a huge market, in need of disruption

A unique service model well placed for exceptional growth.

Market overview

Metro Bank has delivered exceptional growth since its launch in 2010, despite being launched at a difficult time for the banking market and the UK economy as a whole. Since 2010, the UK economy has performed well, and that has supported a strong banking market. Regulatory initiatives that promote competition, and changing customer needs, are creating opportunities for fast-moving and customer-focused banks. Metro Bank's strategy leaves us well placed to continue to grow and create FANS.

> "Banks that successfully deliver a seamless customer experience will be rewarded with customers who come back for more and tell their families and friends to do so, too. This in turn produces growth and profitability.[1]"

The UK economy

Metro Bank is based solely in the UK, and therefore the UK economy affects the conditions in which it operates. UK economic performance has been positive: GDP grew by 2.2% in 2015[2] and is forecast to grow 2.1% in 2016 and 1.4% in 2017.[3]

The vote by the British public to leave the EU on 23 June 2016 caused some economic uncertainty. Immediately following the vote, the Bank of England reduced the base rate for the first time since 2009 and Sterling reduced in value against the Dollar by 17%[4] up to the end of the year. In January 2017, the government announced its objectives for leaving the EU, stating that it intended to leave the single market.

However, we are seeing strong economic growth, which promotes good circumstances for lending and deposit growth. Interest rates are at historic lows, and any increases implemented to meet inflation targets would create new opportunities. A deterioration in economic conditions would impact banks in general, but we believe that our prudent approach to lending means this would represent an opportunity for Metro Bank as our model does well in times of market disruption.

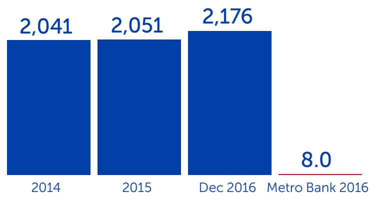
The UK banking market

Positive economic growth has supported the continued expansion of the UK banking sector. Over the past year, the huge market in deposits and lending have grown 6.1% and 4.2% respectively.[5]

The market for mortgages has been strong, with continued house price growth and an increasing number of first-time buyers (335,750 in 2016 – the highest since 2007[6]). Recent changes to tax and underwriting criteria on buy-to-let mortgages will make this area less attractive to investors and could impact house prices. However, the continued excess of demand over supply is most likely to support continued growth.

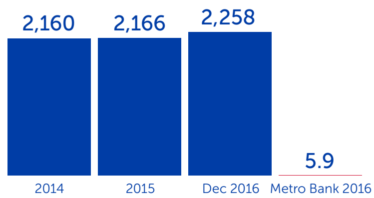
Metro Bank has grown rapidly since inception, reaching £8.0 billion of deposits in 2016, Our vision for 2020 is to grow to £27.5 billion, which is only 1.3% of market share today.

TOTAL UK BANKING SECTOR DEPOSITS (£bn)



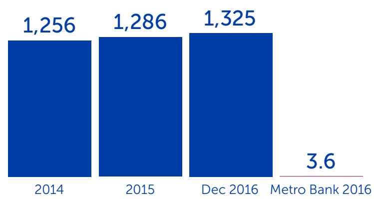
Source: Bank of England.

TOTAL UK BANKING SECTOR LENDING (£bn)



Source: Bank of England.

TOTAL UK BANKING SECTOR MORTGAGES (£bn)



Source: Bank of England.

> "Mobile is not the whole story. In retail, telecoms and nearly every other sector, customers still place a high value on in person contact.[11]"

Regulation

Through the Prudential Regulation Authority ("PRA"), the Bank of England manages prudential risk to the banking sector, including setting rules on capital and liquidity.

Banking regulators also have a duty to promote competition in the banking sector in order to give customers a better choice about the banking services they use. To combat historic customer inertia in changing banking providers, and the concentration of market share in the big five banks (four out of five personal current accounts[7]), regulators have launched a number of initiatives, such as the account switching programme, to enable greater competition. The second Payment Service Directive from 1 January 2018 is a significant step towards open banking, enabling third parties to access banking information and trigger payments, which reduces the historical benefits large banks have of owning customer data. These initiatives will create opportunities for banks that are able to adapt and grow quickly, and are not encumbered by legacy systems and ways of working. We are, therefore, well placed to take advantage of these opportunities.

Changing customer needs

In recent years, a number of disrupters have revolutionised the way customers are served across many industries. Uber has changed the way people can hail taxis and track their progress, WhatsApp has partially displaced telecomms companies and Netflix has transformed the provision of home entertainment, while Amazon (retail) and Apple (technology) continue to disrupt other industries through their ongoing innovation and exceptional customer service.

The success of disrupters aligning physical and technical delivery has highlighted key themes that are important across sectors: the importance of customer choice, of delivery at point-of-sale, of multi-channel delivery and a strong and trusted brand.

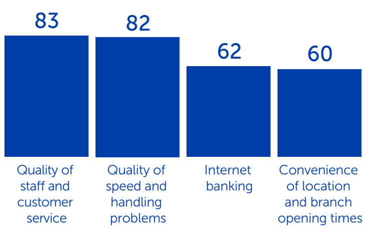
> "Banks need to create a seamless experience which delivers products and services smoothly and efficiently regardless of the channel.[1]"

These themes are echoed in the banking sector. The success of internet-only banks, and the plethora of companies investing in new digital technologies, underlines the digital opportunity. But, in contradiction to perceived wisdom, customers are also utilising their branch services in increasing numbers and will continue to do so (53% of customers are accessing a store at least once per month compared to 47% in 2010, and people from 18–21 are using it more than any other group[9]). The key conclusion is that customers want to be able to choose when and how they interact with their bank; Metro Bank's model enables them to do this.

72%

of consumers still go to the high street to access banking and financial services.[8]

MOST IMPORTANT FEATURES OF A BANK ACCOUNT (%)[10]



1 Source: Bain and Co Survey, 2014.
2 Source: Office of National Statistics.
3 Source: Office of Budgetary Responsibility.
4 Source: Bloomberg.
5 Source: Bank of England.
6 Source: Halifax First-time buyers review.
7 Source: Baringa Market Analysis, December 2015.
8 Source: Deloitte Research Paper: "Bricks and Clicks – mapping the future of branches".
9 Source: Accenture.
10 Source: GFK PCA Investigation for the CMA.
11 Source: British Banking Association – Digital Disruption UK Banking Report.