METRO BANK

Metro Bank FY 2024 Results
27 February 2025
Daniel Frumkin (CEO) and Marc Page (CFO)

PRESENTATION

Daniel Frumkin, CEO

Good morning and thank you all for joining us this morning. I know it's a busy reporting day and I appreciate you taking the time. So this is Metro Bank's full year results 2024 presentation. I'm Daniel Frumkin, the CEO of Metro Bank. I'm joined today by Marc Page.

Marc joined us from Barclays a few months ago. He has a depth of experience in retail banking across the UK that is hugely beneficial to Metro Bank and we're really, really pleased that he's chosen to join us, and he'll walk you through the financial performance. I'll come back on and do a bit of strategy and then we're happy to do Q&A. So let's kick off.

So listen, 2024 was a transitional year for Metro Bank. I think the strategy delivered exactly what we said it would deliver. Our operational results support the strategy we put in place. We outperformed all guidance that we provided for year-end 2024. At the half-year, we stood up and provided robust guidance. We said that net interest margin would be approaching 2.5% by the end of the year. Exit net interest margin was actually 2.65%, a significant beat on the guidance provided.

As part of the guidance, we provided that we would be profitable during quarter four, not even for the whole quarter, and yet we generated a £13 million profit for the second half of the year. So we were profitable for the second half of the year and all of the cost savings were delivered. In addition to beating guidance, the strategy managed to deliver very strong growth momentum. So new loan originations in corporate, commercial, and SME lending increased 71% year-on-year. It's not even just the growth we had in 2024; we have a strong pipeline at the start of 2025.

Our corporate, commercial, and SME pipeline for new lending is greater than 50% of all the lending we did in 2024 and it's only February. In addition, our pivot to specialist residential mortgages is bearing fruit and our pipeline is up almost 50% year-on-year, and we continued, mainly through the stores but also digitally, opening a significant number of new current accounts throughout the year. We opened 110,000 personal current accounts and 36,000 business current accounts during 2024. That 36,000 business current accounts is more than a 5% market share for the year.

All of that was possible because of the competitive advantages that Metro possesses and they're really quite simple. Our local relationship led model, with service at its heart, differentiates us from the large High Street banks and the breadth of our offering across cash management, deposit products, and lending differentiates us from the other mid-tier banks, and stores continue to support our growth.

So at the end of the presentation in July, my last slide, which I'm sure you all remember in great detail, had four pillars for the strategic repositioning of Metro Bank. Three of them were cost discipline, cost to deposit, and asset rotation. The fourth was the natural hedging balance sheet, how it rolls off and enhances RoTE, which Marc will talk about later.

Let’s spend a second on these three. So in terms of cost discipline, we have delivered the £80 million in run-rate savings that we said we would deliver, and we continue to see further benefits from the operating model changes we had. We've also formed a strategic collaboration with Infosys, a world leader in tech and business operations, who will be instrumental in helping us drive forward our automation, customer experience, and AI enablement.

Now, listen, the cost discipline was difficult. There were lots of very hard decisions that we had to make during 2024 and there are a large number of colleagues who are no longer with Metro Bank and those colleagues did great things for Metro Bank. They built the foundations on which we stand upon today and I’ll be forever grateful for their efforts, but those decisions were needed to position Metro Bank for the future.

In terms of cost deposits, we've talked about our excess liquidity. At the end of the year, we still only had a 62% loan to deposit ratio, so we still have more than sufficient liquidity. But during the year, we managed to manage down our excess liquidity, mainly in fixed-term deposits, and our exit cost to deposits was 1.4%, down from a peak of 2.29% in February ’24. We have made huge progress in exiting excess liquidity, and meaningfully reducing the cost to deposits.

In terms of asset rotation, we did two portfolio sales. We did the £2.5 billion prime residential mortgage sale earlier this year and we just completed yesterday a £584 million sale of our consumer unsecured loan book. Both of those sales have freed up capital and liquidity for us to accelerate the pivot into corporate, commercial, SME, and specialist mortgages. And as I talked about already once, we've seen 71% growth year on year in new corporate and commercial and SME originations.

We've also seen really strong pipelines, both in our corporate and commercial business as well as our specialist residential mortgage business. The cost to deposits, the asset rotation, has led us to increase net interest income 20% half-on-half and grow revenue 15% half-on-half. And let me be clear, the fourth quarter was better than the third quarter, so momentum’s even stronger than half-on-half, and actually, our exit net interest margin, our exit cost to deposit, and our pipeline means we have more momentum going into 2025 than even those numbers represent.

That momentum makes us very confident to reconfirm all previous guidance. In addition, we’re providing new guidance that we will reduce cost another 4% to 5% in 2025. Those cost reductions will not come from large scale transformation programmes, they will not come from large scale restructurings. Those cost savings are annualised benefits from cost savings we've already achieved and some renegotiation of specific supplier contracts that are coming due.

So again, we’re reconfirming that we will generate mid-to-upper single digit RoTE this year, double digit in ’26, in mid-to-upper teens return on tangible equity in 2027 and beyond. You'll see the NIM guidance, and again, NIM grows 15% to 25%, plus or minus, every year in ’25, ’26, ’27 off of the back of the 74% improvement we had in NIM from February ’24 to the end of 2024. And we are going to bring cost income ratio down, by the time we get to 2028, we’ll be running a 55% to 50% cost income ratio. All of that makes us very confident that we will be one of if not the highest performing banks on the UK High Street when you look at return on tangible equity. With that, I’ll turn it over to Marc to go through the financials. Thank you.

Marc Page, CFO

Thank you, Dan, and thanks for the incredible welcome here at Metro Bank as well. Dan's talked about the transformation and what I'd like to take you through today is how we've achieve that result and how can we think about the transformation, as we continue into 2025 and beyond.

So we returned to profitability and we returned to profitability by managing all aspects of the business model and the balance sheet, and you can see this through the representation of the charts we have on the screen. So first of all, we've become incredibly focused in terms of the bank we want to be, and the asset positions we hold, and you can see in the year, we've reduced our asset footprint, and in terms of loans and advances, that's reduced by 27% and I'll go into further detail as we get onto the following pages.

By being really focused and disciplined on our assets, that allowed us to improve our capital position and you can see, we have increased our MREL position up to 23% as at the end of the year. Now, this doesn't also - this doesn't include the effect of the portfolio sales that we made earlier this week, and we have got a proforma increase to capital as a result of that in the appendices, as well as an update to our guidance in terms of reg requirements in 2025.

We will continue to optimise the capital and the balance sheet to drive further results. Now, we have an incredibly strong loan to deposit ratio of less than 60%. That has allowed us to really focus on the type of funding we need as a bank going forward, and you can see our cost of funds have reduced from a peak of 2.29% in February to an exit point of 1.4% which is a 49% reduction in year. Clearly, that is going to be a momentum builder into our NIM, which you can see on the right-hand side, which has increased by 75% in the year, from 1.52% up to 2.65%.

The result of improving NIM, focused balance sheet, helps us drive our revenue, continued cost discipline and repositioning our base for the growth forward has allowed, in a benign credit environment, has actually driven us to underlying profits for the full half-year, not just the quarter, as Dan mentioned before. Lastly, our statutory profit after tax is £42.5 million for the year. So look let's go into each one of these components in a little bit more detail.

First of all, we have made a transformation in terms of setting up our business model for the bank we want to be. You can see on the left-hand side, our total costs have reduced in year from £530 million down to £510 million which represents just under 4% reduction in real costs. Largely, that has been achieved from the bottom blue bar, which is our people costs, which is at £241 million down to £210 million cost in the year, and I'll unpack that in further detail on the right.

In our non-people costs through continued discipline, we've broadly maintained our non-people costs after the cost of inflation for £242 million to £246 million. And in other costs, including fraud, you can see that's one line item which has increased as a result of increased fraud within the industry and is a key focus area for us and one of our key investments as we move forward.

So turning to people and the organisation we want to be, it was an incredibly difficult year, as Dan pointed out, but we needed to reposition ourselves for what I'm about to come to in terms of our strategy and pivot. In the year, we have reduced head count by 1,500 colleagues in the 12 months, and largely that came at two points. One is in Q2 as we repositioned the bank and our service model, and one in Q4 as we entered into our partnership with Infosys. That partnership

is a long-term strategic partnership to drive collaboration on digital automation, refining data, and enhancing our AI capabilities. Look, this really sets us up then for the pivot on the strategy which I'm going to take you through next.

We've seen incredibly strong growth in our commercial and target segments, but I wanted to bring a bit of flavour to what is it that's changing in our strategy. We've separated our book out into our core growth areas, which is commercial, SME, and specialist mortgages on the left-hand side, and you can see we've grown those assets by £900 million in the period. We have non-focus areas which are in run-off, and you can see each of those areas has been reducing through the course of the year and following the loan portfolio sale, we now have less than £200 million in that book. Now, this will have two effects. One is it allows us to focus our capital and focus our energy on the targets we want to be famous for, and it also allows us to recycle that and focus on our cost of deposits, which we'll come to later. The asset rotation is about being clear about where we want to grow and where we want to shrink.

One of those key growth areas is in our commercial portfolio, which you can see on the right-hand side. Dan mentioned we grew by 71% in the year, but what I wanted to bring out in the charts is that all aspects of that growth is growing. So you can look at the half yearly progression, so we've moved from £0.3 billion to £0.4 billion to £0.5 billion to £0.7 billion, and then I would expect that momentum to continue each half as we move forward. Our credit approved pipeline for corporate and SME is twice the size as it was as we started 2024, and we will maintain that at an origination of 350 basis points over the bank reference rate.

So what else is going on? If I've talked about which assets we're focused on, if we look at the assets we do focus on and what's happening within those asset classes, on the left-hand side we talk about mortgages, on the right-hand side we talk about commercial. What I'd like to draw your attention to is there's two things going on. On the left-hand side, we are focused on our growth area, specialist mortgages, you can see new originations of £1.6 billion and a yield of 5.5%, and then we have a run-off book which is leaving us at a yield of 3.2%.

That difference in margin obviously flows through to the closing balance, so in the year we've reduced our total mortgages from £7.8 billion down to £5.1 billion, but more importantly, the yield has improved from 3.4% to 4.2%, and that's against the average risk rate being relatively unchanged and therefore that will flow through in terms of RoTE and return on risk adjusted margins which is a key focus for us.

The same picture is happening in commercial, so on the right-hand side, similar picture. We have grown by £1.2 billion at a yield of 8.6% and that's replaced the run-off book of 0.9% at a yield of 7.5%. Now, in this space, you can see the assets have grown by 7.5% to 8.2% and those pipelines we're building will see this segment grow materially as we move forward from here. The other key point is really we are really focused on risk adjusted returns and having a stable credit quality performance as we go through this growth strategy.

So if that's what's happening within the asset side. What's happening in terms of the liabilities? Our liabilities, we have an incredibly strong loan to deposit ratio, as I mentioned before, and an LCR. That gives us opportunity to then optimise our deposit balance sheet.

Two things I'd like to draw out on this chart. Firstly, in the red box, our fixed rate deposits are the most expensive deposits we have in our stack. And if you go back to half one '23, they

represented 6% share of our total deposits. Over the course of H2 ’23 and into ’24, that increase is a mix of our deposits up to a peak of 13%. So we were growing in that space in fixed deposits. We have spent the best part of the latter half of the year managing those expenses deposits out of our book. We don't need them, and we therefore optimise our deposit stack, so we are now ending with an 8% share in mix for those deposits.

The other thing I’d like to draw your attention to is a competitive advantage. If you look in the dotted blue box, this compares Metro Bank’s mix of deposits versus the market peers, and what I’d like to draw your attention to is the market has about 19% of its mix based on non-interest-bearing liabilities. We have twice that average at over 40%. That gives us an opportunity to price really effectively in the markets we want to grow in.

The second part I’d like to draw your attention to is the right-hand side, is where are those deposits coming from? We have an incredibly strong retail franchise, and we have a targeted growth in commercial and SME, and what I’d like to say is we will continue to grow our share of deposits in SME and corporate, and I'm delighted to see that coming off, you can see our SME deposit mix has grown from 24% to 31% over this period.

So look, we've talked about asset rotation, we've talked about asset improvement within an asset class, we've talked about deposit optimisation. Clearly, all of those things are going to come together and allow us to improve our net interest margin. If we look at the net interest margin bridge on the left-hand side, we move from a half one position of 1.64% up to a closing of 2.22%, and that’s largely built of two things: asset rotation with a 0.29% increase and cost of deposits at 0.37%. You can see why both sides of the balance sheet are really important as we progress to a higher net interest margin.

Look, what else have we done? The strong liquidity position has allowed us to repay £2.65 billion of TFSME in the period following the sale of the mortgages. The asset rotation has allowed us to pivot to higher yielding assets and the deposit optimisation has allowed us to improve our NIM. We will continue to look for opportunities to optimise the capital structure, to drive NIM, and earning growth as we refocus on our target segments.

So that’s from a trading perspective. What else is going on in our book? On the right-hand side, we have treasury investments of over £2 billion which will mature over the next three years. The effect of those maturities is they will be coming off low receive rates of circa 1%, and they will be migrating onto a reference rate, which we believe will be yielding an increased NIM of circa 290 basis points in 2025 and up to a peak of 310 basis points by 2026. The effect of those maturities is that they will add straight to the bottom line which will flow into RoTE and will give us NIM momentum as we move forward.

Let me just draw your attention to two things. The underlying PBT of those treasury maturities will drive up to £63 million increase in PBT, a 7.7% increase in RoTE, and a 38 basis points improvement in NIM. So look, bringing it all together, why are we confident reconfirming the guidance because of the momentum that we've been building through the second half of the year? We've returned to profitability, we exit with a strong balance sheet, we have the fuel to grow in terms of liquidity, and we’re refocused in terms of optimising our capital stack.

So look, all of those together will give us momentum on NIM as we progress through the period. We will - we've introduced an additional set of guidance for you today which is based on our

cost operating model of a further 4% to 5% year-on-year reduction in costs. I should note to say, that this is not from any further transformation of our base. I said this year was about setting ourselves up for the bank we want to be. That is largely done. The 4% to 5% will come from annualisation benefits of changes we've already made, or further focus in non-core, non-people areas of spend, and all of that leads to our RoTE momentum, mid-to-upper single digits moving to mid-to-upper teens.

Look, I'd like to hand back to Dan. Before I do so, we have got some further guidance for you in the back, so we'll give you guidance in terms of our interest rate expectations, our future capital requirements, and other modelling assumptions. But to bring this to life, what's next? Why do we believe we can win? I'll hand back to Dan.

Daniel Frumkin, CEO

Thank you, Marc. So let's go quickly through the strategy and spend a couple of minutes. You should all be familiar with the five pillars. I introduced them upon my arrival in February 2020 the first time I did a presentation. Again, we spend a fair amount of time on revenue and costs. I'm going to spend, on the next slide, a bit on balance sheet optimisation and infrastructure and I'll spend a few minutes now on communications.

Before I move off of costs, I do want to just make it really clear that while we've worked hard to reposition the business, while we've had to make some really difficult decisions, we have worked very, very diligently to protect our relationship channels and protect our relationship proposition. So again, areas like corporate and commercial, areas like our local business manager population or even our local director population, those who are seeing customers, building those relationships, have been less affected by the transformation than other areas of the bank.

In terms of communications, all the way on the right, we have launched a brand repositioning. We decided that if we were pivoting the business to be more focused on corporate and commercial and SME, and we were focusing on specialist residential mortgages, that we were really all about relationship banking. It is how we win, and we have repositioned the brand to fit better, and we have a modified visual identity that we think works better in those spaces. And again, we continue to work very closely with the ECB. We've launched a Girls in Cricket fund and have seen a significant number increase in the number of girls' teams across England and Wales in 2024 which we're quite excited about.

Going on to the balance sheet optimisation and infrastructure. So balance sheet optimisation, we talked about it already, but the £2.5 billion residential mortgage sale and the £584 million unsecured personal loan sale give us fuel, they give us liquidity, and both transactions were quite positive for the bank. The mortgage sale was earnings, NIM accretive and capital ratio accretive, and you'll see we booked a small £11 million gain on the sale of the unsecured personal loan book. So both sales were done and executed quite well.

And as we move forward, we'll continue to look for opportunities to accelerate the asset rotation, and again we'll look to optimise the balance sheet. We have consistently delivered on balance sheet optimisation since my arrival and we will continue to do so. Again, as we look to optimise the balance sheet, we will do it on both the asset side and the liability of the side of the balance sheet as we move forward, and everything we do is driven by risk adjusted return on

regulatory capital. We choose assets and asset classes based on the return they provide after risk.

In terms of infrastructure, we continue to invest to make our customer propositions stronger and make the foundations of Metro solid. So we have an AI agent in the call centre that is giving us more time to be able to talk to customers who need to interact with us. We actually have an AI agent now trialling in the corporate and commercial space to free up relationship manager's time to spend more time with customers and more times providing service. We've rolled out a new mortgage platform that allows us to introduce products that better meet customer needs.

As we go forward, the Infosys partnership will be hugely strategic as we build out our digital and customer proposition. Again, we've embedded significant money into infrastructure around financial crime, fraud, and other areas so that not only have we've had exceptional growth for the year, not only have we beat guidance, not only have we returned to profitability, but we've strengthened the foundations of the organisation.

I know it's difficult to remember but a few slides ago when I first started talking, I talked about us winning in commercial and corporate through really two ways. The first, you'll see on the left, our local relationship led service model differentiates us from the larger banks and allows us to win. We have strong expertise. So if you go to the third bullet on the top bit on the left side, we have 370 colleagues across corporate, commercial, and SME, and on average, they have 20 to 25 years of experience, and this pivot only works if we get the credit right. So the bullet point above that tells you we have 31 specialists in the credit area with over 25 years of experience who have to approve all the credit. There is a separation of duties that make sure that we have another set of eyes reviewing every proposal.

I talked about how we protected the relationship channel from a lot of the changes we drove through as part of the transformation. You'll see in the last bullet point in the top section we hired 36 additional colleagues into our corporate, commercial, and SME segments. On average, they had 16 to 18 years of experience, and we had roughly 40 applicants for every one of those jobs. So Metro Bank not only is a place people want to bank, it's also a place people want to work.

In terms of the middle segment on the left, stores are a huge part of how we grow our corporate and commercial business. I'll come back onto that in another slide. And the value proposition at the bottom, we're the only High Street bank offering dedicated relationship management across the full SME, commercial, and corporate segments. That dedication to relationship, that localness through the store, and that quality of individual through the experience we possess allowed us to generate 78% of the new lending we did in 2024,did not, did not come from brokers.

It was introduced by store colleagues, it was introduced by accountants and lawyers that we know well, it was introduced by existing customers. In addition, 30% of that actually came from existing customers who wanted to do more with Metro because of the service proposition. And I said the other way we win on corporate and commercial was the breadth of our service offering is a key differentiator to the challenger banks. On the right-hand side, you see the breadth of our offering, both on liabilities, so deposits, cash management, as well as our lending capabilities.

Now, let's talk a minute about stores. Stores are beacons for us. Stores are still at the heart of everything that Metro stands for. They're a hub for business and commercial teams. They're a hub for customers to interact with us. They generate referrals to help us grow our corporate and commercial business. They also look after retail customers. We opened 110,000 personal current accounts and 36,000 business current accounts. The majority of those were done in store. They help us build brand. They help us expand geographically and go into new areas to provide that Metro specialness to new communities.

As part of that, we're opening three new stores during 2025. We're opening in Chester, Gateshead, and Salford. That'll be the most new stores we've opened in a year since I've arrived and those stores not only give us a physical presence, they create a digital halo around them. So 70% of the accounts that were opened digitally were opened within five miles of a store. So as we expand our physical footprint, our digital footprint goes as well.

So listen, all of that, all of that leads to why we win. It's pretty simple. Our local relationship led service model allows us to generate low-cost deposits which we then use to fund lending into specialist and high yielding segments. It's easy to say, hard to execute, and we're really good at it. That allows us to get to the chart on the right. Metro Bank will raise deposits like a High Street bank and will lend money like a mid-tier specialist lender. That allows us to have a lower cost of deposit and a higher risk adjusted return on lending. We get into clear blue water. Nothing, nothing is like Metro. All of that has allowed us to have a really strong 2024, develop really strong pipelines going into 2025, and give us complete confidence that by 2027, Metro Bank will be generating return on tangible equity, it will be best in class for High Street banks in the UK. With that, we're happy to take your questions.

Operator

Thank you. Ladies and gentlemen, if you would like 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. Please ensure your phone is unmuted locally. We will take our first question from Grace Dargan from Barclays.

Grace Dargan, Barclays

Hi, good morning. Thanks very much for taking my questions. Maybe firstly if I could ask on deposit mix, given the shift towards commercial lending and away from your kind of retail offerings, how do you expect that to impact your retail/ SME deposit mix? Or put it another way, how are you going to retain your retail depositors going forward? Then secondly, just on that unsecured lending book that you're selling, could you give us a steer on the income from that book. Thank you very much.

Daniel Frumkin, CEO

Sure. Happy to. I'll let Marc answer the unsecured lending income point and I'll start on the deposit mix. So again, we're still very committed to the retail segment. We continue to provide excellent service. We have more average headcount per store than any other High Street bank in the UK. We're still open more hours than any other High Street bank in the UK. We're completely committed to the retail proposition and we're looking to grow it. We opened 110,000 personal current accounts during 2024 and we'll continue to service and look after that market. In terms

of the [split of] deposits over time, it will shift but shift slightly and again, we'll continue to push forward overall. In terms of the unsecured lending portfolio, that book as you know was in run-off so the income profile will decline pretty meaningfully over the next 18 to 24 months, and I'll let Marc talk about it in any more detail.

Marc Page, CFO

Yeah, just the way to look at it, it's £584 million, it's just over a 5% yield, but remember, I showed you on the charts we're reinvesting that in commercial growth with an 8% yield. Really, it's an additive action for us, it builds on CET1,it gives the further liquidity, we're recycling that into higher margins, and as Dan said, that books is in run-off really quickly so I think we're really happy with the trade.

Grace Dargan, Barclays

Okay. Thank you.

Operator

Thank you. We will now take our second question from Benjamin Toms from RBC.

Daniel Frumkin, CEO

Morning, Ben.

Benjamin Toms, RBC

Morning. Thanks very much for taking my question this morning, Dan. Firstly, on treasury assets, the repricing is clearly a strong tailwinds to the bank, and slide 12 I think is actually quite powerful. You provided indicative annualised uplift from those treasury asset repricing but presumably, the actual impact in 2025 could be around half that number, depending on when the maturity occurs. So it seems to me that the treasury tailwind comes through more strongly in '26 and 2027 with asset rotation and the lowering of costs and deposits are the large drivers in the near term. Firstly, is that the right way to think about it? Secondly, linked to that, in the presentation, you mentioned that you continued to consider opportunities to optimise capital structure. Can you just clarify what that means and whether those opportunities are already baked into your NIM guidance. Thank you very much.

Daniel Frumkin, CEO

Yeah. Listen, Ben, really, really, really good questions. So listen, thank you so much. Listen, in terms of treasury assets, you're spot on. '25 isn't overly helped by the natural hedge of the balance sheet. A lot of those assets actually mature towards the tail end. It's much more beneficial in '26 and '27 than it is in '25. And again, you're right that asset rotation and being disciplined around cost of deposits is a big driver of the uplift during 2025. And again, we do have, in January/February, a chunk of one-year fixed term deposits that are rolling off, so that'll help cost to deposits as we move forward.

In terms of optimising the balance sheet, what I would say is we look at options both on the asset and liability side. All of those actions are baked into the guidance we've provided. So anything we would be contemplating is in the NIM guidance, it's in the RoTE guidance, and it's in the cost-income ratio guidance. So yeah, I think that's all I would say on that.

Benjamin Toms, RBC

Thank you.

Operator

Thank you. Our next question is from Corrine Cunningham from Autonomous. Please go ahead.

Daniel Frumkin, CEO

Good morning, Corrine.

Corrine Cunnigham, Autonomous

Good morning, everyone. Good morning. Three from me, please. Just the first one on the NII momentum, it's coming down in 2025 before picking up. Is that the effect of the TFSME redemption or is there something else going on? Second question is, what would you see as your longer-term cost of risk? Obviously, next to nothing at the moment, but given you're changing the mix of the book, what would you expect the run-rate on cost of risk to be longer-term?

Then last question is about MREL. Your balance sheet has now dropped below the £20 billion, which is expected to be the new point at which bail-in rules and MREL requirements kick in. But there's also a comment that the, whatever resolution plan you're on now, is not expected to change as a result of the new rules. So could you just walk us through what you expect to happen on your resolution strategy and your MREL requirements? Thank you.

Daniel Frumkin, CEO

Yeah, so listen, I'll take the MREL and we'll do them in reverse order, actually, and then I'll let Marc deal with the NII and the cost of risk because I think all relatively straight forward.

Corrine Cunnigham, Autonomous

Thank you.

Daniel Frumkin, CEO

In terms of the MREL regime, we've made no assumptions that there are any changes to the MREL regime as it relates to Metro Bank. So all of our NIM guidance, in particular all of our RoTE guidance, includes the cost of additional MREL and that we assume we stay in the regime for the remainder of the plan we presented to the board, so we just got through our five-year budgeting cycle which is the foundation that we used for the guidance we provided, and that five-year forecast assumes we're in the MREL regime throughout the next five years.

However, you are right that the balance sheet at the moment is under £18 billion and if you use the guidance we provided and the modelling guidance we provided in the appendices and you use that to roll forward, really, as you get even to the end of year five, we're still right around £20 billion, slightly below £20 billion, so for the next five years, we're below the bottom end of the threshold. But again, we thought it prudent to not assume that we would be let out of the regime and then our requirements would change in any way. If they were to change, as you know, we have £525 million of MREL currently outstanding at an interest rate of 12%. So in terms of just RoTE accretional alone throughout the life of the plan, it's probably worth another five to seven

points on RoTE if we were let out of the regime and could redeem the debt . Marc, I don't know if you want to talk about NII and cost of risk?

Marc Page, CFO

Yeah, just so from an NII because it's more about timing, so we took on the expensive deposits in the back half of half two. They were all there in half one '24 and they really started to mature in the back half of '24. So there's a momentum shift in terms of when those deposits are running of which gives us more momentum. You'll see that annualised as we get into 2025 and further run-off, as Dan mentioned. From a TFSME perspective, we repaid it back in October. It did have an NII improvement. Going forward, we've only £400 million left and therefore it's not a material driver for us as we think about our plans into the future.

If I turn to cost of risk then, we had a benign year. In our target segments of mortgages and commercial, we had less than zero ECL charge for the year, which clearly is going to be very difficult for you to model. In our guidance therefore, we've provided a range, so through our cycle, cost of risk, we've provided guidance, it'll be more like 40 to 60 basis points. So clearly, very benign year, economics are good, but through the cycle we've priced in 40 to 60 basis points as our cost of risk.

Daniel Frumkin, CEO

All I'd add is we're very confident in the exit NIM 2.65% and the cost of deposits at 1.40%, that they will improve, as the guidance indicates they will, throughout 2025.

Corrine Cunnigham, Autonomous

Thank you.

Operator

As a reminder, ladies and gentlemen, to ask any further questions, you can press star followed by one on your telephone keypad now. Our next question is from Ed Firth from KBW. Please go ahead.

Ed Firth, KBW

Yeah, morning, everybody, and thanks for the questions. Yeah, just a few points and details, I think they've already been picked up. Firstly, the tax, the recognition of the deferred tax asset. I just want to check my understanding of that. As we go forward then, now that that's been recognised, do we then have a sort of normalised tax charge going forward as you utilise that. That is my understanding of the sort of implications of that, correct, or - a better question is what are the implications of that in terms of earnings and balance sheets. That's number one.

Second, in terms of restructure and transformation, I think there's a comment in your announcement that you would expect a similar trend or similar theme for '25 in terms of charges. I think that's like between £40 and £50 million you had below the line this year. Should we be broadly expecting a similar charge as that for '25? And I suppose related to that, in terms of your return on tangible guidance, is that an all-in number, isn't it? Just to confirm that. The other thing is, thirdly, so on stage three loans, like they only say about 15% in the second half. I feel it to be quite a big move, particularly as you sold the portfolio. So I just wondered if you can

give some sort of idea of what's driving that and is that a sort of theme that we should expect is you grow the commercial book.

I find it - in terms of capital optimisation, the whole MREL thing, I don't know what you can or can't say but let me ask the question, are you actually in discussions with the Bank of England about removing that now and/or moving to a sort of partial transfer from the full bail-in? Because it seems to me that they're hugely important in terms of the outlook for the business and it does seem bizarre that you're still required to be a part of that regime because, without being rude, I don't think you are too big to fail in the UK context. That would be my final question, thanks very much.

Daniel Frumkin, CEO

Listen, well, I'll do the capital, the restructuring, and then I'll – and the RoTE, then I'll let Marc talk about the stage 3 and the tax. So let me kick off. It's almost in reverse order. Listen, the consultation paper's out from the Bank of England Resolution Directorate. We have a relationship with the Bank of England Resolution Directorate but we know nothing? I mean, I wish I knew more but I really don't.

So until they digest the feedback that they've gotten on the CP and come out with some further conversations. I mean, I do think Metro's uniquely placed. We're the only bank, the only bank that is fully in the MREL regime and below £20 billion in assets, so I imagine that the Bank of England is having conversations about that, but again, I really know nothing.

In terms of the return on tangible equity, you're spot on. It's got all the costs in it and everything so it's a fully baked number and we're relatively confident in it and I would say, for Ben's question because he's right, we get a lot of uplift from the natural hedging the balance sheet in '26 and '27 so when we talk about RoTE going from mid-to-upper single digits in '25 to double digits in '26, and then mid-to-upper teens in '27 and there beyond, part of that is actually the natural hedge rolling off.

So in terms of the restructure cost, actually, I – and Marc can pick it up again, I'll let him talk about it a bit, but those – no. I don't know where that came from. We will not have that level of below the line items on restructuring costs in 2025, so apologies if we wrote somewhere that led you to that conclusion. And Marc, if you want to talk about the tax and the stage 3.

Marc Page, CFO

Yeah. Just on the restructure, and I think we've already said, so the majority of everything we were doing, we set the bank up this year so you're not going to expect to see any level of repeat of that as we go forward. In terms of the tax perspectives, we - look, it's a symbol of our confidence in terms of our ability to deliver, so as we look, we return to profitability. From where we are looking now, we see an acceleration of profitability for all the drivers and all the reasons we've set out and that's given us the opportunity to recognise the tax DTA. We'll spend that as part of the tax regime. As we earn profits, it will shield our tax as we go forward. But look, I think it's one goes with the other. We believe in our future and therefore we recognise the DTA and we'll use it as we earn profits going forward.

In terms of the stage 3, I think -I said we had a really benign charge in the markets we were in. This is a function of us selling performing loans, so nothing more than that, and therefore I

wouldn't - you know, I think I would just rely on our guidance in terms of what we think the through the cycle cost of risk is.

Ed Firth, KBW

Okay. That's great. Thanks very much.

Operator

We currently have no further questions. I will now hand over to Daniel Frumkin for closing remarks.

Daniel Frumkin, CEO

I just want to thank everybody for taking the time. I know, again, it was a busy day so I really appreciate you joining us, and everybody, have a great day. Thank you.