

Metro Bank Q3 Results 2017

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Vernon Hill (Chairman), Craig Donaldson (CEO) and Mike Brierley (CFO)

Presentation

Vernon Hill

Good afternoon in Britain to all our investors and others on the call, good morning in America. We are pleased to report to you on our results of quarter three. Quarter three included our seventh anniversary on 29th July, and we thank you all for your support. The highlights are we had record asset growth in the quarter, up £1.1 billion. Record lending year over year, grew 66%. We've reached the highest loan-to-deposit ratio that we've ever had in Metro, at approximately 80. We had our second-largest quarter of deposit growth year to year, up 44%. And even with that growth, we had our lowest cost of deposits as we've managed to lower our cost of money.

One of the interesting numbers you all know I like to discuss: annualising 2017, our average store is growing deposits at £78 million a year, US\$105 million in deposit growth per store per year. We're also pleased to report comparable store deposit growth year over year, at 42%. Result of all this is our income from the second quarter to the third quarter is up 80%. We've opened a number of new stores, with five more to go in this year, and we are well on the track.

Before I hand over to Craig for the detailed report, I am not pleased to report that our second member of our staff, our CFO, Mike Brierley, has decided for some unknown reason to retire. It could be that we've made him rich, but...! Michael has been an important part of Metro Bank almost since the beginning. We will miss him, and I know most of you deal with him. We wish Mike the best. We expect him to come back after a month of being retired. Craig, I hand it to you.

Craig Donaldson

I like the way I'm supposed to do the detailed bit after all of that. So, I think for me, I would paraphrase it very similar to what Vernon just has: we had a very good third quarter. I think most important thing is we continue to do what we say we will do, pretty much across the board. I think a couple of things to draw out for me; I mean, for me, it was record growth, record customer growth in the quarter. As Vernon said, record organic lending growth, our second-highest deposit growth ever, and all this achieved with our lowest cost of deposits and our highest LTD I think shows that. And then the final bit is continued tight quality around our cost of risk which, I think as we go forward, continues to be a very important number, a number that we focus on internally very heavily, and a number that I'm very comfortable will continue to be delivered.

I would just like to reiterate Vernon's – Mike and I have been here pretty much – Mike was the first person I recruited; as Mike describes it, I needed somebody to do the work.

Mike Brierley

Quite right.

Craig Donaldson

And I'm very sorry personally that Mike's going. Having tried to talk Rachel out of telling him to go – Rachel is his wife – I obviously wish her and Mike well. And I'm very much looking forward to welcome David Arden, who's currently CFO at Sainsbury's Bank, to the table towards the end of quarter one next year. I have nothing to add, other than I think we continue to do what we said. And I think that's the key and the strength of this model, is the consistent delivery quarter after quarter after quarter. Mike, is there anything you would like to add?

Vernon Hill

Before you turn over to Mike, I just want to make two points. Our deposit base is now 53% commercial and 47% consumer. I personally expect commercial to be an increasing percentage, there is incredible demand in that area. And Craig has added into this quarter's report net interest margin in two forms; will Mike or Craig please describe that?

Mike Brierley

Sure. Well, I'll just refer to my retirement briefly, and then I will talk about customer deposit NIM. And I'm going to be around for a fair while yet, I'm not letting anybody else announce our first full year of profitability in the first quarter next year. I've been here for a while, and I'm looking forward to doing that, more than anybody can guess.

You're quite right Vernon, we did add to our normal net interest margin a metric. We did add and will continue to report on the new net interest margin metric, customer deposit net interest margin. It's worth, I think, just rehearsing why we're doing that. Since late 2016, the bank has drawn down sort of £2 billion from the Term Funding Scheme, the Bank of England's Term Funding Scheme, and this clearly has the beneficial impact of expanding the bank's earning assets, but in a way disproportionate to the increase in net interest income. Or in other words, while access to TFS is beneficial to the bank's net interest income, from a pound notes perspective it's dilutive to NIM. And in successive calls, I've mentioned this verbally, but we've really not put numbers around that, and I think it's about time, given the level of distortion, that I did. So, what we've done is introduce customer deposit NIM; it seeks to strip out the impact of TFS from our numbers. Our key driver of our performance is the generation of low-cost, sticky deposits, and customer deposit net interest income seeks to measure the earnings that we are gaining on that key driver of our business. Clearly, as TFS unwinds, as it will do over the course of the next four and a half years, customer deposit NIM will of course move closer to the pure full NIM.

Vernon Hill

And it will be a declining percentage of our funding base going forward.

Mike Brierley

Absolutely. And I think I'd illustrate why we've chosen to introduce it now by comparing the difference between the two numbers in quarter three 2016, which was a 13-basis-point difference, whereas now, the difference is 28 basis points. In other words, the distortion is increasing and it makes sense to call out the impact.

Vernon Hill

Anything else, Mike?

Mike Brierley

No.

Vernon Hill

Craig?

Craig Donaldson

Let's go to questions.

Vernon Hill

Let's open the floor. Question number one.

Q&A

Peter Lenardos

Good afternoon Vernon, Craig and Mike. I is Peter Lenardos from RBC here in London. A question for you on credit quality please. Given the uncertainty around the UK economy, and the fact that a bunch of the UK companies have issued profit warnings related to soft consumer demand, I guess are you seeing your lending business being impacted at all through demand for credit, given the uncertainty? Would be question number one.

And question number two would be: I know the quarterly reporting has reduced disclosures, but how have credit metrics held up during the quarter? Thank you.

Craig Donaldson

Hello Peter, thank you for the question. So, Peter, on the first point, actually we are not seeing pressure. I think a large number of the customers we deal with, we will deal up to the lower middle market and down. And we're seeing those customers continue to look to grow. Yes, I think everybody's waiting to see how Brexit moves forward, but in the interim people are still taking their kids to school and still have to pay their mortgages and are looking to grow their businesses. And I think it's a strength of UK Plc that the S and the M of the SME are genuinely continuing to look to invest and grow. So, we're not seeing any slowdown at all on the

businesses that we're looking to win their deposits from and their lending. So, very pleased; that's gone very, very strongly, and I see no reason that that won't continue when I look at the pipelines I've got into quarter four and into quarter one.

Vernon Hill

And credit metrics for quarter three compared to quarter two?

Craig Donaldson

So, the metrics are strong. We did see NPLs go up a little bit. Actually, because we have such low NPL, that's two loans that I now know personally, where one of them has already come out of that. So, really, I see no pressure into the NPLs, I see absolutely no pressure into the cost of risk, and all of our early metrics are holding up exceptionally strongly. And the pipelines are the best they've ever been, across pretty much every part of the lending engines.

Peter Lenardos

Great, that's very clear. Thanks, gentlemen.

Joe Dickerson

Hi, good morning gentlemen. Just a quick question on the unit economics. So, your 50 stores are growing deposits at a rate of £6.6 million per store per month in the third quarter, which was up 18% on the year ago quarter. Is this a structural move as the brand recognition goes up, etc., and the brand becomes more known on the high street? And if it is structural, how should we think about the £5.3 million per store per month target that you have for 2020, given that we're not way far away from 2020 at the moment? Thanks.

Craig Donaldson

Thank you, Joe, and I hope you're well, thank you. Joe it's interesting, we're at a little bit of a crossroads: TFS unwinding, going away; we're seeing RMBS come back to the market; we're seeing mortgage yields go up, hedging costs go up, people talking base rates. So, it does feel as though there's a number of different things playing in to what will happen in the deposit market. We've just got to our lowest cost of deposits. I don't anticipate it going below where we are now, but I do anticipate it continuing to be a strong, low, sticky cost of deposits. When you put that cost of deposits, the long-term stickiness of it, with what you're seeing in the market around TFS unwinding, RMBS coming back, discussions on base rate, I do believe that now is not the time to challenge our 2020 £5.25 million per store per month. In the last 24 months I think there's only once we've been slightly below the £5.25 million, and most times we have been above or quite a bit above. My view is we should hold to £5.25 million at the moment. We will review it obviously, we'll talk more after the full year. But at the moment, there's a lot going on. I'm very, very comfortable we'll deliver the £5.25 million.

Let me face into – you know, I expected to have opened another store this year. I'm very disappointed that we didn't open our Oxford store that's in build and has – we've had a couple of joys with the planners. In truth, the overage in the deposits per store per month is more than covering losing that one extra store. Very strong performance, will continue, but I want to see how TFS, RMBS, hedging funds going up, plays into the market.

Vernon Hill

As you predicted correctly Joe, our brand is getting stronger and stronger, both in London and as we branch out further into Britain, and we're seeing that in the results we're reporting to you for the quarter. We're not changing our guidance now, but our brand is getting stronger on the commercial side and the consumer side almost every day.

Craig Donaldson

I think it's interesting Joe, and I guess I might get told off by Jo here, but – as in Jo Roberts sorry, our Jo. If I look at it, we opened Peterborough a couple of weeks ago; I have been blown away by how powerful the opening of Peterborough was. And the thing that's even –

Vernon Hill

So, for the Americans listening, the reason he brought that up is Peterborough is the furthest store out we have from central London, and where we would have expected our brand to be the weakest.

Craig Donaldson

And I've been blown away by how strongly that store – it's opening more accounts at the moment than any of our stores across the entire network. We even had the bishop come in on the Friday of the grand opening, and I'm led to believe he did talk about us from the pulpit on Sunday morning.

Joe Dickerson

You're going straight to heaven, Craig.

Craig Donaldson

Well, I've been in hell for a while, Joe. But the point is that it's working. Chelmsford hasn't been open 12 months yet, and it's already got over £120 million on deposit. These stores are powerful, they will continue to be powerful, the brand is picking up. But let's just see what happens post TFS.

Joe Dickerson

Thanks, guys.

John Cronin

Hi guys, well done on the strong performance again on Q3. Just a few questions from me. One is on acquisitions: is there anything you would say about how we might think about future loan books acquisitions, or was the buy-to-let book acquired in June really just a one-off opportunistic transaction?

My second question is in relation to capital buffers. We heard from Lloyds this morning that their 2A guidance has gone up by 50 basis points, and I was wondering if there's anything you can update us on in terms of your engagement with the PRA around that?

And then just a final couple: on deposits, is there anything you can say around the shape of the deposit book in terms of large individual deposits or concentration?

And finally, just on risk-weighted assets, anything you can guide in terms of how we should be thinking about modelling the trajectory in terms of the level of RWA density? Thank you.

Mike Brierley

Hi John, it's Mike here. Let me pick up at least the first couple. On the question of acquiring books of loans, portfolios of loans, I think we've made two purchases of loans, including the Cerberus loans, in the middle of this year.

Vernon Hill

Two purchases in seven years.

Mike Brierley

That was exactly the point I was going to make, in seven years. We remain open to the prospect, there are portfolios on the market, but we're relatively conservative in our risk appetite. When the pricing and the risk appetite meet happily, then we're happy to talk, but the two in seven years, we're not currently working on it.

Craig Donaldson

And just to say, we've looked at 37 books now. It's got to be the right risk first, and then it's got to be the right return.

Mike Brierley

We know how to do this and we know how to do it well, but it has to be the risk/reward. In terms of updating on PRA buffers, we've seen no changes in the regulatory requirement from the regulators, and don't anticipate any. On deposits, I'm going to defer to Craig I think.

Craig Donaldson

No, well I thought actually in quarter three, it was beautifully spread. It was a very strong quarter, slightly stronger than I anticipated, but very, very diverse. I don't think any of the deposits in themselves were – I think the largest one was probably sub-£25 million, with the vast majority of them being retail and SME customers, with the average balances where they normally are.

Vernon Hill

I want to reinforce this point, particularly for the Brits that haven't had our American experience: the magic of this model in America and Metro is the highest growth rate of deposits, maybe in the world, and the lowest cost of money. In America, that's what's driving us. The customers are moving their deposits here for service, convenience and the experience, not for rate.

Craig Donaldson

Also, before we go to RWA, the interesting thing that people miss about the model is a lot of people when I talk to them, John, they equate the growth in customer accounts of 79,000 with the growth in the balances, and that's not true. This engine is built on the existing customer base, and what we find is it's our existing customers who continue to do more with us: put more with us,

bring more to us. And therefore, a large amount of the growth comes from the existing customers, not the new customer growth. And that's the strength of the engine, that continual growth in the existing store base rather than the new.

Vernon Hill

And one final point on this, on page 3 of the release: non-interest-bearing current accounts grew 62% year over year. That's an astronomically high number, and reinforces the message I mentioned before.

Mike Brierley

As far as RWAs are concerned, John, I don't think we really give guidance on RWAs. What I will say is I think we anticipate the growth in the lending book continuing, and I think that the mix will remain, in the short term, stable. So, I think probably that's helpful from a modelling perspective.

John Cronin

Okay, thank you for the colour.

Nick Baker

Good morning gents, just two from my side. Just firstly on deposits, just picking up on your commentary around the cost of deposits bottoming at this stage. It would be good to get your thoughts on the competitive environment that you see, particularly on the retail deposit side. We've seen fixed-term deposits pick up; do you think that's just following the move in the swap rate, or do you think it's getting more competitive? That's the first question.

And then the second question, just really around operating leverage: as you progress towards your 2020 guidance, how do you see this timing of that operating leverage playing through? Thanks very much.

Vernon Hill

Nick, before these guys give you the detailed answers, you asked about rates and so forth: I have to keep reminding folks that non-interest-bearing deposits are 32–33% of our deposits. So, no matter what the rates do, we have an inherently low cost of deposits.

Craig Donaldson

Nick, let me try and cover off the competitive deposit position. So, on the high street we've seen very little movement at all. We are seeing it continue in a similar state to which it has been. Online, there's no doubt people have been bouncing up and down. We played for a week online towards the end of last quarter; simply, we were testing out our new account opening process, to make sure it worked and blocked anybody who shouldn't be opening accounts. But apart from that, we don't play in that market, we're not going to play in that market. We're not interested; we see it becoming more competitive and we won't go there. What it is doing though, and I think this is due to the hedging costs, is we're seeing real change coming through now in mortgages. It's interesting from the work we've done, and I'm sure that you'll have done your own: out of 15 different banks that have moved their rates, 13 of them have put them up in mortgages in the last two weeks. And therefore, there's no doubt that the hedging cost from peak to trough, the 30-bps move that we've seen, the sentiment that's coming, TFS unwinding, I do believe that you're going to see mortgage rates going up. Exactly where they'll go up, I honestly don't know at this point obviously, but the direction of travel in my view is set.

Now, if you are, like we are, a long-term, sticky-deposit-gathering machine, what's going on in the market shouldn't impact significantly on our cost of deposits. But we will take advantage of the higher yield in mortgages. And therefore, one could say that the actual environment in which we are trading looks to be actually turning to a better place for our business model. And I'm very pleased to see that, and it should fare well for next year for us. Mike?

Mike Brierley

I think your second question is about cost/income ratio, and that kind of thing. And I note that the year ago quarter three, our cost/income ratio was at 98%, and that this quarter is 90%. And we're riding a powerful curve towards our 2020 guidance in terms of cost/income, which we remain comfortable with. The positive jaws on the P&L, with income increasing faster than costs, means that that must be so; we anticipate that continuing, and continuing way beyond 2020 I might add. So, we remain comfortable with the guidance.

Craig Donaldson

And Nick, within our cost base, I think the thing that people, I'd like them to recognise: at the moment, we have seven stores in build, five of which will open this year, two of which will open in the first half of next year. We of course carry all the costs of that today, so in our cost-to-income ratio we have the income of today, but we have the costs of tomorrow. And that's cost worth carrying, as we build the bank for the long term.

Vernon Hill

So, you might invite this group in Britain to visit us on 16th November when the Liverpool Street store opens.

Craig Donaldson

I will take that as done.

Nick Baker

That's very helpful colour, thanks guys.

Mike Brierley

Cheers, Nick.

Michael Perito

Hey, good afternoon everybody. I just really have one question. As Mike mentioned the full-year profitability in 2017, and if I look at the ROE it's stepped up every quarter. Is that a trend you guys expect to continue at this point?

And secondly, as we look out further, how are you guys thinking about the balance of ROE improvement versus capitalising on the growth opportunities that are clearly in front of you?

Mike Brierley

We certainly see the trend in profit before tax and all other measures continuing. That positive open jaws that I referred to when I was talking to Nick, answering Nick's question, drive us in that direction and will continue to drive in this direction for a very long while to come. So, we continue to see increasing profitability.

You're right that we are constantly, and have always done from day one, trade-offs between investment, profitability and income today. I think that what we've done over the past years proves that we have got that formula right and we will continue to invest in the business, particularly in digitisation, to generate the future income that's going to drive this business on.

Vernon Hill

And Mike, you know that, certainly when we were younger, new store opening costs were our number-one drag on our earnings. And as the existing store counts go up, it becomes a decreasing drag.

Craig Donaldson

Just to round out the triumvirate of speakers, Mike – good to speak to you by the way – I would say that Mike nailed it for me, and it's really important though. Our profit we expect to go up quarter on quarter, we make no bones about that. It's absolutely our expectation. But our investment in the long-term growth, we have to be better tomorrow than we are today. And we're investing to always improve, and to always win new customers. So, I expect our investment to continue to go up as our profits will also continue to go up. And that's why I'm confident in consistent delivery in the long term, because it's not just about the latest profit, it's about three years' time's profit that we're investing in today.

Michael Perito

Great, very helpful colour guys, thanks. And actually, maybe I'll sneak one more in just for you, Craig. Obviously, a lot of talk about the deposit side, commercial loan growth was really strong; any thoughts around the pipeline as we head into year-end here? Obviously, there are some opportunities it seems, both externally and internally, to continue that kind of growth. I'm just curious what your thoughts are.

Craig Donaldson

We have a great pipeline, Mike, across mortgages and commercial lending. The only place where we don't have anything like a pipeline is in consumer finance, and that's a conscious decision taken by the people around this table to make sure that we're lending into what we consider to be good risk/return. I would say in commercial and in mortgages, our pipelines have never been bigger and have never been of better quality. And I'm very excited about sitting in our presentation, when we talk about the quarter four results on the back on that pipeline.

Michael Perito

Great, thanks guys. Appreciate the colour.

James McCormick

Hi guys, tremendous performance. Curious: do the equity analysts appreciate the rate of growth, and how outstanding it really is? For example, in the United States, and I know there's a difference between London and the US, but examining the core deposits per branch you would find that the average retail branch in the United States has \$50 million in core deposits; \$50 million. And that is growing at 2% per year, or \$1 million. And I've asked a number of CEOs and vice chairmen of US banks: what is the highest number they can conceive of a bank being able to achieve in terms of annual core deposit growth? And I tell them the average for branches is \$1 million. And I get numbers like, 'Well, gee, I guess it could get as high as \$5 million per store per year.' And I say, 'Well, higher.' And they'll guess maybe \$7 million. And you're doing over \$100 million; it's an insane number. And I'm just wondering whether the equity analysts appreciate that?

Vernon Hill

We're going to have you call in each quarter so you can explain it to them again. Because while the Americans get it, it's a new concept in Britain in growth per store.

Craig Donaldson

Could I, Jim, as well, just bring it to life a little bit as well? One of the things we get asked a lot is: how big can our stores grow, on the back of the numbers that you talked about compared to what people see in other markets? Well, obviously, one of our stores is way north of £0.5 billion now in deposits, and we've now got another store that's way north of £400 million in deposits, and several of them north of £300 million and they're all still growing. And I think when you put the store growth that we're talking about compared to the numbers you talked about, and when you look at the numbers, it's trending above £0.5 billion and it keeps going at the moment. And I think that's when it gets really exciting, going back to my previous earlier comment: the existing stores just keep pounding it out. And that's the beauty of this model that you've nailed, is the existing stores keep growing.

Vernon Hill

So, Jim mentioned the average American retail branch has \$50 million in deposits. If you look at the average of Metro Bank, including the ones that have just opened, it's approximately £200 million a branch, or \$260 million. So, we're roughly five times the average American, and a lot of our stores are really new.

James McCormick

Yeah, the other thing I would just add to that is that in our analysis of 20 years of bank performance, the single most important factor that determines total return to shareholders turns out to be same-store core deposit growth, for a lot of obvious reasons. If you can put more revenue from no-risk deposits in a given semi-fixed-income institution, you make a lot more money and grow. So, that's also very important here as well.

Vernon Hill

And Jim, you will agree: what else is unusual here, you're getting these unbelievable growth numbers with the lowest cost of money.

James McCormick

Absolutely.

Craig Donaldson

Thank you, Jim.

Vernon Hill

Thank you, James.

Ian Gordon

Thanks very much, hi guys. Can I have two, please? Firstly, on non-interest income. At Q2, you gave us some pretty bullish comments on how that was developed to get your adjusted NIM target, and sure enough you've just delivered a record quarter for non-interest income. Aside from the safe deposit boxes, can you give me a bit of colour on where that's coming from?

And then secondly on loan growth, I take your point that the aggregate number is a record pace of loan growth. Just looking at the component parts, we've obviously had this morning's data with a nine-year high in mortgage approvals, which seems to play well to the resi market. Last month, you were being quite vocal on your proposition for professional buy-to-let; are you anticipating that expanding more quickly than previous guidance?

And then thirdly, your original guidance was always to see a pivot towards commercial over time; do you think we're still going to see the same pace of pivot, or are the opportunities in the other two buckets growing faster than you thought?

Craig Donaldson

Thanks for that, Ian. Let me answer first, and then I'll let other people jump in if I may. On the NII, the thing that we're seeing is we continue to win a lot of business customers. Thousands of business customers are joining us every month, thousands and thousands. And those business customers, with their trading experience, bring to us transaction fees and acquiring fees, they bring to us the FX fees. It is a hugely important part of our business that often gets underestimated, actually. 50% of our deposits are from business customers, and a significant portion, way more than 50%, of our fee income is from business customers. We are genuinely growing superbly in business customers, and that is what's making the difference. We've continued to see that strength. We will continue to invest in that, and we'll continue to be the real challenger on the high street to the other banks for business.

On loan growth, loan growth has gone exceptionally well. I am very pleased with how it's gone. I think that we are underperforming against where I hope to be on consumer finance, but that was a very conscious decision that we've discussed before, because I'm not willing to accept the risk/return that's in the marketplace at the moment. We are trading pretty much where I hope to be on commercial, and I do expect commercial to continue to grow as part of the book. If I take you back to my comment on trading businesses, we want to do the trading business deposits, transaction banking and their lending. So, I expect that to continue to grow as we look into next year and throughout to 2020. But mortgages has overperformed as it's looked to fill the gap from consumer finance. So, it's commercial where I do expect us to continue to grow, and consumer where we will wait to make a decision when to re-enter into that market. And that will be driven by the market dynamics we're currently seeing.

Vernon Hill

I expect consumer to be an increasing percentage of our loan book. There is tremendous demand there. Business customers are even more mistreated by the big five banks and the consumer customers, and as we move up the size chain and our cash management capabilities expand, I think you're going to see a significant uplift in those areas.

Mike Brierley

Ian, remind me what your third question was?

Ian Gordon

I think you've pretty much covered it all. The only final point was just within the professional buy-to-let. I think when you did the last portfolio acquisition, you were guiding for the buy-to-let component of customer loans to trend back down over time. Given the strength within that segment of buy-to-let, has your thinking changed at all on that component?

Mike Brierley

Certainly, that was our guidance, and that is in fact what has happened to the percentage of professional buy-to-let in total in the portfolio. We sort of target 25% as a comfortable place. The Cerberus portfolio acquisition took us above 30%; we're now at 28% and trending down. We remain very comfortable with that market, but I think that that downward trend will continue, but perhaps at a slightly lower pace towards the 25%.

Ian Gordon

Cool, that's all very helpful. Thank you.

Chris Cant

Hi, thanks for the call. I just wanted to follow up on deposit growth first off. Obviously, on many occasions you've talked about competing on service, not price, but I noted that at the end of the quarter you were the best buy in the country for one-year fixed retail money for about a week, and then you cut the rate again. The first question would be why you're engaging in that kind of pricing, given the stated strategy of competing on service, not price?

And secondly, how meaningful was that entry into that best buy position in the tables, in terms of the deposit growth you've seen in the period?

Craig Donaldson

Okay, so I mentioned earlier we are – well actually, it's out now behind closed doors, or you have to know where the IP address is, with our account opening that we are running silently. There's a lot of people in Sunderland testing it as we speak.

Vernon Hill

Our online account opening.

Craig Donaldson

This is new-to-franchise customers online. We were piloting it with the fixed rate. By doing that, we were learning how it would go, making sure the system worked properly. You do get fraud attacks on current accounts; you get a lot less on fixed rates, because the fraudsters don't like to put their money with you for a year. So, we were piloting the testing for that one week. We brought about, in the third quarter, about £30 million in.

Vernon Hill

Out of £1 billion.

Craig Donaldson

Out of the £955 million, £30 million of it was from that one week.

Vernon Hill

So, it was a test, not a change in our direction.

Craig Donaldson

It was a test. I think I've done that one week in the last – well, as far back as I can remember, so certainly, it's the only week we've ever done it this year and last year, and it was purely from an IT perspective. To be honest, I didn't need the £30 million. The point was, we're having such a good quarter on cost of deposits, I knew I had the space to do it.

Chris Cant

That's very clear, thank you. And on targets as well, obviously you've given us this new NIM disclosure to try to illustrate the drag created by the Term Funding Scheme. But when you've previously talked about hitting that 3% revenue margin guidance, you've indicated that increasing the loan-to-deposit ratio towards your target would be a meaningful part of the bridge. And as you say, you're now at a record for the Group at 80% loan-to-deposit ratio, but you're running currently around the 2.34% revenue margin, or maybe a 2.50% if I just add on that delta between the customer deposit NIM and your headline NIM. So, is the extra 5% on the loan-to-deposit ratio really going to bridge that gap from 2.50%-ish today, pro forma ex-TFS, to the 3% you guide to, or am I missing something there? It doesn't seem to give you enough of a bump, given the bump we've seen year to date, with the portfolio acquisition and improvement in loan to deposits since Q1. Thanks.

Mike Brierley

Yeah, there are a number of drivers there. I mean, we've already discussed earlier in the call I think, that the strengthening fee generation, clearly that's an important element as we've discussed. I think clearly, the loan-to-deposit ratio will be a major element. And we've also talked about the FLS drag, and you can see the significance of that, and that will dilute over time, both as it dilutes and also as we repay. But I think though, the powerful fee generation engine that we're building should not be underestimated.

Vernon Hill

3% guidance is the margin plus fees.

Mike Brierley

That's right. And we remain totally comfortable with that guidance.

Craig Donaldson

So, let me paraphrase: yes, Chris, we're comfortable; yes, we'll see an increase in fees; yes, the loan-to-deposit ratio will go up to 85%, and that 5% will include more commercial as we grow, and the TFS will be a significantly smaller part of the overall balance sheet as we grow through to the end of 2020, which means yes, we are holding to the 3% because we see our way to doing it. And actually, as the mortgage yield moves out but our long-term sticky deposits and the cost of those don't, we actually see that helping significantly as well.

Chris Cant

And in terms of your rate sensitivity in terms of near-term trajectory, I think the last time you disclosed sensitivity it was negative. So, should we be expecting a step down in NIM as we go into next year, if the Bank of England hikes rates next month?

Mike Brierley

I think when rates went down 25 basis points recently post Brexit, it was a small bump in the road. And I think that when rates go up, it will have in the short term an equally small impact. Clearly, over the longer term a rising rate environment is a benefit to us and to others, but our structural funding advantage with current account with both business and from retail customers will be a strengthening factor, I think.

Chris Cant

Okay, thank you.

Arun Melmane

Afternoon, gentlemen. The NIM question I think was answered. I just had one on capital; I just wondered whether the pace at which you're allocating capital in the quarter was roughly in line with the guidance you had when you raised capital at the end of Q2? And whether you had sufficient capital to take you through to the end of 2018, would be my question.

Mike Brierley

Well, thanks for the question, appreciate it. Following the £280 million capital raise in July, we have, as you can see from the results, a very happy, healthy CET1 ratio of 17.4%, which of course is well in excess of both regulatory limits and of course our own internal limits. As we've said previously, we have no need to raise additional capital, be that equity or debt, before 2019 based on our current growth expectations.

Vernon Hill

And we'd like to remind everybody: we have no debt in our balance sheet. So, we have the flexibility when we need it to go to debt.

Craig Donaldson

But there are no plans, no views, no requirements to raise debt or equity in 2018.

Mike Brierley

Correct.

Arun Melmane

Perfect. And on the pace at which the fee number is growing, is that all FX by commercial customers? Would you be able to break down a little bit or give us some colour on what's driving the fee element? I can see the pace of it; I just wanted to know what products or what else was driving the component there? Thank you.

Craig Donaldson

Let me try and answer that. So, if you imagine, of course for our customers, when they're travelling in Europe, we don't charge them, so there's no FX on that. We work with our customers, and we want them to enjoy their holidays in Europe. The costs are much more outside of Europe, and we do pass the costs on to our customers across the rest of the world. But therefore, we make little off consumers in that regard. Actually, the thing you're missing is we charge businesses, we have transaction fees, and the transaction fees are part of that increase. So, you have FX, we do have transaction fees, we do have merchant acquiring. Businesses have a much bigger ecosystem requirement from a bank, and fulfilling those needs gives you many more opportunities to realise income whilst adding value to the customer. And that's why businesses, we see them as an absolute front and centre of how we want to build Metro Bank, and that's why we win them. FX is a core part, but it's only one of three parts, and I wouldn't want to overplay that. You've got transactions, you've got auxiliary fees and you've got FX. And also, the beauty of business customers is they bring their customers to you, they bring their colleagues to you and they bring other people who run similar businesses to you. They're probably our best advert for winning more customers, because it's them that recommend us to so many more people.

Arun Melmane

Brilliant, thank you.