Metro Bank H1 2024 Results

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

PRESENTATION

Daniel Frumkin, CEO

Good morning everyone. Welcome to Metro Bank's half year results presentation. I'm Daniel Frumkin, the CEO. And with me today is Cristina, our CFO, who's been filling in admirably while we wait for Marc Page to join us in September. Today we're going to go through a bit of an overview. I'm not going to talk about the existing financial results for the first half. I'll let Cristina do that. I would just say they're exactly as we expected and in line with the transitional year we discussed in our year end results. But I'm going to spend a lot of time talking about the future. The future we see for Metro and the future we see for all stakeholders. Then Cristina will come up and talk a bit about financial performance, and I'll come back and talk a little bit about the path forward. So let's talk about what we see in the future. So let's start with the biggest thing. We will be profitable during quarter four. The turn around, the transitional year, whatever phrase you like to use is coming to completion. We will return to sustainable profitability during quarter 4'24. In addition, we're increasing our guidance on return on tangible equity for the next three years. So we'll deliver mid to upper single digits next year for return on tangible equity. Double digits in 26. And we will get to mid to upper teens thereafter. We do that by driving a much higher NIM. So NIM approaches this year 2.5%. Next year, three and a quarter. In 26, 4%. And you say, moving from our quarter two NIM of 174 basis points to 400 basis points in 26. That's a big jump. That's 226 basis point increase in NIM in two and a half years. A third of it, roughly 70 basis points comes from two things and two things alone. The sale of the mortgage portfolio is very NIM accretive, and the rolling off of the Treasury portfolio is equally NIM accretive. In addition, we're making real progress on rotating the balance sheet and bringing down cost of deposits. We're very confident and the path forward for NIM, and we continue to do a great job on costs. We're improving the guidance on costs. So our cost income ratio now will approach 60% in 2027 instead of 2028. And by 2028, we'll have a cost income ratio approaching 50%. The model works. The store-based people-people banking model works. Our colleagues working with our customers to great fans works and these results are an indication of how well it works. So by 2027, Metro Bank will be generating one of the highest returns on capital of any UK high street bank. So let's talk a little bit about how we get there. So the strategy we talked about at year end, if you remember the dot plot with the four things underneath the dot plot that we ended the presentation on at year end, there are four big drivers for us to return the bank to profitability and generate the returns on tangible equity you saw in the prior slide. Cost discipline. We will deliver the 80 million in run rate by the end of the year. We're extremely confident in our ability to identify and execute those cost savings. Over 50 million. Of the 80 million has already been executed and is embedded in the run rate that we will see come through later this year into next. The £2.5 billion mortgage sale is moving forward. It was a good transaction. It unleashes Metro in a way that we've not been unleashed before. It allows us to rotate assets quicker, grow NIM faster and generate better returns on tangible equity. If you look at the box on that table, the commercial teams have done an amazing job in the first six months of the year. One of the reasons we're confident to provide upgraded guidance. One of the reasons we're confident in the path forward to the NIMs and RoTE is by the activity levels in our commercial teams in the first six months of the year. We have credit approved pipeline that's equal to 116% of all the lending we did during 2023. We are on pace to almost or double the lending we did in 2023 and our commercial corporate SME Businesses. And deposits. I know deposits looked like they were up slightly from year end, which they were. That is the math. But they're 800 million lower than they were in February of 2024. We're repricing deposits at pace to improve cost of deposits. All of this isn't yet evident on the balance sheet. It's not yet flowing through to the financials, but it absolutely is the fundamental drivers of the increased RoTE and the improved NIM. In terms of asset repricing. We wanted to make this as self-evident as we could with the passage of time. The fixed rate treasury investments we have in 25 and 26, a half a billion in 25 and a billion in 26, roll off and if we reinvest those at expected market rates based on forward curves today, that activity alone adds 450 basis points to our RoTE. So we get an uplift at the start of 2027. After 25 and 26 roll offs, a 450 basis points on the RoTE just from the passage of time. And again in 2027, we expect to deliver mid to upper teens return on tangible equity. That will make Metro one of the highest return on capital banks in the UK. Again, the amount of progress we made over the last nine months is, I don't think we have a peer. I don't think there's another bank in the world that has delivered the level of change we've delivered since October. 23% of Headcounts gone away. We fundamentally restructured our retail proposition. We fundamentally restructured our regional commercial operation. We fundamentally started to reposition our mortgage business, generating higher yields. We have been running at pace and we will continue to do so. I just want to pick up a couple of bits. So if you look at the streamlined and refreshed offering, we have tailored our store and Amaze direct hours to better meet our customer needs. Driven off the data that we collected during 2022 and 2023. We're opening new stores. We're completely committed to stores being an anchor in the foundation on which Metro builds upon. We've begun construction in Chester and we've signed a lease in Gateshead. We're actively looking for more stores in the north of England and the East Midlands. We believe stores provide the foundation for us to build upon as we go forward. In terms of new products. We launched our first limited company buy to let product, which we're quite excited about, is one of our first new mortgage products we've launched in quite some time. It's been well received by the market, and it's as we inch into doing more and more specialist lending. It's a start. And in terms of 24 strategic focus, the rest of the year is about embedding, growing all of what you see there is about how we get bigger and how we generate more returns over time. So we'll embed the structural changes in our regional and commercial lending activities. We're going to hire more people in commercial and corporate. We're actively looking for people to join us now. We're actually overwhelmed with applicants, so we're quite excited about growing those teams. We'll launch further specialist products. And again, we need to complete the mortgage sale. And we are desperately searching for store locations in the north of England. We've been looking for many months, and we struggled to find the right location for the repositioning of Metro, more focussed on SME and commercial lending. I'll now turn it over to Cristina, who will talk about the financials. Thank you.

Cristina Alba Ochoa, CFO

Thank you Dan. And as he said, thank you everyone for being here with us today, this morning. I'm going to walk you through the financials that are nothing less than they are a numerical representation of all the operational activity that Dan has already described. First of all, I'm pleased to report that we are on track, or where we expected to be. We are exactly where we were expecting to be as we were standing here six months ago telling you, about the results of last year. However, the first half of the year is not reflective of the overall shape of the business and all the transition and actions that we are undertaking. As you can see, we have been reducing the rate of our deposits, that were raised deliberately in the campaign that was done in November 2023. But they are proving to be really resilient. So the balances we keep in the accounts, we still have a proportion of those tactical deposits. As a result, our LCR, remains high at 365%, as you can see. And then, equally, our total capital ratio remains just slightly above where we closed last year, 22.2%, where we were saying we were going to be focusing on capital management and capital allocation and optimisation. And that's exactly what we were doing every day from a NIM point of view, as we anticipated. We are at 1.64% for the first half of the year. And, at the end of the second quarter, we are at 1.74%. This proves that the improvement has started at the overall NIM level and the worst of the J curve, because we are in that position, is already is behind us. We are through the trough of this transition and the J curve, and we are on the up on these pivoting. You can see it all reflected on the numbers here on the screen. If we think about what have been the most impactful actions that we are taking there, probably on the costs initiatives, they've been very visible. We had executed on a lot of colleagues that we had to let go. As Dan said 23% of our colleagues were gone in the first half of the year. So I'm pleased to say that we are exactly where we expected to be, I'm spending a high proportion of my time in all of the actions that are going to make us a leaner and more effective organisation. So we have already delivered on the £50 million of annualised savings, in the first half of the year. And we are now on track to deliver the first of the 30 million. We have a roadmap and we are executing on it. There have been really difficult actions, as we said, we are now focusing on productivity initiatives, being more efficient and decommissioning products that are not adding sufficient value to our FANS and they are not capital accretive. We have been taking the actions, with regards, for example, to the, opening hours based on data, is based on information we've got and when the FANS value most, that we are with them, we have kept those hours open. And many, many actions. I said on cost control and being more efficient, from third party costs as well. If we think about what Dan was referring to, the repricing of the asset portfolio on the Treasury side. There's already 450 bps where the road is going to improve. And you can see the shape here. Most of the maturities are going to come in 2026 for over a billion, but it is happening over 2026. And, the tail end is in 2027. You will see here we are the highest of the LCR, and we are actively managing the rates on our deposit side so that it comes down. Mostly we expect that decrease to come in the second half of this year. You will see that in the year end results. It's it is really reinvigorating to see that our proportion of NIBLS estate, remains almost double what our peers are. And this is a true testament to our brand, to the metro presence and the work of our colleagues are doing in the stores and in amaze Direct every day. If we look, if we turn to the lending side of our balance sheet and we look out our NIM, we are closing the first half of the year, 1.65%. But we wanted to illustrate here that, as of the second quarter, we are a 1.74%. Most of the impact I anticipated, is coming from the cost of deposits. And there is more to come On the second half of the year. Looking at our, commercial lending, we are making really good progress. It doesn't fully show in our lending income over lending risk weighted assets, but it will show more in the second half of the year as our pipe pipeline will start to draw. As we are sitting here today looking at the lending mix, we are going to see an accelerated transition towards a more specialised mortgages and commercial lending. And I wanted to illustrate here what's going to happen once we close on the mortgage sale that has been announced in the last few days, we're going to reduce significantly our mortgages, a portfolio to 54%, and that is going to meaningfully uplift our yield again. And as you can see, we are going to be focusing on, specialised mortgages with a 200 bps spread. And on the commercial side, we are already at 350 bps spread. So that is going to give us that uplift. We wanted to give you a bit of insight also on where are we seeing our product lending mix, because that will help us all have a similar expectation as we have and you will be able to look at your models, and revisit them. So over a long period of time, we expect mortgages to go down to 30% of the total portfolio and commercial, combined with the old SME asset finance, invoice finance will go to 70%. That is going to be core to the, improved guidance that is already anticipated. If we take a few seconds just to look at the shape of our, balance sheet, we are fundamentally a low risk balance sheet, and the capital position is really robust. You've seen in the charts earlier, our MREL is now at 22.2%. And once we close the mortgage sale transaction will be at 23.4%, which is, more than 500bps improvement from where we were at this time last year. And on the asset side, as you know, Metro for many years, we've got, really highly collateralised portfolio that is prudently provisioned. And as you can see in our disclosures as well, our Treasury portfolio is very conservative, with most of our assets, primarily Triple-A rated. Just finally, I wanted to give you, with the busy page here, just to give you all the foundation elements to update our guidance that we have announced today. We expect our RoTE, to be on, we are increasing it to be mid-upper single digits in 2025, double digit in 26, and, mid to upper teens thereafter. On NIM as we, saying we are expecting the asset rotation with an exit run rate reaching 4% by 2026. On costs we have already delivered the significant savings, and we are on track to deliver the 80 million annualised run rate savings by the end of this year, in the fourth quarter, as those savings come into effect and alongside with a sustained cost, disciplines and income growing, we see that the cost to income ratio is going to be improving already to 70% in 2026 and will be tracking, to 50% and in 2028. On the lending side, you've seen the product mix, shift that we have already anticipated and the cost of deposits is already coming down. And, several actions are being implemented in July. We expect, deposits to remain flat from 2024 to 2026 with upper single digit growth thereafter. And with that, I'd like to hand back to Dan.

Daniel Frumkin, CEO

Thanks, Cristina. So let's just spend a couple of minutes on the on the strategy. You've seen this slide since I arrived. Really? It's the five pillars used to reposition the bank and drive it forward. I'll just spend a bit of time as you work left to right. Listen, for us to grow revenue. We really need to get the corporate business to continue to fire on all cylinders. We need to bring down cost of deposits so that the NIM can start to grow. We've guided That NIM is going to grow quite substantially. We're pretty confident on cost. I think you can have real confidence that we've delivered the £50m and are well on track to delivering the £30m. In terms of balance sheet optimisation. Again, I've always talked about risk adjusted returns on regulatory capital. It's one of the reasons why I'm comfortable with the trade on the residential mortgages. Everybody needs to remember that we built that residential mortgage portfolio in anticipation of receiving different capital treatment. As soon as we were told that we were delayed in getting that capital treatment, that portfolio did not provide the right risk adjusted return on regulatory capital for us on a go forward basis. It is much better on a larger balance sheet that has the right capital calculations. So again, that sale makes a ton of sense for us to be able to optimise the balance sheet and move forward. And the low cost deposits. Cristina mentioned it, but we have 36% of our deposit book is in nibbles. And the reality is that's twice the industry average. And we get that because of our stores and because of our commercial and corporate activities. I think when you see the infrastructure slide. I was asked this morning on the call, which I thought was a great question. Does the cost income ratio guidance you provided, does it include the new stores and does it include enough investment in systems and infrastructure in the forward plan that we can have confidence that you'll hit the cost income ratio? My answer to both is yes. We have new stores built into the plan, and we continue to invest in the infrastructure as you'd expect us to, to build out our tech estate, to become more digital. All the types of things you'd expect us to invest in is in the plans. It still delivers a cost income ratio that drops to 50%. In terms of communications. I just want to spend two seconds on the clarity of Metro Bank potential for all stakeholders. I know that seems like a weird sentence, and it probably it is a wee bit of a weird sentence, but I think given we went through in October, given the amount of change we've had to drive through the organisation, given the amount of activity we needed to see increase in the organisation, we've really hid our light under a bushel a bit as Metro, both internally and externally, and I want to be really clear that the guidance provided today is the start of us changing the narrative. Metro Bank will be a wildly successful bank going forward, and we need to make sure everybody understands that. The one piece that I fully accept that people need to endorse. So we've showed you how we can grow NIM by reducing cost of deposits. That's relatively straightforward because again, we have excess deposits. We've talked about cost which help us drive the RoTE. I think, again, relatively straightforward, the bit that truly is unleashed by the mortgage sale and by the pivot that we've done is our corporate and commercial bank. That bank has been here for over a decade. The people we have, have been with us for a long time. We have not unleashed that business because of capital constraints and because of focus on residential mortgages. That would have gotten us to capital relief under AIRB. Now that we're moving into a new environment and pivoting the bank, this area becomes a foundational piece for the bank going forward. And you need to believe that we can grow it. So let's just hit a couple of highlights. One, it's the breadth of our offering. I am not aware of any other challenger bank that has the breadth of offering that Metro has. We have the full suite of products, including cash management products to support corporate, commercial, SME, asset finance, invoice finance. We can do real estate. We have a good private banking arm. We have the breadth of offering in this space that allows us to compete and win. We believe in our relationship model. We believe in people-people banking. Again, we think that allows us to win. And let's remember how big this market is. This is a £580 billion market. We don't need very much of that to make a huge difference to the financial profile of Metro. We have 374 colleagues on site today attacking these markets. On average, those colleagues have over 15 years of experience. We're not building the teams. We're not figuring out what to do. The teams exist. We already have huge capabilities in this area, and we're driving forward. And one of the things you'll see on that list that should not be lost is we have 35 colleagues who do the underwriting in credit, who have over 25 years of experience. So this isn't the front line deciding what to do and being able to book credits without the appropriate oversight and controls. We have real discipline about the way we originate Credit. We've been doing it for a long time. We have people with lots of experience and we'll get after it. The thing on the right I want to highlight is the fact that the stores matter. Today of all the originations we've done in the first half of the year, which for the record originations, about 80% of what we did all of last year and the pipeline is 116%. So we did a lot of volume in the first half of the year. Roughly 80% of it came from the stores or relations we have with accountants and lawyers. It did not come from brokers, which is very different than the other mid-tier banks. Now we like the broker channel. We will grow out the broker channel. But today we're generating volume because of our localness, because of our relationships in the communities in which we operate. It is a huge differentiator. And the other thing that's true is there's £900 billion of deposits in the SME, commercial corporate space to go after, £900 billion pounds. Our stores will play a huge part in driving those deposits into Metro. So you've seen this plot on the left. It's clearly the dark blue dots been dragged down. We see huge potential to move that dot back to where it belongs. We will bring down cost of deposits, which will drive the dot up, and we will change the asset mix to drive the dot to the right. We see clear blue water for where Metro will operate. We will have high street funding costs combined with mid-tier asset generation. We will be a specialist lender combined with high street funding. There is not another bank in the UK that's anything like Metro. And we'll do it through cost, discipline, asset rotation. Bringing down cost of deposits and asset repricing. And I'll end where I began. We will be profitable during the fourth quarter of 2024. We've improved our guidance around NIM, around RoTE. We've revised our guidance on cost income ratio. And our guidance for 2027 indicates that Metro will deliver one of the highest returns of any high street bank in the UK. We're excited about the journey. We're excited about the opportunities. I'm genuinely pleased with how much progress we've made in such a short period of time, and I look forward to taking your questions. Thank you.

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 to withdraw your question. We're preparing to ask you a question. Please ensure your finger is unmuted locally. We have our first question from Benjamin Toms from RBC. Your line is open. Please go ahead.

Benjamin Toms, RBC

Good morning.

Daniel Frumkin, CEO

Good morning, Ben.

Benjamin Toms, RBC

Morning. Thank you for taking my questions. You've upgraded your guidance today in the number of areas in your NIM. NIM guidance is phrased as approaching in each of the respective years. Can you just clarify how you're defining approaching? Does that mean the average for the year will be close to the number? Does that mean that you expect to get close to the number by the end of the respective year? Just confirming what you're trying to convey would be useful? By 2029, you expect your consumer lending book to roll off. It wasn't super expensive, but you only acquired RateSetter a couple of years ago. Can you just clarify the change in strategy in relation to that specific brand? Could we see some sort of write down in respect to that business at some point, if it is being mothballed, and a third one if that's all right please. 23% of headcount has been reduced. That's over a thousand FTEs in a pretty short timeframe. Can you just talk a little bit about how you make sure such a wholesale change, goes through, but ensure that everything still works and that risk does not increase significantly? Thank you.

Daniel Frumkin, CEO

Three really good questions, Ben. So listen on on your first question around NIM. I'm afraid it's the latter, not the former. So the reason we say approaching is it's sort of guiding towards period end NIMs, you know, it may be November versus December, but broadly a period end. So, a good way to think about it is the journey is over 12 months. You kind of know where we'll be starting the year. You know, we'll be ending the year, and you can kind of build out the NIM path from there. In terms of the 29 consumer in the rate setter stuff, this and the rates of acquisition, as you rightly say, we paid almost no money for it. And at one time we had a billion, billion 4-5 on our balance sheet, earning us, you know, 6-7%. It was actually a home run acquisition. We would not have gone back to making money, last year as we did as people remember, we made money for the first half of last year without ratesetter. It was a huge foundational piece. So why are we walking away from it? We're walking away from it because actually, it turned out pricing in the unsecured personal market has turned out to be inelastic. So we were broadly pricing unsecured personal lending when the Bank of England base rate was 0.1% at, let's call it six, five and a half six. So we were six points over the Bank of England base rate. Bank of England base rate gets to five and a quarter. And we're pricing unsecured personal lending in the eights in the low nines. So the margin over Bank of England base rate collapsed from sort of 600 basis points to sort of 300 basis points and that model just doesn't work for us. Doesn't mean we may not re-enter that business at some point in the future. Doesn't mean we couldn't, restart that business and go after it again. But, you know, Ben, we were pretty aggressive about risk adjusted return on regulatory capital. And either business gets us there. It does. And if it doesn't, we shut it down and we move forward. And that is the beauty of Metro. We're small enough to be dynamic. Our balance sheet is small enough to be dynamic. It's why we will generate mid upper teens road by 2027. And so the operational changes is the question. So I asked it, the board asked it. The regulator asked it. How do you know you're not breaking the place by reducing headcount by 23%. So we actually have a dashboard. We have a dashboard we produce every week. It has about 14 different measures on it. It's done independently by the second line risk function. They produce it. It's got a red, amber, green status. It's got description at the back of it with the status. And to be honest, there are certain areas, one area in particular that we probably over egged in terms of the cost cut. So yesterday at Exco, we approved, a significant increase in investment in that area to add heads back into it and to buy a bit of kit so that they could get back to being green because they were running it red for a number of weeks. So we track every detail. And in terms of the stores, somebody asked this morning on a call, we've not had significant complaints. We've not seen customers leave the franchise by the change in store hours. So again, we're pretty confident that we managed to deliver what is I mean, a 23% headcount reduction, I think is the largest of any bank in the world at the moment. And we did it in a few months, and we did it in a way that was very controlled. So we're pretty comfortable with where we are. Although, you know, honestly, there are lots of people who are no longer here who had made a huge difference to Metro over years and years. And, you know, we wouldn't be here without them. So it's never an easy thing to do. It's the worst thing anybody ever has to do. But it's the right thing for the future of Metro.

Cristina Alba Ochoa, CFO

Maybe something to add some of the colleagues that, are the reduction of colleagues is, related to the reduction in opening hours for them in the store, so that was risk free. If you want operational risk free but the remaining is, Dan as you said.

Benjamin Toms, RBC

Thank you.

Daniel Frumkin, CEO

Thanks, Ben.

Operator

Thank you. We have our next question from Grace Dargan from Barclays. Your line is open, please go ahead.

Grace Dargan, Barclays

Good morning. Thank you for taking my question.

Daniel Frumkin, CEO

Morning, Grace. I could ask.

Operator

One on deposits and one on AIRB if I could. I guess firstly, on deposits you have obviously talked a lot on the call, around that, reducing deposit costs. I know that's kind of consistent with the messaging you were giving out for full year and in Q1. But maybe you could just give a little bit more details. What are the referenced actions you're taking in July? What kind of things are you doing to help drive those costs down? And maybe just helping to think into H2. What kind of level would you be comfortable with, or are you targeting for cost deposits? Or if you're not kind of comfortable talking in that detail? Maybe. Could you tell us the spot cost of deposits as at today so we can get a sense of that trajectory? And then secondly, I guess, on AIRB I just apologise if I missed that, but have you confirmed or said anything around whether, you are formally pulling back from that process? And I guess linked that I know you make reference to the mortgage portfolio sale, so not making sense. Without AIRB, other portfolios you see in that bucket that potentially might make sense to sell in the future. Thank you.

Daniel Frumkin, CEO

Grace, two really good questions. I'll turn over the deposit question to Cristina in one second. I'll just start. I think if you look at the numbers that are in there, and I'm going to try to do this from memory. So it might not be perfect. But if you look at numbers that are in the RNS, in the tables, in the back, in terms of deposits, you'll see fixed term deposits have grown 62% year on year. And I think we're running about a billion 8, fixed term deposits at the moment. Those are really expensive, Grace, and we don't need that liquidity. So the first place we're going to look as they start to mature later this year into next will be to ratchet down fixed term deposits. And I'll let Cristina talk about some of the boost savings products we launched.

Cristina Alba Ochoa, CFO

Yeah. So, Dan as you say, we launch in November 2023, several boost deposits, one were the ratesetter brand into the Metro Bank's brand. At first we had to address their notice, period. We had 60 days of notice period before, making any change. Right. So we've reduced that in line with market closer to the 14 days as other competitors are. And those are the actions that are going to have already been reduced. So for those tactical deposits, we did an initial reduce decrease of 25 bps in April. And we have done 90 decrease bps now in July. And those are the ones that are going to be reflected and impact only to the boost deposits that we raised starting in November 2023. As you can see in the chart we showed earlier in the tables, we were for the second quarter cost of deposit is, 2.12%. And we're going to be we are on June 2.07%. And we will be below, 2% thereafter and will be reducing over the second half of the year.

Daniel Frumkin, CEO

I think that's right. Thanks. In terms of AIRB, work continues to move forward. Ideally, as you start to see Grace and dig into the guidance we provided. If the balance sheet is going to be 70% commercial and corporate and 30% residential. The value of AIRB to us is a bit less. There's no other portfolios that we would sell because of AIRB. The consumer book would have been fine under AIRB. Actually growing commercial was something we pulled back on because actually building the commercial models was taking us a bit of time under AIRB so actually, you know, rethinking our AIRB position has allowed us to really go after commercial and corporate.

Grace Dargan, Barclays

Make sense. Thank you very much. Both. Thank you.

Operator

We have our next question from Ibrahim Syed from JPMorgan. Your line is now open. Please go ahead.

Ibrahim Syed, JP Morgan

Hi there. Thanks for taking the call. Thanks, everyone. Three questions if I can. We're sort of into end July. Are you able to give some guidance as to how you're shaping up into Q3? Do you feel, you could be at breakeven levels? Then the second question it's been asked in some other ways and forms but of the 22% FTEs, are you able to say roughly how much were from risk and technology, and do you expect, to restore that headcount in the future, or if you were to restore headcount, how much of, that do you think you would bring back? And just the final one on the additional stores? I get a sense of urgency in opening new stores, and I just wander in the context of, you know, the natural revenue uplift that you expect to come. Would you consider, you know, deferring, opening new stores till you've achieved a level of sustainable profitability or what's the what's driving the sense of urgency if I may? Thank you.

Daniel Frumkin, CEO

Okay, great. Listen, in terms of, quarter three guidance, we're really not providing much quarter three guidance. Sorry. So I don't think I don't think there's much detail, but you should be able to kind of map out from here where we got to given the end of the year and the progress we make. A lot depends on when the mortgage sale closes. In terms of the 22% FTE, we've not given a split of where colleagues have left from. But let me be absolutely clear. We're not adding heads back in. So once the cost leaves, it leaves operationally other than one small area where we had to add three heads back in. We are not adding heads back into any area that saw outflows as part of the restructure. We have huge discipline around that. Cristina needs to sign it off. My chief people officer needs to sign it off. And if there's any dispute, they come to my desk. And let me assure you, my first answer is no. So, unless there's an underlying reason from an operational perspective, we are committed to those people who left. And those roles that left, will not be filled. In terms of stores, it's funny you say urgency. It's a great thing because I want to get across the, the point about the importance of stores, but we're being ridiculously disciplined about where we open stores. That that urgency of opening stores, I think, is a legacy from prior leadership of this business. We have been looking in Leeds for two years to try to find a location that we thought was acceptable. We have passed on three separate locations. We just had a location outside of Manchester that we had broadly under agreement. If we decided to go forward. We decided we would not move forward because we didn't like the math. I am anxious to open stores the same way I'm anxious to grow corporate and commercial lending the same way. I'm anxious to drive RoTE and NIM and keep costs down to drive the business forward. We'll open stores when they make sense, and only when they make sense. We'll open stores in locations that make sense for us, and we will not open them just to open them. But yes, they're great growth vehicles for us. There's lots of communities that deserve to have the Metro Bank experience. There are lots of SME and commercial conurbations that don't have access to Metro, the way we would like them to have access to Metro. So we are desperate to bring our service proposition and our people-people banking to the rest of the UK. But we will not do it unless we like the math behind a store. Full stop.

Ibrahim Syed, JP Morgan

Okay. Thank you very much. Thank you.

Operator

We have our next question from Edward Firth from KBW. Your line is now open. Please go ahead.

Edward Firth, KBW

Yeah. Morning everybody.

Daniel Frumkin, CEO

Morning.

Edward Firth, KBW

Thanks so much for taking my questions. Yeah, just had one, really, I guess. I mean, the first question is, the term deposits that you put on have obviously been a major problem in terms of the margins for the first half. Would it be sort of helpful to understand why did you do those deposits? What was the sort of thinking at the time? Because I'm just trying to think about, you know, the mechanics of the business. And obviously when you put it on, you thought they were going to be good and then, not. But it would just be helpful to, like, a hedging thing. Or was it something specific that you were trying to do or what the business ended up doing by mistake? So that would be my first question. The second question, in terms of rate expectations, what have you got invested, in your numbers, in terms of rate expectations going forward? And how dependent is the achievement of this plan on a different rate scenario? I mean, I think it goes in line with the market, but there is a big sensitivity around different rate expectations. That would be my second one. And then the final one, impairments. I mean, I guess it's going to be a higher risk portfolio, so forgive me if it's in some of the discussion. I've missed it. But if you got an idea of roughly what you think a sort of normalised impairment rate might be for the for the new mix of business that you are expected to have. Thanks so much.

Daniel Frumkin, CEO

Sure. So I'll turn it over to Cristina in a second. In terms of the fixed term deposits. I think you need to hark them back to. So if you went and looked at our fixed term deposit portfolio, well, the June number, you'll see it's quite low as an organisation. And we didn't really need the liquidity. I think we launched some fixed term deposit products in reaction to the October situation. And I think we were trying to prove the brand's viability and that people would continue to bank with us and keep money with us. And so, so we use fixed term deposits, a way to attract liquidity into the bank. We also used boost savings accounts to attract liquidity into the bank. We thought it was critical at that time for all stakeholders to prove that we could rebuild liquidity quickly. Off of the back of October, so that was the purpose of it. I still think it was the right decision. I think I know it's cost us a bit of earnings this year, and I know it's cost our stakeholders a bit of earnings this year and a bit of capital. I genuinely accept that. But I think the single most critical thing to be able to do when we stood up at year end was to talk about how we rebuilt liquidity in days and weeks. Because I think that was critical to the Metro story. We now are in a very different place. And again, we'll be much more disciplined about deposits. And again, you can see that where we took fixed term deposits down to as a percentage of overall deposits. You can go back and look at historical numbers and know when we say that we're completely committed in terms of rate expectations, we don't really publish, the rates that are embedded in our forecasts, but we use forward curves. So I mean, if you go back and look at the forward curve from, I don't know, three weeks ago or whatever, I think is when we did the last iteration of the forecast to make sure we were comfortable with the guidance we're about to provide. If you use that forward curve, that's the forward curve we used, and we use Moody's expectations around Bank of England base rates. So again we don't think we're clever enough to play the rate game in any way shape or form. So we use market rates for forecasting. Moody's for some forecasting. And again, we run the Treasury portfolio to try to create a balanced, a balanced outcome, because, again, we do not play rates in terms of impairments in terms of guidance. Cristina. Yeah.

Cristina Alba Ochoa, CFO

So if you recall, in terms of impairments, we said that through the cycle we would see an impairment rate of around 30 bps through the cycle, with the product mix with more proportion of mortgages. When we were standing up here, if you do the math and have a higher proportion of, commercial and SME lending, that is going to be increasing just as a function mathematical function of having, more proportion of commercial. But we do not expect to go higher on the risk appetite. The risk appetite remains unchanged, and it will be the same, approach to collateralised low, LTV so that the impairments remain aligned with the expectation. All of the change is related to product mix. Change is already factored in our in our guidance view. So we're looking at risk adjusted return on equity.

Daniel Frumkin, CEO

And then I think there's another CFO at a big bank that mentioned that the macro variables might be starting to change in their favour, and that would have a positive effect on ECL expense. I think the same thing is going to happen across all banks, to be honest. So, but I think a through the cycle it'll be higher than 30 Bps, we've not provided guidance on how much higher

Edward Firth, KBW

Okay. Thanks so much. Thank you.

Operator

We currently have no more question. I will hand back to the management. Thank you.

Daniel Frumkin, CEO

I just want to quickly say thank you all for taking the time. I know it's a busy day. We had HSBC and others reporting. So thank you so much for taking the time and take care.