Metro Bank PLC
Q1 Trading Update 2019
1 May 2019

METRO BANK REPORTS STRONG GROWTH IN CUSTOMER ACCOUNTS DESPITE CHALLENGING QUARTER

Metro Bank PLC (LSE: MTRO LN)

Q1 Summary

- Customer account growth of 97,000 (Q1 2018: 88,000) to 1.7 million, including year-on-year personal current account growth of 24%, and business current account growth of 23%.
- Year-on-year total deposit growth of £2.4b ($3.1b), up 19% to £15.1b ($19.6b). Deposit performance quarter-on-quarter impacted by adverse sentiment following January's trading update, leading to a small number of commercial and partnership customers withdrawing deposits in January and February, resulting in a modest 3.6% reduction. Momentum in the core franchise continued. Total deposits stabilised in March and returned to net growth in April.
- Year-on-year loan growth of £4.2b ($5.5b), up 38% to £15.2b ($19.8b). Loan growth in the quarter up £0.9b ($1.2b).
- Loan to deposit ratio increased to 100% (Q4 2018: 91%) as a result of servicing the committed lending pipeline originated during Q4 2018.
- Underlying profit before tax[1] at £6.9m (Q1 2018: £10.0m) and statutory profit before tax at £4.3m (Q1 2018: £8.6m). The year-on-year reduction reflects a £2.0m net effect of adopting IFRS 16 from 1 January 2019, and £3.5m quarterly interest expense on the Tier 2 debt issued in June 2018. Underlying earnings per share 5.1p (Q1 2018: 7.2p).
- Profitability benefited from fee and other income growth of 22% in the quarter to £22.4m (Q4 2018: £18.3m), up 58% year-on-year, driven by the development of new services and optimising fee structures.
- Strong asset quality with cost of risk at 6bps, a 3bps improvement from Q1 2018, reflecting our continued low-risk lending approach.
- £120m Capability and Innovation funding received in full in April, with leases signed for new stores in Manchester and Liverpool in the North of England.
- Best bank for overall quality of service for personal current account customers and second for business current account banking in the latest CMA survey.
- Committed standby underwrite in place to raise c.£350m to fund strategic growth expected to launch in Q2.
- 2019 is a transitional year for Metro Bank as we evolve the strategy outlined at our preliminary results in February. We have made progress this quarter on implementing the strategic initiatives.

Note: All figures contained in this trading update are unaudited. All figures in US$ have been translated at a rate of $1.30 to the £.

Quarter ending *£ in millions*	**31 Mar 2019**	**31 Dec 2018**	**Change in Quarter**	**31 Mar 2018**	**Change in Year**
Assets	£22,194	£21,647	3%	£17,888	24%
Loans	£15,167	£14,235	7%	£10,974	38%
Deposits	£15,095	£15,661	(4)%	£12,702	19%
Loan to Deposit ratio	100%	91%		86%	
Total Revenue	£107.5	£109.2	(2)%	£91.8	17%
Underlying Profit before tax[1]	£6.9	£11.2	(38)%	£10.0	(31)%
Statutory Profit before tax	£4.3	£6.1	(30)%	£8.6	(50)%
Customer net interest margin	2.20%	2.19%	1bps	2.24%	(4)bps
Customer net interest margin + fees	2.80%	2.67%	13bps	2.72%	8bps
Net interest margin	1.64%	1.76%	(12)bps	1.85%	(21)bps
Underlying Profit after tax per share - basic	5.1p	7.2p	(29)%	8.8p	(42)%
Underlying Profit after tax per share - diluted	5.1p	7.1p	(28)%	8.6p	(41)%

1 Underlying profit before tax excludes costs associated with listing and the Listing Share Awards, impairment of property, plant & equipment ("PPE") and intangible assets, costs relating to the RBS alternative remedies package and transformation and remediation costs.

Craig Donaldson, Chief Executive Officer at Metro Bank said:

"We are proud to have built a customer-centric business over the past nine years but this quarter has been challenging. Adverse sentiment following January's update impacted deposit growth in the quarter, with a small number of large commercial and partnership customers making withdrawals, but we are pleased to see a return to net inflows in April. The bank has remained resilient with a 6% increase in customer accounts on Q4 2018 and momentum in the rest of the business continuing. 2019 is a year of transition as we implement our evolved strategy, with the aim of optimising the balance of growth, profitability and capital efficiency."

Vernon Hill, Chairman and Founder at Metro Bank added:

"We've created the first major high street bank in over 100 years in Britain from scratch. Service and convenience are at the very heart of it and it was great to see this recognised in the latest CMA customer service survey as we took the top spot for personal current accounts and maintaining our number two position for business current accounts. This approach also helped us grow our customer accounts by 97,000 during the quarter to a total of 1.7 million. The £120m award from the Capability & Innovation Fund will help bring the banking revolution to SMEs across the country and we look forward to attracting even more FANS as we enter these new regions. We have faced challenges this quarter, but we firmly believe that our model offers a superior banking experience for our customers."

Financial highlights for the Quarter Ended 31 March 2019

Deposits

- **Strong customer account growth of 97,000 in the quarter (Q1 2018: 88,000) to 1.7 million,** including year-on-year personal current account growth of 24%, and business current account growth of 23%.
- **As of 31 March total deposits were £15,095m, up 19% from £12,702m in the prior year.** Impact of sentiment following January's trading update resulted in a modest 3.6% reduction in total deposits, principally across a small number of large commercial and partnership accounts

in January and February. This resulted in a net deposit reduction per store per month of £2.9m, compared to £4.7m growth in Q4 2018.

- **Core deposits demonstrated resilience, reflecting the continued strength of the franchise with deposits from retail customers (excluding retail partnership deposits) increasing by £118m during Q1.** Deposits stabilised in March and returned to growth in April. We remain committed to our medium term guidance of 20% deposit growth per annum, however given the challenging first quarter, expect a slower rate of growth in 2019.

£ in millions	**31 Mar 2019**	**31 Dec 2018**	**Change in Quarter**	**31 Mar 2018**	**Change in Year**
Demand: current accounts	£4,532	£4,685	(3)%	£3,889	17%
Demand: savings accounts[2]	£6,665	£6,924	(4)%	£5,886	13%
Fixed term: savings accounts	£3,898	£4,052	(4)%	£2,927	33%
Deposits from customers	£15,095	£15,661	(4)%	£12,702	19%
Deposits from customers includes:					
Deposits from retail customers	£7,233	£7,429	(3%)	£5,999	21%
Of which:					
Retail customers (excl. Retail partnerships)	£5,308	£5,190	2%	£4,042	31%
Retail partnerships	£1,925	£2,239	(14)%	£1,957	(2)%
Deposits from corporate customers	£7,862	£8,232	(4)%	£6,703	17%

2. Included within demand: savings accounts and notice accounts. These are repayable up to 100 days' notice.

- **Cost of deposits during the quarter was 70bps, in line with expectations.** The increase of 3bps from Q4 2018 and 9bps since Q3 2018 remains materially lower than the 25bps Bank of England base rate increase in August 2018. Our low-cost deposit model, supported by a high proportion of current accounts, has delivered total cost of deposits that remains below the current base rate of 75bps.
- **Comparative store deposit growth** (a "like for like" measure of deposit growth using deposit numbers from stores that have been operating for more than a full year) is 16% as of 30 March 2019.

Loans

- **Total net loans as of 31 March were £15,167m, up 38% from £10,974m in the prior year. Total net loans increased by £932m in the quarter, an increase of 7%.** In line with our target to rebalance the lending mix towards more cost efficient and higher return on equity residential mortgages, loans to commercial customers reduced to 29% of total lending as of 31 March 2019, from 31% at Q4 2018 and 32% at Q1 2018.
- **Growth in higher risk-density commercial real estate lending slowed during the quarter to 3% (Q4 2018: 5%),** with continued strong growth of 9% in capital efficient residential mortgage lending (Q4 2018: 10%).
- **Loan to deposit ratio increased to 100% from 91% at year-end** as a result of fulfilling our Q4 committed lending pipeline. Management of our lending growth through adjusting front-book pricing, and growth in deposits will ensure we sustainably progress towards our medium-term loan to deposit ratio guidance of 85%-90%.
- **Asset quality remains robust reflecting our continued low-risk lending.** Cost of risk remained low at 6bps, down from 7bps for full year 2018. Non-performing loans were 0.18% of the portfolio (0.15% at Q4 2018). High quality growth in low risk assets remains a key focus, which management believes will preserve cost of risk in the long-term.

£ in millions	**31 Mar 2019**	**31 Dec 2018**	**Change in Quarter**	**31 Mar 2018**	**Change in Year**
Gross Loans and advances to customers	£15,201	£14,269	7%	£11,013	38%
Less: allowance for impairment	£(34)	£(34)	-	£(39)	(13)%
Net Loans and advances to customers	£15,167	£14,235	7%	£10,974	38%
Gross loans and advances to customers includes:					
Commercial loans	£4,470	£4,356	3%	£3,471	29%
Residential mortgages	£10,449	£9,625	9%	£7,310	43%
Consumer and other loans and advances	£282	£288	(2)%	£232	22%

Profit and Loss Account

- **Underlying profit before tax of £6.9m compares to £10.0m in Q1 2018. Statutory profit before tax of £4.3m compares to £8.6m in Q1 2018.** The reduction reflects a net £2.0m effect of adopting IFRS 16 (which recognises an interest charge on the lease liability which is partly offset by a reduction in lease expenses) from 1 January 2019, and £3.5m interest expense on the Tier 2 debt issued in June 2018. Operating expenses in the quarter were higher than the prior year reflecting growth in the number of stores and investment in regulation, people and technology.
- **Net interest margin** reduced by 12bps quarter-on-quarter, reflecting an interest charge on the IFRS16 lease liability and the fulfilment of lower-yielding lending originated in Q4, particularly mortgages.
- **Customer net interest margin increased by 1 basis point to 2.20% (Q4 2018: 2.19%)**, demonstrating the continued resilient performance of the underlying business.
- **Customer net interest margin + fees increased for the second successive quarter to 2.80%, up 13 bps from Q4 2018.** Fee and other income was £22.4m in Q1, up 22% from £18.3m in Q4 2018, and up 59% year-on-year from £14.1m in Q1 2018. The increase in fee income reflects deepening customer relationships, improving customer propositions, and optimising fee structures.
- **Underlying cost:income ratio increased to 92% from 88% in Q4 2018,** reflecting ongoing investments in technology, stores and colleagues as we build the bank for the long-term, and continuing to keep pace with regulatory change. Income has been affected by lower yields in the mortgage market.
- **Cost efficiency programme commenced during Q1, with a clear portfolio of actionable initiatives identified to reduce cost growth run rate.** Our focus is on reducing cost to serve in stores, process automation in the back office, and cost optimisation to reflect lending mix shift and we have identified opportunities to reduce the cost growth run rate during 2019 to progress towards a cost:income ratio between 85%-90% during 2019 and down to 55-60% by 2023.

Capital

- **Common Equity Tier 1 Capital ("CET1") of £1,160m** as at 31 March 2019 is 12.1% of risk-weighted assets, exceeding our Tier 1 regulatory minimum of 10.6%[3]. The Regulatory Leverage ratio is 5.2%. Our total capital as a percentage of risk weighted assets is 14.7%.
- **Risk-weighted assets at 31 March 2019 were £9,613m (£8,936m at 31 December 2018),** with the increase principally reflecting lending growth and the adoption of IFRS 16, which as indicated at year-end, increased risk-weighted assets by £313m effective 1 January 2019.
- **Equity raise to support further growth anticipated in 2Q 2019** as previously announced, with committed standby underwrite in place with RBC Capital Markets, Jefferies and KBW. It remains our intention to target a minimum CET1 ratio of 12% and a regulatory leverage ratio above 4%.

- **We intend to issue up to £500m of MREL-eligible securities in 2H 2019** to meet our transitional MREL requirement by 1 January 2020.

3. Based on current capital requirements, excluding any confidential PRA buffer, if applicable.

Operational Update

- **Ranked first for personal current account holders for overall service quality** in the latest Competition and Market Authority's ('CMA') Service Quality Survey. We also came second among business current account customers for overall service quality and were ranked in the top five for all qualifying business and personal services.
- **£120m Capability and Innovation funding received in April,** with leases signed for new stores in Manchester and Liverpool in the North of England. The Incentivised Switching Scheme opened on 25 February and our dedicated team are onboarding new SME customers to Metro Bank.
- **Attracted 15% of all business current account switchers in London & South East**, for the year ending Q1 2019.[4]
- **Significant progress made to expand fee income through new value added services and optimising fee structures**, supported by use of Capability & Innovation funding to broaden service offerings to deepen customer relationships with SMEs. On track to deliver Insights, our app-based artificial intelligence powered money management for business customers as well as a cash pick up and drop off service, and direct debit origination for SMEs in 2019.
- **Following the RWA adjustment announced on 23 January 2019 we continue to make progress implementing a remediation** of internal systems, process and controls as well as recruiting additional expertise.

4. Source: MarketVue Business Banking from Savanta, Year Ending Q1 2019. Base size: 66. Data weighted by region and turnover to be representative of businesses in Great Britain.

Metro Bank PLC

Balance Sheet and Profit & Loss Account

(Unaudited)

Balance Sheet	Annual Growth Rate	2019	2018	
		31-Mar	31-Dec	31-Mar
		£'m	*£'m*	*£'m*
Assets				
Loans and advances to customers	38%	15,167	14,235	10,974
Treasury assets[1]		5,920	6,604	6,269
Other assets[2]		1,107	808	645
Total assets	**24%**	**22,194**	**21,647**	**17,888**
Liabilities				
Deposits from customers	19%	15,095	15,661	12,702
Deposits from banks		3,801	3,801	3,801
Debt securities		249	249	-
Other liabilities		1,643	533	300
Total liabilities		**20,788**	**20,244**	**16,803**
Total shareholders' equity		**1,406**	**1,403**	**1,085**
Total equity and liabilities		**22,194**	**21,647**	**17,888**

Profit & Loss Account	Annual Growth Rate	2019	2018	
		Q1	Q4	Q1
		£'m	*£'m*	*£'m*
Net interest income		83.8	88.9	75.0
Fee and other income		22.4	18.3	14.1
Net gains on sale of assets		1.3	2.0	2.7
Total revenue	**17%**	**107.5**	**109.2**	**91.8**
Operating expenses	**24%**	(98.4)	(96.0)	(79.5)
Expected credit loss expense		(2.2)	(2.0)	(2.3)
Underlying profit before tax	**(31)%**	**6.9**	**11.2**	**10.0**
Underlying taxation		(1.9)	(4.2)	(2.2)
Underlying profit after tax	**(36)%**	**5.0**	**7.0**	**7.8**
Listing Share Awards		(0.2)	(0.2)	(0.3)
Impairment of property, plant & equipment and intangible assets		-	(3.0)	(0.5)
Costs relating to RBS alternative remedies package		(1.2)	(1.9)	(0.6)
Transformation and remediation costs		(1.1)	-	-

Statutory profit after tax	**(61)%**	**2.5**	**1.9**	**6.4**
Underlying earnings per share - basic		5.1p	7.2p	8.8p
Underlying earnings per share - diluted		5.1p	7.1p	8.6p
Net interest margin (NIM)		1.64%	1.76%	1.85%
Customer NIM		2.20%	2.19%	2.24%
Customer NIM + Fees		2.80%	2.67%	2.72%
Cost of deposits		0.70%	0.67%	0.56%
Cost of risk		0.06%	0.06%	0.09%
Underlying cost:income ratio		92%	88%	87%

[1] Comprises investment securities, cash & balances with central banks, and loans and advances to banks

[2] Comprises property, plant & equipment, intangible assets and other assets

APPENDIX

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 MARCH 2019

	Three months ended 31 March 2019 Unaudited £'million	Three months ended 31 March 2018 Unaudited £'million
Interest income	127.6	96.5
Interest expense	(43.8)	(21.5)
Net interest income	**83.8**	75.0
Fee and commission income	15.7	8.4
Net gains on sale of assets	1.3	2.7
Other income	6.7	5.7
Total income	**107.5**	91.8
Operating expenses	(83.3)	(70.5)
Depreciation & amortisation	(17.9)	(10.0)
Impairment of property plant and equipment	–	(0.4)
Changes in expected credit losses	(2.2)	(2.3)
Profit before tax	**4.3**	8.6
Taxation	(1.9)	(2.2)
Profit for the year	**2.5**	6.4
Other comprehensive (expense)/income for the period		
Items which will be reclassified subsequently to profit or loss where specific conditions are met:		
Changes in fair value of investment securities held at FVOCI	(1.4)	0.5
Fair value changes in investment securities held at FVOCI transferred to the income statement on disposal	1.0	-
Total other comprehensive (expense)/income	**(0.4)**	0.5
Total comprehensive income for the period	**2.1**	6.9
Earnings per share – basic (pence)	**2.5**	7.2
Earnings per share – diluted (pence)	**2.5**	7.1

BALANCE SHEET

AS AT 31 MARCH 2019

	31 March 2019 Unaudited	31 December 2018
	£'million	£'million
Assets		
Cash and balances at central banks	2,370	2,286
Loans and advances to banks	211	186
Loans and advances to customers	15,167	14,235
Investment securities held at FVOCI	547	674
Investment securities held at amortised cost	2,792	3,458
Property, plant and equipment	752	454
Intangible assets	209	197
Prepayments and accrued income	63	66
Deferred tax asset	39	41
Other assets	44	50
Total assets	**22,194**	21,647
Liabilities		
Deposits from customers	15,095	15,661
Deposits from central bank	3,801	3,801
Debt securities	249	249
Repurchase agreements	1,126	344
Other liabilities	517	189
Total liabilities	**20,788**	20,244
Equity		
Called-up share capital	–	–
Share premium	1,605	1,605
Retained earnings	(207)	(209)
Other reserves	8	7
Total equity	**1,406**	1,403
Total equity and liabilities	**22,194**	21,647

CASH FLOW STATEMENT

FOR THE PERIOD ENDED 31 MARCH 2019

	Three months ended 31 March 2019 Unaudited	Three months ended 31 March 2018 Unaudited
	£' million	£'million
Reconciliation of profit before tax to net cash flows from operating activities:		
Profit before tax	4	9
Adjustments for:		
Depreciation and amortisation of intangible and tangible assets	18	10
Share option charge	4	1
Gain on sale of assets	(1)	(3)
Changes in operating assets	(956)	(1,370)
Changes in operating liabilities	265	1,510
Net cash (outflows)/inflows from operating activities	**(666)**	157
Cash flows from investing activities		
Net sale/(purchase) of investment securities	800	(544)
Purchase of property, plant and equipment	(5)	(22)
Purchase and development of intangible assets	(20)	(18)
Net cash inflows/(outflows) from investing activities	**775**	(584)
Cash flows from financing activities		
Shares issued	–	1
Net cash inflows from financing activities	–	1
Net increase/(decrease) in cash and cash equivalents	109	(426)
Cash and cash equivalents at start of period	2,472	2,212
Cash and cash equivalents at end of period	**2,581**	1,786

Cash and cash equivalents comprises of:		
Cash and balances at central banks	**2,370**	1,671
Loans and advances to banks	**211**	115

Analyst and investor call
An analyst and investor call will be held as follows:

Date: Wednesday 1 May 2019 Time: 5.30pm (UK) From the UK dial: +44 333 300 0804 From the US dial: +1 631 913 1422 Participant Pin: 67152811# URL for other international dial in numbers: http://events.arkadin.com/ev/docs/NE_W2_TF_Events_International_Access_List.pdf An operator will assist you in joining the call. A replay of the call will be available using the following details: From the UK dial: +44 333 300 0819 From the US dial: +1 866 931 1566 Access code: 301286091#

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ENDS

About Metro Bank

Metro Bank is the revolution in British banking. It is celebrated for its exceptional customer experience and achieved the top spot in the Competition and Market Authority's Service Quality Survey among personal current account holders for its overall service and came second among business current account holders in February 2019. It was also awarded 'Best All Round Personal Finance Provider' at the Moneynet Personal Finance Awards 2019, as well as 'Most Trusted Financial Provider' at the Moneywise Customer Service Awards in 2016 and 2017 and 'Best Financial Provider' at the Evening Standard Business Awards 2017. It is recognised by Glassdoor in its 'Best Place to Work UK 2019' top 50 list.

Offering retail, business, commercial and private banking services, it prides itself on using technology to give customers the choice to bank however, whenever and wherever they choose. Whether that's through its growing network of stores open seven days a week, from early in the morning to late at night, 362 days a year; on the phone through its UK-based 24/7 contact centres manned by people not machines; or online through its internet banking or award-winning mobile app: the bank offers customers real choice.

The bank employs over 3,900 colleagues and is headquartered in Holborn, London.