

Metro Bank PLC (LSE: MTRO LN)
Q3 Trading Update 2019

Q3 Summary for 3 months ending 30 September 2019

- **Total deposits of £14.2 billion with Q3 growth of £528 million.**
- **Customer account growth of 106,000 in Q3 2019** (Q2 2019: 93,000) to 1.9 million.
- **Total net loans of £14.9 billion broadly flat quarter-on-quarter**, with the loan to deposit ratio reducing to 105% (H1 2019: 109%).
- **Modest quarter-on-quarter reduction in operating costs and continued growth in fee and other income.**
- Asset quality remains strong, reflected in **Q3 cost of risk of 5 bps** (Q2 2019: 6 bps).
- **Strong liquidity and funding position maintained**, with LCR higher than Q2 2019.
- **Underlying loss before tax¹ of £2.2 million in Q3 2019** (Q2 2019: £6.7 million profit) reflecting the impact from actions taken to maintain a resilient balance sheet, including a one-off £2.5 million charge following the £521 million portfolio disposal in July 2019.
- **Completed inaugural £350 million senior non-preferred debt issuance** with pro forma total capital plus MREL ratio of 22.6% at 30 September 2019.
- **Retained position as number one bank for overall quality of service for personal current account customers** and second for business current account customers in the Competition and Market Authority's latest Service Quality Survey.
- **Metro Bank is further evaluating its future plans** to balance growth, profitability and capital efficiency, the results of which will be communicated in conjunction with the full year results.

<i>£ in millions</i>	30 Sep 2019	30 June 2019	Change From H1 19	30 Sept 2018	Change From Q3 18
Assets	£21,002	£21,357	(2%)	£20,567	2%
Loans	£14,891	£14,989	(1%)	£13,121	13%
Deposits	£14,231	£13,703	4%	£14,813	(4%)
Loan to deposit ratio	105%	109%		89%	

<i>£ in millions</i>	9m to 30 Sep 2019	9m to 30 Sep 2018	Change
Total underlying revenue²	£316.2	£294.8	7%
Underlying profit before tax¹	£11.3	£39.2	(71%)
Statutory (loss)/profit before tax	(£3.3)	£34.4	(110%)
Net interest margin	1.58%	1.82%	(24bps)
Underlying earnings per share - basic	6.3p	32.6p	(81%)
Underlying earnings per share - diluted	6.3p	31.8p	(80%)

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

2. Underlying revenue excludes Capability & Innovation Funding in respect of the RBS alternative remedies package

Craig Donaldson, Chief Executive Officer at Metro Bank, said:

“This financial performance reflects a challenging nine months for the Bank. Despite considerable headwinds, we have made strong progress in reducing costs, increasing fee income and further strengthening our capital and liquidity position whilst also retaining our top position for overall quality of service for personal current account holders.

“Following our £350m MREL-eligible debt issuance and taking into account the challenging macro-economic environment, we are further evaluating our future growth plans to strike the right balance between growth, costs and capital efficiency. We expect to update the market in conjunction with our full year results.”

Financial performance for the quarter ended 30 September 2019

Deposits

- **Strong customer account growth of 106,000 in Q3 2019 (Q2 2019: 93,000) bringing the total to 1.9 million**, including continued growth in personal current accounts and business current accounts.
- **Deposit growth of £528 million in Q3 2019** supported by the conscious decision to elevate the price of fixed term retail deposits during Q3. September saw net deposit outflows of £213 million following the postponed senior non-preferred debt issuance, but we are returning to business as usual.
- **Cost of deposits was 84 bps in Q3 2019 (Q2 2019: 71 bps) and 75 bps in the first nine months of 2019.** Following the deposit pricing actions taken in Q2 and Q3 2019, cost of deposits normalised to business as usual levels as the quarter progressed and is expected to be marginally above current base rate of 75 bps for full year 2019.

<i>£ in millions</i>	30 Sep 2019	30 Jun 2019	Change From H1 19	30 Sep 2018	Change From Q3 18
Demand: current accounts	£4,181	£4,305	(3%)	£4,502	(7%)
Demand: savings accounts	£5,700	£5,509	3%	£6,810	(16%)
Fixed term: savings accounts	£4,350	£3,889	12%	£3,501	24%
Deposits from customers	£14,231	£13,703	4%	£14,813	(4%)
<i>Deposits from customers includes:</i>					
Retail customers (excluding retail partnerships)	£6,351	£5,555	14%	£4,879	30%
Retail partnerships	£1,890	£1,954	(3%)	£1,890	-
Deposits from retail customers	£8,241	£7,509	10%	£6,768	22%
Commercial customers (excluding SMEs ³)	£2,829	£3,064	(8%)	£5,194	(46%)
SMEs	£3,161	£3,130	1%	£2,851	11%
Deposits from commercial customers	£5,990	£6,194	(3%)	£8,045	(26%)

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.

Loans

- **Total net loans of £14,891 million (Q2 2019: £14,989 million)**, reflecting proactive management of the Bank's capital and liquidity positions.
- **The loan to deposit ratio was 105% at Q3 2019 (Q2 2019: 109%)**. The Bank continues to manage the loan to deposit ratio in a controlled way towards 100%.
- **Asset quality remains robust reflecting our continued low-risk lending**. Cost of risk was 5 bps in the three months to 30 September 2019 (Q2 2019: 6 bps). Non-performing loans were £31 million, representing just 0.20% of the total loan portfolio (Q2 2019: 0.17%).

<i>£ in millions</i>	30 Sep 2019	30 Jun 2019	Change From H1 19	30 Sep 2018	Change From Q3 18
Gross loans and advances to customers	£14,922	£15,020	(1%)	£13,152	13%
Less: allowance for impairment	(£31)	(£31)	-	(£31)	-
Net loans and advances to customers	£14,891	£14,989	(1%)	£13,121	13%
<i>Gross loans and advances to customers includes:</i>					
Commercial lending	£4,182	£4,343	(4%)	£4,166	-
Residential mortgages	£10,495	£10,412	1%	£8,715	20%
Consumer lending	£245	£265	(8%)	£271	(10%)

Profit and Loss Account

- **Net interest income in the third quarter was down 7% to £76.6 million (Q2 2019: £82.4 million)**, with a 11bps reduction in the net interest margin to 1.50% (Q2 2019: 1.61%). This reflects the actions taken in Q2 and Q3 2019 to maintain a resilient balance sheet, including the sale of £1.5 billion non-LCR interest-bearing investment securities, an increase in fixed term deposit costs, and the £521 million loan portfolio disposal. These actions, including a moderation of loan growth, reduced revenue by c.£17m in Q3 2019.
- **Fee and other income up 5% in Q3 2019 to £25.3 million (Q2 2019: £24.0 million)** supported by growth in the number of transacting customer accounts and benefits from the recent roll-out of further value-added services. The reduction in NIM + fees to 1.99% (Q2 2019: 2.07%) was partially offset by continued fee income growth. Fee growth is expected to continue into Q4 2019.
- **Reduction in costs quarter-on-quarter, lowering to £99.7 million in Q3 2019 from £100.3 million in Q2 2019 despite opening new stores**. The slow-down in the pace of the cost growth reflects delivery within the Bank's cost transformation programme. We expect cost growth to continue to moderate with low single digit growth in H2 2019 compared with H1 2019 with cost growth reflecting the current expansion of the business in Q4.
- **Underlying cost:income ratio of 100% for Q3 2019 (Q2 2019: 92%)**.
- **Underlying loss before tax of £2.2 million in Q3 2019 (Q2 2019: £6.7 million profit)**. This reflects profitability impacts from the prudent balance sheet actions, including a £2.5 million charge (comprising of £1.8 million loss from the sale of portfolio and £0.7 million of interest foregone between the beginning of the quarter and the sale date) following the £521 million portfolio disposal in July 2019.

- **Statutory loss before tax of £6.7 million in Q3 2019 (Q2 2019: loss of £0.9 million)** also reflects the ongoing costs as we progress the transformation and remediation programmes.

Capital, Funding and Liquidity

- **Completed £350 million senior non-preferred debt issuance** in October. Our pro forma total capital plus MREL resources are £2,086 million with a pro forma total capital plus MREL ratio of 22.6% at 30 September, exceeding the 21.5% 1 January 2020 interim MREL requirement.
- **Common Equity Tier 1 Capital (“CET1”) of £1,494 million** as at 30 September 2019 is 16.2% of risk-weighted assets (Q2 2019: 15.8%), materially exceeding our Tier 1 regulatory minimum of 10.6%⁴. Total capital as a percentage of risk-weighted assets is 18.9%.
- **Risk-weighted assets at 30 September 2019 were £9,242 million (Q2 2019: £9,559 million)** reflecting the loan portfolio disposal and continued rebalancing of the loan book.
- **Regulatory leverage ratio of 7.1%.**
- **Strong liquidity and funding position maintained**, reflecting Q3 2019 deposit growth of £528m, the execution of a £521 million loan portfolio disposal, the completion of £350 million senior non-preferred notes in October and continued management of lending volumes. As a result, the Bank’s Liquidity Coverage Ratio was higher than the 163% reported in Q2.

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

Operational Update

- **Developing C&I funded sites in SME hotspots** including Liverpool and Manchester to open in Q4 2019. **Expanded store footprint to the Midlands.**
- **Launched artificial intelligence-led, in-app Business Insights tool** to make managing business finances easy, helping customers make more data-driven decisions and manage their cash flows better.
- **Signed a trio of fintech and SME partnerships** with Funding Options, Conance and DueDil, to enhance business banking offering for SMEs.
- **Retained position as number one bank for overall quality of service for personal current account customers** and second for business current account customers in Competition and Market Authority’s latest Service Quality Survey.
- **Awarded five stars for personal current account and credit card in the Moneyfacts annual star rating.**

Governance

- **As separately announced today, Sir Michael Snyder has been appointed as interim Chairman**, subject to regulatory approval. Vernon Hill has stepped down from his role as Chairman and will step down from the Board on 31 December 2019. The recruitment process for an independent, Non-Executive Chairperson is progressing.
- **Michael Torpey joined the Board in September as an independent Non-Executive Director** and was appointed as a member of the Risk Oversight and Audit committees with effect from 1 October. Michael has been appointed Chairman of the Audit Committee effective 1 November, subject to regulatory approval.

Outlook

- **Margin trends experienced in Q3 2019 are expected to continue into Q4 2019**, in addition to the cost of servicing the senior non-preferred debt. Deposit growth will moderate in Q4 as we strike the right balance between growth, cost of deposits and capital efficiency.
- **Metro Bank is further evaluating future growth plans to maximise returns**, including future expansion, cost initiatives and optimising capital efficiency.
- **Our plans with regards to C&I commitments remain unchanged.**
- The results of the evaluation process along with revised targets and KPIs will be communicated in conjunction with the full year results. In the intervening time the Bank will optimise capital, continue to progress with its cost efficiency programme and target further income diversification.

Metro Bank PLC

Summary Balance Sheet and Profit & Loss Account

(Unaudited)

Balance Sheet	Annual Growth Rate	2019		2018
		30 Sep	30 Jun	30 Sep
		£'m	£'m	£'m
Assets				
Loans and advances to customers	13%	14,891	14,989	13,121
Treasury assets ⁵		4,837	4,668	6,698
Assets classified as held for sale		-	521	-
Other assets ⁶		1,274	1,179	748
Total assets	2%	21,002	21,357	20,567
Liabilities				
Deposits from customers	(4%)	14,231	13,703	14,813
Deposits from banks		3,801	3,801	3,801
Debt securities		249	249	249
Other liabilities		959	1,837	300
Total liabilities		19,240	19,590	19,163
Total shareholder's equity		1,762	1,767	1,404
Total equity and liabilities		21,002	21,357	20,567

5. Comprises investment securities, cash & balances with central banks, and loans and advances to banks

6. Comprises property, plant & equipment, intangible assets and other assets

Profit & Loss Account—Nine months YTD	Annual Growth Rate	Nine months to 30 Sep	
		2019 £'m	2018 £'m
Net interest income		242.8	241.1
Fee and other income		71.8	45.0
Net gains on sale of assets		1.6	8.7
Total underlying revenue⁷	7%	316.2	294.8
Operating costs	20%	(298.5)	(249.6)
Expected credit loss expense		(6.4)	(6.0)
Underlying profit before tax	(71%)	11.3	39.2
Underlying taxation		(2.6)	(9.4)
Underlying profit after tax	(71%)	8.7	29.8
Listing Share Awards		(0.4)	(0.8)
FSCS levy		(0.6)	(0.3)
Impairment and write offs of property, plant & equipment and intangible assets		(1.0)	(1.7)
Costs relating to RBS alternative remedies package application		(1.0)	(1.9)
Capability & Innovation costs		(10.0)	-
Capability & Innovation funding		10.0	-
Transformation and remediation costs		(9.3)	-
Statutory (loss)/profit after tax	(114%)	(3.6)	25.1
Underlying earnings per share - basic	(81%)	6.3p	32.6p
Underlying earnings per share - diluted	(80%)	6.3p	31.8p
Net interest margin (NIM)		1.58%	1.82%
NIM + fees		2.04%	2.16%
Cost of deposits		0.75%	0.59%
Cost of risk		0.06%	0.07%
Underlying cost: income ratio		94%	85%

7. Underlying revenue excludes Capability & Innovation Funding in respect of the RBS alternative remedies package

Profit & Loss Account—Quarterly	Annual Growth Rate	2019		2018
		Q3	Q2	Q3
		£'m	£'m	£'m
Net interest income		76.6	82.4	84.8
Fee and other income		25.3	24.0	16.2
Net (loss)/gains on sale of assets		(2.5)	2.8	4.0
Total underlying revenue	(5%)	99.4	109.2	105.0
Operating costs	13%	(99.7)	(100.3)	(87.9)
Expected credit loss expense		(1.9)	(2.2)	(2.0)
Underlying (loss)/profit before tax	(115%)	(2.2)	6.7	15.1
Underlying taxation		1.0	(1.8)	(3.5)
Underlying (loss)/profit after tax	(110%)	(1.2)	4.9	11.6
Listing Share Awards		(0.1)	(0.1)	(0.2)
FSCS levy		-	(0.6)	0.3
Impairment and write offs of property, plant & equipment and intangible assets		-	(1.0)	(1.2)
Costs relating to RBS alternative remedies package application		-	0.2	(0.5)
Capability & Innovation costs		(6.2)	(3.8)	-
Capability & Innovation funding		6.2	3.8	-
Transformation and remediation costs		(3.6)	(4.6)	-
Statutory (loss)/profit after tax	(149%)	(4.9)	(1.2)	10.0
Underlying earnings per share - basic	(106%)	(0.7p)	3.6p	11.9p
Underlying earnings per share - diluted	(106%)	(0.7p)	3.6p	11.6p
Net interest margin (NIM)		1.50%	1.61%	1.77%
NIM + fees		1.99%	2.07%	2.11%
Cost of deposits		0.84%	0.71%	0.61%
Cost of risk		0.05%	0.06%	0.06%
Underlying cost:income ratio		100%	92%	84%

Analyst and investor call

An analyst and investor call will be held as follows:

Date: Wednesday 23rd October 2019
Time: 5.30pm (BST)
From the UK dial: +44 333 3000 804
From the US dial: + 1 631 9131 422
Participant Pin: 24502748#
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.

For more information, please contact:

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About Metro Bank

Metro Bank 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 August 2019. It was also awarded 'Best All-Round Personal Finance Provider' at the MoneyNet Personal Finance Awards 2019. It is also 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 around 3,500 colleagues and is headquartered in Holborn, London.

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It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Most relevant deposits are protected by the Financial Services Compensation Scheme. For further information about the Scheme refer to the FSCS website www.fscs.org.uk.

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