. Opportunity to
  - meet more customer needs through lending products and other services
  - reach more customers through digital and telephony channels as well as aggregator sites
  - offer more functionality and engagement and promote customer self-sufficiency
  
- M** Demonstrated balance sheet flexibility and strength
  
- M** 2021 economic and market outlook remains uncertain but commitment to customers, colleagues and communities is unwavering



## Q&A

**Daniel Frumkin**

Chief Executive Officer

**David Arden**

Chief Financial Officer

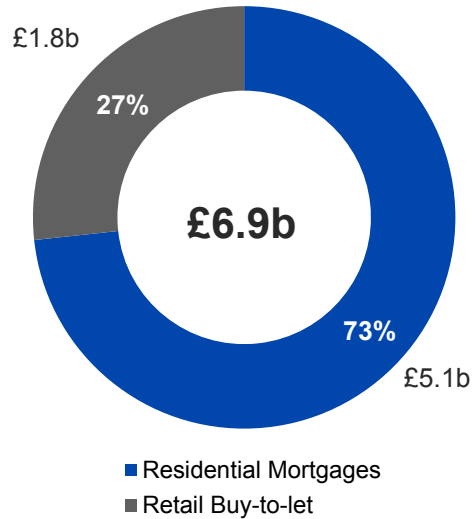




# Appendix

# Retail mortgages

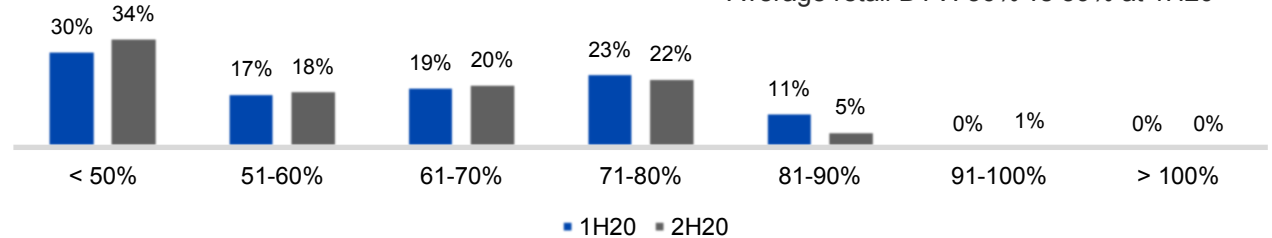
## Retail mortgage portfolio



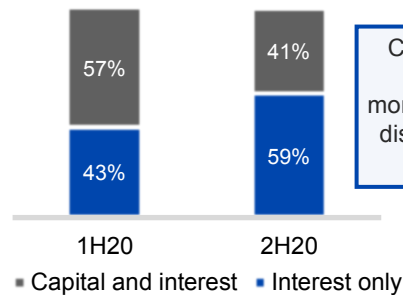
**M** Disposal of £3bn mortgage portfolio in Dec-20 consisted primarily of repayment mortgages and with a higher DTV than the remaining portfolio

**M** Payment deferrals active at 31 December represented <1% of the portfolio. Number of active deferrals have reduced by >91% since 1H20

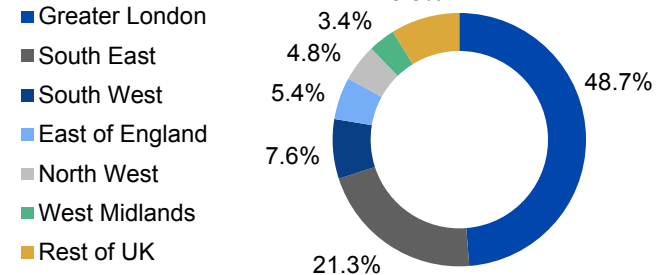
## Retail mortgages debt-to-value



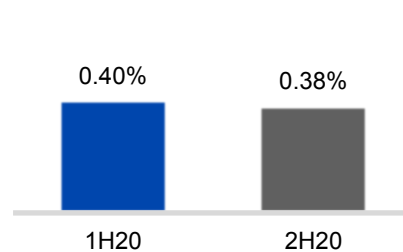
## Retail mortgages repayment type



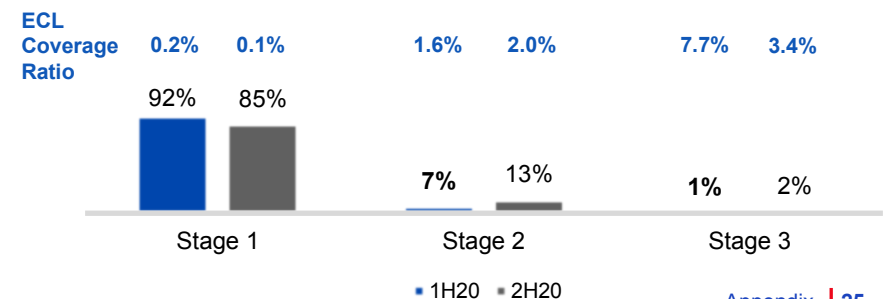
## Retail mortgages geographical split



## ECL coverage ratio



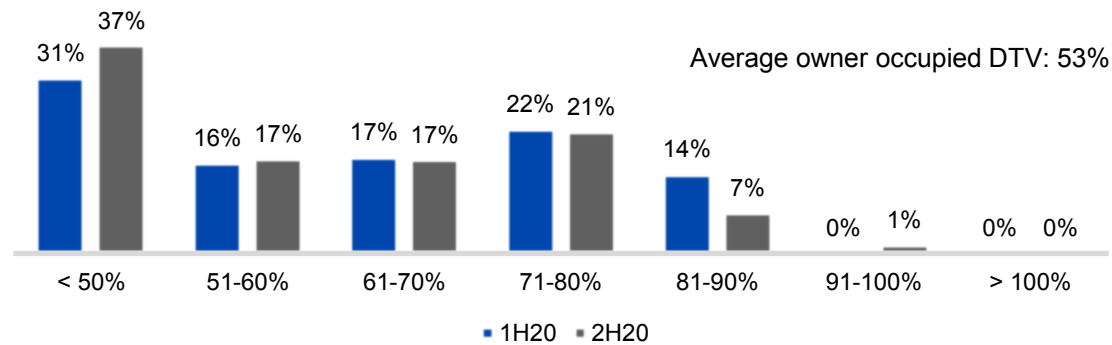
## Balance by IFRS9 stage



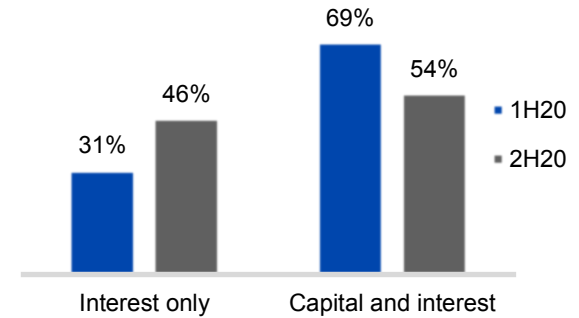
# Retail mortgages

## Owner occupied retail mortgages

### Debt-to-value profile

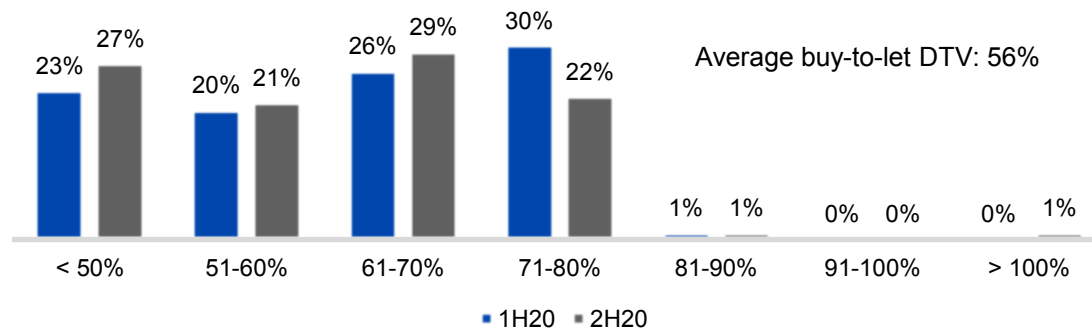


### Repayment type

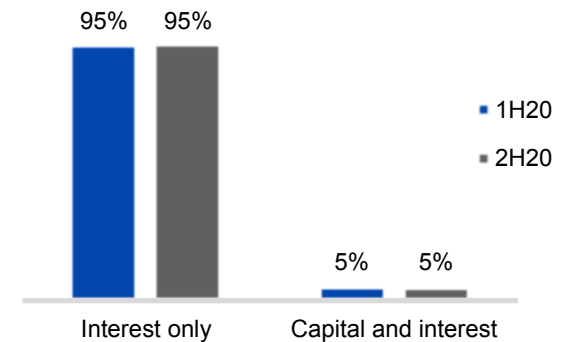


## Retail buy-to-let mortgages

### Debt-to-value profile

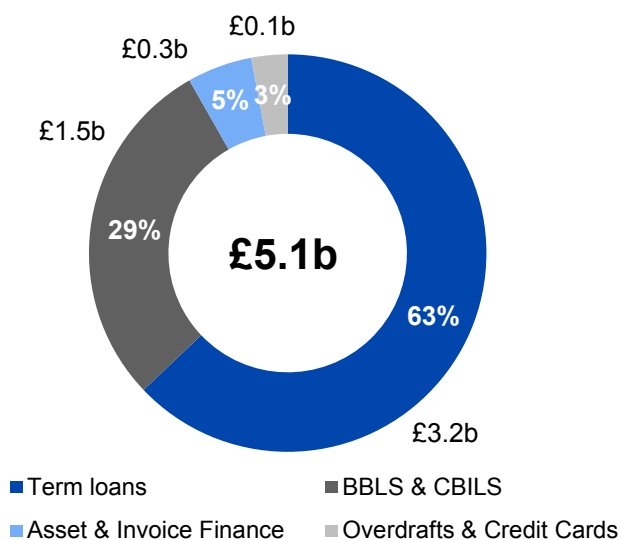


### Repayment type



# Commercial lending

## Commercial lending portfolio



**M** Detailed assessment of individual exposures completed at H1

**M** Ongoing BAU monitoring

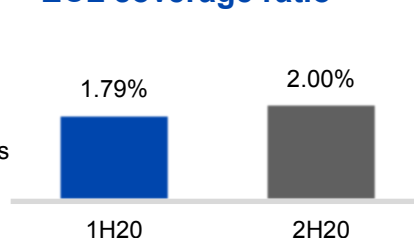
**M** £1,353m of BBLS and £114m of CBILS loans approved, across c.36,000 customers as at 31 December 2020

**M** Government underwrite 100% BBLS, 80% CBILS

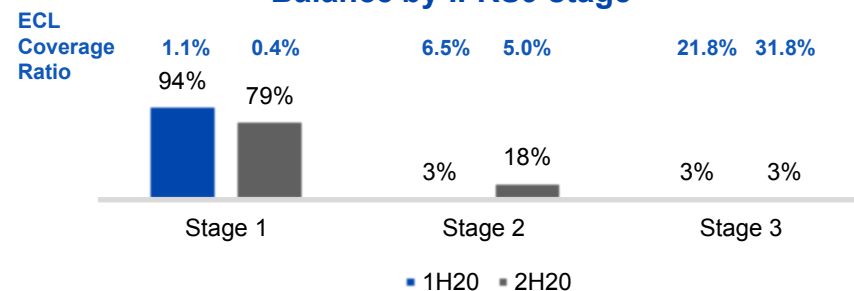
## Commercial lending industry sectors<sup>1</sup>

Industry sector (£m)	31 Dec 2020	30 Jun 2020	30 Dec 2019
Real estate (PBTL)	1,117	1,167	1,219
Real estate (other term loans)	1,032	1,070	1,155
Hospitality	376	323	308
Health & Social Work	248	243	263
Legal, Accountancy & Consultancy	208	202	236
Other	388	384	365

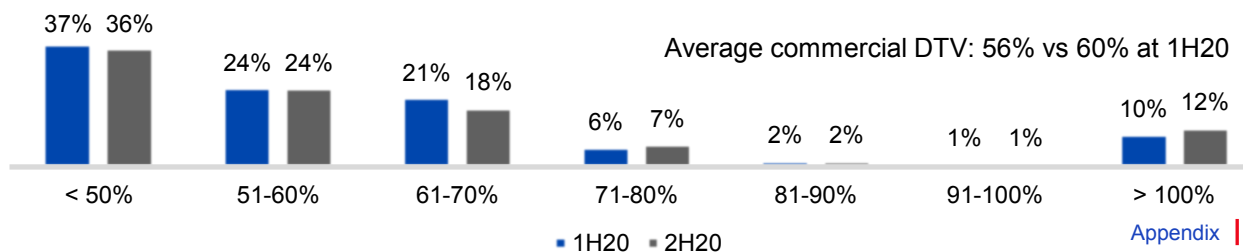
## ECL coverage ratio



## Balance by IFRS9 stage



## Commercial lending debt-to-value<sup>1</sup>



(1) Commercial term loans excluding BBLS

# P&L HoH

£m	2H20	1H20	Change
Net interest income	134.1	116.2	15%
Net fees and other income	50.2	36.1	39%
Net gains on sale of assets	3.3	1.0	>100%
<b>Total underlying revenue</b>	<b>187.6</b>	<b>153.3</b>	<b>22%</b>
<i>'Run the Bank' costs</i>	<i>(206.3)</i>	<i>(184.1)</i>	12%
<i>'Change the Bank' costs</i>	<i>(55.0)</i>	<i>(40.6)</i>	35%
Operating costs	(261.3)	(224.7)	16%
Expected credit loss expense	(14.7)	(112.0)	(87%)
<b>Underlying loss before tax</b>	<b>(88.4)</b>	<b>(183.4)</b>	<b>(52%)</b>
Non-underlying items	17.4	(57.2)	(>100%)
Statutory taxation	8.6	1.1	>100%
<b>Statutory loss after tax</b>	<b>(62.4)</b>	<b>(239.5)</b>	<b>(74%)</b>
Underlying EPS basic	(42.9p)	(108.8p)	61%
<b>Ratios</b>			
Net interest margin	1.28%	1.15%	0.13%
Cost of deposits	0.49%	0.82%	(0.33%)
Underlying cost to income ratio	139%	147%	(8%)
Cost of risk <sup>1</sup>	0.20%	1.55%	(1.35%)

# Balance Sheet HoH

£m	Dec 2020	1H20	Change
Loans and advances to customers	12,090	14,857	(19%)
Treasury assets <sup>1</sup>	6,406	6,101	5%
Other assets <sup>2</sup>	4,083	1,176	>100%
<b>Total assets</b>	<b>22,579</b>	<b>22,134</b>	<b>2%</b>
Deposits from customers	16,072	15,577	3%
Deposits from central banks	3,808	3,801	-
Debt securities	600	599	-
Other liabilities	810	810	-
<b>Total liabilities</b>	<b>21,290</b>	<b>20,787</b>	<b>2%</b>
Shareholders' funds	1,289	1,347	(4%)
<b>Total equity and liabilities</b>	<b>22,579</b>	<b>22,134</b>	<b>2%</b>
CET1 capital ratio	15.0%	14.5%	0.5%
Total capital ratio	18.1%	17.3%	0.8%
Total capital + MREL ratio	22.4%	21.3%	1.1%
Regulatory leverage ratio	5.6%	5.8%	(0.2%)
Risk weighted assets	7,957	8,605	(8%)
Loan to deposit ratio	75%	95%	(20%)
Liquidity coverage ratio	187%	226%	(39%)

(1) Comprises investment securities and cash & balances with the Bank of England

(2) Comprises property, plant and equipment, intangible assets and other assets including the receivable for the mortgage portfolio sale