Metro Bank Q1 Results 2018

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Vernon Hill (Chairman), Craig Donaldson (CEO) and David Arden (CFO)

Presentation

Vernon Hill

Good afternoon in London, and good morning in America, this is your Chairman, Vernon Hill. With me is Craig Donaldson, CEO, and David Arden, our new CFO. And we're going to begin with Craig highlighting our results for quarter one.

Craig Donaldson

I'm not used to being handed over to so fast, so you caught me out. Can I just start by saying, first of all, welcome to David Arden, obviously, he's a month in and has settled in really well, the new thinner and younger, Mike Brierley.

So, getting to quarter one. I was really pleased with the momentum in quarter one. Deposits were over £1 billion, delivering £6.3 million per store per month, and that was achieved with a stable cost of deposits of 56 bps. Lending was up over £1.3 billion, of course there was £500 million of a book purchase in there. And that moved our loan to deposit ratio up to 86%, and that drove our Customer NIM up to 2.24%, up 3 bps, on the quarter. And this is all achieved whilst our cost of risk remained extremely strong. NIM was down 2 bps though, but that was due to us drawing down £0.5 billion more from TFS. TFS is now closed and we won't therefore be drawing any more money from it. And what we're going to see is NIM now trend up towards Customer NIM. And Customer NIM will continue to trend up as we continue to increase our loan to deposit ratio, as we continue to manage to our stable cost of deposits, and as we see yields start to move up in the marketplace. We've definitely seen a movement in yield on mortgages and on consumer finance.

Whilst doing that, of course we continue to invest in the organisation. We currently have five stores in build. We'll be starting another two store build-outs next week, so we'll soon have seven stores in build. And, we have also been investing heavily in our digital offering. We launched our current account online earlier this year – it's going very, very well. We're one of only three organisations in the UK that can do this straight through from account opening, using “selfie” ID&V, as we integrate with more fintech companies. And we've seen a good number of customers opening their accounts online, 70% of which are around our stores with no cannibalisation of the store performance, which is superb. And, interestingly, almost 70% of those who've opened their accounts around the stores have gone into collect their card, proving that bricks-and-clicks works, as we're delivering that retail concept of click and collect – which is what we've always been saying. So, we continue to invest in our organisation for long-term growth.

We also, finally, we did deliver continued profit growth, and I expect us to continue to do that every quarter. Our profit is up 21% quarter on quarter, and that will continue as the trend throughout this year and towards 2020, towards 2023 and beyond. And, then I would say we've obviously come out with clarity on our debt raise. We expect to be raising Tier 2 debt during 2018. We're giving clarity on that. The exact amount is to be decided but will have to be around a quarter of a billion, £250 million, as our first launch to create the right environment for future raises. We have no expectation of an equity raise this year. So, I'll just repeat that. We have no expectation of an equity raise this year. We are currently working through our ICAAP and expect to receive a relief from the Pillar 2A offset. And, they are currently also working through our AIRB and expect to receive some relief from that next year.

So, I think that's a very brief run around the organisation. As I sit here today, I'm very pleased with the momentum that has absolutely continued from last year into this, and very focussed on delivering the 2020 numbers and the 2023 numbers.

Vernon.

Vernon Hill

Thank you, Craig.

Craig Donaldson
Well, actually, David, would you like to add anything?

Vernon Hill
David, would you like to say anything?

David Arden
Yes, sure, Vernon. Just to say hello everybody. It's great to be here alongside Vernon and Craig. I reiterate everything that's been said. We've delivered really strong set of results in Q1 and the clear momentum in the business continues at pace. So, it's great to be here. I'm really looking forward to it.

Vernon Hill
Thank you, David. I guess we'll now open the lines for questions. Who's first?

Q&A

Vernon Hill
Good afternoon, Michael.

Michael Perito
Good afternoon. Hey, guys. How are you?

Craig Donaldson
Very good, thanks Mike.

Michael Perito
I have a few questions. You guys highlight the TFS impact on the NIM. But, I was curious if also you could maybe back out how it impacts the ROE. I'm assuming it probably weighs on it a little bit because the balance sheet is a little inflated. And I was curious if you guys have looked at that as well.

Craig Donaldson
In all honesty, Mike, no, I don't think it inflates the ROE. Let me come back to you, though.

Michael Perito
No, deflates. I would think it would weigh on it a little just because the balance sheet is probably a little bigger than it would normally be with the TFS outstanding.

Craig Donaldson
A little. But let me come back to you on that, because I don't think there's much in it.

Michael Perito
Okay, I was just curious. And then on the ROE and capital discussion, so it sounds like there's debt at some point this year, no plans for common equity. As you look at some of the relief you're going to get from AIRB, and then also your comments, Craig, about how you expect the ROE to continue to expand. Are you willing to extend further out beyond this year in terms of the common equity need? I mean, it would seem like you guys would be good a little further than even this year, if all those things come to fruition as planned. I'm just curious what your overall thoughts are on those items and how they can impact your common equity need beyond the 2018 timeframe.

Craig Donaldson
So, Mike, as you know, when we talk about our capital raises and our debt raises, it's all about creating growth. It's all capital growth. So, it's predicated on the continued growth of the organisation, which, with the momentum we've got, I fundamentally expect to come through. The answer to your question, though, is tied to what happens with AIRB and what we're doing there.

So, do I expect us to raise equity next year? At this point I don't have the answer for you because AIRB will have a significant impact on the company when it comes through, and we're working that through. So, definitely debt this year. And I can't confirm or deny equity next year. But, we'll definitely be doing debt next year as we go into our MREL programme.

Michael Perito
Okay. Can you just remind us, when you rolled out the 2023 targets last year, I know the ROE had a range – it was 17% to 19%, I believe. And you mentioned on the call at Q4, that was kind of dependent on what you did from a common equity perspective. Is that still the case, I guess? So if you were to raise common equity next year would that still be in line with the 2023 17 – 19% ROE that you laid out? Or, does that potentially alter that lower if you come to market before 2020 for additional common equity?

Craig Donaldson
No. We considered that if we did the equity raise it would be within 17 – 19%, absolutely.

Michael Perito
Okay.

Craig Donaldson
So, we would not see impact. I was going to say, Mike, the whole point of 17 – 19% was to say if we did do an equity raise that would push us to the lower end of 17 – 19%. And therefore, no, it's already within the 2023 numbers.

Michael Perito
Okay, helpful. And then just the Customer NIM moving up was good to see, and you mentioned broadly how you're starting to see some yield reprieve as you had the 25 base point move in the base rate over there. I'm just curious if you could maybe give us more colour on what you see in the market on incremental loan production in terms of rates and mortgages, consumer and commercial, and just to give us a better idea of how the Customer NIM could track in the next few quarters here.

Craig Donaldson
Well, no doubt it took some time for rates to move post the base rate move. And, it was only probably in the last four weeks that we've seen yields start to move out. So, we've seen yields move out on mortgages. NatWest was kind enough to put a press release out, which is very unusual, saying that they were putting their rates up by 15 bps; Barclays followed two days later, moving up 12 bps. And, apart from one or two outliers, everybody in the market has been moving out. Swap rates, five-year swap rates are up 37 bps on the year. And there's no doubt that is causing some organisations some pressure, and I do expect to see some continued movement out there. As we're naturally hedged on our balance sheet, of course, the swap rate doesn't play into our management of our NIM.

On consumer finance, again we have started to see some move out – a little bit more marked actually than it's been in the mortgage market, and therefore that's becoming much more attractive from a risk-return basis. And I would expect us to do some more lending into that space as we move forward. But, of course, we would never compromise the risk-return.

And then finally, on commercial, we've seen no movement yet on the yield going up. But, commercial normally always lags whatever happens in mortgages, so I think over the next 12 weeks I would expect to see some yield movement in commercial as well. So, we've seen yield movement up in two of the three areas that we play in. And really importantly, though, what we haven't seen is any movement on the cost of deposits which has been stable at around 56 bps. And that, as we've said, as well as the loan to deposit ratio going up, will drive the Customer NIM up.

Michael Perito
But the commercial yields overall, they're still probably, what, like 125 – 150 bps over the mortgage and consumer – I'm sorry, over the mortgage at this point, even after the raise?

Craig Donaldson
Yes, pretty much. I mean, obviously, it's been compressed a little by mortgages going up. But, that's why I expect to see commercial move on. And as we've always said, business is a hugely important part of our business – 53% of our deposits are now business and commercial customers. And last year we won 17% of the business switchers in London and the Southeast. So, it's very important that we continue to do that for our fee income and also for our Customer NIM. But, if anything, we're winning over a thousand business customers every week who are walking into our stores and opening accounts with us. And that's not slowing down.

Michael Perito
Okay. Great, Craig, thank you for the colour and taking my questions. I appreciate it.

Joseph Dickerson,
Hi. Good afternoon, guys. Just a couple of quick ones. Craig, what's the timing, do you think, of the IRB relief, number one, on capital, number two, on capital. Could you just repeat – I missed your comments around ICAAP and Pillar 2. Is it that you expect a reduction on the Pillar 2 requirement? And, then, secondly, you outlined some digital investments. Could you maybe talk a little bit more about that, what you're investing in, and how you guys consistently get your digital offering right? Because, you've obviously got a competitor in the market whose customers seem to have been without any sort of technology for about a week, and presumably –

Vernon Hill
What’s the name of that bank, Joe?

Joseph Dickerson,
I don’t know, I actually can't see the three letters on their branches, so I forgot. But, presumably, that dislocation could be good for you. But, also, what is it that you where you get tech right, and what are you investing in, and how is that going to pay off in the future?

Craig Donaldson
Thanks, Joe. So, timing of AIRB relief, my view is that we'll get nothing this year. And, when we do get it, I would expect it to be into the second half of 2019. I don't expect anything before that. The regulator has been very clear with us, we are in a process. I believe the process is going well. We've had several meetings, and we have several more in the diary. But, it is a long drawn-out process of working through all of the models and getting the regulators comfortable. But, going well.

The Pillar 2A offset was introduced on 1st January this year, and it's for banks who are on the standardised approach who are holding too much capital in their Pillar 1 as they trend towards AIRB. One might say that is exactly what we are. Therefore, you can put in your ICAAP why you would reduce the Pillar 2A to offset some of the significant overage which a company like Metro Bank would be holding. Our ICAAP has been submitted. I'm actually sitting down with the regulator again on 7th May to go through that. We post an ICAAP, we then go through something called a SREP, which is basically a viva. And then I would expect us to get a letter a small period after that, telling us what to expect. We are right in the middle of that process, so I hope we will see some benefit from that significantly earlier. And it is actually exactly what Metro Bank is, what this is being built for, so I would be very disappointed if we didn't see the impact of that positively as we go into the third quarter.

And then the third point is investment in digital, how do you consistently get it right and how will it pay off? So I think for me there are three parts to – well, not just digital, but the whole architecture and technical stack of an organisation. One part is to make sure you don't have legacy, to make sure that you are running it properly and you are managing it and investing in keeping it relevant. We are doing that. We are upgrading, we are 100% patched. We joined something called Cyber Defence Alliance to make sure that we're aware of things as they are – proactively managing what is happening out there. We also obviously work closely with a number of companies, with Gartner and a number of the advisory firms, making sure we're aware of what is changing out there. We also have people like Gene Lockhart, who sit on our board, who is very, very close to the whole technology environment, and is constantly bringing new opportunities and ideas to us to talk about. And I’m actually speaking with two different CEOs of tech companies on the West Coast of America on Friday, to see what we might do together. So, you've got to stay relevant, you've got to stay close. But, most of all, you've got to stay resilient and you've got to make sure the trains run on time.

Vernon Hill
Joe, this is Vernon. Just to make one comment to reinforce Craig. As you know, we have the only modern core IT system in the banks in Britain. And, if you don't have that, none of the tech stuff works. So, Craig and his team do a great job but fundamentally it's about the size and the strength of the core.

Craig Donaldson
Also, as we move forward, what we also have, though, within what Vernon just said, is we go through different levels where you then pay – you get your economies of scale. And as you grow, you see the economies of scale going through. And as we go through this year into 2019, we have a couple of trigger points with different suppliers where we'll see some of those economies of scale come through.

Vernon Hill
You might say, Craig, also tell them about how your next big steps in digital are on the business and commercial side.

Craig Donaldson
Absolutely. So, how do you get it right? Well, again, obviously we've just gone live with our API gateway; that has been a big project for us. And then we've got to find the right partners. We believe the API gateway – business customers are the most underserved, and that's where the biggest opportunities are. And we've been working with a number of business federations, and we announced an alliance with one, to share data with our business customers and support, and taking learning from them about what we can do. So, staying close to our customers so then we can leverage them, is the key. And then finally, it's about straight-through processing. Launching a current account online means we've got hundreds of customers not coming into the store because they would rather open it online, and then we've got them coming in to collect their cards rather than us posting them out. As we see more and more things put online, offering more choice to customers, integrating the bricks and clicks, we definitely see an opportunity to drive productivity and efficiency and reduce our cost growth, as more and more of that migrates online – and it's even more so for businesses.

Vernon Hill
Anything else, Joe?

Joseph Dickerson,
No. That's great, guys. Thank you.

Vernon Hill
Thank you, Joseph.

Rob Noble
Good afternoon, everyone. Just a question on the deposit market. We've seen Lloyds and Santander UK both see a slowdown in growth, and in some cases a decline in deposits. Obviously, you're not seeing that. Is there something going on in the wider market in terms of pricing and competition for deposits that you're running underneath?

Craig Donaldson
Well, Rob, the model we have is all around the service and convenience across bricks and clicks, and we continue to build more customers on that. So we haven't seen a slowdown, we're still winning a number of customers. Like I said, yesterday alone we had I think around 1,400 people open accounts with us and bring their deposits to us. And that continues. So, we're still seeing a significant growth in our non-interest bearing liabilities of 31% growth in year on year, and that continues again. And as we win through the service and convenience we do not play in the price game. Interestingly, since the withdrawal of TFS I think it's fair to say we have seen the rates online go up, but because we don't really play in that space at all, it has very little to no impact on us – why I commented on stable 56 bps cost of deposits. And as a separate thing, we've seen, I believe, more securitisations come to market in the first quarter of the year than we saw in the whole of last year, telling you that some people have definitely seen their cost of funds go up, which I expect to see come through in yield on lending as we go through this year.

Vernon Hill
And, Rob, you probably remember it's not as much about the deposit rates, it's about the mix of business. And our model draws a very high percentage of current accounts. I think the end of this quarter was 31% of our deposits. And our current accounts, as in no interest, grew 51%. That's inherently in the Metro Bank model.

Rob Noble
Great, thank you very much.

Craig Donaldson
Thanks, Rob.

James McCormick
Yes. Good morning Craig and Vernon. And hi, David, good to meet you telephonically.

David Arden
Hi there.

James McCormick
As you continue to report these truly astonishing numbers – I think we've talked before about the numbers in terms of branch growth, are beyond anything that I believe, it would be fair to say, any US bank has ever seen, probably even five times what any bank has ever seen. And now you've got the digital coming on. A couple of questions on this. Craig, can you embellish a little bit on what you are observing. I know it's early days for the online current account. But a little bit more about what you're seeing in terms of volumes, what your thesis is about the 70% of customers that are near the branch and the other ones who are a little further away.

Craig Donaldson
Jim, thanks. For me, what we're seeing at the moment. So we're seeing CAO, as we call it, current account online, delivering around about the performance of ten stores in current account openings. So, that's very strong. With no advertising as we continue to –

Vernon Hill
So current account online opens as many current accounts as ten of our average stores.

Craig Donaldson
Yes. Exactly right, Vernon. And that's without any advertising. And that's without us – and what we're doing now is smoothing the funnel to make it better and better and better.

Vernon Hill
And that, Jim, is with no marketing spend at all.

Craig Donaldson
So that's very good. What's even more pleasing is our brand recognition of 89% where we have stores, and there's no doubt that that brand recognition is the thing that is playing in, and why we're getting 70% of our accounts opened around the stores with no cannibalisation. What that says is, there are a number of customers who are attracted to the Metro Bank brand who want the ability for bricks and clicks, but want to open online and then use the store, if they wish, when they want to. And then, like I said, because so many people are coming to collect their card, it's showing the ability to fulfil at point of sale is what they want. So it's absolutely reinforcing the model at the moment. But it's early days and we need to get more data –

Vernon Hill
And, Jim, you and I have discussed this. The new paradigm in retailing is the experience. And, Metro Bank is uniquely positioned to provide this unusual experience – stores, mobile, online – it's really the experience we work on.

Craig Donaldson
Rather than unusual, I would say exceptional.

Vernon Hill
Exceptional, sorry. Anything else, Jim?

James McCormick
I mean, if you're clicking along at the equivalent of ten stores, and the average store has about over $100 million per year, that is – right off the get-go, it seems like you're growing at about $1 billion in current account balances per year, and that's without any marketing. It just seems so incredible. How do people even know it exists?

Craig Donaldson
Jim, let's come back to it more, later. It's very positive. It's a really positive start. And it's only one of the things we're developing at the moment. We have our artificial intelligence Insights, which is going onto the mobile app. We're building out our current account online. We'll be building out our business account online over the coming months. And it's a very exciting space. And you're absolutely right, it's about the integration of the bricks and clicks. And from Joe's previous question, when you look at productivity and efficiency, giving customers the choice actually does drive benefits for the organisation and deepens the relationship. So it's a real win for us.

Vernon Hill
And, Jim, we will be disclosing more of the current account online quarter by quarter as we get more experience. Anything else?

James McCormick
You're probably aware that the bricks and clicks model is being revalidated by Chase, JP Morgan Chase, with their announcement in the last week of considerably more branches being opened rather than less, as they find out that the combination works. Because, of course, they're one of the major banks in terms of digital conveniences as well. So it is kind of interesting that that view is reversing itself from ‘Branches are dead’ to ‘Gee, we need more branches.’ And, of course, that's one of the better performing retail banks in the United States right now.

Craig Donaldson
Thank you, Jim.

Vernon Hill
Thank you, Jim. Anything else?

James McCormick
Just one question. Some of the branches are sitting there with – you tell me, I think it's – if I remember the numbers right, I think $400 million or even above that. Do you see any sort of capacity concerns where your branches are already – the average branch in the United States is only about $50 million; some of the ones in metropolitan areas are more than that, $100-150 million. You are multiples higher than that, I think. But what about capacity? Do you just run out of room?

Vernon Hill
Jim, in dollars we're approaching average branch size of $400 million per branch. And, you and I both know that it's basically ten times the American average. There is no constraints on the size and the capacity of the store. And in that sense, online and mobile help. You remember the days of Commerce, we used to get 120,000 people through a branch every month. Even with these gigantic volumes you don't get the customer visits that we used to, before mobile.

Craig Donaldson
And this is the whole win of bricks and clicks. And as we migrate more and more offerings on to the clicks part, not just the bricks, it will drive more and more productivity and efficiency into the organisation, Jim. Which means the stores can grow much, much bigger than we ever envisaged.

Vernon Hill
Okay, Jim. Is that it?

James McCormick
Yes, thank you.

Vernon Hill
Thank you, James.

Vernon Hill
Morning, Glenn.

Glenn Greenberg
Morning. My questions have been answered. It was just that lull at the beginning of the meeting, I thought there were a couple of interesting questions, but other people asked them. So, thanks, appreciate it.

Vernon Hill
Thanks for your support, Glenn.

Craig Donaldson
And, Glenn, I'm speaking to Austin I think today or tomorrow. So, if there's any further questions, happy to pick up then.

Glenn Greenberg
Thank you very much, Craig.

Nick Baker
Good afternoon and thanks for taking my questions, just two from me. Just on capital. I was hoping you might be able to flesh out some of the moving parts that you saw in the quarter on the CET1 ratio. So, specifically, just how much of a contribution to the movement was the day one impact of IFRS9 and also the reset of your operational risk-weighted assets? And then the second one, just as we look through 2018, you said you've got five stores in build currently, another two coming online in the next couple of weeks. What is a reasonable expectation that we should have for the amount of operating leverage which is likely to come through specifically in 2018? And how much, as you go towards your 2020 target level, is going to be more back-end loaded? Thank you.

David Arden
Hi, there. So in terms of the first part of the question on CET1 in the first quarter, from IFRS9 we saw an immediate decrease in equity of £12 million. Not a big deal in the round for us, particularly because we've got high unsecured loans book and minimal unsecured consumer lending. The other two big moving parts in the quarter was the annual step on in the reset on Operational Risk RWAs. Of course, as Craig alluded to earlier, we bought £500 million loan book. And they were the three big moving parts in the quarter.

Craig Donaldson
On the cost side, Nick, and the leverage, we were never going to grow our costs in a straight line down towards the 2020 and 2023 numbers. And there's no doubt that we will make the right decisions for the long-term growth of the organisation. However, you will see the cost to income ratio go down as we go through this year. It will speed up into 2019 and then through 2020, as the economies of scale and the productivity things we're talking about. But, I'm afraid, it’s not a straight line, as we are investing. And we've got to make the right decisions for the long term, not to manage a quarter-by-quarter cost play.

Vernon Hill
And you asked about the number of stores, Nick. We think we're going to be around 12. And no matter what I've done my whole life, they always open in the second half of the year, and you'll see the majority of them this year in that way.

Nick Baker
Understood. Thanks a lot.

Craig Donaldson
Thank you, Nick.

Chris Cant
Hi guys, thanks for the call. I've just got a straightforward one to start. You discussed your Pillar 2A. Could you please disclose your current Pillar 2A CET1 buffer requirement, given that there's now a PRA requirement to do this?

Craig Donaldson
Yes. So, Nick, we're just waiting for them to go through ROC. Once they go through ROC we'll get them published, and they should – well they have a long time in advance of when they have to be published under guidance. There's no problem there, they’re coming. ROC was very busy signing off the ICAAP and doing a few other things. So at the next ROC they will be signed off, and then we'll get them published. That will be in advance of any of the regulatory requirements.

Chris Cant
The regulatory requirement was 1 January 2018 though.

Craig Donaldson
On Pillar 2, it's 30th June. Is that Pillar 3? My apologies, Nick, it hasn't changed because we haven't had an ICAAP. So, it's exactly the same as it was before.

Chris Cant
But you've never disclosed this. You haven't ever disclosed to us your Pillar 2A CET1 buffer requirement. It's a requirement to do so now, so could you please –?

David Arden
It's only by the end of 2018, Chris.

Chris Cant
No, from 1st January 2018. There was a policy statement in December from the PRA saying that firms were expected to disclose this by 1st January 2018.

David Arden
Post the most recent ICAAP. And we've not had our most recent ICAAP yet.

Craig Donaldson
We're going through that as I literally explained. I'm meeting the regulator for the final meetings on the ICAAP on 7th May from which we'll get our latest one and then we'll publish. My apologies, Chris. I got mixed up Pillar 2A with Pillar 3.

Chris Cant
Please could you tell us your current one then? Because that is what the policy statement said you should do. I mean, the policy statement in December said that a respondent to the consultation had asked whether disclosure could be delayed to align with the ongoing processes around Pillar 2A refinement. And the regulator rejected that request and said all firms should disclose this. So please can you disclose your current Pillar 2A requirement?

Craig Donaldson
Well, Nick, let me get the numbers. I'll come back to you.

Chris Cant
Okay, fine. And then on your non-interest-bearing accounts, you talked about a 51% growth year over year. I think you relabelled this now as current account. And I think the £3.7 billion you disclosed at full-year 2017 was overstated by 6%, 6% of that being interest-bearing accounts. So what proportion of the current accounts that you've disclosed today at £3.9 billion relates to interest-bearing accounts, please? And what proportion of your deposit book overall is truly non-interest bearing versus the 32% that you talked about for full-year 2017?

Craig Donaldson
So, you're right, we have some IP accounts in there so there was a small disconnect. That small disconnect has been cleaned, and it's been cleaned out all the time. It's an exceptionally small number. It's smaller than 6% you said, so it has very little to no bearing on the numbers at all.

Chris Cant
Okay. So what proportion of your accounts are currently truly non-interest bearing?

Craig Donaldson
Oh 30%. 31% as it stands there. Chris, you were very kind to point that out to us, post the annual accounts coming out. So, obviously we've taken to the cleansing.

Chris Cant
So you haven't restated the full-year number, you just relabelled it as current accounts rather than non-interest-bearing accounts.

Craig Donaldson
No, what we've done is – Chris, we took your feedback. We have changed that which is why it's now 31% of total deposits, and not 32% of total deposits.

David Arden
And they are current accounts.

Chris Cant
Okay, fine. And then finally, on Customer NIM you talked again about headline NIM trending towards Customer NIM over time. Obviously, you're planning to do some debt issuance. I think this regulatory debt issuance will be excluded from your Customer NIM calculation. So, could you give us a sense of how you expect the gap between Customer NIM and headline NIM to look in 2021, once the TFS carry trades drop out?

Craig Donaldson
I would expect them to be much, much closer, with the only real difference, exactly like you said, being the debt that we raise. But as you think about it, we've got around £3.8 billion of TFS on a balance sheet of about £16 billion. But by the time we get out to 2021, you're going to be around £35 billion plus, and the debt compared to that will be less than TFS. So just the law of big numbers means that the NIM by then is fundamentally much, much closer to Customer NIM.

Chris Cant
The regulatory debt is going to be a lot more expensive than TFS in terms of the negative NII cost that you're excluding from the calculation. It might be a small number but it's going to be a multiple of the cost, no?

Craig Donaldson
I wouldn't suggest so, not when you look at the pricing that’s been coming through, not significantly, no. Also, we'll use more of that for our lending. And, therefore, no, it really, really closes the gap significantly. Today we're sitting at the end of quarter one at 1.85% for NIM and 2.24% for Customer NIM. And I would expect the gap to be significantly, significantly closed by the time we're out to the end of 2021.

Chris Cant
Okay, thank you.

John Cronin
Hi guys, thanks for taking my questions. Just to kick-off let's compliment again the very strong quarter-on-quarter growth in deposits. Just two questions in relation to that. A) Is, given how successful you allude to the online offering in terms of generating deposit growth, should we expect a pickup in that growth rate quarter on quarter? And then also why was other income growth or fee income growth just 2% quarter on quarter in the context of that deposit growth?

Craig Donaldson
So, on the deposit growth, no, we will stick within our guidelines, John, of £5.5 million per store to £6.5 million. I don't expect to go outside of that in any meaningful way as we go forward. Again, it's dangerous talking quarter on quarter because you have a number of moving parts, shall we say. And then the movement for quarter one of 2%, we do get hit by the days we lose in February which does hurt us a little bit.

But, bottom line, the fees were on plan for us in Q1, there was nothing in there that worried me.

David Arden
Over the long-term you would expect fees to tick up as we pivot towards commercial, and you’re right, there's more scope for us on the income side to drive more fees, particularly as we pivot towards commercial.

Craig Donaldson
But we had a strong fee play actually in Q1 as far as we were concerned. But we had very strong growth in deposits up at the top end of our rating.

John Cronin
Okay. In relation to the Tier 2 issuance that's planned for this year, I guess just to follow on from Chris's questions in relation to the cost of that, but more particularly around pricing. Given you have said that there is no expectation of an equity raise this year as your CET1 capital ratio was at 13.6% at end Q1 and is trending down as the business grows, how do you reasonably expect to get away a debt issuance in the context of declining CET1 capital at reasonable pricing?

Craig Donaldson
Well, one, because we've got so much demand from people we've been talking to. And I believe that demand drives pricing. Remember, that the reduction in our CET1 is because of the strong growth, and that is absolutely fundamentally growing this

organisation the right way. Our debt raise is all about continued growth which drives our profitability. And, therefore, as far as we're concerned, with the banks we've spoken to and with the debt purchasers in the market, there seems to be a lot of market for our debt that we'll go out with. And from the pricing we've seen – we've just delivered our first full year of profit, we've had our seventh quarter of profitable growth – profit increase quarter after quarter. And it seems to be very, very popular from the conversations we've had with people. So, no, I don't share any of your concerns at all, actually, John.

John Cronin

Okay. Is it fair to say in that context then that it would not be necessarily traditional institutional holders of such debt instruments that would be targeted?

Craig Donaldson

I would say we always should talk to our existing shareholders. And, of course, we'll be talking to the traditional existing debt purchasers. We are growing a bank for the long term. Like we've always said, 4% of the UK market is £100 billion in deposits. Of course we're going to be talking to everybody. But we'll always be talking to our shareholders as well.

John Cronin

Okay. And, finally, one short question on the liquid asset contribution to net interest income. Clearly, that's going to decrease as a proportion of the interest income as the business continues to grow. But I just want to make sure, in terms of your conversations with the PRA around the P 2A offset, that there's no interplay there between what may come down the track in time with ring-fencing requirements. Or, are those completely separate discussions?

Craig Donaldson

No, we're very comfortable. David, have you got anything you want to add?

David Arden

I can't see any challenge there at the moment -

Craig Donaldson

There's nothing we're worried about. We've worked it through, we've been looking at the options. No, there are no issues at all at this stage. Thank you, John.

John Cronin

Thank you.

Craig Donaldson

Next question, please.

Alex Medhurst

Hi, guys. Actually, many of my questions have been answered. So, maybe just one very quick factual question. Would you mind just giving me a bit of colour, reiterating the minimum CET1 ratio you'd kind of comfortable at before RWA relief comes through next year? That's pretty much it from me, if that's alright.

Craig Donaldson

Thank you, Alex. And I'm pleased we've answered some of your questions already, that's very positive. So for us, we went out and said we were giving guidance around 12%. That is significantly above our regulatory requirements, and is very generous. If we were to dip below 12% as we trended toward the AIRB relief, I would be very comfortable with that. So, we said 12%. Our previous guidance was 11%. If we were to trend down below 12% toward 11% while we wait for the AIRB, we would be above our regulatory requirements and I would not be uncomfortable – as long I was very comfortable and confident that would be reversed in short order. So, yeah, 12% is what we said. 11% is where we were before. Happy we'll trend below 12% if needed, because we'll make long-term decisions. But only if I was happy that we fully expected it to be reversed quickly.

David Arden

And that's the key, the timing on the AIRB submission, when we're going to get the relief.

Craig Donaldson

Is that okay, Alex?

Alex Medhurst

Yeah, that's very clear. Thank you very much.

Craig Donaldson

Thanks very much for your question. Do we have any more questions?

Craig Donaldson

Could I just say then, thank you ever so much. I think this has been the most people we've ever had on the call with over 90 participants. So, thank you ever so much. I am very proud of what we're building at Metro Bank. And I would just like to say to all of our shareholders who've come on the journey with us, and continue on the journey with us, thank you for your support as always. Thank you, and I look forward to speaking to you and seeing many of you during Q2.