# 1H21 RESULTS PRESENTATION

28 July 2021

# Agenda

| | | |
|---|---|---|
| 1 | **Overview** | Daniel Frumkin (CEO) |
| 2 | **Financial results** | David Arden (CFO) |
| 3 | **Operational & strategic update** | Daniel Frumkin (CEO) |
| 4 | **Q&A** | |

# Overview

Daniel Frumkin (CEO)

# Delivering our strategy

## Strategic plan on track

- **Drivers of improved financial performance showing signs of progress**:
  - **Lending margin improving**: accelerating pivot to higher yielding assets
  - **Cost of deposits reducing**, with meaningful mix shift in deposits toward current accounts and instant access
  - **Cost focus** maintained, three further store freeholds being acquired
- **Adjusted[3] underlying revenue increased 14% HoH[1] and 47% YoY[2]**
- **Adjusted[3] underlying loss before tax decreased £7.6m or 6% HoH[1]**
- Meeting more **customer needs** with better service capability and product offering
- Demonstrated ability to take decisive **action to manage our capital position**

## Continued focus on Customers, Colleagues and Communities

- **New product roll-out** (including RateSetter lending in store; SME and pet insurance; Multi-director digital business current account; and new platform for online banking)
- Returned to **7 days a week opening** as part of our COVID-19 recovery
- **#1 high street bank** for service Feb'21 CMA survey
- Supported colleagues and local communities

## Delivering balance sheet optimisation

- **Consumer finance**: RateSetter lending now across all channels; back book acquisition completed; exited non-core sub-segments
- **Enhanced existing mortgages** and **expanded specialist range**
- **Repositioning commercial lending** towards full relationship trading businesses and exiting transactional real estate lending

## HoH Financial Performance[1]

| | | |
|---|---|---|
| Consumer lending | ▲ >100% | £704m |
| Lending yield | ▲ 36bps | 2.99% |
| Customer deposits | ▲ 3% | £16.6b |
| Cost of deposits | ▼ 18bps | 0.31% |

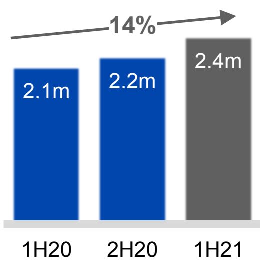
(1) 2H20 vs 1H21
(2) 1H20 vs 1H21
(3) Adjusted total underlying revenue and loss before tax adjusts underlying numbers on a like for like basis by excluding loan income from the mortgage portfolio disposal announced December 2020

# Financial results

David Arden (CFO)

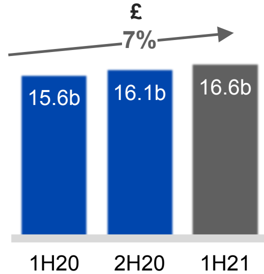
# 1H 2021 Key performance indicators

### Customer accounts[1]

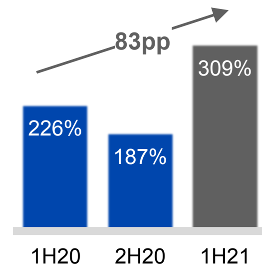



### Customer deposits

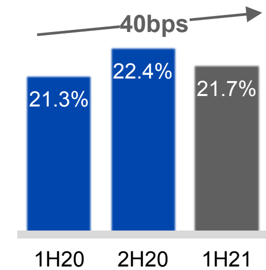
£




### Liquidity coverage ratio

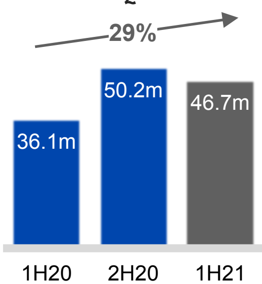



### Total capital + MREL ratio

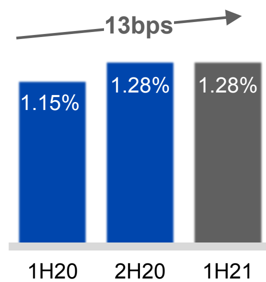



### Net fee and other income

£

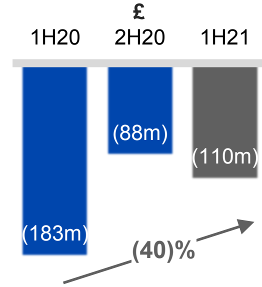



### Net interest margin



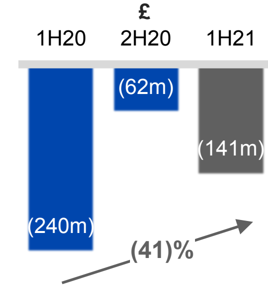

### Underlying loss before tax

£




### Statutory loss after tax

£



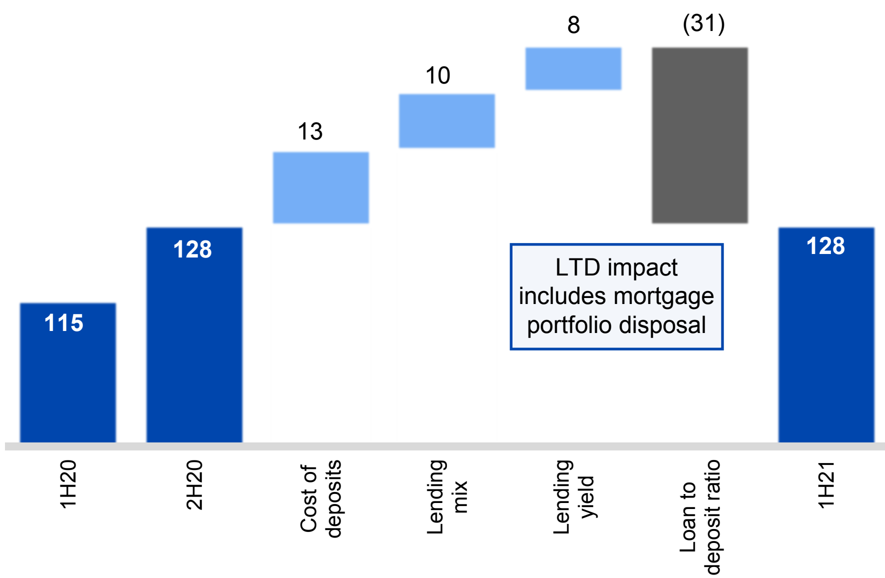

- Customer accounts stable in H1 reflecting managed reduction in fixed term deposits, with incremental growth from RateSetter
- Deposit growth exceeded expectations and continued trend towards higher quality mix
- Mortgage portfolio disposal in December increased capital and elevated liquidity further
- Adjusting for the portfolio sale Net interest income (NII) increased 27% and revenue increased 14% HoH
- HoH profitability reflects the mortgage sale. Adjusting for the disposal, underlying loss improved 49% YoY and 6% HoH



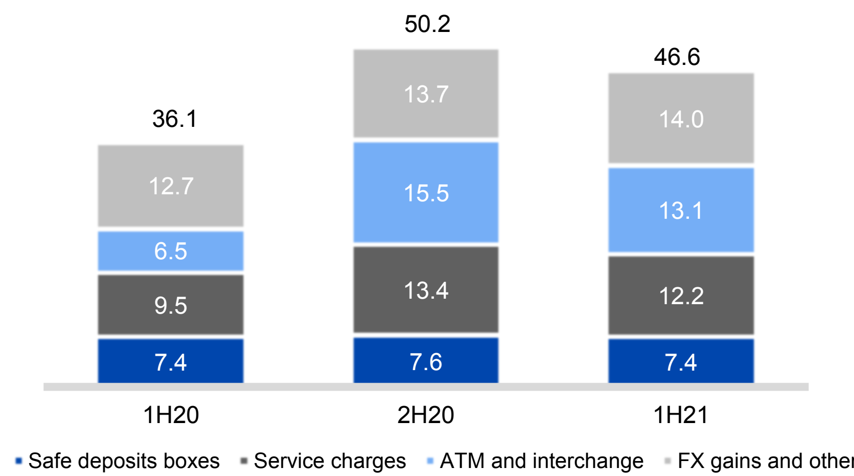
(1) 1H21 includes RateSetter back book acquisition

# Revenue and NIM

## NIM bridge
*bps*




## Fee and other income[1]
*£m*




- NIM held flat HoH despite the income foregone of the capital accretive mortgage portfolio disposal. Action taken to reduce cost of deposits, improve lending mix and increase lending yield offset the excess liquidity created by the sale

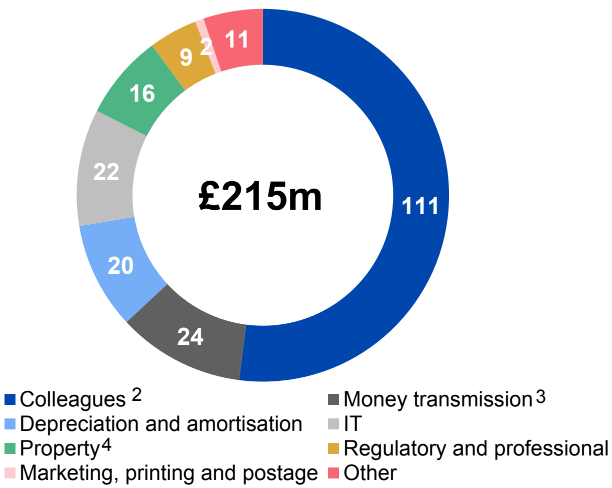
- Fee income levels remained subdued by the impact of lockdown control measures on customer activity
- FX income remains below pre-pandemic levels, with customers largely prevented from travelling internationally



(1) Re-categorised 1H20 and 2H20

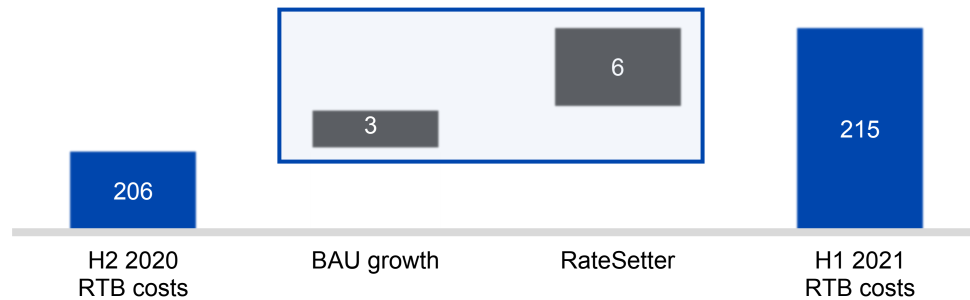
# Operating costs

## Run the Bank[1]

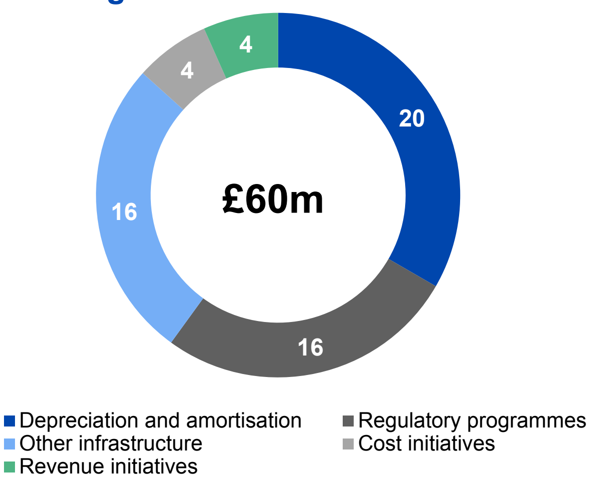



## Run the Bank (RTB) cost growth reflects cost focus

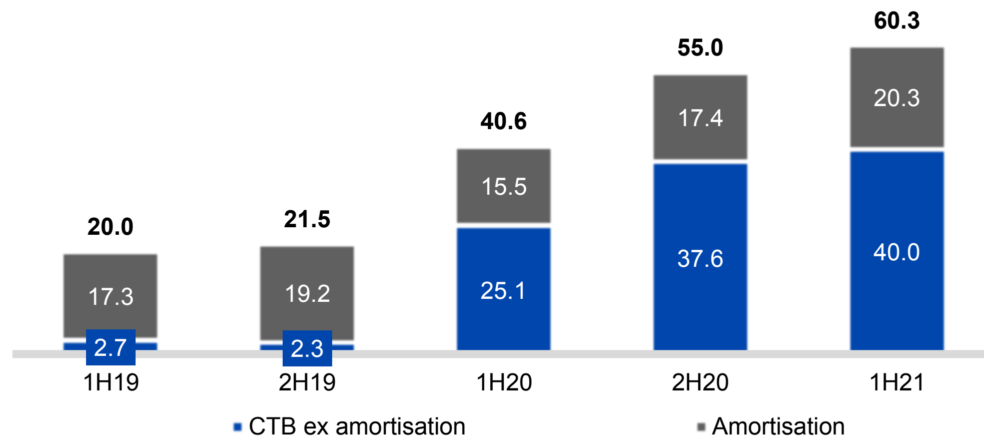
- RTB costs increased <2% on a like for like basis as shown below




## Change the Bank[1]




## Change the Bank (CTB) spend

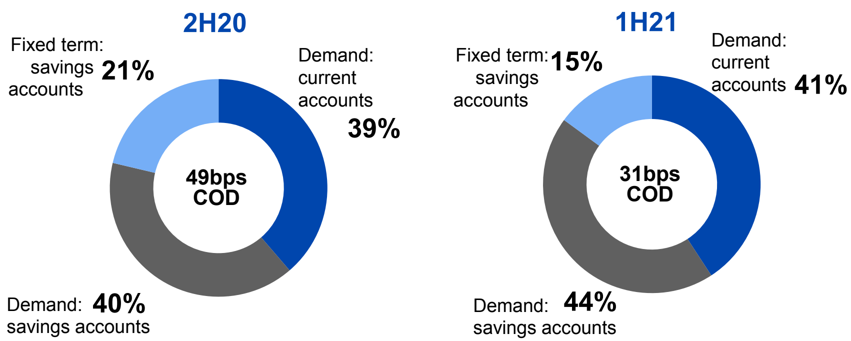



(1) Operating expense only
(2) Includes non-permanent colleagues and travel expenses
(3) Cards, payments and other banking related costs
(4) Leases and running costs

# Deposits and lending

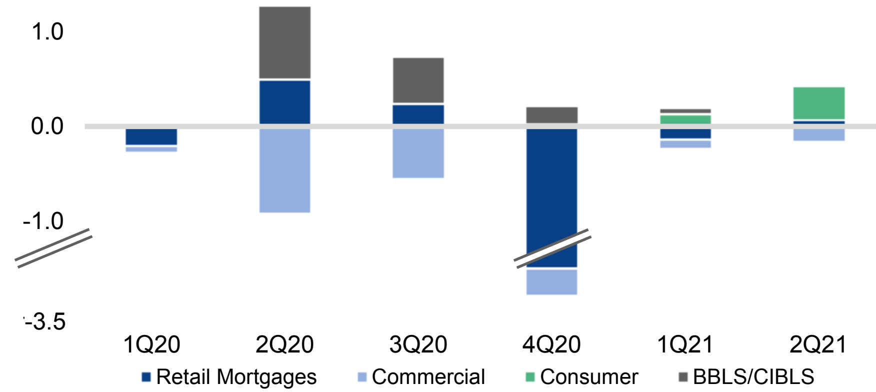
## Improved mix and deposit repricing delivered lower cost of deposits, while a focus on risk adjusted return on lending has increased average yields

### Deposit mix



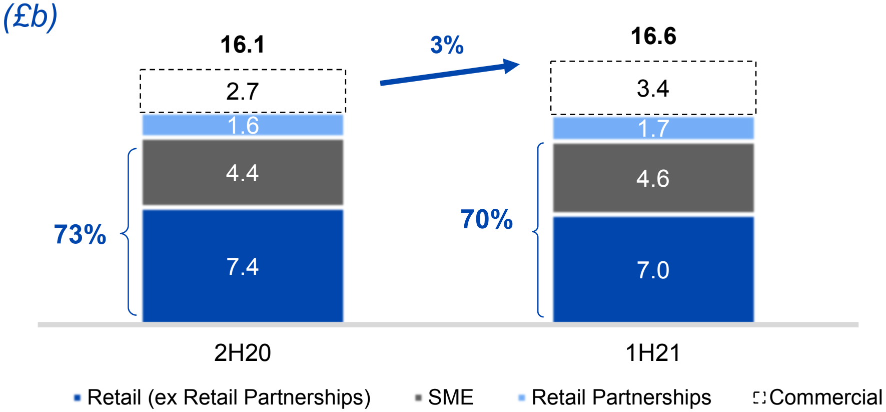

### Balance sheet mix shift

*Net lending – flow (£b)*

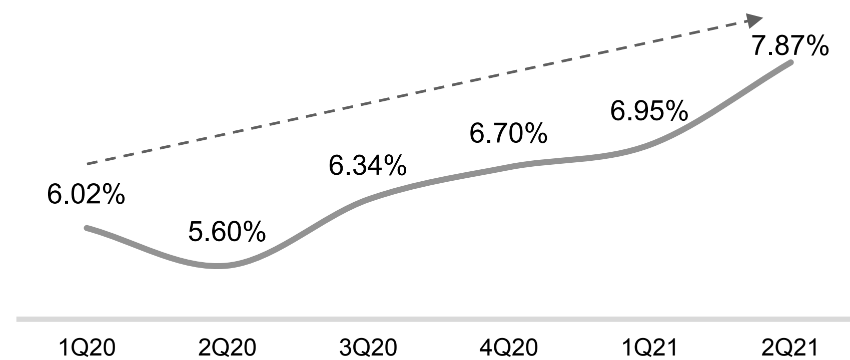



### Deposits by customer type

*(£b)*




### Loan interest income/Lending RWAs[1]






(1) Average RWA

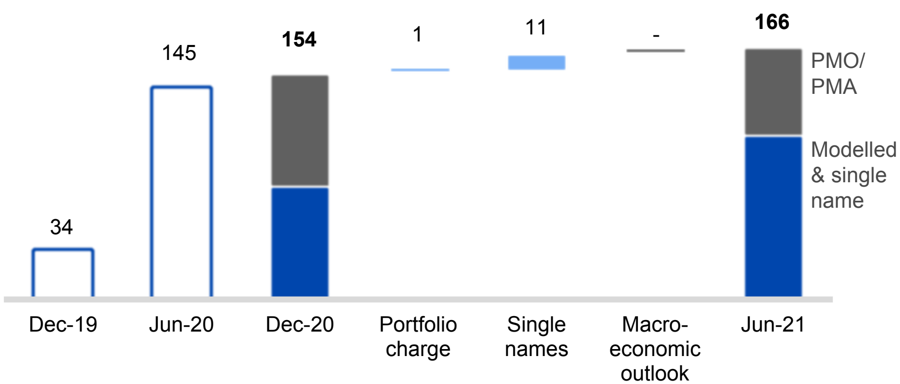
# Expected credit loss expense and asset quality

**Some improvement in macroeconomic outlook but a cautious level of management overlay retained given continued uncertainty**

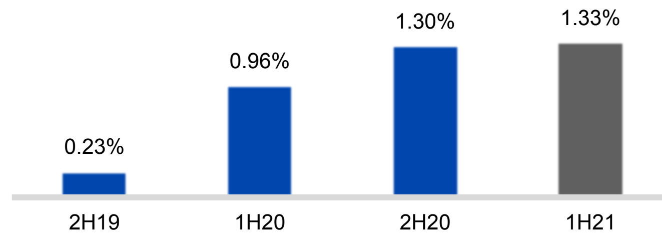
## ECL expense and Cost of Risk

| | ECL expense (£m) | | | Cost of Risk[1] (%) | | Coverage Ratio[2] (%) | | |
|---|---|---|---|---|---|---|---|---|
| | 1H21 | 2H20 | Change | 1H21 | 2H20 | 1H21 | 2H20 | Change |
| Retail Mortgages | (11) | (8) | (3) | (0.33) | (0.18) | 0.22% | 0.38% | (0.16%) |
| Commercial Lending | 8 | 20 | (12) | 0.32 | 0.75 | 2.19% | 1.98% | 0.21% |
| Consumer Lending[3] | 17 | 3 | 14 | 7.22 | 4.42 | 5.98% | 12.3% | (6.27%) |
| **Total ECL** | **15** | **15** | **-** | **0.24** | **0.20** | **1.33%** | **1.30%** | **0.03%** |

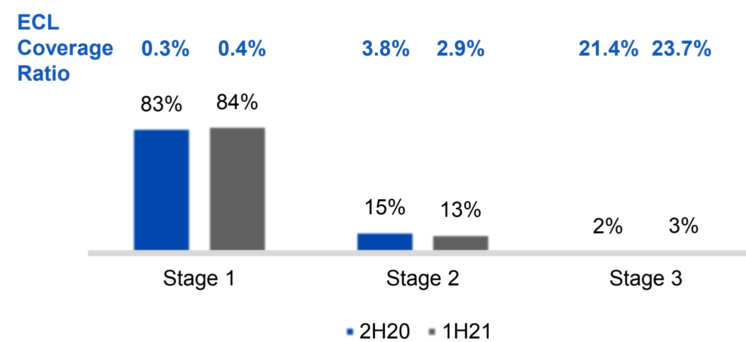
## ECL provision movement[4]
*(£m)*



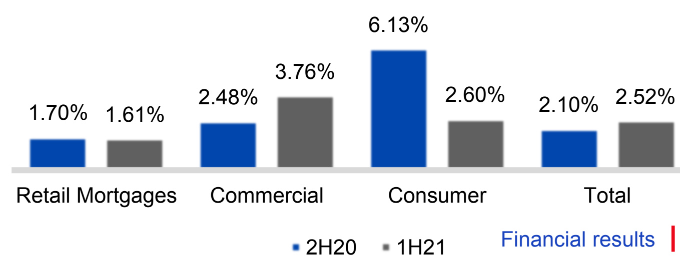

## ECL coverage ratio




## Balance by IFRS9 stages



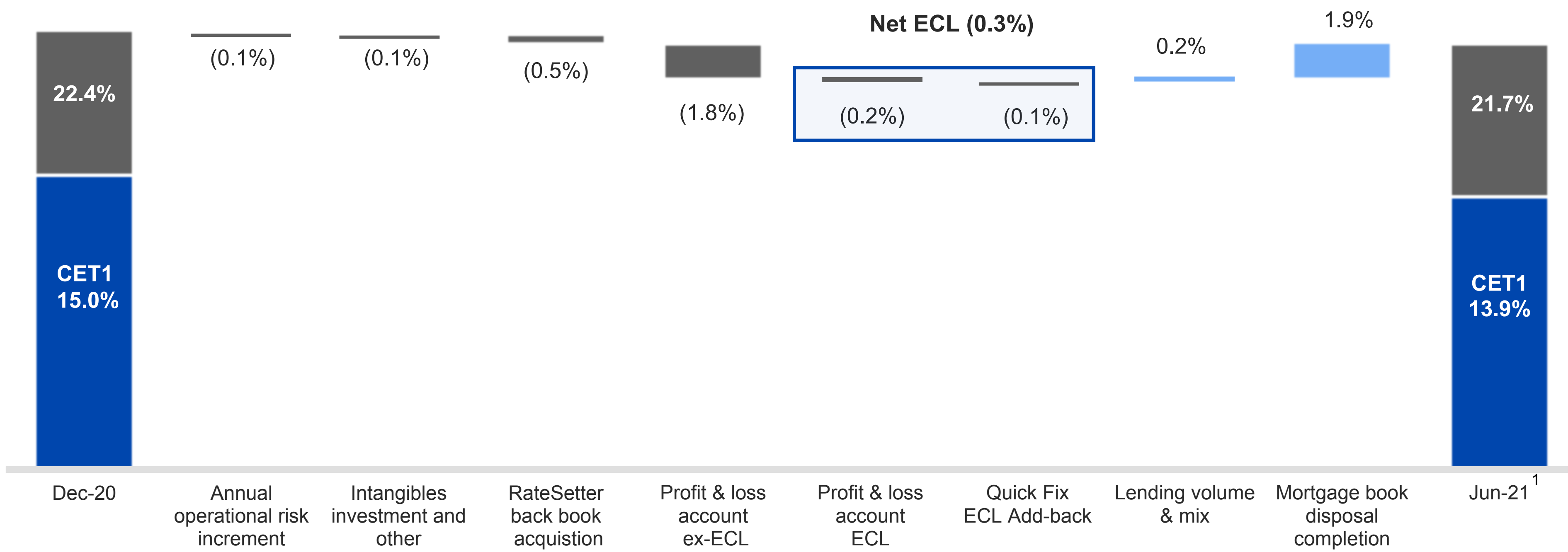

## Non-performing loans




(1) Cost of Risk (CoR) is the annualized credit impairment charge, expressed as a percentage of average gross lending.
(2) Coverage Ratio is the calculated as stock divided by the gross lending balances.
(3) CoR for Consumer is inflated due to the material growth in the balance sheet in 1H21.
(4) The difference between ECL expense and ECL provision movement relates to write offs adjustments amounting to £2.6m.

# Capital

## Total capital + MREL ratio bridge




- As in 2020, MREL resources may fall below the sum of the firm's MREL requirement and buffers (the loss absorbing capacity) for a period of time
- We note the Bank of England's Consultation Paper on MREL



(1) EBA software adjustment contributed 1.0% to the CET1 ratio. Interim MREL requirement of 20.5% comprises of 18% RWAs plus 2.5% current Combined Buffer Requirement

# P&L

| £m | 1H21 | 2H20 | *Change* |
|---|---|---|---|
| Net interest income | 133.6 | 134.1 | - |
| Net fees and other income | 46.7 | 50.2 | *(7%)* |
| Net gains on sale of assets | (0.5) | 3.3 | *(>100%)* |
| **Total underlying revenue** | **179.8** | **187.6** | ***(4%)*** |
| *'Run the Bank' costs* | *(214.9)* | *(206.3)* | *4%* |
| *'Change the Bank' costs* | *(60.3)* | *(55.0)* | *9%* |
| Operating costs | (275.2) | (261.3) | *5%* |
| Expected credit loss expense | (14.6) | (14.7) | *(1%)* |
| **Underlying loss before tax** | **(110.0)** | **(88.4)** | ***24%*** |
| Non-underlying items | (28.9) | 17.4 | *(>100%)* |
| Statutory taxation | (2.2) | 8.6 | *(>100%)* |
| **Statutory loss after tax** | **(141.1)** | **(62.4)** | ***>100%*** |
| Underlying EPS basic | (65.1p) | (42.9p) | |
| **Ratios** | | | |
| Net interest margin | 1.28% | 1.28% | - |
| Cost of deposits | 0.31% | 0.49% | *(18bps)* |
| Underlying cost to income ratio | 153% | 139% | *14pp* |
| Cost of risk[1] | 0.24% | 0.20% | *4bps* |

- £8.4m residual net gain on sale of the mortgage portfolio disposal
- £7.5m impairment of RateSetter peer-to-peer intangible assets
- £25.4m remediation costs primarily related to sanctions procedures

(1) Calculated on an annualised basis

# Balance Sheet

| £m | Jun 2021 | Dec 2020 | *Change* |
|---|---|---|---|
| Loans and advances to customers | 12,325 | 12,090 | *2%* |
| Treasury assets[1] | 9,474 | 6,406 | *48%* |
| Other assets[2] | 1,214 | 4,083 | *(70%)* |
| **Total assets** | **23,013** | **22,579** | ***2%*** |
| Deposits from customers | 16,620 | 16,072 | *3%* |
| Deposits from central banks | 3,800 | 3,808 | - |
| Debt securities | 596 | 600 | *(1%)* |
| Other liabilities | 850 | 810 | *5%* |
| **Total liabilities** | **21,866** | **21,290** | ***3%*** |
| Shareholders' funds | 1,147 | 1,289 | *(11%)* |
| **Total equity and liabilities** | **23,013** | **22,579** | ***2%*** |
| CET1 capital ratio | 13.9% | 15.0% | *(1.1pp)* |
| Total capital ratio | 17.2% | 18.1% | *(0.9pp)* |
| MREL ratio | 21.7% | 22.4% | *(0.7pp)* |
| Regulatory leverage ratio | 4.9% | 5.6% | *(0.7pp)* |
| Risk weighted assets | 7,563 | 7,957 | *(394)* |
| Loan to deposit ratio | 74% | 75% | *(1pp)* |
| Liquidity coverage ratio | 309% | 187% | *122pp* |

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

# Operational & strategic update

Daniel Frumkin (CEO)

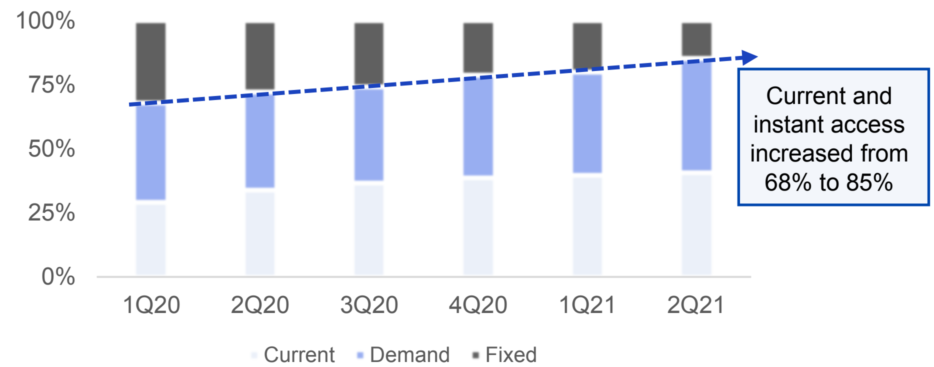
# Liability-led strategy supplemented by acceleration of asset mix shift

## Driving risk adjusted return on regulatory capital

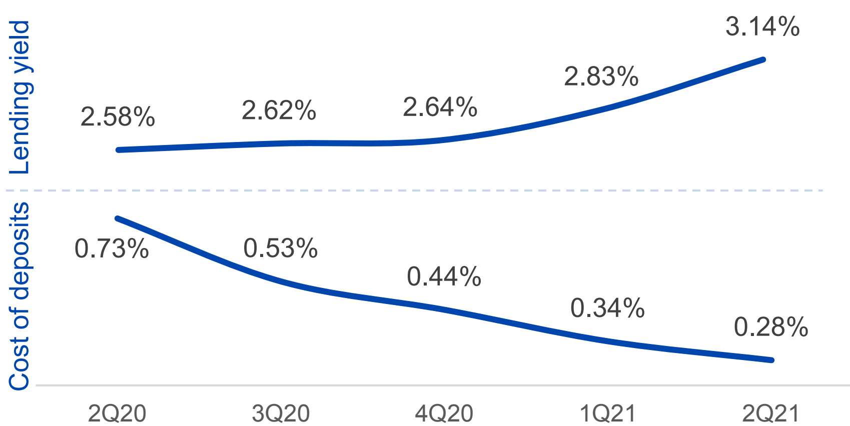
| | |
|---|---|
| **Consumer finance** | Acquired RateSetter platform<br>>£300m organic growth + back book acquired |
| **Mortgages** | Enhanced existing range to elevate yields<br>Launched more specialised mortgages<br>£3bn mortgage portfolio disposal |
| **Government backed lending** | >£1.5bn CBILS/BBLS<br>Accredited for the Recovery Loan Scheme |

## An increased proportion of non-interest bearing current accounts and low-cost instant access deposits

*% of total deposits*

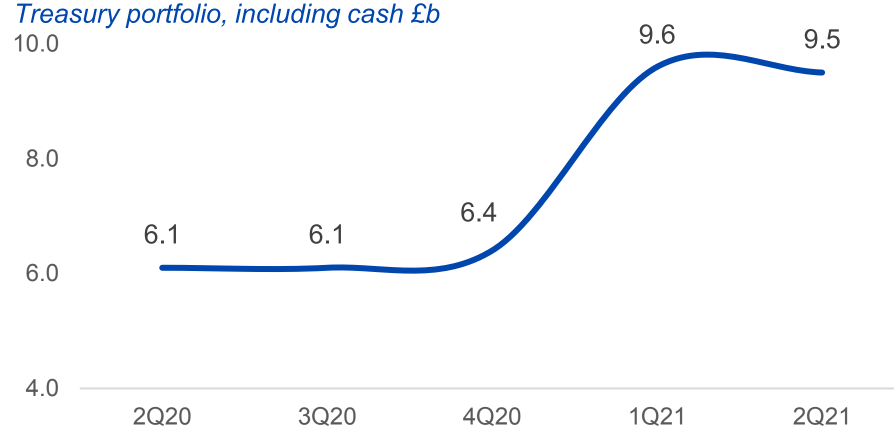



## Balance sheet mix shift delivering higher yields and lower cost of deposits




## Liquidity increased by mortgage portfolio disposal and net deposit inflows

*Treasury portfolio, including cash £b*



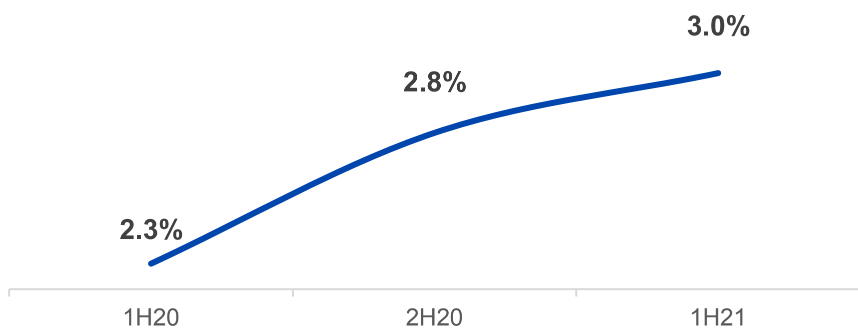
# Delivering balance sheet optimisation through shifting the asset mix

## Evolving mortgage products

**Enhanced existing mortgage offering to focus on risk adjusted returns on regulatory capital**

| Broad existing portfolio | Significant expansion in 1H21 | | | Further products |
|---|---|---|---|---|
| Buy-to-let | 95% Residential | Near Prime | System upgrade | Ltd Co. BTL |
| Residential | Contractors | Professionals/ High earners | | New Build |
| High net Worth | New intermediaries added | Criteria enhancements | | Affordable housing solutions |
| Interest only | | | | Inter-generational |

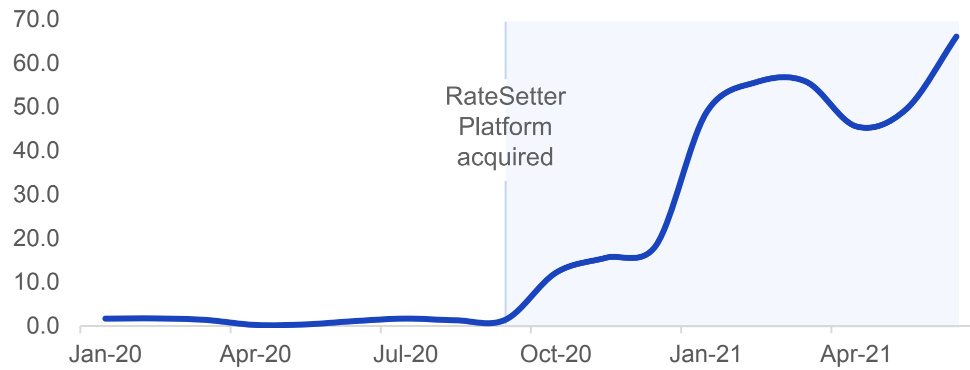
**Blended mortgage yield - completions**




## Accelerating consumer finance

**Leveraging RateSetter capability to drive higher margin growth**

Organic unsecured lending origination monthly £m

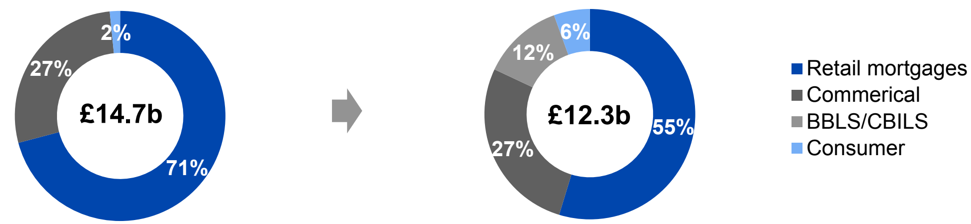



**Metro Consumer Finance**

- Expanding distribution to a wider range of aggregators and brokers
- Colleagues enhancing the proposition - store conversion rate exceeding online
- Industry leading API offering instant quotes
  - Increasing underwriting credit decisioning automation
  - Automating data capture and income verification though open banking
- Improving credit card offering
- Launching online small business loan

# Reshaping the balance sheet for risk adjusted returns

| | December 2019 | | June 2021 |
|---|---|---|---|
| **Lending mix** | £14.7b | | £12.3b |
| **Lending yield**[1] spread over base rate | 2.12% | 92bps | 3.04% |
| **Loan interest income/ lending RWA**[1] | 6.00% | 187bps | 7.87% |
| **Deposit mix** % current & variable rate accounts | 68% | 17pp | 85% |
| **Cost of deposits**[1] | 0.87% | 59bps | 0.28% |




(1) 4Q19 vs 2Q21

# Q&A

**Daniel Frumkin**

Chief Executive Officer

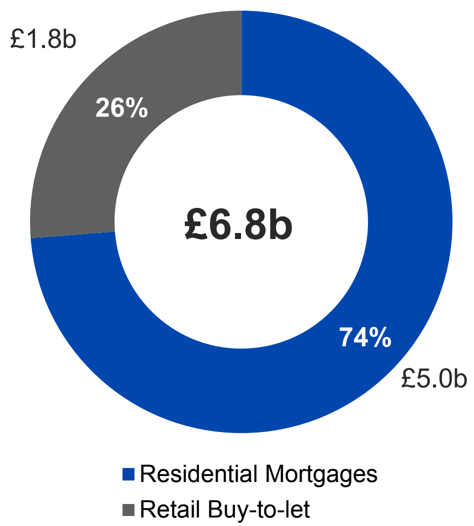
**David Arden**

Chief Financial Officer

# Appendix

# Retail mortgages

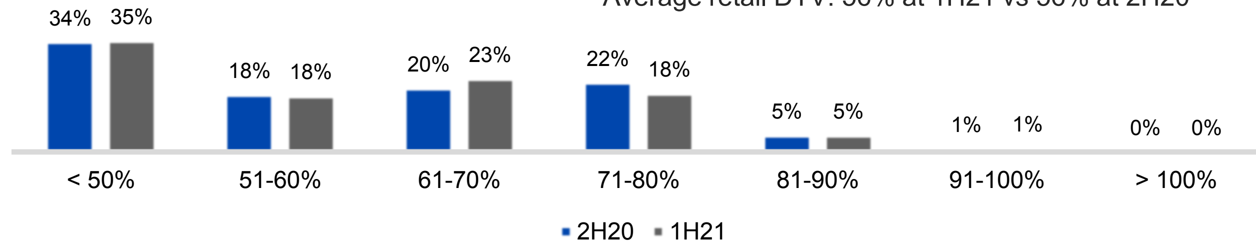
## Retail mortgage portfolio



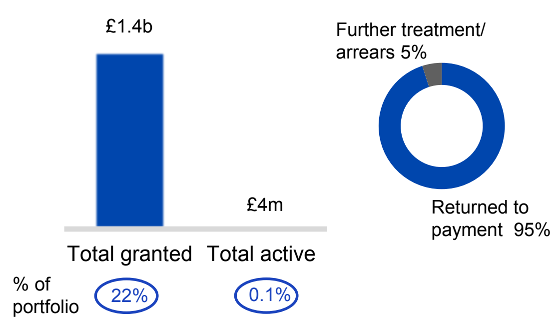

- Only 0.1% of payment deferrals are active as at 30 June 2021
- ECL coverage ratio has reduced due to:
  - Reduction in modelled ECL for Mortgages due to implementation of new Loss Given Default (LGD) model
  - Management overlay for customers benefiting from payment deferrals reduced as customers have returned to contractual monthly payments

## Retail mortgages debt-to-value

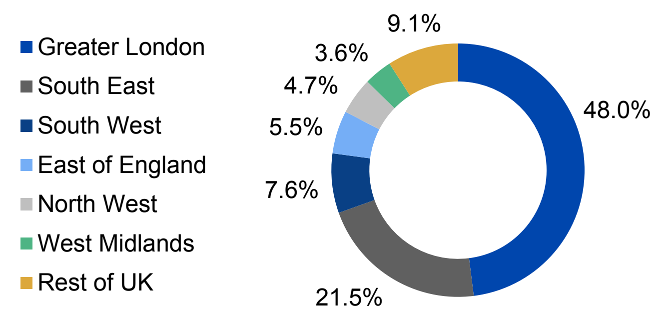
Average retail DTV: 56% at 1H21 vs 56% at 2H20



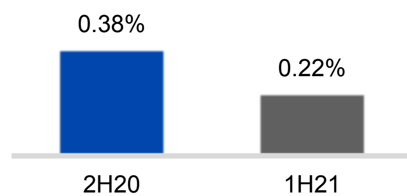

## Mortgage payment deferrals



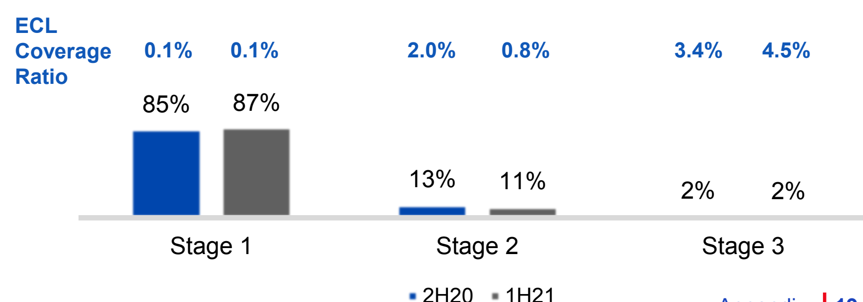

## Retail mortgages geographical split




## ECL coverage ratio



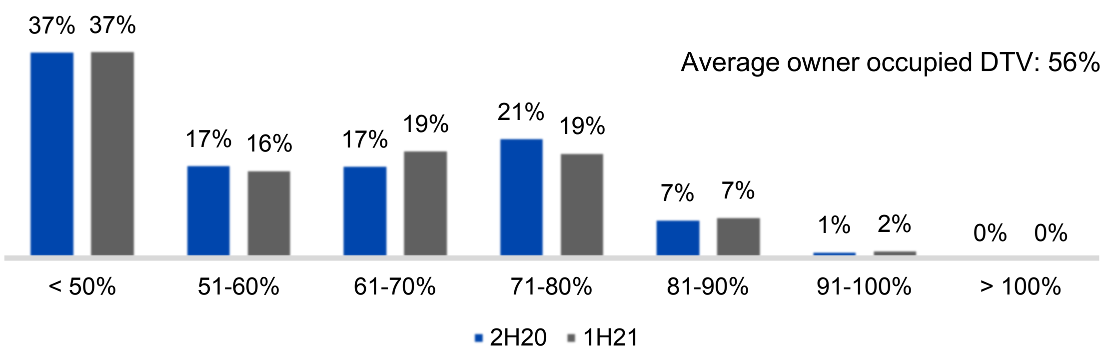

## Balance by IFRS9 stage



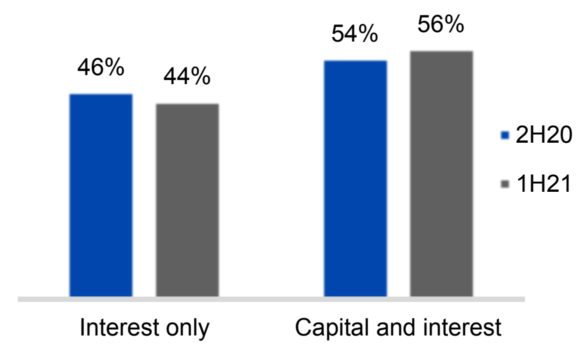
# Retail mortgages

## Owner occupied retail mortgages

### Debt-to-value profile

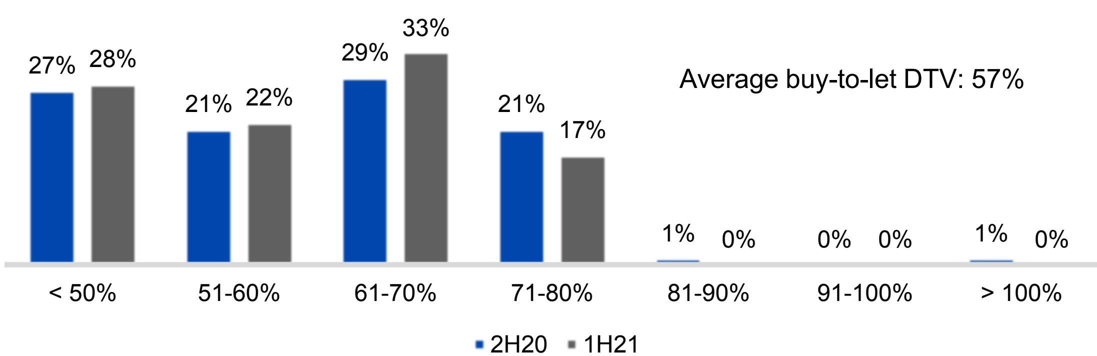



### Repayment type

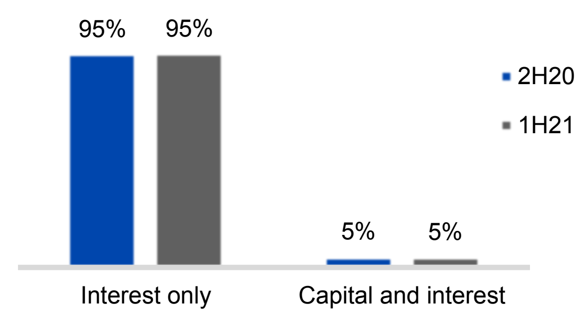



## Retail buy-to-let mortgages

### Debt-to-value profile

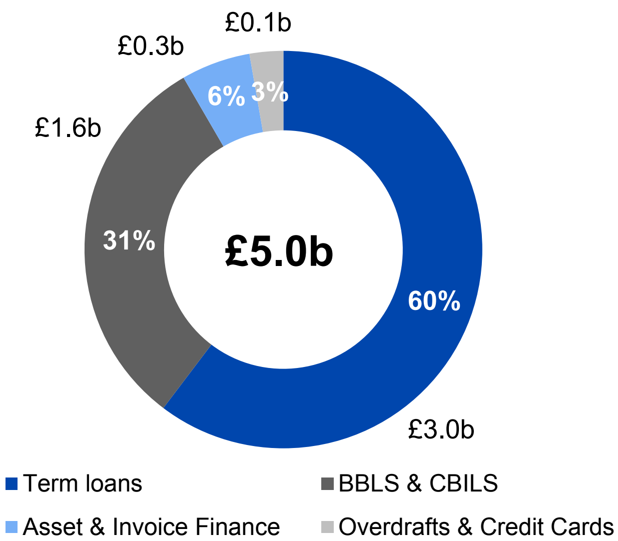



### Repayment type



# Commercial lending

## Commercial lending portfolio

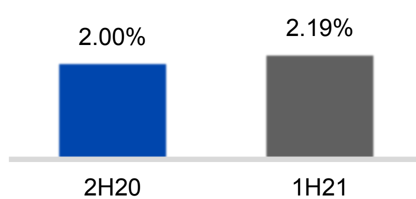



- £1,394m of BBLS and £162m of CBILS loans approved, across c.39,000 customers as at 30 June 2021

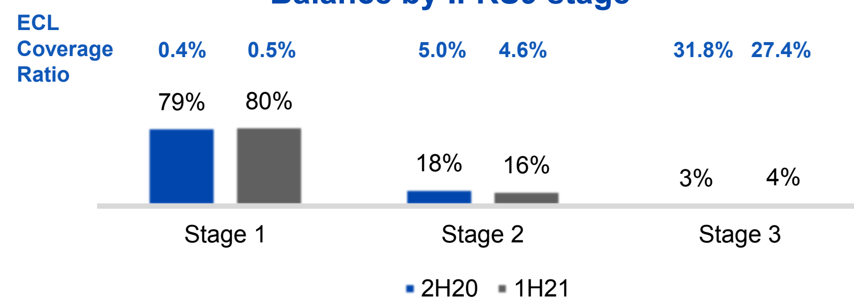
## Commercial lending industry sectors[1]

| Industry sector (£m) | 30 June 2021 | 31 Dec 2020 | 30 Jun 2020 |
|---|---|---|---|
| Real estate (PBTL) | 1,037 | 1,117 | 1,167 |
| Real estate (other term loans) | 889 | 1,032 | 1,070 |
| Hospitality | 370 | 376 | 323 |
| Health & Social Work | 226 | 248 | 243 |
| Legal, Accountancy & Consultancy | 207 | 208 | 202 |
| Other | 433 | 388 | 384 |

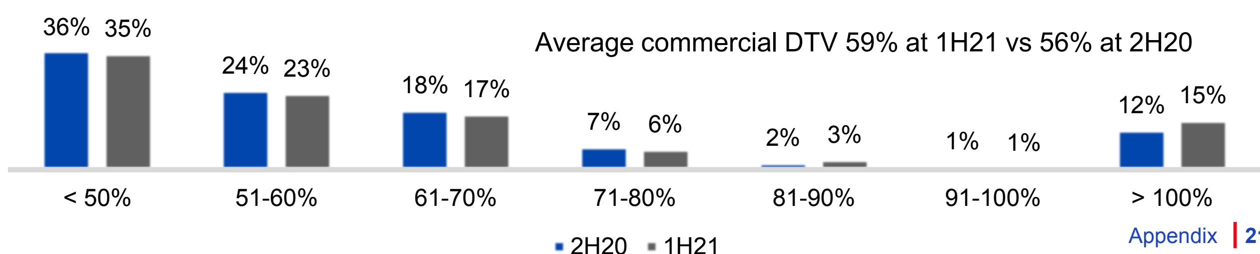
## ECL coverage ratio




## Balance by IFRS9 stage

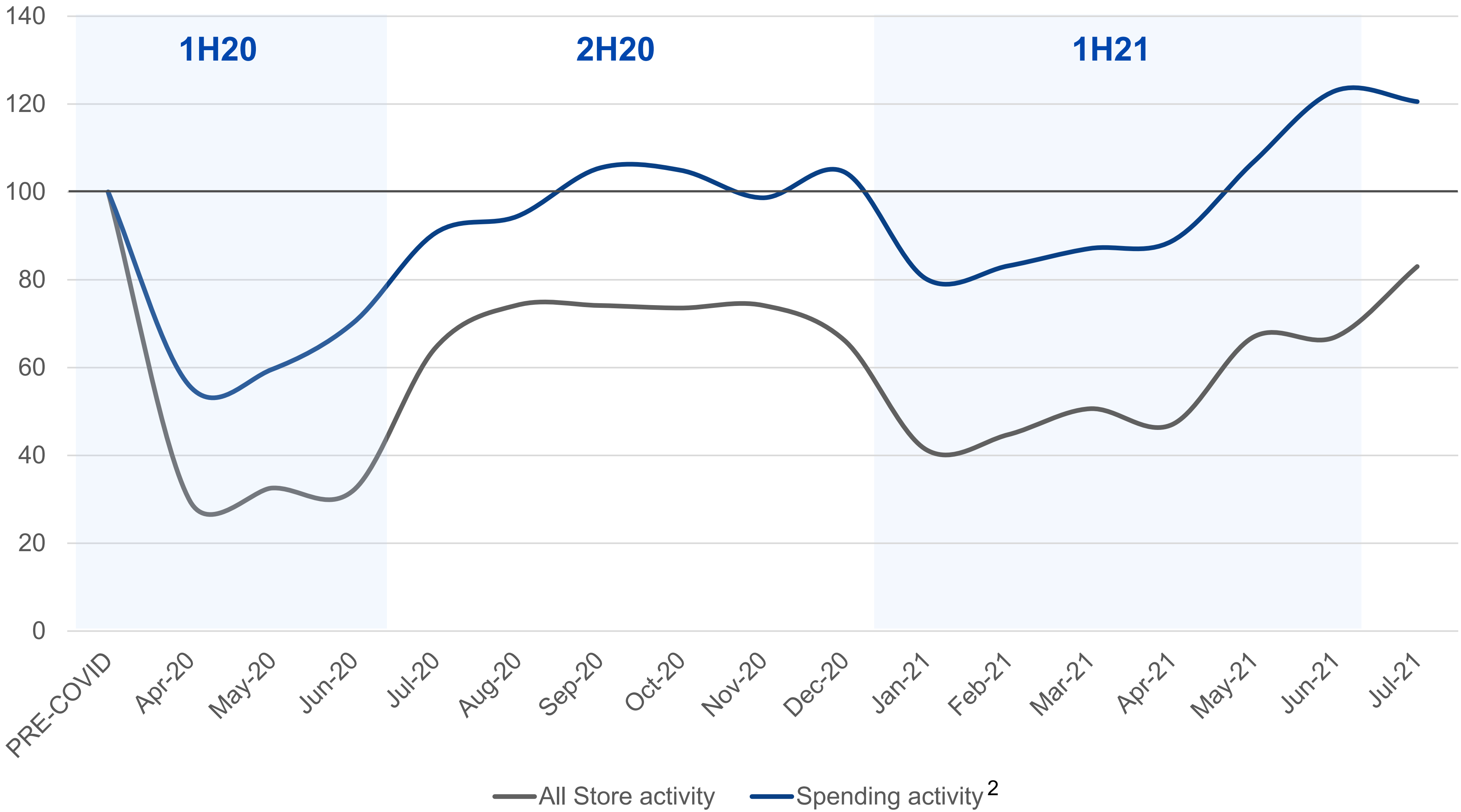



## Commercial lending debt-to-value[2]




(1) CLBILS loans are included as term loans and amount to £39 million of lending at 30 June 2021
(2) Commercial term loans excluding BBLS

# Improving customer activity trends[1]




(1) Activity levels shown as a percentage of pre-pandemic levels in 1st week commencing each month
(2) Metro Bank customer activity only

# YoY P&L

| £m | 1H21 | 1H20 | *Change* |
|---|---|---|---|
| Net interest income | 133.6 | 116.2 | *15%* |
| Net fees and other income | 46.7 | 36.1 | *29%* |
| Net gains on sale of assets | (0.5) | 1.0 | *(>100%)* |
| **Total underlying revenue** | **179.8** | **153.3** | ***17%*** |
| *'Run the Bank' costs* | *(214.9)* | *(184.1)* | *17%* |
| *'Change the Bank' costs* | *(60.3)* | *(40.6)* | *50%* |
| Operating costs | (275.2) | (224.7) | *22%* |
| Expected credit loss expense | (14.6) | (112.0) | *(87%)* |
| **Underlying loss before tax** | **(110.0)** | **(183.4)** | ***(40%)*** |
| Non-underlying items | (28.9) | (57.2) | *(51%)* |
| Statutory taxation | (2.2) | 1.1 | *(>100%)* |
| **Statutory loss after tax** | **(141.1)** | **(239.5)** | ***(41%)*** |
| Underlying EPS basic | (65.1p) | (108.8p) | |
| **Ratios** | | | |
| Net interest margin | 1.28% | 1.15% | *13bps* |
| Cost of deposits | 0.31% | 0.82% | *(51bps)* |
| Underlying cost to income ratio | 153% | 147% | *6pp* |
| Cost of risk[1] | 0.24% | 1.55% | *131bps* |



(1) Calculated on an annualised basis

# YoY Balance Sheet

| £m | Jun 2021 | Jun 2020 | Change |
|---|---|---|---|
| Loans and advances to customers | 12,325 | 14,857 | *(17%)* |
| Treasury assets[1] | 9,474 | 6,101 | *55%* |
| Other assets[2] | 1,214 | 1,176 | *3%* |
| **Total assets** | **23,013** | **22,134** | ***4%*** |
| Deposits from customers | 16,620 | 15,577 | *7%* |
| Deposits from central banks | 3,800 | 3,801 | - |
| Debt securities | 596 | 599 | *(1%)* |
| Other liabilities | 850 | 810 | *5%* |
| **Total liabilities** | **21,866** | **20,787** | ***5%*** |
| Shareholders' funds | 1,147 | 1,347 | *(15%)* |
| **Total equity and liabilities** | **23,013** | **22,134** | ***4%*** |
| CET1 capital ratio | 13.9% | 14.5% | *(0.6pp)* |
| Total capital ratio | 17.2% | 17.3% | *(0.1pp)* |
| Total capital + MREL ratio | 21.7% | 21.3% | *0.4pp* |
| Regulatory leverage ratio | 4.9% | 5.8% | *(0.9pp)* |
| Risk weighted assets | 7,563 | 8,605 | *(1,042)* |
| Loan to deposit ratio | 74% | 95% | *(21pp)* |
| Liquidity coverage ratio | 309% | 226% | *83pp* |

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