Metro Bank FY 2023 Results

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Daniel Frumkin (CEO) and Cristina Alba Ochoa (CFO)

PRESENTATION

Daniel Frumkin, CEO

Good morning. Welcome to Metro Bank's full year results 2023. I'm Dan Frumkin, the CEO of Metro Bank, which I hope you actually knew. I'm joined by Cristina this morning who's interim CFO and will walk through the financials. Cristina was kind enough to join us, and we were lucky enough to recruit her. She has lots of experience from her time at GE capital and then at OakNorth. She'll make the handover to Mark Page, who we've announced as our permanent CFO, who will be joining us late in the summer or early in the autumn. And we're excited Mark's joining us. His experience both at Barclays, Lloyds and Halifax. Means he has a deep knowledge of the UK retail banking, which is where we are focussed and going to stretch our legs. So let me with that. Let me kick on with the presentation. I'm going to talk for a few minutes and I'm going to turn it over to Cristina. So listen, significant progress in 2023. 2023 from an operational perspective was an excellent year. We delivered across almost every key KPI, the strategies working. The results coming off the back of the strategy are self-evident in the numbers. Deposits grew in the second half of the year. They were up 1%, half on half. They continued to grow into February. At the end of February we had £16.5 billion of deposits. That is within £100 million of the highest ever in the history of Metro Bank. Cost. We remain disciplined about cost. We remain disciplined about reducing cost. We guided initially £30 million of cost savings, when we did the capital raise. We increased that to £50 million. That £50 million has been actioned and will be delivered by early April. In addition we're increasing guidance from £50 million to £80 million by identifying another £30 million in cost savings on a run rate basis by the end of the year. We opened 246,000 PCA and BCA accounts. That is the most we've ever done in the history of the bank. In the second half of 2023 we opened the same number of PCA accounts that we did in the second half of 2022. We also solidified our capital position and have no debt maturities until 2028. And I want to make sure I take a moment right now to thank all of the support received, all the folks who invested in the business, be they equity or debt, believe in the model. We were able to successfully reposition the capital stack because people believe in the path forward for Metro. They believe in our service led, store based proposition. And all of that was only possible because of all of the hard work and dedication of our colleagues. Everybody who invested has some experience with Metro. Every key stakeholder, be it a regulator or others, has interacted with Metro. They may walk into a store. They may have a cousin, an aunt, an uncle who banks with us. Every time we look after somebody at the tills. Every time we have a conversation with a CSR. Every time we answer the phones in Amaze Direct. All of that leads to the belief that Metro is special, different, and has a wonderful path forward. I think some people are expecting a different strategy to be announced today. I think people thought we would be somehow different. We're not. We still remain a people-people bank focussed on our colleagues, our customers and our communities. We're very much focussed on being the number one community bank in the UK. We will make a pivot to SME lending and commercial, but we already have it. We already have teams, we have systems, we have platforms, but we will continue to stretch our legs in that area and we continue to give back in the communities we are part of. And we continue to win awards. I think one of the things that I think everybody should be aware of is the resilience of Metro Bank's model. So if you look at the middle upper chart, deposits grew half on half and they continued to grow as we got into 2024. They grew by almost £1 billion year to date. I'm not sure anybody turning up today expected Metro to be talking about the fact that it has too much liquidity, that it actually has too much cash. But that's where we find ourselves, because of the success of the deposit campaign we ran in quarter four. On the left hand side, we continue to grow our lending yield and we continue to be disciplined about cost of deposits. On the cost of deposits, cost of deposits will clearly be under pressure as we get into the into 2024. But again, that creates opportunities for us to move forward. And I want to just spend a moment and highlight the upper left. You'll notice we brought cost of deposits down and held that to a large part of 2020 and 2021 into 2022 before it started to grow during 2023. That discipline around cost of deposits is proof we will begin to bring down cost of deposits and improve NIM as we make our way through 2024. And all of that growth was in a market that's under real pressure. So business current accounts, personal current accounts, NIBLS (Non-interest-bearing liabilities) as an industry have been under real pressure. You can see that from the bottom graph, that dividend of covid where people weren't doing anything, weren't spending any money, the reality is, is balances built up in current accounts clearly as economies picked up, activities increased, current account balances are drifting down. And on the right hand side, Cristina will talk about this more. But all of that is just opportunity. All of that is opportunity to expand NIM and grow ROTE. We have too many deposits, too much liquidity, and we have a loan to deposit ratio that is significantly lower than our peer group. That mix will allow us to bring down cost of deposits and increase ROTE. And with that, I'm going to turn it over to Cristina, who will walk you through the financials. Thank you.

Cristina Alba Ochoa, CFO

Thank you Dan, and good morning, everyone. As Dan said, I'm Cristina Alba Ochoa. I'm the interim CFO. And I'm going to be taking you through the financials today. Looking at the key performance indicators here in this slide. You can see the points that has made crystalised here. We've raised customer accounts to over 3 million. The customer deposit balances as we finished last year were at £15.6 billion. But as Dan anticipated a minute ago, we are already at £16.5 billion as we sit here at the end of February. Liquidity ratio is very strong, which demonstrates that we've been very successful raising those deposits. We are above 360%, at the moment and that is the highest we've ever had, which means an opportunity to optimise that. On the lower half of the page we can see high level how margins progress, and the improvement in the bottom line. NIM has closed the year at 1.98%, reflecting the improved product mix with increased yields and the very active management of cost of deposits that we're going to detail later in another slide. On the absolute numbers and net fees and other income, we have seen a very good evolution of these. And last year they were up 12%. And they've been increasing year on year on the back of the transactional activity, FX, and the other services that we've got, the combination between stores and online, and these speaks to the benefits of our full service offering. All in all, this reflects the positive movements on the P&L. On a statutory basis, you can see we've turned a profit of £31 million. And that's coming on the back of the benefit of a one off, for refinancing the Tier 2 debt, and the underlying loss has reduced to £17 million. This is significantly below last years £51 million and even lower what we saw at the levels of 2020. Talking about capital, that was a big topic during last year. You're aware we have strengthened our capital position. We are now operating at 22% MREL, and that's above minimum requirements and buffers. And we've extended all our debt. MREL is having a call date in 2028 and Tier 2 debt extended to 2029. This gives us very good, a strong position, and the headroom that we need to optimise the portfolio. Looking at the composition of the liabilities, in our deposits, we can see that 37% as we close the year, are non-interest bearing liabilities. And on the back of the tactical campaign that we did to raise deposits in the fourth quarter, we've increased the fixed term deposits up to 13%. Customer type, most of that decrease came from SMEs. But as we sit now in February, of the total £16.5 billion we've got, the mix is shifting back to what we had in 2022. Looking at the right hand side of this page, I think it's important that we take a moment to realise that the first half of last year we had record openings in accounts and then and the second half we went back to the run rate of the prior year or even higher. And this is despite all the challenges that we faced during the fourth quarter. I like looking at the bottom right of the page where we can see that the peer analysis shows that Metro Bank’s model still proved very resilient with above average with Non-interest bearing liabilities, with 37%, which is more than double the average market. If we look at the next slide we've got on the assets the shift on lending. It's a work in progress. We're going through transitional years. We finished last year with 63% mortgages because we were pushing initially this area at the beginning of last year. As we continue to evaluate AIRB over the medium term. We're going to build our balance sheet more fit for a standardised model as we transition our mortgage portfolio and will pivot to specialised mortgages and commercial lending. We are starting to see very good signs on the SME lending and the first two months of 2024 we've already seen more approvals in these two months than what we did in the whole of 2023, proving that we have the resources and capability, operational capabilities to do it. Commercial lending, you can see, stayed in line at 11%. And the government backed lending is running off following the natural attrition. If you look at the bottom of the page, you can see that there's a significant increase in yield over risk weighted assets, and it's almost double what we had in 2020. This is not random, it is a deliberate focus on improving the product mix also coupled with capital resources consumption. So our main goal is to drive towards sustainable profitability. If we look at the right hand side of this slide, our fixed rate lending and treasury assets are going to be benefitting simply by replacing, by repricing, as the natural maturities are going to be running off and repricing. The quality of our lending has not decreased. We have very good credit teams. And as you can see the levels of our provisions remain very stable. We have good management of ECL and the commercial side even you can see a small reduction in single name exposure. That active management and focus on asset rotation of the balance sheet is obviously translating very positively onto the P&L. You can see here the improvements in the underlying interest income. It has gone up to £860 million. Again demonstrating the shift in the mix with higher yielding assets, and benefiting from all the range of services of FX, safety deposit boxes and again, the value of our stores and online products. NIM has remained broadly stable to the 1.98%, up from the 1.92% last year, benefiting from the asset rotation. But then you can see here we have an impact, a negative impact from the costs of the very successful deposit campaign that we did in the fourth quarter. That increase in revenue is the biggest contributor to the improvement in the cost to income ratio which you can see over the last four years has come down significantly. Coupled with our actions, at the margin level, we have been taking a very disciplined approach to costs as Dan already mentioned, we had an initial commitment of £30 million run rate cost decrease. And we've raised that to £50 million, which is almost all actioned as we sit here, and it will be actioned by mid April. We are now increasing that target to achieve £30 million of annualised cost savings by the end of the fourth quarter. And that's going to come through a mix of different initiatives from procurement negotiation to optimising the cost of third party suppliers. If you look at our Treasury portfolio, which is sitting at a £8.8 billion, you can see how it is progressing. We are going to be seeing here again the benefit of the running off of lower yielding assets. And they're going to be replaced by higher yielding assets over the next 3 to 4 years. We are very actively going to be managing our LCR again. And the success, we have been victims of the success of the deposit campaign that we launched at the end of last year. The February 2024 position we are at record LCR and we are going to be very tactical on how we approach and optimise this deposit base so that the cost of deposits benefits going forward. We're going to be letting these deposits are tactical, they were tactical raise, they're going to be running off and reprice at lower rates. So looking at all the 2023, the events of the year, the headwinds that we saw on the market, the lower rates, we saw idiosyncratic events as well, with speculative news that we had and that led to a bit of pressure on our liquidity. You can see that we are very proud of what we achieved in 2023. Guidance in general has morphed down in several of our peers because of that compressing margin and lower benchmarks and swap rates. Our ambition for 2024 is going in line with what we said earlier. We are targeting loan growth of mid-single digit over the next five years, and focusing on optimising our use of capital and deliver a high return on risk weighted assets. We are going to see over time our asset density shifting, which will support these higher yields and the NIM. And then, as a result, our cost to income ratio is going to be benefiting very much from these changes. This is not going to be compromising our risk appetite. We're going to be tailoring credit processes and the discipline around credit is going to continue. Ultimately we're targeting a cost to income ratio by 2028 close to 60%. And with regards to return on equity, we are aiming for low single digits by 2025, then upper single digits by 2026, and then move to low-mid teens thereafter. With this, thank you and I'll hand back to Dan.

Dan Frumkin, CEO

Thank you Cristina. I'm really glad you're here. So let's just finish up with just a couple of slides about where we go from here. So we've talked about pivoting, to SME and specialist mortgages. I think the slide draws you to the two boxes, your eyes just immediately go to the two boxes. I just want to raise your eyes up, just ever so slightly to look at the two bullets. So the turnaround plan we've already delivered has given us scalable, asset generating platforms that are primed for growth. So we have been working for a few years to get to a position to be able to stretch our legs. And the second bullet point, I can only tell you how nice it is to have capital to allocate. So we are now in a position where we can unleash the embedded potential that we've built over the last few years. So in SME, commercial and corporate, we already have the people, the platforms and the products to meaningfully grow that business. We have a strong relationship channel that is well-established, well skilled and well positioned. We have a credit team that's independent of the line that is seasoned, knowledgeable and happy to challenge. But we can still do more. There are more sectors. There's more process simplification we could do to free up more time, both on the credit teams and the relationship management teams, to give us more time to look after new customers and service existing, and we’ll continue to expand in the regions. We already have local business managers, local directors and regional commercial lenders in the north of England right now, before the stores. And on specialist mortgages, we have the people. We're really knowledgeable in the space. We have a great manual underwriting process. We have some work to do on platforms and we have some work to do on products. Both of those things will let us stretch our legs and continue to deliver more growth. This slides here for two reasons. I won't spend much time on it, but these have been the five pillars since the day I arrived. Our strategy is not changing. We will continue to deliver as we have up until this point. I would just drag your attention down to the very last bullet points on a few of the graphs and a few of the boxes. So in revenue, we target a ROTE of low to mid teens by 2027. We're targeting 60% cost income ratio by 2027. Those are outstanding numbers. And on balance sheet optimisation we say optimise for risk adjusted return on capital. What does that mean? It means we will trade the balance sheet if the right opportunity comes up. We chose not to move forward with the mortgage sale because we didn't think it provided the right risk adjusted return for ourselves. If an opportunity came up where we could trade part of the balance sheet, we would look at it. We will be as aggressive as we need to be to drive the overall profitability of the organisation. So 2023 performance repositioning the balance sheet for higher risk adjusted return on regulatory capital and positioned us for growth. You'll see that we talk about SME commercial banking and specialist being where we're going to grow. We talk about growing low cost sticky deposits, current accounts, non-interest bearing liabilities. Cristina made it very clear that as we sit here today, our non-interest-bearing liabilities as a percentage of overall deposits are twice, twice, what is in the market. The deposit franchise works. We have some elevated liquidity, which gives us some optionality. We can put it to work in higher yielding assets. We can be more disciplined about pricing in deposits. It gives us optionality. And we do have a broadly naturally hedged balance sheet. And what does that mean? It means you need to be patient. We don't get the benefit of hedges that some of our competitors get. We actually need the assets to reprice. So in the upper right we've shown this chart a few times. The dots keep moving a little bit. But broadly Metro is still uniquely positioned where it has a low cost of deposits and a good risk adjusted lending yield. We're committed to moving that dot to the right and not too far to the south. And listen. You say, how are you going to deliver low to mid teens ROTE in 2027? That seems like a pipe dream. It seems almost impossible from where you are. It's actually really quite a simple path. There's lots of execution that needs to occur. But by now I hope we've demonstrated our ability to deliver. So we need to be disciplined about costs. 2024 costs will be lower than 2023, and 2025 costs will be lower than 2024. I think given the fact that we've already delivered the £50 million million savings we guided to in October, I think you can trust that we will be disciplined about cost. Asset rotation. We need to grow commercial and corporate banking. Commercial lending decreased 14% last year because of the constraints that Metro was under. To date this year we have already credit approved, so independent of the line, credit approved, enough lending that it equals 140% of all of the lending we did during 2023. So in ten weeks, we've approved 140% of all of the lending we did last year. So I think the asset rotation, you can have confidence we're going to deliver. We can improve the cost of deposits. Have shown you how we could do it before. We will do it again and again in terms of asset repricing. We just need the earth to continue to rotate on its axis and continue to rotate around the sun. We just need time to pass. We have £2.6 billion of fixed rate treasury investments that roll off between now and 2026, that earn us less than 90 basis points. That'll create a huge uplift in NIM and a huge uplift in ROTE. So you need to believe we can deliver cost. You need to believe we can rotate assets to higher yielding, better risk adjusted returns. You need to believe we can bring down COD, and you need to just let time pass for assets to reprice. When we do all of that we will quintuple profits between 2025 and 2028. There are not any other banks I'm aware of that are guiding a quintupling of profitability. Metro is uniquely positioned. Finally, in a place where it can stretch its legs. And I'm very confident in the growth from here. And with that, I'm happy to take your questions. Thank you.

Operator

Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad. If you would like to withdraw your question, please press star followed by two. When preparing to ask your question please ensure your device is unmuted locally. First question today comes from Benjamin Toms with RBC. Your line is open. Please go ahead.

Benjamin Toms, RBC

Morning both. Thank you for taking my questions. Firstly, on this morning's guidance, the cost story is clearly positive. However, your ROTE guidance, broadly speaking, is being pushed out a year with today's results. I know Dan that you mentioned in the presentation that you're naturally hedged, but one of the key drivers in the change in your guidance looks like it's the change in market rates expectations. Can you just remind us of Metro's NII sensitivity to 100 basis points parallel shift in rate expectations, please. And then secondly on consolidation, we've had a number of announcements since you last reported on consolidation in the space. Most recently that was Nationwide and Virgin Money with a potential tie up. Could you give us your thoughts on what impact you think these transactions could have on competition, and whether you expect Metro Bank will be part of that story over the medium term? Thank you.

Dan Frumkin, CEO

Thanks, Ben. I'll turn over to Cristina for the 100 basis point move. We may need to get back to you on that. In terms of the cost story, you're right. I think delivering the £50 million by the beginning of April is a really strong story. In terms of guidance, inevitably, it has been pushed back a year, I think, by three really big drivers. One is, macroeconomic environment. When we guided in October, rates are meaningfully different than they were. We use Moody's forecast. If you go back and look at Moody's forecast in October for base rate going forward, it was meaningfully higher than where they are today. So Moody's now expects base rate to decrease quicker. And also swap rates have moved meaningfully between October and today. So there's definitely the macro event. I do think there's a bit of industry specific. So I think deposit competition is greater than it's ever been. I think part of that is because TFS needs to be repaid and other participants will be chasing liquidity, to try to be able to repay their TFS drawings. And then I think lastly, there are some idiosyncratic things, with a bit of a deposit flight caused by the noise for us, but also the capital constraints we had did mean that we constrained lending meaningfully during 2023, which does affect our NIM. So again, you saw and I mentioned the commercial reduction, but even mortgages I think grew 2% year on year. Overall, lending I think was down 6% year on year. The reality is, is we've had to constrain that. I'll come back to consolidation. In terms 100 basis point move.

Cristina Alba Ochoa, CFO

Well, as you know, we manage our interest rate risk quite conservatively. Right. So we're naturally hedged. However, the fact that we've got current accounts at very low interest paying already. So we are going to be impacted by a decrease in interest rates. But at the half year, the impact of the 100 basis point will have to come back to you.

Dan Frumkin, CEO

And then in terms of the consolidation, the acquisition activity, listen, I can't really comment on speculation. From our perspective, Nationwide's a good bank, Virgin's a good bank. We compete against them and we beat them every day. So, bringing them together doesn't change the competitive landscape for us. I'm very focused. There was an old, this isn't going to really sell to this audience, but there's an old college basketball coach, in America by the name of John Wooden, one of the most successful coaches in history in any sport. And he always focused on his team. He just wanted his team to be the best version of themselves they could be. And he was confident if they did that, they would get great results. And I feel that way about Metro. I don't really worry about the competition. I just worry about being the best version of ourselves we can be. In terms of whether we have a role to play in that consolidation, I would say we have a shareholder base that is much better positioned today than it was pre October, to take advantage of opportunities if and when they arise. So, but mostly and almost exclusively we're focused on the organic plan. Again getting to a low to mid teens road ROTE by 2027 is a really, really strong performance. Being able to quintuple profits over a few years is a really strong performance. We're very focussed on the organic path forward, but again, we now do have, a capital base that makes conversations a bit easier to have if we chose to.

Operator

Thank you. Our next question comes from Grace Dargan with Barclays. Your line is open. Please go ahead.

Grace Dargan, Barclays

Hi. Morning. Thank you very much for taking my questions. So firstly, maybe I can just kind of come a little bit back to that ROTE point, just thinking more near-term in terms of profitability. And you've obviously given a steer on the shape. I guess you're thinking for NIM. But maybe if I could push you for some commentary on profitability in 2024, how you're thinking about that. Kind of as a shape there, bearing in mind the headwinds, you're kind of calling out in the first half of the year. And then secondly, just on the, I guess you were previously talking about that mortgage portfolio sale. Just maybe to push a little bit more on why you decided to step back for that. From that. Sorry. And I guess your plans for that portfolio in the context of kind of shifting into that higher yielding lending, how you're thinking about that now. That would be very helpful. Thanks, both.

Dan Frumkin, CEO

Yeah. Thanks, Grace. As always, really thoughtful. So thank you so much. So I think there's a there's a couple of bits. So, I think we just need to be direct. I mean, we've guided to a low single digit, return on tangible equity for 2025, which I think implies pretty clearly that 2024 will most likely be a loss making year. I think if it wasn't going to be, we would have guided to low single digit return on tangible equity in 2024, and we didn't. I think the reality is, is your point is spot on. And that is the headwinds in the first half of the year. So I honestly expect that the fourth quarter of 2024 will be much stronger than the first quarter of 2024. I expect the second half of 2024 to be stronger than the first half of 2024. We need time to work through the excess liquidity. We need time to get lending out the door, to be able to start to shift the lending mix and increase margin. We just need a bit of time to reposition it, but we are very confident that where we end up in quarter four 2024 positions us very well for the delivery next year. And I think those headwinds are well known. And they are, by the way, they're not idiosyncratic. They're not just Metro headwinds. I mean, they are truly macro headwinds and industry specific headwinds that are affecting 2024 performance. In terms of the mortgage portfolio sale. To be honest, the counterparty we were working with was exceptional. They were diligent, knowledgeable and we worked hard with them to try to get to a conclusion. We got to a point where actually the price just didn't work for us. And so therefore we decided to pull the portfolio back and we think it gives us a better risk adjusted return over time by owning the portfolio. Now, in terms of that portfolio specifically, it was a relatively short durated portfolio when we were dealing with a counterparty. They really wanted the underlying customers at the point where they would reprice potentially. And so they were really focussed on retention as much as anything else. So in a lot of respects, you'll see in Cristina's slides where we talk about the residential mortgage portfolio and how it rolls off and how it reprices and potentially reprices, a lot of what we were selling was the 24 and early 25 roll off. So ultimately that book is already delivering increases in yields for us over time. However, in terms of mortgage sales overall, given the changes in swap rates, yeah, maybe there's something we would do there. I think we've proven that we will trade the balance sheet if it makes sense for all stakeholders.

Grace Dargan, Barclays

That's very clear. Thank you very much.

Operator

We now turn to Edward Firth with KBW. Your line is open. Please go ahead.

Edward Firth, KBW

Yeah. Morning, everybody. Yeah, I think I just wanted to bring you back a little bit just to understand some of the drivers around the NIM. Because I get what you're saying about you can improve prices on deposits, and the mix shift is going towards higher risk areas or higher margin areas. Just put it that way. But you're still guiding for the NIM to be down this year. So I'm just trying to understand what is actually driving the NIM down. I guess that's the first question. And then related to that, I think last time you said you expected sort of, you know, the longer term NIM, if you like this sort of sustainable through the cycle NIM, to be approaching 3%. Now, I'm not looking you to target anything like that, but is that still in the back of your mind as a sort of number that you think this new look business would make in a through the cycle gearing. And I guess the final point with the NIM that we always have to sort of think about is, any comments around TFSME. I saw you paid some of it early, but how much is outstanding? How much do you expect there to be a headwind or a tailwind in terms of. Yeah, in terms of paying that off, over time? And then I guess on a separate question, just I noticed that, the regulators produce customer satisfaction scores on a half year basis, and Metro's are falling quite rapidly at the moment. And I guess a lot of that is related to of publicity and press itself. But how comfortable are you that you are still seen by customers, as a sort of customer champion? And if not, is that something that you can change over time, or does that require costs, or are you comfortable that you can pick that up once the sort of the publicity around the capital raise dissipates? Thanks very much.

Dan Frumkin, CEO

Those are those are really great questions, actually. So, listen, I'm going to pick up and then I'll turn over Cristina a little bit more on NIM. But, but NIM in 24 will be under pressure. But the second half 2024 NIM will be better than the first half 24 NIM. Because we do need to bring down cost of deposits. So if you look at the half two NIM versus the full year NIM, I don't have in front of me, but from memory, I think our half two NIM was like 1.29% or something, maybe 1.27%, whereas I think for the full year we were at 97 Bps or something like that. So, so you can already see that the that. I'm sorry, cost of deposits. Yeah. Not NIM so cost of deposit. So the cost of deposits, you can see, was already starting to creep up. And you can assume that trend or continue into the first half of 2024, which drives down NIM. I did mention that lending was down 6% year on year, which means our loan to deposit ratio is a bit lower than I think we would have liked it to be. So I think that confluence of events really leads you to a lower NIM than we would like. I'll let you. Is there anything you have?

Cristina Alba Ochoa, CFO

Yeah, yeah, yeah, it's it's really a mathematical exercise, right? As Dan was saying, you can see in the second half of 2023, cost of deposits is, up to 1.26%. That is, deposits that we’re tactically raised in the fourth quarter. So the full impact we're going to see a really we're seeing it now as we see it here today in February. So, as those deposits are going to be maturing. That heavy, heavier cost of deposits is going to be decreasing. And the mix of our bigger number in interest bearing liabilities is going to prevail again. But the first half is going to be one of transition where those tactical deposits will be running off. And by that nature of that, then naturally, the second half is going to be at the run rate that we expect to be, exiting the year on the upper side of the of the NIM on the revenue or the yield of the loans. As Dan was saying earlier, we've had the shift with the portfolio as started. We have many approved new commercial loans. But as you know, commercial loans take a while between you approve them, they're approved. They're signed, they're started to draw. So we're seeing that all that cycle is happening. So by the end of the second quarter, we're going to have an optimal, run rate of yielding commercial lending, but is not going to be, a more optimal, yielding from a NIM point of view until the end of the year. The fourth quarter is where we're going to be hearing the mathematical exercise of the more expensive deposits that we raised. So and and that still, on the long term, to your question as well, are we still targeting long term 3%? Yes. All the actions are happening. The only thing that has changed is that because of those tactical deposits, we have a lag effect of nine, 12 months to achieve that 3%. But all the actions are there. It's structural, the cost discipline is there. We've just proven we're in it. So we just have to continue doing that. And on the TFSME question that you had, the next maturities are coming in the second quarter of 2025. We’ve got £480 million maturing, and on the third quarter of 2025 we've got £1.1 billion maturing. The remaining is for 2027.

Dan Frumkin, CEO

And in terms of the in terms of the cost, sorry, in terms of and, in terms of the cost of TFSME and again we're paying base for it. Right. So the reality is, as long as we can replace it with deposits below base, it's accretive. Yeah. And I think it'll be a mix of deposit gathering and , you know, because, you know, our balance sheet as well as I do. The reality is, is we have very little wholesale funding. Right. We don't have any securitisations. I mean issuing cover bond be hard for us. But the reality is we don't have any securitisations and securitisation will be, you know, swaps plus a number which will probably gets you base maybe base plus a little bit. So, the reality is, is we're pretty confident in our ability to get at liquidity, to be able to repay it without it being overly destructive to NIM and actually maybe slightly accretive to NIM. We've kept the TFSME in place because it was excess liquidity. And, you know, that proved to be prudent. In terms of your question, in terms of your question around customer satisfaction, listen, it's a good observation. I do think there was a bit of noise, obviously, in the fourth quarter, but we still opened as many accounts in the second half of 2023 as we opened in the second half of 2022. We opened accounts over that weekend in October. So ultimately, the ultimate test for us is that we still see people choosing us every day, and we see people walking into stores as we're speaking, opening new accounts. So we think the model resonates. We're still really confident. The service measures are driven by a lot of, noise, really. I mean, I mean, people get a phone call and are asked, how do you feel about or what is your perception of. And all of that is driven by what they've read and what they've seen. And it's not necessarily that they've actually walked into the store and had the actual experience. Our Net Promoter scores for new account opens. In-store is still in the upper 80s, low 90s, month in and month out. So, we're really confident in the service we provide.

Edward Firth, KBW

Perfect. Okay. Thank you.

Operator

As a reminder, if you'd like to ask a question, please press star one on your telephone keypad now. The next question is from Corinne Cunningham with Autonomous. Your line is open. Please go ahead.

Corinne Cunningham, Autonomous

Good morning, Dan and Cristina, and thanks for taking my questions. So, can you just give us a bit of, an idea where the staff have been cut? And that's quite a big, proportion of staff that have been reduced at a time when you were, hoping to boost new business levels. So perhaps if you can give us some guidance there. And then the second one is it sounds like your strategy is going to be capital consumptive, in the sense that mortgages are running off and corporate lending is, going up. If you're loss making as well, does this imply that you're going to be going back into capital buffers? And particularly if you think about this on fully loaded, ratios. Thank you.

Dan Frumkin, CEO

Two really, really good questions. I'm not going to spend a lot of time on the staff stuff because our colleagues are absolutely our secret sauce. It was, really difficult to go through, I think for everybody involved, including myself. But broadly we did ring fenced certain areas. So the private bank was ringfenced and didn't lose any colleagues. Our corporate bank didn't lose any colleagues, our local business managers. You know, we have local business managers in every store, unlike all of our competitors, we have local directors. So we ring fence the areas where we think we're going to stretch our legs. We were very disciplined about making sure we look through all costs, cost cuts and any potential headcount reductions, with a risk lens on. So again, we ring fenced certain areas that were important from a control perspective. So the board the risk committee of the board as well as the regulator wanted from us assurances that the risk profile of the organisation hadn't shifted, due to the cost cuts. So, again, we looked at it through a bunch of different vectors, and delivered accordingly. In terms of the capital consumption, you're right. Actually. I mean, I think that's why Cristina talked about risk weighted density. And the fact that risk weighted density is going to gradually move up. Again, we have lots of capital plans and lots of different optionality. We haven't decided whether we're going back and not going back in. Are we selling portfolios, not selling portfolios. Are we going to try to access, debt capital markets, sooner than our maturity in 2028? Again, there's a whole menu of activities. We can slow growth in certain areas. We could exit portfolios. I think we have a broad array of activities we can consider, and go from there. But I mean, there. Yeah. I think there's a broad array of, of things we would consider. And I'm not taking any of them off the table.

Cristina Alba Ochoa, CFO

I think it is about balance sheet optimisation. Right? Is about balance sheet management within our power. It's all within our control. We own this. And we'll take the actions that, that make sense to, to make the best outcomes for all stakeholders. Compared to last year, we had more external factors that were, influencing what was happening to, to your point, what was happening to the balance sheet, to the capital strength. And now we are much better positioned.

Corinne Cunningham, Autonomous

Thank you. And, the regulatory affairs.

Dan Frumkin, CEO

So again, I can't really speak for them, but I have no sense that our relationship isn't as strong as it always was.

Corinne Cunningham, Autonomous

Okay. Thank you.

Operator

Our final question comes from Daniel Crowe with Goldman Sachs. Your line is open. Please go ahead.

Daniel Crowe, Goldman Sachs

Hi, thanks for hosting the call. Morning. Just a very quick one. Could I just get the current cost of deposits? Obviously, the cost went up over the half to 1.26%. If I could just get what the what that number is today. And then also you're talking about pivoting to higher margin lending when we're actually going to see that's our you know, when I look at the numbers it looks like rising mortgage. Just everything else fell. Is there already a pivot within the mortgage book?

Dan Frumkin, CEO

Okay. I'll do that. And then I'll let Cristina come back to exit cost of deposits, which I don't think we've disclosed anywhere, but we can talk about it. So, the the pivot is sort of occurring as we speak. It's one of the reasons why I mentioned that we've credit approved 140% for commercial loans, then all of the commercial lending we did all of last year. But it takes time to draw down. It's one of the reasons why the second half will be better than the first half. We, you know, again, the complexity of drawing down a commercial relationship, is much different than doing a residential mortgage or anything like that. So that transition needs to occur. In terms of the specialist mortgage piece of our mortgage offering. It's getting there, but we still have new products to introduce. We have some new platforms to do. So we're still doing what I would call quasi prime residential mortgage lending, which doesn't have quite the same amount of margin in it. And again, the loan to deposit ratio has been under pressure because we haven't been able to kind of leverage up the balance sheet sufficiently. That would that would help improve. So again, part of the reason we're guiding that the second half will be better than the first half in 2024. The fourth quarter is better is because it's going to take some time for, the incremental lending at a higher yield to start to come through the balance sheet. And, and in terms of exit COD, do we want to.

Cristina Alba Ochoa, CFO

You mean the.

Dan Frumkin, CEO

Cost of deposits in the month of December.

Cristina Alba Ochoa, CFO

It was a so if you look at the the second half, it was 1.29% the total cost of deposits. If you compare to the first half, that was around 60 bps, 65 bps. So the exit one was around 1.9%. It's where we were.

Dan Frumkin, CEO

Yeah, exactly. So it's a little under 1.9% at December. But again deposits continue to flow in in January in February. It was a ridiculously successful campaign, much more successful than we expected. So there will be a little bit more cost of deposit pressure coming through in January and February.

Daniel Crowe, Goldman Sachs

Yeah. Okay. Thank you.

Operator

This concludes our Q&A. I'll now hand back to Dan Frumkin, CEO, for final remarks.

Dan Frumkin, CEO

So, so listen I, I just want to thank you all for taking the time. I really appreciate the effort you put in to understand Metro. For those investors on the call, I genuinely appreciate your support and I look forward to delivering on the plans we outlined today. So thank you very much.