NOTIFICATION TO PENSION PROVIDERS AND THEIR MEMBERS

- Metro Bank like all other retail banks have a regulatory requirement to retain capital to absorb potential losses and grow, especially in the case of a challenger bank.
- The bank's loans to customers (assets) are risk weighted accordingly and this drives the amount and type of capital you must retain to cover the inherent risks.
- Banks can use internal models to determine their risk-weighted assets – and, therefore, how much capital they need.
- The plan is for the bank to use this model and will need approval by the Prudential Regulation Authority (PRA).
- Whist the model has not yet been approved; the plan is to have this model in place.
- As a result, Metro Bank were not able to ring-fence the funds that the regulators insisted on so secured a capital package from our existing shareholders.
- The successful capital package was announced on 8th October that will now allow the bank to continue to be profitable and grow the business over the coming years.
- As part of the package, the bank also refinanced an existing debt transaction for £600m comprising bond holdings (£250m) and MREL (£350m).
- MREL is a certain type of debt which acts as a buffer to absorb losses and to provide new capital to the bank. All banks are required to issue this debt to support their loan book.
- Separate to the transaction, Metro Bank is discussing a potential asset sale of up to £3bn of residential mortgages allowing Metro Bank to reinvest proceeds into cash potentially at a higher yield, subject to pricing.
- Both the transaction and sale of the mortgage book will put Metro Bank in a strong position to accelerate earnings growth whilst still operating within regulatory capital and liquidity requirements.

The overall Capital Package of £925m provided by existing shareholders, noteholders, and new investors, comprises the following: including existing MREL being refinanced until 2028.

- A Capital Raise of £325m, comprising of £175m of new MREL issuance from existing noteholders maturing 2034 and £150m of new equity from existing shareholders and new investors.
- The Equity Raise was led by Spaldy Investments Limited, Metro Bank's largest shareholder, which is contributing £102m. Spaldy Investments Limited will become the controlling shareholder of Metro Bank upon completion of the Transaction with a c.53% shareholding. Daniel Frumkin, Chief Executive Officer at Metro Bank, will be subscribing up to £2m and James Hopkinson, Chief Financial Officer at Metro Bank, will also be subscribing up to £60,000.

What does this now mean for the bank.

- The credit rating agency, Fitch have downgraded the bank's VRs (Viability Ratings) which is due to the proposed structure of the bank's debt refinancing. It also reflects Fitch's assessment that the bank's capitalisation and leverage will improve and strengthen once the transaction is complete and therefore expect the ratings to improve once the new capital arrangements are in place.
- Fitch have also improved Metro Bank's Rating watch from Negative to Evolving which is an improved ratings position and a result of the measures the bank is proposing around its capital position.
- Metro Bank have enhanced their balance sheet strength which will allow the bank to grow their assets significantly and accelerate earnings potential over the coming years. The bank doesn't have to access capital markets until at least 2028– which gives it the ability to grow and more time to do it.
- The planned store openings in the north of England further supports the expansion of Metro Bank's customer base. The bank currently has 79 stores and looking to increase that number. Opening new stores will accelerate growth and endorse Metro Bank's Community banking model.
- This week, questions have been raised in the media about whether the model that the bank has adopted is sustainable or not. The Bank has traded profitably for four consecutive quarters and operating within capital and liquidity requirements set by the regulators and has the tools for sustained growth.
- Metro bank is the preferred partner for numerous pension providers in the UK and have an experienced team dedicated to providing services to them and their members. The team provides an efficient multi-functional service with quick response times, simplified account opening and knowledgeable staff who can react to issues and queries in a timely manner.
- Pension funds held with Metro Bank are protected under the Financial Services Compensation Scheme (FSCS), in the unlikely event of the bank failing. Each member is individually protected up to a maximum of £85k. The protection is not per account. If members hold any other Metro Bank accounts, the £85k would include these as well. For SSAS bank accounts the cover is per member, not per scheme bank account.