Metro Bank PLC
H1 Trading Update 2019
July 24, 2019

CHALLENGING H1 WITH PROGRESS ON STRATEGIC INITIATIVES

Metro Bank PLC (LSE: MTRO LN)

H1 Summary

- Total deposits of £13.7 billion, in line with H1 2018, following **net outflows of £2.0 billion in H1 2019.** Deposit performance in the second quarter impacted by intense speculation at the time of the capital raise, primarily driven by a limited number of commercial customers withdrawing deposits.
- **Total deposits have returned to net growth.** In the last eight weeks, including July month to date, we have had net deposit inflows of over £700 million.
- **Growth in retail deposits during H1 2019, with stable performance of the SME deposit base.**
- **Year-on-year loan growth of £3.0 billion, up 25% to £15.0 billion**. Loan growth was reduced by the planned disposal of a £521 million loan portfolio previously acquired in 2017, which is classified as held for sale as at 30 June 2019 and executed 24 July 2019.
- Strong asset quality reflected in **low cost of risk of 6bps** (H1 2018: 8bps).
- **Underlying profit before tax[1] of £13.6 million in H1 2019** (H1 2018: £24.1 million). The year-on-year reduction includes the impact of adopting IFRS 16 from 1 January 2019 and interest expense on the Tier 2 debt issued end June 2018, as well as market compression in mortgage rates and the sale of treasury assets during the period.
- **Statutory profit before tax of £3.4 million in H1 2019** (H1 2018: £20.8 million) also reflects investment in the bank's transformation programme and remediation costs as we continue to progress remediation work following the risk-weighted asset ("RWA") adjustment in January 2019.
- **Successful completion of upsized £375 million equity capital raise** to support growth resulting in CET1 ratio of 15.8%, 16.1% pro-forma for the loan portfolio sale.
- Upgraded cost saving guidance as transformation programme progressed. **Exit run-rate cost savings in 2019 expected to be at the top end of the previously indicated £15 million to £19 million range.**
- **Fee and other income increased 61% to £46.4 million in H1 2019** (H1 2018: £28.9 million) and 7% quarter on quarter, driven by continued customer account growth and the development of new value-added services.
- **Number one bank for overall quality of service** for personal current account customers and second for business current account customers in the latest Competition and Market Authority's Survey.
- **Customer account growth of 190,000** (H1 2018: 201,000) to over 1.8 million including year-on-year personal current account growth of 23% and business current account growth of 19%.
- **Metro Bank will commence the process of recruiting an independent Non-Executive Chairman** and has also appointed an additional independent Non-Executive Director (each separately announced today).

£ in millions	30 Jun 2019	30 Jun 2018	Change From H1 18	31 Dec 2018	Change From H2 18
Assets	£21,357	£19,135	12%	£21,647	(1%)
Loans	£14,989	£12,013	25%	£14,235	5%
Deposits	£13,703	£13,736	-%	£15,661	(13%)
Loan to deposit ratio	109%	87%		91%	

£ in millions	H1 19	H1 18	Change From H1 18	H2 18	Change From H2 18
Total underlying revenue[1]	£216.7	£189.8	14%	£214.3	1%
Underlying profit before tax[2]	£13.6	£24.1	(44%)	£26.4	(48%)
Statutory profit before tax	£3.4	£20.8	(84%)	£19.8	(83%)
Net interest margin	1.62%	1.85%		1.77%	
Underlying earnings per share - basic	8.1p	20.6p	(61%)	19.5p	(58%)
Underlying earnings per share - diluted	8.1p	20.1p	(60%)	19.0p	(57%)

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

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

"This has been a challenging first half for the bank, with deposit outflows following intense speculation at the time of our capital raise in May. Despite this, we have delivered a resilient performance with both personal and business current accounts growing alongside increased revenues and fee income, with deposit growth returning to normal in June and July to date.

We described 2019 as a year of transition for Metro Bank and management has continued its focus on our strategic initiatives, upgrading our cost savings guidance to the upper end of our original range, investing in additional fee service offerings and rebalancing our lending mix."

Vernon Hill, Chairman and Founder at Metro Bank, added:

"As we enter our tenth year on Britain's high streets, Metro Bank continues to revolutionise the UK banking industry. We remain relentlessly focused on delivering the very best in service and convenience for our customers. Our upsized £375 million equity raise was significantly oversubscribed, showing investors' confidence in our strategy and our absolute focus on creating FANS. We will continue to strengthen our foundations as we deliver our growth plans."

Financial highlights for the Half Year Ended 30 June 2019

Deposits

- **Strong customer account growth of 190,000 in the first six months of the year (H1 2018: 201,000) bringing the total to over 1.8 million,** including year-on-year personal current account growth of 23% and business current account growth of 19%.
- **Total deposits of £13,703 million as at 30 June 2019, compared to £13,736 million as at 30 June 2018**, and down 13% from 31 December 2018 driven by a limited number

of commercial customers withdrawing deposits during intense speculation in February and May.

- **Deposits stabilised and returned to growth** with business as usual net deposit growth of c.£400 million in June and continued momentum of c.£300m in July month-to-date, supported by deposit gathering initiatives. Given recent performance and additional store openings in H2 2019, full year 2019 deposits are anticipated to return broadly back in line with 31 December 2018 at £15.7 billion.
- **Growth in retail deposits, stable SME performance and continued progression in current account openings demonstrate the strength of the customer franchise.** Retail deposits (excluding retail partnerships) were £5,555 million, up 7% during the first six months of the year. SME deposits of £3,130 million were broadly flat compared to £3,172 million at 31 December 2018.
- **Cost of deposits was 70bps in H1 2019 (H1 2018: 57bps) and 71bps in Q2 2019.** Following pricing actions taken in Q2 2019, cost of deposits is expected to be closer to base rate for full year 2019.

£ in millions	**30 Jun 2019**	**30 Jun 2018**	**Change From H1 18**	**31 Dec 2018**	**Change From H2 18**
Demand: current accounts	£4,305	£4,238	2%	£4,685	(8%)
Demand: savings accounts	£5,509	£6,155	(10%)	£6,924	(20%)
Fixed term: savings accounts	£3,889	£3,343	16%	£4,052	(4%)
Deposits from customers	£13,703	£13,736	-%	£15,661	(13%)
Deposits from customers includes:					
Retail customers (excluding retail partnerships)	£5,555	£4,449	25%	£5,190	7%
Retail partnerships	£1,954	£1,932	1%	£2,239	(13%)
Deposits from retail customers	£7,509	£6,381	18%	£7,429	1%
Commercial customers (excluding SMEs[3])	£3,064	£4,748	(35%)	£5,060	(39%)
SMEs	£3,130	£2,607	20%	£3,172	(1%)
Deposits from commercial customers	£6,194	£7,355	(16%)	£8,232	(25%)

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 lending as of 30 June 2019 was £14,989 million, up 5% from £14,235 million at 31 December 2018 and 25% year-on-year (30 June 2018: £12,013m)**. Loan growth continued in Q2 2019 as we continue to support customers as part of a broader banking relationship, with net growth impacted by the planned disposal of a £521 million loan portfolio previously acquired in 2017. In line with our strategy to rebalance our lending mix to optimise capital efficiency, loans to commercial customers reduced to 29% of total lending as of 30 June 2019 (31 December 2018: 31%).
- **Loan to deposit ratio of 109%,** with appropriate actions taken to maintain a resilient balance sheet including the sale of non-LCR eligible investment securities, £521 million loan portfolio sale, as well as managing lending volumes and deposit gathering initiatives. The loan to deposit ratio will be gradually managed back towards our medium-term target range of 85%-90% in a controlled manner, whilst continuing to grow

our customer franchise. We expect the loan to deposit ratio to be c.100% by year-end 2019.

- **Asset quality remains robust reflecting our continued low-risk lending.** Cost of risk was 6bps in the six months to 30 June 2019, improving from 8bps for the same period in 2018. Non-performing loans were £28m, representing just 0.17% of the total loan portfolio (30 June 2018: 0.17%).

£ in millions	**30 Jun 2019**	**30 Jun 2018**	**Change From H1 18**	**31 Dec 2018**	**Change From H2 18**
Gross loans and advances to customers	£15,020	£12,053	25%	£14,269	5%
Less: allowance for impairment	£(31)	£(40)	(33%)	£(34)	(9%)
Net loans and advances to customers	£14,989	£12,013	25%	£14,235	5%
Gross loans and advances to customers includes:					
Commercial lending	£4,343	£3,905	11%	£4,356	-%
Residential mortgages	£10,412	£7,889	32%	£9,625	8%
Consumer lending	£265	£259	2%	£288	(8%)

Profit and Loss Account

- **Net interest income up 6% year-on-year to £166.2 million from £156.3 million** driven by net lending growth of 25%.
- **Net interest margin** reduced by 23bps year-on-year to 1.62% (H1 2018: 1.85%) reflecting the impact of adopting IFRS 16 from 1 January 2019, the interest expense on our Tier 2 debt issued in June 2018, as well as market compression in mortgage rates and the sale of treasury assets during the period.
- **Fee, commission and other income rose 61% year-on-year to £46.4 million (H1 2018: £28.9 million**) supported by continued growth in customer accounts, optimisation of fee structures, as well as the roll-out of additional value-added services. Continued fee growth will be powered by new features for business and retail customers and a more flexible approach to the pricing of certain products.
- **Operating expenses up 23% year-on-year to £198.7 million (H1 2018: £161.6 million)** reflecting continued growth in regulation, people and technology costs to support the long-term growth of the bank, as well as further expansion of our physical and digital footprints. We expect cost growth to moderate with low single digit growth in H2 2019 compared to H1 2019, with a bank wide efficiency programme now embedded to deliver cost savings outlined.
- **Underlying cost:income ratio of 92% for the second quarter is flat compared to Q1 2019 and up 8% year-on-year**, reflecting reduced NIM and ongoing investments in technology, stores and colleagues as we build the bank for the long-term.
- **Underlying profit before tax for the first six months of £13.6 million compares to £24.1 million for the first half of 2018.** Full year 2019 underlying profitability will reflect income pressure from the H1 2019 sale of treasury assets, the portfolio disposal, deposit gathering initiatives during H1 and debt issuance to meet MREL requirements in H2.
- **Statutory profit before tax for the first six months of £3.4 million compares to £20.8 million for the first half of 2018**, reflecting the trends above and also reflecting the ongoing costs as we progress the transformation and remediation programmes.

Capital, Funding and Liquidity

- **Common Equity Tier 1 Capital ("CET1") of £1,511 million** as at 30 June 2019 is 15.8% of risk-weighted assets (13.1% at 31 December 2018), materially exceeding our Tier 1 regulatory minimum of 10.6%[4]. The increase primarily reflects the successful completion of a £375 million equity capital raise in June 2019, which was upsized from an initial target of £350 million due to strong demand from both existing and new investors.
- **Risk-weighted assets at 30 June 2019 were £9,559 million (£8,936 million at 31 December 2018).** The increase principally reflects lending growth, the one-off £313 million impact from the adoption of IFRS 16, effective 1 January 2019, and the annual increase in operational risk reflecting the bank's revenue growth.
- **Regulatory leverage ratio of 7.0%** and total capital as a percentage of risk-weighted assets of 18.4%.
- **Following the loan portfolio sale of £521 million announced today, pro-forma risk-weighted assets are £9,372 million, CET1 ratio is 16.1%, total capital ratio is 18.8%, and regulatory leverage ratio is 7.2%.**
- **High liquidity coverage ratio ("LCR") at 30 June 2019 of 163%, up from 139% at 31 December 2018.** The increase primarily reflects the completion of the £375 million equity raise and sale of non-LCR eligible investment securities.
- **We will issue MREL-eligible debt in H2 2019 to satisfy our interim MREL requirement by 1 January 2020** and anticipate a public credit rating to support the process.

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

Strategic and Operational Update

- **Upgraded cost saving expectations**. Transformation programme commenced, resulting in (pre leakage) exit run-rate cost savings in 2019 expected at the top-end of the £15 million to £19 million range, with 60% already captured. Guidance ranges for 2020 and 2022 upgraded to £40-50 million and £70-80 million respectively.
- **Reduced expected cost to achieve** of £125 million from £150 million.
- **Mobilised Capability & Innovation delivery team** who will fulfil our bid commitments and are on track to deliver new products and services. In addition, new sites on track in Liverpool, Manchester and Sheffield.
- **Significant progress made to expand fee income through new value added services.** Investment through the Capability & Innovation (C&I) Fund in new capabilities will enable us to compete against the 'big 4' banks in the SME market, providing trade finance and FX services and support for customers in managing their bookkeeping and tax compliance needs.
- **Completed upgrade of our core banking platform in Q2 2019**, enabling the roll-out of additional services as well as enhancing the bank's operational resilience.
- **Continued progress on remediation** following the RWA adjustment announced in January 2019, reviewing internal systems, processes and controls as well as recruiting additional expertise to the bank.
- **Executed the disposal of a previously acquired £521 million mortgage portfolio in July 2019**. The portfolio was primarily retail buy-to-let mortgages with a weighted average debt to value ("DTV") of 66% compared to the average retail mortgage DTV of 61% at 30 June 2019. The portfolio has been sold to an affiliate purchaser of Cerberus Capital Management. It was not considered a strategic portfolio, with its sale having no impact on our customer franchise given it has continually been serviced by an external provider. An expected loss of £1.8 million will be recognised in the Q3 2019 income statement reflecting the difference between the sale price and the carrying amount on the balance sheet.

Customer Experience

- **Won 18% of business current account switchers** in London and the South East in the year to Q2 2019, up from 15% in the year to Q4 2018.[5]
- **Increased brand recognition to 87%** (from 86%, Feb 2019) in London and 56% (from 54%, Feb 2019) across the UK.[6]
- **Ranked first for overall service quality** for personal current account holders and second for business current account holders in the latest Competition and Market Authority's Service Quality Survey.

5. MarketVue Business Banking from Savanta (Survey Period: Q3 July 2018 - Q2 Jun 2019). Main bank for business banking - Switching Gains based upon 318 respondents of which 59 were in London/SE. Data is weighted by region and turnover to be representative of businesses in GB.
6. All figures, unless otherwise stated, are from YouGov Plc and are taken from four surveys. Total sample size was in London was 1,004 adults. Fieldwork was undertaken between 9-12 July 2019. The figures have been weighted and are representative of all London adults (aged 18+). Total sample size in the UK was 2,048 adults. Fieldwork was undertaken between 9-10 July 2019. The figures have been weighted and are representative of all GB adults (aged 18+).

Governance and Leadership

- **Process of recruiting an independent, Non-Executive Chairman will commence.** Mr Hill will continue as Chairman until a successor is appointed, after which he will remain as a Non-Executive Director, Founder and President**.**
- **Appointment of Michael Torpey to the Board as an independent Non-Executive Director** (subject to regulatory approval), in line with Board succession planning outlined at the full year.
- **Two new appointments to the Bank's Executive Committee** announced this week are a significant step forward bringing deep experience and expertise to the leadership team. As Chief Transformation Officer, Daniel Frumkin will lead the delivery of the bank-wide efficiency programme and Chief Information Officer Cheryl Newton will develop the bank's technology agenda.

Outlook

- **As we move on from the challenges in the first half of 2019, we continue to build on the strengths of our model to deliver on the strategic initiatives outlined in February**, with early delivery of cost efficiencies and continued growth in capital-light fee income.
- **Given recent performance and store openings in H2 2019, full year 2019 deposits are anticipated to be broadly in line with 31 December 2018 at £15.7 billion**, with a loan to deposit ratio of c.100% by year-end 2019.
- **We will issue MREL eligible debt to satisfy our interim MREL requirement by 1 January 2020,** with higher debt costs impacting our net interest margin in H2 2019.
- **Cost growth to moderate with low single digit growth in H2 2019 compared to H1 2019.** Our bank wide efficiency programme is now embedded to deliver cost savings outlined.
- **Northern expansion underway,** which will power growth in SME hotspots. Manchester and Liverpool stores are in build and the first of the Birmingham stores opens in August, creating a hub in the Midlands. We anticipate opening c.10 new stores in total in 2019.
- **C&I delivery on track to deliver new products and services,** supporting our ambition to be the SME bank of choice as well as generating increasing fee income.
- **Medium term guidance is re-affirmed.**

Metro Bank PLC

Summary Balance Sheet and Profit & Loss Account

(Unaudited)

Balance Sheet	Annual Growth Rate	2019 30-Jun	2018 30-Jun	2018 31-Dec
		£'m	*£'m*	*£'m*
Assets				
Loans and advances to customers	25%	14,989	12,013	14,235
Treasury assets[7]		4,668	6,453	6,604
Assets classified as held for sale		521	-	-
Other assets[8]		1,179	669	808
Total assets	**12%**	**21,357**	**19,135**	**21,647**
Liabilities				
Deposits from customers	-%	13,703	13,736	15,661
Deposits from banks		3,801	3,801	3,801
Debt securities		249	249	249
Other liabilities		1,837	252	533
Total liabilities		**19,590**	**18,038**	**20,244**
Total shareholder's equity		**1,767**	**1,097**	**1,403**
Total equity and liabilities		**21,357**	**19,135**	**21,647**

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

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

Profit & Loss Account–Half Yearly	Annual Growth Rate	2019 H1	2018 H1
		£'m	*£'m*
Net interest income		166.2	156.3
Fee and other income		46.4	28.9
Net gains on sale of assets		4.1	4.6
Total underlying revenue	**14%**	**216.7**	**189.8**
Operating costs	**23%**	(198.7)	(161.6)
Expected credit loss expense		(4.4)	(4.1)
Underlying profit before tax	**(44%)**	**13.6**	**24.1**
Underlying taxation		(3.7)	(5.9)
Underlying profit after tax	**(46%)**	**9.9**	**18.2**
Listing Share Awards		(0.3)	(0.6)
FSCS levy		(0.6)	(0.5)

Impairment and write offs of property, plant & equipment and intangible assets		(1.0)	(0.6)
Costs relating to RBS alternative remedies package application		(1.0)	(1.3)
Capability & Innovation costs		(3.8)	-
Capability & Innovation funding		3.8	-
Transformation and remediation costs		(5.7)	-
Statutory profit after tax	**(91%)**	**1.3**	**15.2**
Underlying earnings per share - basic	**(61%)**	8.1p	20.6p
Underlying earnings per share - diluted	**(60%)**	8.1p	20.1p
Net interest margin (NIM)		1.62%	1.85%
NIM + fees		2.07%	2.19%
Cost of deposits		0.70%	0.57%
Cost of risk		0.06%	0.08%
Underlying cost: income ratio		92%	85%

Profit & Loss Account–Quarterly	**Annual Growth Rate**	**2019**		**2018**
		Q2	**Q1**	**Q2**
		£'m	*£m*	*£m*
Net interest income		82.4	83.8	81.3
Fee and other income		24.0	22.4	14.7
Net gains on sale of assets		2.8	1.3	2.0
Total underling revenue	**11%**	**109.2**	**107.5**	**98.0**
Operating costs	**22%**	(100.3)	(98.4)	(82.1)
Expected credit loss expense		(2.2)	(2.2)	(1.8)
Underlying profit before tax	**(52%)**	**6.7**	**6.9**	**14.1**
Underlying taxation		(1.8)	(1.9)	(3.7)
Underlying profit after tax	**(53%)**	**4.9**	**5.0**	**10.4**
Listing Share Awards		(0.1)	(0.2)	(0.2)
FSCS levy		(0.6)	-	(0.5)
Impairment and write offs of property, plant & equipment and intangible assets		(1.0)	-	(0.1)
Costs relating to RBS alternative remedies package application		0.2	(1.2)	(0.8)
Capability & Innovation costs		(3.8)	-	-
Capability & Innovation funding		3.8	-	-
Transformation and remediation costs		(4.6)	(1.1)	-
Statutory profit after tax	**(114%)**	**(1.2)**	**2.5**	**8.8**
Underlying earnings per share - basic	**(69%)**	3.6p	5.1p	11.8p

Underlying earnings per share - diluted	**(69%)**	3.6p	5.1p	11.5p
Net interest margin (NIM)		1.61%	1.64%	1.85%
NIM + fees		2.07%	2.08%	2.18%
Cost of deposits		0.71%	0.70%	0.59%
Cost of risk		0.06%	0.06%	0.06%
Underlying cost:income ratio		92%	92%	84%

Analyst and investor call

An analyst and investor call will be held as follows:

Date: Wednesday 24th July 2019
Time: 5.30pm (BST)
From the UK dial: +44 3333 000804
From the US dial: +1 631 913 1422
Participant Pin: 81295455#
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.

The information contained within this Announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 and was authorised for release by David Arden, Chief Financial Officer.

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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 and 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 10 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.

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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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