
Metro Bank Holdings PLC

Interim results

Trading update H1 2024

31 July 2024

Metro Bank Holdings PLC (LSE: MTRO LN)

Interim results for half year ended 30 June 2024

Highlights

Financial Results:

- **Underlying loss before tax of £26.8 million (H2 2023: loss £33.0 million) is primarily driven by a lower net interest margin of 1.64% (H2 2023: 1.85%,** Q2 2024 NIM of 1.74%) due to a transient higher cost of deposits at 2.18% following the successful deposit campaign in Q4 2023 (H2 2023:1.29%).
- **Upgraded Guidance** includes profitability during Q4 2024, mid-to-upper single digit RoTE in 2025, double digit RoTE in 2026 and mid-to-upper teens thereafter. This is driven by cost discipline, asset rotation and the mortgage portfolio sale.
- **New stores:** Began construction in Chester and signed lease in Gateshead. Looking for more new store sites in North of England and East Midlands.
- **Total underlying operating expenses reduced 6% or £17 million HoH to £255 million (H2 2023: £272 million)**, **with £80 million of annualised run-rate savings on track to be delivered by December 2024.**
- Total net loans as at 30 June 2024 were £11.5 billion, down 6% compared to full year position (31 December 2023: £12.3 billion) as the bank strategically repositions its balance sheet towards higher yielding commercial, corporate, SME and specialist mortgage lending.
- **Metro Bank has a solid credit approved commercial pipeline** across H1 2024 equivalent to 116% of total new lending in 2023, with H1 2024 drawdowns c.81% of total new lending in 2023.
- **Customer deposits of £15.7 billion at 30 June 2024, down £0.8 billion on February 2024 peak of c. £16.5 billion (31 December 2023: £15.6 billion),** reflecting the deliberate focus on reducing liquidity and cost of deposits.
- **Metro Bank's MREL ratio was 22.2% as at 30 June 2024, up 20bps from 22.0% as at 31 December 2023**, reflecting ongoing focus on capital management whilst optimising risk-adjusted returns on regulatory capital. Year-on-year MREL increased c.410bps from 18.1% as at 30 June 2023. On completion[1] of the mortgage sale, there is a pro forma improvement in Metro Bank's total capital plus MREL ratio of c.122bps from 22.2% to 23.4%, c.530bps higher than 30 June 2023.

Post-period end developments:

- **£2.5 billion mortgage portfolio sale**, announced post-period end, with the transaction earnings, NIM and capital ratio accretive. The additional lending capacity created by this sale enables a continued shift into higher yielding assets.
- **TFSME to be repaid from proceeds of mortgage sale** eliminating any industry wide deposit funding headwinds going forward.

Upgraded Guidance:

- Expect return to **profitability** during Q4 2024
- **RoTE** guidance increased to mid-to-upper single digit in 2025, double digit in 2026 and mid-to-upper teens thereafter

- Continued **NIM expansion** driven by asset rotation, and expect NIMs in 2024, 2025 and 2026 to be approaching 2.50%, 3.25% and 4.00% respectively
- Continued **cost discipline and control,** with cost to income ratios in 2026, 2027 and 2028 to be approaching 70%, 60% and 50% respectively

Daniel Frumkin, Chief Executive Officer at Metro Bank, said:

"Metro Bank has made significant underlying progress during the first half of 2024. We have built real momentum in credit approved pipelines across commercial, corporate and SME lending, whilst expanding spreads in retail mortgages and repricing deposits. At the same time, our continued cost discipline is creating a simpler, more agile bank that is fit for the future."

"Our upgraded guidance today reflects progress against our strategy, including the recent residential mortgage portfolio sale. We expect these actions to positively impact on our balance sheet in the fourth quarter of the current financial year, delivering a return to profitability."

"We look to the future with renewed confidence, as we continue to strengthen and deepen our people-people banking and relationship-led services in areas our FANS value the most."

Key Financials

£ in millions	**30 Jun 2024**	**31 Dec 2023**	**Change from H2 2023**	**30 Jun 2023**	**Change from H1 2023**
Assets	£21,489	£22,245	(3%)	£21,747	(1%)
Loans	£11,543	£12,297	(6%)	£12,572	(8%)
Deposits	£15,726	£15,623	1%	£15,529	1%
Loan to deposit ratio	73%	79%	(6pp)	81%	(8pp)
CET1 capital ratio	12.9%	13.1%	(20bps)	10.4%	250bps
Total capital ratio (TCR)	15.0%	15.1%	(10bps)	13.2%	180bps
MREL ratio[1]	22.2%	22.0%	20bps	18.1%	410bps
Liquidity coverage ratio	365%	332%	33pp	214%	151pp

£ in millions	**H1 2024**	**H2 2023**	**Change from H2 2023**	**H1 2023**	**Change from H1 2023**
Total underlying revenue[2]	£234.0	£260.9	(10%)	£285.6	(18%)
Underlying profit/(loss) before tax[3]	(£26.8)	(£33.0)	19%	£16.1	(266%)
Statutory profit/(loss) before tax	(£33.5)	£15.1	(322%)	£15.4	(318%)
Net interest margin	1.64%	1.85%	(21bps)	2.14%	(50bps)
Lending yield	5.18%	4.91%	27bps	4.50%	68bps
Cost of deposits	2.18%	1.29%	89bps	0.66%	152bps
Cost of risk	0.10%	0.34%	(24bps)	0.18%	(8bps)
Underlying EPS	(3.9p)	(12.2p)	8.3p	7.8p	(11.7p)
Tangible book value per share	£1.37	£1.40	(2%)	£4.42	(69%)

1. The mortgage portfolio sale has been excluded from this figure. Pro forma on completion of the residential mortgage portfolio sale is estimated to result in a 23.4% total capital plus MREL ratio. Completion of the transaction is conditional on a satisfactory response from the Competition & Markets Authority
2. Underlying revenue excludes grant income recognised relating to the Capability & Innovation fund.
3. Underlying loss before tax is an alternative performance measure and excludes impairment and write-off of property plant & equipment (PPE) and intangible assets, transformation costs, remediation costs, costs incurred as part of the holding company insertion and costs of the capital raise and refinancing in H2 2023.

Investor presentation

A presentation for investors and analysts will be held at 9AM (UK time) on 31 July 2024. The presentation will be webcast on:

https://webcast.openbriefing.com/metrobank-jul24/

For those wishing to dial-in:

From the UK dial: 0800 358 1035

From the US dial: +1 855 979 6654

Access code: 191899

Other global dial-in numbers: https://www.netroadshow.com/events/global-numbers?confId=67110

Financial performance for the half year ended 30 June 2023

Deposits

£ in millions	30 Jun 2024	31 Dec 2023	Change from H2 2023	30 Jun 2023	Change from H1 2023
Demand: current accounts	£5,662	£5,696	(1%)	£7,106	(20%)
Demand: savings accounts	£8,108	£7,827	4%	£7,218	12%
Fixed term: savings accounts	£1,956	£2,100	(7%)	£1,205	62%
Deposits from customers	**£15,726**	**£15,623**	1%	**£15,529**	1%
Deposits from customers includes:					
Retail customers (excluding retail partnerships)	£7,170	£7,235	(1%)	£5,647	27%
SMEs[4]	£4,224	£3,782	12%	£5,066	(17%)
	£11,394	**£11,017**	3%	**£10,713**	6%
Retail partnerships	£1,734	£1,708	2%	£1,910	(9%)
Commercial customers (excluding SMEs[4])	£2,598	£2,898	(10%)	£2,906	(11%)
	£4,332	**£4,606**	(6%)	**£4,816**	(10%)

4. SME defined as enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million and have aggregate deposits less than €1 million.

- **Customer deposits reduced by 1% at H1 2024 to £15.7 billion, down £0.8 billion on February 2024 peak of £16.5 billion (31 December 2023: £15.6 billion)** reflecting the deliberate focus on reducing liquidity and cost of deposits. The core customer deposit base continues to be predominantly Retail and SME. Fixed term deposits have increased 62% year-on-year reflecting the success of the Q4 2023 deposit campaign.

- **Cost of deposits was 2.18% for H1 2024 (H2 2023: 1.29%)** reflecting the impact of the deposit campaign in Q4 2023. Monthly cost of deposits has been reducing since its peak in February 2024 and is 2.12% in Q2 2024.

- **Stores remain a key element to the Group's service offering** and Metro Bank has changed store hours and reprioritised in-store services to align with customer activity.

- **Metro Bank plans to open two new stores in Q2 2025 in Chester and Gateshead** for further market coverage in the North of England. Locations are being prioritised to support Metro Bank's commercial, corporate and SME banking offering.

Loans

£ in millions	30 Jun 2024	31 Dec 2023	Change from H2 2023	30 Jun 2023	Change from H1 2023
Gross loans and advances to customers	£11,739	**£12,496**	(6%)	**£12,769**	(8%)
Less: allowance for impairment	(£196)	(£199)	2%	(£197)	1%
Net loans and advances to customers	£11,543	**£12,297**	(6%)	**£12,572**	(8%)
Gross loans and advances to customers consists of:					
Retail mortgages	£7,512	£7,818	(4%)	£7,591	(1%)
Commercial lending[5]	£2,437	£2,443	0%	£2,659	(8%)
Consumer lending	£1,003	£1,297	(23%)	£1,410	(29%)
Government-backed lending[6]	£787	£938	(16%)	£1,109	(29%)

5. Includes CLBILS.
6. BBLS, CBILS and RLS.

- **Total net loans as at 30 June 2024 were £11.5 billion, down 6% compared to £12.3 billion at 31 December 2023** as focus remains on optimising the mix for risk-adjusted return on regulatory capital. The Consumer and Government-backed lending portfolios are in run-off as the Group continues to pivot its strategy towards commercial, corporate and SME lending, and specialist mortgages. Yields continue to improve despite the Bank of England base rate remaining stable. The loan to deposit ratio reduced to 73% (31 December 2023: 79%).

- **Retail mortgages decreased 4% to £7.5 billion (31 December 2023: £7.8 billion)** and remain the largest component of the lending book at 64% (31 December 2023: 63%). The Debt to Value (DTV) of the portfolio at 31 June 2024 was 61% (31 December 2023: 58%) as a result of observed house price falls over the period. The pivot towards more specialist mortgages continues following recent investment to enhance product offerings. Metro Bank's operating model is tailored to more complex underwriting which enables the Group to meet the needs of more customers and scale underserved markets whilst offering improved risk-adjusted returns.

- **Commercial loans (excluding BBLS, CBILS and RLS) remained stable during H1 2024 at £2,437 million (31 December**

2023: £2,443 million) reflecting continued focus on commercial customers whilst shrinking commercial real estate to £440 million (31 December 2023: £509 million) and portfolio buy-to-let to £365 million (31 December 2023: £465 million). The DTV of the portfolio at 31 June 2024 was 57% (31 December 2023: 55%) and the portfolio has a coverage ratio of 2.08% (31 December 2023: 2.13%). Metro Bank is committed to supporting local businesses as we continue to pivot towards commercial, corporate and SME lending.

- **Cost of risk decreased to 0.10% for the half year (H2 2023: 0.34%)**. The overall impact of risk profile, credit performance and macroeconomic outlook has resulted in a lower cost of risk in the first half. The credit quality of new lending continues to be strong through the current macro-economic environment and the bank retains its prudent approach to provisioning.

- **Overall arrears levels have remained broadly stable and there have been no material signs of increased stress.** Non-performing loans increased to 3.75% (31 December 2023: 3.11%) driven largely by the maturity profile of the consumer portfolio that is in run off and reduced commercial lending volumes, partly offset by successful BBLS claims and repayments of a few large commercial and mortgage exposures. Excluding government-backed lending, non-performing loans were 3.13% at 31 June 2024 (31 December 2023: 2.58%).

- **The loan portfolio remains highly collateralised and prudently provisioned.** The ECL provision as at 30 June 2024 was £196 million with a coverage ratio of 1.67%, compared to £199 million with a coverage ratio of 1.59% as at 31 December 2023. The level of post-model overlays remained at 10% of the ECL stock, or £20 million which has reduced since 31 December 2023 (12% of ECL stock, or £23.4 million) is mainly due to a more up to date impact assessment of the new IFRS9 commercial models.

Profit and Loss Account

- **Net interest margin (NIM) of 1.64% for the half is down 21bps compared to 1.85% in H2 2023** as a result of a higher cost of deposits at 2.18% (H2 2023: 1.29%, H1 2023: 0.66%) and reduction of lower yielding assets.

- **Underlying net interest income decreased by 10% HoH at £172 million (H2 2023: £190 million)** driven by reductions in net interest margin (NIM) reflecting the impact of increased cost of deposits following the successful deposit campaign in Q4 2023, and the lag between underwrite to completion; as the bank pivots its lending towards higher yielding lending assets.

- **Underlying net fee and other income decreased HoH to £62 million (H2 2023: £69 million).** The HoH decrease of 10% reflects the seasonal nature of fee income largely driven by customer activity and transactional volumes.

- **Underlying costs reduced 6% to £255 million (H2 2023: £272 million).** The Group has delivered £50 million of annualised run-rate cost savings and is on track to deliver the additional £30 million cost savings on an annualised run-rate basis by December 2024.

- **Underlying loss before tax of £27 million achieved in the first half (H2 2023: loss of £33 million)** reflecting the NIM and cost of funding impact in the first half of the year.

- **Statutory loss before tax of £34 million (H2 2023: profit of £15 million)** HoH movement a function of the £74 million one-off benefit resulting from the capital raise and refinancing in H2 2023.

Capital, Funding and Liquidity

	Position 30 June 2024	Position 31 December 2023	Minimum requirement including buffers[7]	Minimum requirement excluding buffers
Common Equity Tier 1 (CET1)	12.9%	13.1%	9.2%	4.7%
Tier 1	12.9%	13.1%	10.8%	6.3%
Total Capital	15.0%	15.1%	12.9%	8.4%
Total Capital + MREL	22.2%	22.0%	21.2%	16.7%

7. CRD IV buffers

- **Total RWAs as at 30 June 2024 were £7.2 billion (31 December 2023: £7.5 billion).** The movement reflects the actions taken to optimise the balance sheet, with a lag between pipeline to conversion as we pivot our lending mix. RWA density was 29.7% compared to 30.2% as at 31 December 2023 and the movement HoH continues to reflect the elevated liquidity position.

- **The £2.5 billion mortgage asset sale post-period is expected to reduce RWAs by c. £824 million** and results in a **pro forma improvement** in total capital plus MREL of c122 bps to 23.4% (31 December 2023: 22.0%, 30 June 2023: 18.1%).

- **Strong liquidity and funding position maintained.** All customer loans are fully funded by customer deposits with a loan-to-deposit ratio of 73% compared to 79% at the end of 2023. Liquidity Coverage Ratio (LCR) was 365% compared to 332% as at 31 December 2023, with cash balances at c£4 billion. Net Stable Funding Ratio (NSFR) was 153% compared to 145% as at 31 December 2023.

- The Treasury portfolio of £8.8 billion includes £4.7 billion of investment securities, of which 79% are rated AAA and 21% are rated AA. Of the total investment securities, 93% is held at amortised cost and 7% is held at fair value through other comprehensive income.

- Over the next 3 years more than £2.0 billion of fixed rate treasury assets will mature at an average blended yield of just over 1%, these will be replaced by asset with yields in line with or greater than the prevailing base rate.

- UK leverage ratio was 5.5% as at 30 June 2024 (31 December 2023: 5.3%).

Outlook revised upwards

Updated Guidance

ROTE	• Increased to mid-to-upper single digit in 2025, double digit in 2026 and mid-to-upper teens thereafter
NIM	• Continued NIM expansion driven by asset rotation, and NIMs in 2024, 2025 and 2026 to be approaching 2.5%, 3.25% and 4.00%, respectively • Mortgage lending originations > 200bps above prevailing reference rate SWAP from H1 2025 • Commercial lending originations already > 350bps above prevailing Bank of England base rate • Benefit from fixed rate treasury and mortgage maturities across 2025-2028
Costs	• £80m of annualised run-rate cost savings on track to be delivered by Q4 2024 • 2024 costs are expected to be below 2023, with further reductions in 2025 reflecting the benefit of the full £80 million annualised cost savings • Cost to income ratios in 2026, 2027 and 2028 to be approaching 70%, 60% and 50%, respectively
Lending	• Total lending to grow at an 8 – 11% CAGR (after drop due to mortgage portfolio sale) over the next few years • Future lending book composition by early 2029: ◦ Back book mortgages (c.£5bn) will run-off ◦ Mortgages as a % of total lending balances reduces to c.30% ◦ Commercial as a % of total lending balances grows to c.70% ◦ All other lending broadly runs-off during the period
Deposits	• Ongoing optimisation on deposits to reduce cost of funding continues, with CoD expected to consistently reduce across H2 2024 • Deposits broadly flat from 2024 to 2026, followed by mid-to-upper single digit growth thereafter

Metro Bank Holdings PLC

Summary Balance Sheet and Profit & Loss Account

(Unaudited)

Balance Sheet	**HoH change**	**30 Jun 2024** *£'million*	**31 Dec 2023** *£'million*	**30 Jun 2023** *£'million*
Assets				
Loans and advances to customers	(6%)	£11,543	£12,297	£12,572
Treasury assets[8]	1%	£8,819	£8,770	£8,023
Other assets[9]	(4%)	£1,127	£1,178	£1,152
Total assets	(3%)	**£21,489**	**£22,245**	**£21,747**

Liabilities				
Deposits from customers	1%	£15,726	£15,623	£15,529
Deposits from central banks	0%	£3,050	£3,050	£3,800
Debt securities	(3%)	£675	£694	£573
Other liabilities	(46%)	£934	£1,744	£875
Total liabilities	(3%)	**£20,385**	**£21,111**	**£20,777**
Total shareholder's equity	(3%)	**£1,104**	**£1,134**	**£970**
Total equity and liabilities	(3%)	**£21,489**	**£22,245**	**£21,747**

8. Comprises investment securities and cash & balances with the Bank of England.
9. Comprises property, plant & equipment, intangible assets and other assets.

			Half year ended	
Profit & Loss Account	**HoH change**	**30 Jun 2024 *£'million***	**31 Dec 2023 *£'million***	**30 Jun 2023 *£'million***
Underlying net interest income	(10%)	£171.9	£190.4	£221.5
Underlying net fee and other income	(10%)	£62.0	£68.6	£63.3
Underlying net gains on sale of assets		£0.1	£1.9	£0.8
Total underlying revenue	**(10%)**	**£234.0**	**£260.9**	**£285.6**
Underlying operating costs	(6%)	(£254.6)	(£272.0)	(£258.2)
Expected credit loss expense		(£6.2)	(£21.9)	(£11.3)
Underlying profit/(loss) before tax		**(£26.8)**	**(£33.0)**	**£16.1**
Impairment and write-off of property plant & equipment and intangible assets		(£0.3)	(£4.6)	-
Transformation costs		(£4.5)	(£20.2)	-
Remediation costs		(£1.8)	(£0.8)	£0.8
Capital raise and refinancing		-	£74.0	-
Holding company insertion		(£0.1)	(£0.3)	(£1.5)
Statutory profit/(loss) before tax		(£33.5)	**£15.1**	**£15.4**
Statutory taxation		£0.4	£1.7	(£2.7)
Statutory profit/(loss) after tax		**(£33.1)**	**£16.8**	**£12.7**

		Half year ended	
Key metrics	**30 Jun 2024**	**31 Dec 2023**	**30 Jun 2023**
Underlying earnings per share – basic	(3.9p)	(12.2p)	7.8p
Number of shares	672.7m	672.7m	172.6m
Net interest margin (NIM)	1.64%	1.85%	2.14%
Cost of deposits	2.18%	1.29%	0.66%
Cost of risk	0.10%	0.34%	0.18%
Arrears rate	3.8%	3.8%	3.5%
Underlying cost: income ratio	109%	104%	90%
Tangible book value per share	£1.37	£1.40	£4.42

Enquiries

For more information, please contact:

Metro Bank PLC Investor Relations

Paul Beaumont / Stella Gavaletakis

+44 (0) 20 3402 8900

IR@metrobank.plc.uk

Metro Bank PLC Media Relations

Mona Patel

+44 (0) 7815 506845

pressoffice@metrobank.plc.uk

Teneo

Haya Herbert-Burns/ Anthony Di Natale

+44 (0) 7342 031051/ +44 (0) 7880 715975

Metrobank@teneo.com

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About Metro Bank

Metro Bank services over three million customer accounts and is celebrated for its exceptional customer experience. It remains one of the highest rated high street banks for overall service quality for personal customers, the best bank for service in-store for business customers and joint top for service in-store for personal customers, in the Competition and Markets Authority's Service Quality Survey in February 2024.

Metro Bank has also been awarded "Large Loans Mortgage Lender of the Year", 2024 and 2023 Mortgage Awards, accredited as a top ten Most Loved Workplace 2023, "2023 Best Lender of the Year – UK" in the M&A Today, Global Awards, the "Inclusive Culture Initiative Award" in the 2023 Inclusive Awards, "Diversity, Equity & Inclusion Award" and "Leader of the Year Award 2023" at the Top 1% Workplace Awards, "Best Women Mortgage Leaders in the UK" from Elite Women 2023, "Diversity Lead of the Year", 2023 Women in Finance, Best Large Loan Lender, 2023 Mortgage Strategy Awards,, "Best Business Credit Card", Forbes Advisor Best of 2023 Awards, "Best Business Credit Card", 2023 Moneynet Personal Finance Awards.

The community bank offers retail, business, commercial and private banking services, and prides itself on giving customers the choice to bank however, whenever and wherever they choose, and supporting the customers and communities it serves. Whether that's through its network of 76 stores; on the phone through its UK-based contact centres; or online through its internet banking or award-winning mobile app, the bank offers customers real choice.

Metro Bank Holdings PLC (registered in England and Wales with company number 14387040, registered office: One Southampton Row, London, WC1B 5HA) is the listed entity and holding company of Metro Bank PLC.

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