Metro Bank H1 2025 Results
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Daniel Frumkin (CEO) and Marc Page (CFO)

PRESENTATION

Daniel Frumkin, CEO

Good morning. Welcome to Metro Bank's H1 2025 results presentation. I'm Dan Frumkin, CEO of Metro Bank. H1 2025 shows the strategic pivot we started 18 months ago, refocusing on Metro Bank's relationship banking ethos is working. The strong financial performance combined with the actions taken positions Metro Bank to deliver best-in-class returns over time.

You're going to hear from me this morning a bit of an overview, then we'll go into Marc who will give you more detail on the financial performance. Then I'll talk a bit about the strategy driving the future through 2027 and beyond and then we're always happy to take your questions.

So let's start. Revenue was up 22% year-on-year. It's up 22% even though the Bank of England base rate is down 100 basis points. We also shrunk the balance sheet by 24%, so we managed to grow revenue while shrinking the balance sheet and living in a lower rate environment. We also managed to reduce costs, to reduce costs by 8% year-on-year. That gave us a jaws of 30%. It led to a £45 million underlying PBT, that is treble what we did in the second half of 2024.

On the upper right, we did £1 billion pounds of commercial and corporate lending, that's twice what we did a year ago. We have an £800 million credit-approved pipeline. The credit-approved pipeline is more than all of the lending we did in 2023. You can see we expanded NIM in the bottom left by over 100 basis points in the year. The 2.95% exit NIM is very close to our year-end guidance.

We've created real capacity for growth through our capital actions in the first half of the year, both the unsecured personal loan sale and the £250 million of AT1 we raised. We believe and we expect to be reclassified a transfer bank under the new MREL regime. When we're reclassified a transfer bank under the new regime, it means MREL capital is set equal to your minimum capital requirements. Therefore, Metro Bank has no intention of raising any more MREL debt.

We told you that there were four key drivers for us to deliver 2027 guidance. The first was cost discipline. As I've mentioned, costs are down 8% year-on-year. Our costs are now better than they need to be to deliver 2027 guidance. Our cost of deposits, our exit cost of deposits was 102 basis points. That is the best of any high street bank in the UK. Our cost of deposits is now below what it needs to be to deliver the 2027 guidance.

We talked about just the passage of time, that our treasury portfolio, our natural hedge rolls off and we can reinvest the proceeds when those securities mature. We have £0.5 billion this year, £1 billion in 2026, and another £0.5 billion in 2027. Just the roll-off and reinvestment of those proceeds under the current yield curve delivers a 660 basis point improvement and return on tangible equity by the end of 2027.

We said we need to rotate assets. Well you saw and I talked about earlier, we've done £1 billion of commercial and corporate, we have an £800 million pipeline, we're launching new products in our specialist residential mortgage space.

Most importantly, we saw a £0.5 billion of our prime resi mortgage book runoff. One of the strengths of the business plan is that we free up about £4 billion of liquidity and significant amounts of capital because we're running off the prime residential mortgage book.

You've seen this slide before, I'm not going to spend a lot of time on the why we win drivers. I'll come back to those in the second half of the presentation, but I do want to spend a bit of time on the chart on the right. You've seen it before, this is our clear blue water chart. Metro Bank is in a universe of its own. We are uniquely positioned to generate outsized returns on a going forward basis.

We have a funding model that delivers a cost of deposits that is better than the high street banks. We have a lending platform that's delivering risk adjusted yields in line with the specialist lenders. That combination, driven by a relationship ethos, allows Metro Bank to win every day.

This is the guidance. Marc will come back to it, but again, as I've talked about, for the 2027 guidance, the building blocks are in place now for a lot of the guidance that will be delivered in 2027. With that, I'll turn it over to Marc to go through the details of the financials. Thank you.

Marc Page, CFO

Thank you, Dan. It's great to be able to talk about such a strong level of performance. What I'd like to take you through today is a little bit more about the drivers and the actions we've taken and how we think they translate to forward momentum as we go forward from here.

Firstly, let's look at the performance dashboard over a longer period of time. The first thing to notice is all of our trading metrics have improved, let's go through those one by one. Firstly, as Dan mentioned, we have more than halved the cost of deposits from just over 2% to just over 1% versus the same period last year.

That has helped increase our exit NIM along with the asset rotation strategy, which we'll come back to later, to an exit NIM of 2.95%. That in turn has increased our revenue to £286 million, which is 22% up on the prior year on a smaller balance sheet and in a lower rate environment. Combined with two things, combined with cost discipline, that improves our cost to income ratio from 95% at year-end down to 82% and well on track to deliver all future guidance.

From a credit risk perspective, strong underwriting disciplines in markets we already know has kept the cost of risk low, already low and stable compared to H1 2024. The combination of increasing revenue, lowering costs on low cost of risk means we've increased underlying profits to £45 million in the period, which is more than treble the H2 period in 2024.

In addition to that, we are seeing convergence between our statutory profit and underlying profits, with a statutory profit of £43 million, which translates into a return on tangible equity of 7% in the period which is right in line with our guidance. All at the same time, an increase in our capital position. We're going to come onto more of these drivers in depth as we go through the next section.

Dan mentioned there were four things that were important to the transformation in terms of our PBT, let's go through them one by one. Firstly, how have we managed to reduce the cost of deposits by more than half? Well on the left-hand side, this shows how our deposit mix has changed over time and I draw your attention to the third column and importantly, our mix of deposits, which are checking accounts or non-interest bearing is 43% of our mix. Now that equates to a market average of 18%, so we have more than twice the amount of mix in low cost deposits, which are borne out of the relationship strategy we hold dear.

In addition, we are starting from an extremely strong place in terms of liquidity, so an LCR ratio of 315% and a loan to deposit ratio of 65%. That means we can be very disciplined with the types of deposits we need. As such, we have offloaded expensive deposits from a mix of 15% this time last year, down to 7% and that actually compares with over 34% versus the market peers.

The combination of our relationship strategy gives us a strong foothold in terms of deposit, our cost of the deposits and a pricing advantage versus peers. All of that has led to a cost of deposits on the right-hand side of just over 1% in the period, which is the best on the high street.

Secondly, cost discipline. We mentioned that most of our heavy lifting of the transformation was completed last year from a people perspective and that's true. As you can see in the chart, we have reduced total costs half-on-half by £21 million in the period versus full year. But you can see our people costs are stable, reflecting the fact that all of the heavy lifting on people transformation was done last year.

Pleasingly, we have further improved our operating efficiency by £21 million in our non-people costs as a result of targeted actions and embedded in our partnership with Infosys. All of this combines with the increased revenue to improve our cost to income ratio to 82% and well on track to deliver the guidance we set out in the plan.

The third component, as Dan mentioned, was tailwinds from treasury investments. Here you can see the effect of this nearly £2 billion of maturities as they yield from low yielding rates onto higher yielding rates. Cumulatively, we expect £15 million worth of benefit this year, which is worth 10 (basis) points on NIM.

That builds substantially into 2026 to drive a £44 million increase, or 29 basis points on NIM and cumulatively over the period it drives 660 basis points of ROTE. Now all of this is largely locked in. We know the rates, we know the balances and are currently performing in line with our projections of the yields we're expecting to deliver.

Finally, let's go to asset rotation. What does it mean for us? On the left-hand side, this shows how our balance sheet has changed in loans and advances over the period since H2 2024. Our total loans are now £8.9 billion down from £9.2 billion, but really the story is in the middle block of how we're recycling runoff portfolios into targeted growth areas.

You can see in our runoff books, we have runoff the book by £1.2 billion from £5.8 billion down to £4.6 billion. We have recycled this into our targeted areas and growing them by £0.9 billion in the period. As you can see on the right-hand side, a lot of that growth is driven by our targeted acquisition in corporate and commercial lending.

We did £1 billion worth of new lending in H1 2025 compared to £0.5 billion in 2024 and £0.3 billion in the same period in 2023, so double 2024, treble 2023 and building momentum. As you can see, we have over £800 million of credit-approved pipeline ready to complete in the remainder of this year. Again this gives us strong confidence our growth and strategy is delivering.

But it's more than just growth, it's also within asset rotation, about yield management and optimising for risk-adjusted returns. Now in our two target portfolios, in the middle two blocks, we've split out what the yields are, spread to base for commercial and customers joining so 3.57% and attrition 3.33%. The combination of growing in this segment and at a better yield has improved the spread to base from 3.12% to 3.46% in the period. That is NIM accretive and income earning.

Likewise, in the mortgage portfolio on the right-hand side, you can see that our attrition equals our gross lending, but actually the yield of gross lending significantly outperforms the attrition, so 5.77% versus 4.60%. We guided that we would generate new commercial loans over the course of the plan of 350 (basis) points over base rate and we are at that level and we have the lending volumes we need to deliver the guidance. Likewise in mortgages, we're delivering over 200 basis points (over) swap rates. We continue to launch new products in this segment and we look forward to telling you the results of those as they mature.

Let's zoom out a little bit. What does all of that mean in terms of our four performance drivers on the key metrics? Well versus H1 2024, our (exit) NIM is increased from 1.78% to 2.95%, driven by two key components, the asset rotation strategy and the cost of deposit management. That exit NIM is already within five basis points of our full year guidance of 3% to 3.25% by the end of the year. The strategic actions taken to increase revenue and lower costs have improved our jaws by 30% the combination of which has improved our PBT to £45 million in the period.

Now let's just look at that £45 million and how that's emerged over the passage of time. The reason we keep talking about these four drivers is because they have a material impact on the profitability of the Bank. You can see the effects of deposit optimisation, cost management, treasury assets, and asset rotation as we build to a ROTE of 7%, which is the midpoint of our guidance for the year, all of which has been achieved by strengthening our already robust capital position.

Key significant changes on capital in the first half of this year is we raised £250 million of AT1s. We completed the unsecured personal loan of £584 million portfolio sale. We organically generated CET1 through profits. As you can see on the right-hand side, that now leads to an increase in our CET1, our total capital and our MREL to the highest point we've had to date. All of this we further expect to benefit from the changes from the MREL regime and we'll come back with further details as more is known in the future.

Finally, ending on guidance, look on the left-hand side, this is the halfway stage for the year. You can see where we are versus where we said we'll be for the full year and hopefully this brings you confidence that we are well on track to deliver, the strategies in action are working and we expect to have a very clear path to delivering the returns we set out in our guidance. With that, I'm going to hand back to Dan, who's going to take you through our strategic drivers.

Daniel Frumkin, CEO

Thanks, Marc. We're going to spend a little bit of time talking about the strategy driving the future, where we go to beyond 2027 and how we get to 2027 going forward. So listen, these are the strategic pillars that I've discussed before. These are the strategic pillars that underpinned the delivery of the strategic repositioning of Metro.

So we've talked about costs, we have 38% fewer colleagues onshore today than we had 18 months ago. We've restructured our frontline distribution team, we've reduced store hours, but still have the longest store hours of any high street bank. That has built a scalable platform. All of those energies, all of those efforts were put into building a scalable platform.

Infrastructure, our partnership with Infosys has given us access to new colleagues who bring something different to Metro. We've upgraded our financial crime capabilities, we've upgraded our fraud technologies and we've redone our call centre infrastructure to take advantage of AI. We have capabilities now that we did not possess 18 months ago.

In terms of communications, we have increased colleague engagement during a tremendous effort in turning around the Bank, the culture of Metro remains strong. Balance sheet optimisation, again we sold £2.5 billion of residential mortgages, we sold almost £600 million of unsecured personal loans, we raised a £0.25 billion of AT1. All of that gives us capacity to grow.

Then in terms of revenue, you saw the progress we've made on lending. You saw the new products we're launching in the specialist space. We've increased our regional expansion in the north, two-thirds of our commercial lending is now done outside of London. That builds huge confidence in our ability to deliver in 2027 and beyond.

I said I'd come back to the why we're winning, the four key pillars of why we win every day. Our local relationship-led service model is a true differentiator. We're the only bank that assigns a relationship manager to every borrower of all sizes. We have 102 local business managers across our 76 stores. We are committed to those communities in which we operate and we have physical presence to support SMEs, commercial and corporate, across the country.

We've talked about cost of deposits and Marc mentioned our relationship-led model drives a differentiator in cost of deposits because we have a much higher mix of current accounts, almost two and a half times the market and we have a much smaller percentage of high cost fixed-term deposits and cash ISAs, where we have one-fifth the market penetration.

We spent a lot of time talking about the scalable platform and the efficiencies we've built in. Those set us up well for the future.

Then funding high-yield specialist lending. Again the bottom box in the middle, we (have) a local relationship-led service model that differentiates us from the big banks and the breadth of our service offering differentiates us from the other challenger banks.

We have a team of over 400 professionals in the commercial and corporate space that on average have over 20 years of experience. They're supported by a credit team that has over 25 years on average of experience. We have small market shares, we only have sort of a 7% market share in the SME space. We lend into large markets.

The SME commercial and corporate is a £0.25 trillion market and the specialist mortgage market is over £50 billion. We are doing niches inside those markets, but all of those give us confidence in our ability not only to deliver 2027, but to continue to grow beyond 2027 as we take more market share, as we take larger shares of a very large market.

Back to this slide. The chart on the right means Metro Bank is uniquely placed to deliver outsized returns. The reasons we're uniquely placed are completely sustainable. Our relationship-based model generates low-cost deposits, best in the market. Our lending teams, who are skilled and capable, generate yields in line with specialist lenders.

That gives us the confidence that by 2027, Metro Bank will be generating one of the highest return on tangible equity, if not the highest, of any high street bank. Thank you so much and we're happy to take your questions.

Operator

Thank you very much. To ask a question, please press star followed by one on your telephone keypad now. If you change your mind, please press star followed by two. Prior to asking your question please ensure your device is unmuted locally. Our first question comes from Benjamin Toms from RBC Capital Markets. Your line is open, Benjamin, please go ahead.

Benjamin Toms, RBC

Morning, both, a couple of questions from my side.

Daniel Frumkin, CEO

Morning, Ben.

Benjamin Toms, RBC

Morning, Dan. You noted in the presentation that Metro will become a transfer firm from an MREL perspective from 1 January 2026. I appreciate at the moment that you don't have all the answers, but can you speak a little bit about how you think about the arguments for and against calling the MREL debt now versus letting it mature in 2028 and how this news might impact your current strategy, particularly around targeted growth loan segments?

Secondly, Metro, a profitable, comfortable capital, there's a boost to MREL coming at some stage. When is it reasonable expectation for us to start putting dividends into our model?

Then lastly, if that's okay, on slide 14, I can see that you're meeting your ambition of advancing commercial lending in a spread of greater than 350 base points. The right-hand side of that slide on mortgages makes it less clear how you're progressing versus your greater than 200 base points spread over swaps and mortgages. A quick and dirty calc suggests that you're running slightly behind on that ambition. Is that the right way to think about it in terms of front book mortgage profitability and do you expect the spread to pick up from here? Thank you.

Daniel Frumkin, CEO

Good, okay. Thanks, Ben, I'll do those in order and Marc, I'll let you talk about the mortgage swaps. We expect to be designated a transfer firm. You're right, we have £525 million of existing MREL debt at a 12% interest rate that we could try to buyback before its call date in April 2028.

Again we'll run the economics and the math on it, but it is trading at (114) plus, so the math around whether it's worth buying it back now and using up the CET1 for the premium we'd have to pay to buy it back versus using that CET1 to invest in the business in other ways, is math we need to do. We haven't really run the math yet, we're waiting to get written confirmation of the change. Again the new rules don't become in effect until 1 January 2026, so there's a bit of time.

In terms of capital return, you're right, a bank that's generating mid to upper teens return on tangible equity sustainably, which we think we will be starting in 2027, clearly needs a capital return policy. We haven't yet had those conversations internally, but I think it's fair to assume that we will start to have those conversations as we near the 2027 upper teens return on tangible equity and what that means. I would think we will be talking about capital return policy sort of in year-end 2026 results and we'll create clarity for what that means for 2027 and 2028 and beyond. I don't know if you want to talk about mortgage swaps.

Marc Page, CFO

Yes, I think it's harder to show the margins versus swaps, so you're right, Ben. I think the way to think about it is we're at the volumes we need to. In terms of the margin to swaps, it actually is at about the 2% and we've just launched new products and we've got more to come in the second half. We're really comfortable with where we are on the mortgage side and it's in line with what we've guided.

Daniel Frumkin, CEO

All I would add to that is remember, per the guidance, we're doing £1 billion, £1.2 billion a year in a £50 billion market. As we launch the products, there's lots of niches for us to go after to generate the yield we want.

Benjamin Toms, RBC

Thank you.

Operator

Our next question comes from Grace Dargan from Barclays. Your line is open, Grace, please go ahead.

Grace Dargan, Barclays

Hi, good morning. Thank you very much for taking my question. Maybe one first on loan growth more broadly. I know in the appendix you're making a point of highlighting the CAGRs as you talked about at 2024. Maybe you could give us an update on how you're thinking about that today, what's changed, if anything.

Then secondly, maybe you could give us a view on what your targeted or expected RWA density is over time. I guess you talked about that previously, so any colour on that would be helpful. Thank you.

Daniel Frumkin, CEO

Yes, Grace, thank you so much. Again on page 27 of the deck we've laid out relatively detailed modelling guidance. Again this is the same guidance we provided at year-end 2024, so some of the rates and some of that other information is slightly stale, but we wanted to be consistent. We see nothing in that guidance that we would change at this point.

I think Ben's earlier question about what we would do outside of the MREL regime and what it might mean for asset mix and the fact that not being an MREL actually frees up a bit of net interest margin and all that, all is for conversations we need to have internally over the next handful of months. But I would think the density we mentioned on this slide as well as the CAGRs are still pretty appropriate. Marc, I don't know if there's anything you'd like to add.

Marc Page, CFO

No, we're at 39% at half year. We said 40% for 2025, so trading exactly where I expected it to be from a density perspective.

Daniel Frumkin, CEO

I guess the point, sorry, I'm getting a little longwinded, but the point that seems to be missed is we do have that £4 billion of prime residential mortgages that rolls off, that frees up liquidity, but it also frees up a chunk of capital. Yes, density will increase, but the overall balance sheet doesn't grow very much over the guidance, which makes us much more capital efficient and drives much better ROTEs.

Grace Dargan, Barclays

Okay, thank you very much.

Operator

As a reminder, to ask a question, please press star followed by one on your telephone keypad. Our next question comes from Corinne Cunningham from Autonomous. Your line is open, Corinne, please go ahead.

Corrine Cunnigham, Autonomous

Good morning, everyone. Three probably quick ones from me please. The first one is just on the existing seniors, they do have a clause that would allow for a reg PAR call. We've kind of assumed that you can't invoke that, but is there any possibility that that could come into your liability conversations?

Second one is with your dropping out of - or hopefully dropping out of MREL status, do you expect the Bank of England to review your Pillar 2A requirements?

Then last one, just a quick one on your PBT versus your net income, do you expect that DTA allowance to actually kick in, or is the tax rate that we're seeing in the first half, is that representative of what you would be expecting for the full year? Thank you.

Daniel Frumkin, CEO

Sure, those are three really good questions, Corinne, so thank you so much. We have looked at the clause in the agreement. We have obviously had a review by lawyers and we had the conversations before we actually issued the £525 million in October 2023. We believe that clause only applies if the MREL regime were to be removed at a macro level. If the Bank of England came to the conclusion that the whole MREL regime wasn't needed, we don't think it's firm specific, so we have no intentions of using that clause to call the debt at PAR.

In terms of the 2A, I can't really comment. I do know we just, as everybody does, we went through our capital review with the regulator not that long ago. I think they would have been aware of the pending changes under MREL at the time we were having those conversations. In terms of the tax rate, Marc?

Marc Page, CFO

The tax rate on the P&L will be at the standard rate of tax, but where we see the benefit is just how much of that profit after tax we get to keep by utilising the DTA all the time. Actually you'll see how we utilise the DTA is really how efficient we are at taking the CET1 benefits. I think you'll see the P&L will still be at the normal tax rate, but the CET1 benefit is post the DTA usage.

Corrine Cunnigham, Autonomous

Thank you.

Operator

We currently have no further questions, so I'll now hand back to CEO, Daniel Frumkin, for some closing remarks.

Daniel Frumkin, CEO

Thank you, everybody, for taking the time this morning. I appreciate your commitment. Take care.

Operator

This concludes today's call. We thank everyone for your time. You may now disconnect your lines.

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