Metro Bank FY Results 2018

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

Presentation

Vernon Hill

Good evening. Good evening in London and good afternoon in America. Welcome to our Annual Presentation of our 12-month results from last year. Thank you for coming on short notice. We've moved the time so it's convenient for both our American FANS and our UK FANS.

2018 was a very significant year of growth at Metro Bank. Despite some challenges in the fourth quarter, both internal and external, our model is working great, and Metro Bank continues to change banking in Britain. In the last year, we are going to show you, again, how we had record deposits – we had record growth in deposits, record growth in loans and 400,000 new customer accounts were opened.

Recently, we've been chosen by the CMA as the number one service provider of personal banking in Britain and we're very proud of that. And some of you may have seen last week, we received the number one, £120 million award from the BCR to invest in business banking and transfer clients. We've done a lot this year but we have a lot more to do. This bank is getting large, growing fast and we have to grow and evolve with it.

I'll now hand it over to our Chief Executive, Craig Donaldson, and Our Chief Financial Officer, David Arden. Thank you all.

Craig Donaldson

Thank you, Vernon. Can I just reiterate my apologies for the short notice of this call. We are trying to accommodate our colleagues on both sides of the Atlantic. So I'm going to talk through progress in 2018. I'm then going to hand over to David, who'll take us through the financials, and then I'll come back to myself to talk through some of the issues that we're facing and the evolution that we're going to take, going forward. At the end of that, we'll then open it up for questions. Thank you.

So the revolution continues. It's certainly been a year of encouraging growth. We've opened stores. We've entered new markets in the East Midlands and in the Southwest. We've expanded our digital capabilities and grown our deposits and continued to create FANS. The delivering of the deposits has allowed us to grow our loans very strongly and that's driven 140% increase in our underlying profit before tax. But as I said, the environment is challenging. We continue to operate in a highly competitive market and that has put margins under pressure. And so it's time for us to evolve.

We need to optimise the balance between growth, profitability and capital efficiency. And we need to increase our focus on SME businesses, underpinned by the £120 million we've just won from the Capability and Innovation Fund. And we need to ensure that we've got a robust capital position for the growth. And that's why we plan to raise circa £350 million of growth equity in 2019. And we have a committed underwriting standby in place to ensure that we're well capitalised and well primed for the growth ahead.

And so the revolution does continue, as I said. We have progressed. We're very proud of the strong service delivery recognition that we've received. You can see the awards there and I'll come onto them a little bit more in a moment. We've also increased our deposits, our low-cost sticky deposits. We've got a CAGR there of 45% over those years, and for the first time our cost of deposits is below the cost or the price of base rate. And that's led us to be able to do our low risk lending.

Our lending has grown almost 60% on a CAGR basis, up to £14.2 billion. And 60% growth over those years at the same time as reducing our cost of risk, which is now down to 7 bps, an exceptionally strong performance.

And we continue to create FANS, of course. It's the key of what we are. It's the essence of Metro Bank to create FANS and then grow with them. We're very proud of the relationship we've built with our customers and we're very proud of what they've said about us. They voted us number one in the CMA awards for personal current accounts. We are very proud of that. I keep saying that because you could see the atmosphere in the business when that was announced.

We're also very, very well positioned to challenge for the top spot in SME. And again, I think it is the performance here that really underpins why we won the £120 million from the Capability and Innovation Fund. We're also winning customer service awards, as you can see here, and I don't want it to be missed that we continue to win awards for our colleague engagement. By creating FANS amongst our colleagues, we create FANS amongst our customers. And that is absolutely core to the model that we will continue to be a high-growth retail commercial bank.

And that's what we are. We continue to expand our physical network and we continue to expand our digital footprint. And by doing that together, we deliver an integrated customer experience. We opened 10 stores last year. And you can see on the map where we opened them, like I said earlier, East Midlands and the Southwest. I want to draw out, if I may, 66% of our customers used the store in 2018. Two-thirds of our customers used our physical network.

We also added to digital. We launched Insights. Insights is our new artificial intelligence that allows us to support and help customers both manage their money and to use their money effectively. It's had fantastic response from our customers and it's something we'll come on to talk about that we want to launch into our business SME community as well. We also have added international payment straight through, and adding these things into our app has improved our app position to the second highest rated banking app in the App Store. Also, when we talk about that integrated customer experience, over a third of our current account holders used the physical and the digital channels in the last 90 days, hugely powerful and showing the strength of the model. And by having that integrated customer experience across our physical and our digital, we've continued to win customers and continue to create FANS.

You can see here we've grown our current accounts by over 400,000 customer accounts in the last 12 months. And I just want to focus, if I may, on the two bullet points on business. Over 10% of the market share of new business current accounts came to us in London and 15% of the SME switchers in London switched to Metro Bank. Every day, people are joining us because of the integrated customer experience that we deliver. And that's led to that 86% brand recognition in London and 54% brand recognition across the UK.

So, as Vernon said earlier, it's working. There's been lots of progress. We've continued to deliver the strong deposit growth and the strong loan growth, which has led to the 140% increase in our underlying profit. As I've already mentioned, I'm also very proud of the cost of risk because to me, to create a long-term growth organisation, you must ensure the foundation of your risk and the lending that you do is solid and strong. And that's what we do. We do not compromise the yield for the cost of risk and we don't compromise the cost of risk for the yield. We manage the two.

So, I think this slide to me does summarise we have delivered on the continued growth of the organisation, but there are some challenges on here as well. Customer NIM plus fees has slightly reduced across the year, whilst we've increased our loan to deposit ratio. And there's no doubt that there are challenges that we are evolving into and that we will adapt to make sure that we take advantage of.

I'll now hand over to David to talk us through some more…

David Arden

Thank you, Craig. Turn then, for me, firstly to the balance sheet. So, it remains robust and highly liquid. You can see we have a 91% loan to deposit ratio and 139% liquidity coverage ratio. We're comfortable with our CET1 ratio of 13.1%. But as you know, we've announced today that we intend to raise further growth capital with a standby underwrite. And Craig will come on to talk about that in more detail shortly.

We've mentioned previously a number of accounting and regulatory changes that will impact us. IFRS 16 adopted from the start of this year is expected to add RWAs of £313 million.

Looking at deposits. We continue to see strong deposit growth with a CAGR of 45% across the period on the graph, and we've done so by maintaining extremely low cost of deposits, 61 bps in 2018. This the first time that the cost of the deposits has been below the Bank of England base rate. The slide shows the consistency in our core deposits in terms of growth and splits across the bank. It shows the value of long-term sticky deposits.

The bottom of the chart there also shows the average deposit growth per store per month. You can see in Q4 2018, it was £4.7 million. As we said in the past, you can sometimes see soft quarters, you can sometimes see strong quarters and across the timeline there, you can see that there is volatility in that number. However, across the year, we're pleased with the £5.9 million and it is within our stated guidance.

Turning now to lending. Our growth in deposits means we continue to lend very conservatively to our customers. Low risk lending is fundamental to what we do. The cost of risk is now 7 bps down from the 11 bps in the prior year. And as Craig said, we'll not compromise on the cost of risk. We will not compromise cost of risk to chase yield. We've got a diversified lending portfolio, very low NPLs and a low debt to value across the book. And what that means is we have a very high-quality lending base. Management remains very focused on maintaining the quality in the book.

Looking now at the P&L. Growing deposits and growing loans has meant that we're reporting strong earnings growth for 2019, up 140% year on year. We acknowledge that PBT was short of overall consensus but the result is very strong within the context of the numbers. We also acknowledge that Q4 was softer than we anticipated and we've included a chart on Q4 in the appendix. You can look at that in time.

Nonetheless, over the course of the year, we saw positive operating jaws, income growth of 38% and cost growth of 31%. We've already discussed the competitive mortgage market, which alongside our tier-2 debt expense, explains the reduction in NIM. Customer NIM though increased by 2 bps as a result of the expansion in the loan to deposit ratio. Cost of deposits increased following two base rate rises. However, the rise is relatively modest of 7 bps and demonstrates that customers come to Metro Bank for service and convenience, not price.

The next slide bridges the elements that go up to make our capital base, 15.9% total capital ratio and 13.1% CET1. The ratios will be further boosted by the equity raise that we have announced to-date and we'll come on and talk about the go-forward capital position later in the presentation.

And finally, from me, the RWA adjustments, which has obviously dominated the news about Metro Bank over the past few weeks. We're deeply disappointed that we needed to make these adjustments and there are lessons that we have learned from this. In terms of the adjustments themselves, for exposure secured on commercial property, we've moved risk weightings from 50% to 100%. And that takes up two-thirds of the £900 million adjustment. The remainder came from elements of our professional buy-to-let portfolio where we've moved certain assets from 35% to 100% and bring that back down by the SME supporting factor where appropriate.

The RWA adjustment itself has no impact on credit decisions, no impact on the quality of the book. It has no impact on our audited accounts. It does though impact our systems investment going forward. We've completed, as you know, a review of the commercial loan book at the end of the year in partnership with a big four audit firm and we will provide external assurance over our RWAs going forward.

Finally, we've also received notification from both the PRA and the FCA that they intend to investigate the circumstances and the events that led to the RWA adjustment and Metro Bank will cooperate fully in that investigation.

I'll now pass back to Craig.

Craig Donaldson

Thank you, David. Thank you. Before I move on to talk about the future, I just want to emphasise how deeply I, and we, as an organisation, regret that we needed to make the adjustments to our RWAs. There are lessons we've learned and David talked to some of those. But we've learned significantly from this chastening experience. We did not deliver the standards in this area that we and others should expect of us and the buck stops with me, and I am sorry about that.

And now to look forward. We've spoken so far – Vernon, myself and David – that we've created a business model centred around creating FANS. And it's creating FANS through the integrated customer experience. And that's what we'll continue to do. We've created FANS through the retail banking model, the bricks and clicks. And that's been brought to life for us by the CMA results that we discussed earlier.

That's allowed us to attract the sticky deposits, the low-cost diversified sticky deposits at 61 bps. And as we've said several times, but I think it's worth repeating, below base rate; a very, very strong performance. And also, our deposits are made up of 30% current accounts, the relationship driver of any bank. That then enables us to grow our lending, low-risk lending, simple lending products focused on the things that customers want from us. And our customer-centric underwriting has allowed us to maintain 7 bps cost of risk. Therefore, this all delivers the low-risk, high-quality earnings and that's what drove the 140% increase in our underlying PBT.

This is a year of evolution for Metro Bank. We've spoken about our core strengths. I've just gone through them again. But we do have key challenges that we're facing into. And we need to face into them so that we can deal with them and continue to build the organisation and create FANS the way we know we should. So there are two specific sets; there are market-general ones and there are Metro Bank-specific ones.

Within the market-general ones, it's been well documented for several quarters now, especially in the second half of the year, the competitive environment that we're seeing in mortgage margins. I believe this is an unintended consequence of ring-fencing where a number of large banks have had trapped liquidity that they've been lending into the market. And to be fair, I think this is a generally recognised thing now.

We've also got the macro uncertainty that continues today and it would appear tomorrow as well. We've got continued low interest rate environments, which are part of that, and we also have the ongoing increasing regulatory requirements, whether that be things like IFRS 16 accounting standards or the requirement to raise MREL debt. We also though have specific Metro Bank challenges. Our operational transformation is required to improve our cost efficiencies. We need to drive significant cost efficiencies into the organisation. We have scale now and now is the opportunity to make sure that we grow in the right way.

Also timing of AIRB; we had hoped that would be this year. However, we are now not expecting it before 2021. And then finally the RWAs which David and I have both mentioned earlier.

So when you look at the general and when you look at the specific, we need to adapt. And that's why we need to adapt and evolve the strategy, building on the core strengths that we've built that have made us number one for personal current accounts and number two for business current accounts in the UK.

So what does that evolution look like? Well, we're going to evolve our strategy to balance growth, profitability and capital efficiency through the integrated customer experience. Really what we're looking to do is optimise the three, so that we build in the right way for the long-term. And to do that, we're going to rebalance our lending to really focus on capital efficiency and the right returns. We're also going to expand our range of services to create new sources of income but those sources of income will be through the services we provide to customers.

And finally, we're going to drive those cost efficiencies. The cost of the organisation will go up as we grow. But what we have an opportunity to do is to transform how we do that so that we do it in a way that enables customers in the bank to get the right service at the right cost for the long-term.

So now let me expand on each of the four points. So let me talk about balance to optimise the growth, profitability and capital efficiency. Well, we're going to moderate our deposit growth and the associated cost of growth, given the prevailing margin that we're seeing. So we're going to reduce our growth rates to 20% and that's what we'll look to grow per annum. We're going to achieve that by reducing the proportion of higher cost term deposits and by continuing to concentrate on the relationship current account. The current account is the key to banking and that's what we have 30% of in our deposit base at the moment and we'll continue to focus on investing.

On the back of our 20% growth in deposits a year, we're going to manage the loan to deposit ratio. We're going to maintain an 85-90% range. That will allow us to balance the loan growth and optimise the capital efficiency and the profitability. Now, as we transition and evolve that through 2019, we will be temporarily above the 90% loan to deposit ratio. But over the medium-term, we will always drive it between 85% and 90% of the 20% growth in deposits. And we're going to of course continue to invest in our store growth and having it integrated with our digital experience.

What we are going to do therefore is manage our store openings, so we'll have about 8 a year plus, using the money we got from the C&I, the Williams & Glyn funding. And we're going the use the money that we're not spending on the stores to invest in our digital offering and continue to strengthen that. Because we genuinely know, as I said to you earlier, when we look at a third of our customers have used both digital and stores in the last 90 days, that's what our customers value, it is the integrated customer experience.

And in addition, we will use the money, C&I funding from Williams & Glyn, to enter new markets. We will be opening in the North, not quite Sunderland yet but we will get there.

But the key is we're going to optimise the profitability, the growth, and the capital efficiency. And it's how we optimise that that I'll talk about now. So first of all, we said we would rebalance our lending mix towards mortgages and SME lending to optimise the capital allocations and returns. And what we're showing you here is where we were in 2018 and where we plan to be in 2023. So first of all, we're going to focus and continue to build around our low-risk mortgages. They are exceptionally cost-efficient and they are very good returning ROE, and we'll continue to build on that. We have built a very good engine built on service with a very good brand, and we'll continue to build that market out.

We'll also use the C&I funding to broaden our business services; I've already mentioned that. And that will create further opportunities for SME and commercial trading business lending. And it's the trading businesses that we want so we win those trading current accounts. And we'll be investing in new lending platforms to really drive that customer experience to drive that lending at the right risk.

What that will mean is that we'll reduce the proportion of our lower ROE lending, specifically around commercial real estate, so that we can drive that capital efficiency with that profitability. And then finally, as we see the risk reward trade-off in consumer unsecured balance out and normalise, we will grow our unsecured lending and credit card business. It's something that our customers want and as we see the right returns in it, it's something we will fulfil. And we'll be launching lending platforms into that area as well over this period.

We also said that we'd expand our fee income through new added value services, especially for SMEs. We see SMEs, and we've said it before and I've said it here, as the most underserved and underinvested community in the UK. They need our support and they're getting it. That's why 15% of switchers in London switched to Metro Bank because they want the integrated customer experience we're giving them and our award-winning service. But what we will do is we will look to drive our fee income through that expanded services to our SME customers. We'll broaden the service offering to deepen the customer relationship. Specifically, we'll launch things like trade finance and we'll also launch things like M-cash. And M-cash would be using our cash facilities, working with partners, to be able to offer an app-based cash delivery and collection service. Giving time back to customers, to the SME customers, time that they can use to drive the productivity of their business while we help them focus on the things that are important.

We'll also increase penetration of fee-paying services using the digital origination. We'll be launching our M-Pay, which will be our integrated payments platform, integrated into the broader ecosystem that SMEs use, again saving time. We'll also look to leverage things like payroll, which will allow us to serve and support our customers, giving them time back to build their businesses whilst allowing us to charge a fee for a service that they value.

And finally, we're going to leverage the API gateways that we've put in. We launched our API gateways last year and we'll be using these gateways to build out digital tax and to create an ecosystem that's integrated across tax, accounting, lending and banking to fulfil customer's needs for the one-stop shop. Again, making their lives easier, making SMEs lives easier so they can do the important thing which is build their business. And its these things that will drive the fee and commission income up. We've shown you here where we are at the moment. And you can see here some of the banks that are out there on the High Street today and the opportunities that we have to increase. However, it will be through value-added services.

We also must increase our cost efficiency. And we're going to do that by driving the operational leverage now we're achieving scale. We've put up here on the far-left corner, historical operating costs. We've also shown where we want to go. Now this will be, as we said, the evolution. We're going to be investing in driving the cost efficiency out and we will make savings during 2019 and into 2020. And we're going to take those savings and we're going to reinvest them into driving more savings. And that's how we will drive the cost efficiency.

We've identified some very specific initiatives that will enable us to scale our growth more efficiently. And that's what we're talking about here. It's efficient scaling. And out of the 100% of the savings we've identified, we've tried to break them down so you can see where we expect to make the savings.

And on page 28 of the presentation in the appendix, we've broken out by channel so you can see more detail on the type of things we'll be doing that we can report back to you on as we move forward, so we can get more clarity and more transparency on what we're doing and how it is impacting on the business.

But just to bring to light some of the things we will be looking to do. At the moment you can only be served in store at the counter if you want to achieve something. We'll be looking to put in assisted service and semi-assisted service, using technology, using machines, so that customers have choice. Because what Metro Bank want to do is provide choice for customers. And by offering straight-through processing, what they call, IDM machines, we'll be able to fulfil for more customers in a way that suits them and at a cost that suits us.

Also, things like growing out the organisation and where do we look to grow. We currently have one leg based firmly in Central London. And as we look to grow, we'll look to create a second operating leg that will be North or West of London where we'll be able to find cheaper square footage and high-quality but cheaper employees to fulfil. And so we'll look to have our growth in efficient areas. I'm going to call it north-shoring today because – but I'm not saying it will be Sunderland, to be very clear.

But it's very important – and like I said, please look at page 28, because these are the things we have to do to drive the cost efficiency. We have the concrete proposals in place and we've structured a programme to ensure we deliver this, because we can't control the margin in the market but we can control our costs and our cost efficiency.

Craig Donaldson

So, coming onto the Capability and Innovation Fund, the money we won last Friday. This will also help us drive the business. This will also help us drive into the SME markets and fulfil the commitments we've made to what's called the BCR. So the C&I funding will bring forward what we can do. But £120 million grant will accelerate our challenger status across the UK with three main pillars. We'll accelerate our store coverage, opening two stores this year. We'll be looking in the North West and Yorkshire. We'll also be launching a lot of the digital innovations that I spoke to you about. And we'll also be building out more complex capabilities so that we can fulfil more for our commercial customers and our larger SME complex customers.

If you look at the central boxes, the map of the UK, the coloured circles show you how much of the SME market is in those areas. And by using the C&I money that we've won - the £120 million from the top award - that will increase our coverage from a third to two thirds of the SME market. And with SME's, we know we need to be in their markets to fulfil their needs. And this money will allow us to get there faster. So, we can do more of what they want.

New sources of income. I mentioned the first end to end payments in accounts receivable platform – M-pay - we'll launch commercial credit cards and will also, I mentioned M-Cash and we do like the 'M'. We'll also be investing in our new scalable lending platforms and opening business accounts online which will drive our reach outside of our natural footprint and allow customers who want to join us to join us from the comfort of their own homes or their business premises.

But we'll do all this in a finically prudent way. There'll be no day one impact on capital. We have co-promised co-investment commitments and that will spread out over a number of years with 75% of it capitalisable. There will be a short-term P&L drag, but that is more than made up for with the benefits we will see over the coming years. And we'll look to open two stores this year using the funding from the C&I fund and what will happen is we will pay for the stores to be built out which will be capitalised and the C&I fund will pay for the first 18 months of operating the store with the colleagues in there. Meaning that the stores will then be profitable when we start taking over that cost.

It's really very exciting what we're doing here. And I'm so proud of winning this. You could feel the atmosphere in the organisation again and it was so good to see our customers celebrating it with us. We are delivering for SMEs. We opened our first business bank account on our first day on the 29th July 2010. And we will continue to do that and accelerate that with the money we've received from the BCR.

And that brings me on to capital. And of course, as David said, maintaining a strong capital position to support the growth - the growth that we're going to deliver in a capital efficient profitable way. So, we've announced today we plan to raise a further £350 million of equity capital in the first half of this year, is the plan. We have a committed standby underwrite from our relationship banks of RBC, Jeffries and KBW and that's in place and thank you. Post having raised the equity we anticipate then going out to meet our transitional MREL requirements and so we'll be looking to raise a half a billion of MREL eligible debt in the second half of 2019. And you can see there, David already spoke - we've already adopted the IFRS 16 requirements.

So, our capital policy will be that we'll always maintain a strong capital position to support our growth. We are a growth, retail and commercial bank. That's what we do and we do it by creating FANS but it needs to be done and will continue to be done through a strong capital position. And we have a target minimum CET1 of 12% and a reg leverage of 4%. And David said at the end of the year we were at 13.1%. Well over the minimums. We'll continue to work with PRA on our AIRB migration for residential mortgages. We expect successful completion but not before 2021. And that is a change from what we said before. It's something we have to take into account on our capital planning. And, having raised the equity and having raised the MREL debt, we will fulfil our interim MREL requirement and we'll be above 21.5% by the end of this year at the start of 1.1.2020 and we'll do the same and be above MREL requirement from 1st January 2022, which is 22.5%.

We are raising money to continue to grow this organisation. We are raising the money in advance of needing it. And we're taking therefore the discussion about capital off the table as we grow the organisation looking forward.

So, what does that mean for our medium-term guidance? Well we've already set out our growth will be 20% - set for 20% and that should mean we grow to about 2% of the market leaving another 98% to go for after 2023. We'll continue to grow our stores but at a slightly moderated rate of about 8 a year plus the C&I funded stores. We'll grow deposits by over 4 million a month per store and have a loan to deposit ratio of between 85% and 90% as we look forward through the medium term.

Cost of risk through the cycle will between 15 and 30 bps and the cost to income ratio will come down as we look to drive that cost efficiency and take the savings over the next couple of years to drive more cost efficiency and we look forward down to 55% to 60% by 2023. We'll maintain a 12% minimum CET1 and leverage ratio above 4% - and we'll deliver low double-digit ROE by 2023.

So, in summary - and it doesn't say it on the slide - but we continued to deliver in 2018. We continue to create FANS. We continued to win their low-cost sticky deposits and continue to do their low risk lending. And that drove an increase in the profitability to 140%. But 2019, it's a year of evolution. We'll remain a high growth organisation. We'll remain low risk. We will remain absolutely focused on the integrated customer experience that you get from bricks and clicks. But we'll build on our core strength by adapting to the environment in which we're operating. It's the right thing to do for the organisation. And we'll also leverage the £120 million award, that we got from the Williams and Glyn fund, to accelerate our plans for SMEs. And we'll do that by being absolutely focused on driving cost efficiencies which will drive our balancing - our growth, our profitability and our capital efficiency. We have to balance these three things as we go forward. We will remain a high growth organisation but in a capital efficient and profitable way. And by doing that we'll continue to create FANS which will keep the virtuous circle moving. And that's the key.

May I open it up now to questions. Does anybody have any questions?

Q&A

Robert Sage
I've got a couple of quick questions. First of all, in terms of your medium-term guidance I don't see it here but I might have missed it, whether you are refreshing your net interest margin plus fees target and it's whether that might have changed. I think you were talking about getting it out to around 3% by 2020. I'd imagine you'd miss it by 2020, but if that's still the target perhaps for 2023?

Craig Donaldson
No. What we've done is, the targets we've come out with, the guidance we're giving, are what we're focusing on and will be what we're talking to and announcing going forward. We can own our cost efficiency. We can own how we drive that. I'm afraid margin is driven by the market.

Robert Sage
Yeah, understood. I've got a second question as well, is that you were talking about potentially delaying your AIRB accreditation from the second half of this year to 2021. Why - sort of what makes you think it's going to be 2021? Is that sort of in response to what the PRA is suggesting to you or is that - I don't know what sort of gives you confidence it's going to be then rather than any other date?

Craig Donaldson
well, I think what we're saying is it won't be before 2021. So, I think actually we're just trying to be very clear. I don't want to give any predictions going forward. I think it's fair to say that I've done that. And I need to learn from it. I won't do it again. So, my view is what we're clearly saying is we won't get AIRB relief before 2021 and therefore that's why we've made one of the decisions today to raise the £350 million with the standby underwriting in place to remove the discussion around capital as we look forward.

Michael Perito
Good afternoon Craig, Vernon, David. I have a few questions I was hoping to address. I wanted to maybe just start on the efficiency side because I'm a little unclear I guess - it sounds like you guys are obviously targeting some more accelerated improvement in the cost:income ratio but at the same time there seems like there's still a lot of investment going on. I was wondering maybe if we could take the conversation more towards the numbers. I mean if we kind of think about your expense growth and your absolute level of expenses you know at the end of 2018 year, can you maybe give us some more specific expectations over the near term here? I mean obviously that's a number that would seem to be much more in your control, and I think it would be helpful to kind of get a sense of where the expenses are going to try to achieve that longer-term cost:income target.

Craig Donaldson
David?

David Arden
Michael, we said on the slide that we expect 2019 to be an 85 to 90 range. We will be making cost savings in 2019 but we plan to reinvest that in some other wider efficiencies we need to make. You can then expect modest increase - oh sorry decrease in 2020 before it accelerates in 2021 and we reach our medium-term guidance of 55% to 60% by 2023.

Craig Donaldson
And Mike if I may, one of the things we should draw out is obviously we have uncertain times in the market. We have MREL- we're raising half a billion of debt and therefore there will be an impact into this year and into next year again as we raise the MREL to fulfil our full MREL requirements. And that will need to be taken into account as well.

Vernon Hill
Michael's point is really good. We have two kinds of expenses. We have running the train expenses and we have growth expenses. And our expense base does have growth expenses built in.

Craig Donaldson
The cost we're looking to take out this year - how to reinvest and drive more cost savings and we are talking a significant cost saving across the year but by driving cost efficiency and page 28 the detail's in there, in what we're doing.

Joseph Dickerson
Thanks for taking my call. I just had a couple of questions. Firstly, given that you've said that you want to concentrate on relationship current accounts and reduce the proportion of higher cost term deposits over the planned period that you've outlined here - i.e. through 2023 - what would you expect to happen to your overall cost of deposits assuming that there's not a material pickup in interest rates? And then secondly, I guess when I'm looking at the fixed term deposit growth in the fourth quarter it picked up quite a bit and I was just wondering really what drove that? Was that affiliated with your new store openings in Q4? What really drove the need to grow that balance by about 16% quarter on quarter? And anything there would be helpful. And I'll leave it at that, thanks.

Craig Donaldson
Thank you, Joe. If I start - so what will happen to the cost of deposits, we'd expect over medium term that we would see the cost of deposits come down as we do less of the higher cost term deposits. So, over the medium term that's what we would expect to happen. That's assuming no base rate moves if you just held a steady state. With regards to the fixed rates in the fourth quarter I think, one, we have to go out and regularly prove that we can go online and bring in deposits as part of our regulatory requirements. We went out in quarter four - and I've said we'd do this before - where we have to go out, bring certain amount in and I think quarter four is when we do it. David, is there anything you'd like to add?

Vernon Hill
Joe, your question is as usual excellent. Because we can raise very low-cost current account deposits, we're not forced to raise higher cost term deposits. So, when we're slowing our growth in deposits down, it's in the high cost deposits but the growth is still higher than any bank in the world probably because our current accounts are growing so fast.

Joseph Dickerson
I understand, yup, that's helpful. Thanks.

Craig Donaldson
Joe, anything else?

Joseph Dickerson

Nope, that's all.

Craig Donaldson

Thank you Joe.

Martin Leitgeb

Good afternoon. A couple of – a few questions from my side please and a little bit, the first one to follow up on the lower deposit growth target. Obviously deposit growth was one of the key engines. Are there any impacts through the P&L otherwise outside of, obviously, the potential to know the cost of those fixed term deposit side, say, you know, marketing costs, so is there any another potential impact arising from this lower deposit growth target?

The second question is with regards to AIRB. I was just wondering if there's any visibility on at what time this could come for your commercial book? And I'd appreciate it if this is not possible at this stage. And the third question, maybe, just as a clarification. I was just wondering on the potential capital impact from the innovation fund you won last week, day one impact zero and I was just wondering is terms of capital accretion, could that help in terms of the pace of the capital accretion? Is there any positive impact going forward from that fund? Thank you.

Craig Donaldson

Martin, thank you. Can I try and answer questions one and two and then can I ask you to repeat question three so that David, hopefully, will try and pick that up? On question one on cost of deposits and the other associated costs with deposits, well, there are associate cost savings, yes. There are costs of servicing the fixed term. There are also costs as we slow the stores down that are associated with that and there are also costs of doing the lending to cover the costs of those higher costs deposits. And, therefore, by slowing down the growth to 20% growth per annum, I just want to be clear 20% per annum, what we are doing is – and holding the 85 to 90 percent loan deposit ratio, we're allowing ourselves to make sure that we're optimising the capital efficiency and the yield and the cost of risk in our lending. And so, actually, that's where the big benefit comes from. By moderating that growth rate in deposits, you allow yourself to manage your growth rate in your lending into the capital efficient areas at the right yield and the right risks and have the right cost base to support that. So, the danger when you're growing the deposits at such a rate and the cost is there that you're lending into lower ROE areas that you might not otherwise do but you're carrying the cost of the deposits and, therefore, there are costs associated with that.

Vernon Hill

Craig for non-bankers. What we're doing is reducing our highest cost deposits and because of that we can reduce our highest yielding loans which have the highest risk-weighting. So we're lowering our costs and we're reducing our risk weighted capital.

Craig Donaldson

On the second point with the AIRB as you said for our residential mortgages, we don't expect to be talking about AIRB sign offs pre-2021. We are currently looking at slotting in the models around our commercial offering and I know Aileen and the team have been working very, very hard on AIRB. AIRB is the second most expensive project we've ever undertaken in the Bank but massively important for the organisation.

Vernon Hill

Residential is by far the majority of the effect.

Craig Donaldson

We will do the whole book over time, but residential mortgages is obviously the largest part of the book, but therefore commercial wouldn't follow until post-2021. And I don't know when again, if I may repeat what I said earlier my days of giving advice on timings are over. I know it won't be pre-2021, and I know it will be post-mortgages that we get commercial but we will be building out our AIRB models and approach now in commercial with our slotting.

David Arden

I think the final question was relating to capital impact of the BCR award, C&I funding. There is no immediate capital impact, we'll spread the investment over time. We do expect it to be ROE accretive in the medium-term. There will be a drag in the short-term as we invest, but clearly as we invest in new services for customers we expect that to drive P&L benefit, and therefore ROE accretion.

Craig Donaldson

The £120m is very powerful for how we'll drive and accelerate this business forward, and how we'll accelerate into fulfilling SMEs broader needs. And a lot of those needs will be capital-light, and will also be fee-driven, which will be very, very important for the organisation.

Martin Leitgeb

Thank you very much.

Christopher Cant

Thank you for taking my questions. If I could come back to you on the revenue margin points and I'm a little bit surprised that you are not giving any guidance at all or any targets at all for your revenue margin given how prominent that 3% target has been since IPO. Could you give us a steer on where you expect that customer NIM plus fees to be in 2020 versus the 3% target, please? And if you don't want to give us a figure there because you view the NIM component of that as hard to control, on the trading update call, you did say if you see income as something that was within your control that you'll be working on to try to bridge the gap to the 3%. So, what do you think the fee margin on customer deposits will be by 2020, please?

And if I could ask one on capital as well? Pro forma for the IFRS16 hit, the planned equity raise, the planned MREL issuance I think you have about an MREL resources ratio of 24.5% pro forma as of full year 18 for all of those impacts. That would give you capacity for about 1.3 billion of RWA growth implying capacity for about 2 billion of lending growth on your pro forma risk density in 2019. It doesn't feel like very much versus where, I think, consensus is sitting. Does that sound right to you in terms of the amount of lending growth you're expecting to put on into 2019, please? Thank you.

Craig Donaldson

Thank you, Chris. Let me try and answer your second question first, if I may? With regard to the MREL and the equity raise, we do say that we'll, obviously, have to grow to 22.5% by the 1st of January 2022 but we would expect during 2021 to continue to raise more MREL as the organisation grows. So, your 24.5 as the total capital reserve including CET1, buffers, MREL and therefore we will raise more MREL in 2021.

And looking forward, what we are anticipating is circa another £500 million in 2021 of debt raise and that's what we are planning to do which would therefore push your 24.5 to a different level and allow that continued growth we have been talking about in our risk-weighted assets.

On your first question, David, could I pass to you?

David Arden

I think, we've been very clear on the slides, Chris, around what our expectations are on fees in the medium-terms. We've moved away from NIM + fees guidance because the market is challenging, and we've all seen where margins have gone generally. And I would expect over the medium-term to see significant accretion in our fee rates from where we are today and Craig alluded to a lot of the initiatives we will be doing and C&I funding in itself will allow us to invest in these services for our customers, which in turn, will allow us to drive more fee income.

Craig Donaldson

If I may Chris, If I could just flick back, taking my life into my own hands, we did have several discussions with our wider advisors about how to structure, as I'm sure you appreciate how to structure our guidance. And what we thought was by putting out our guidance here on slide 18, you could see how we expect the business to move and you can pivot off that to work out where the NIM would go in prevailing market. So, we thought that that would allow that.

What we also thought where you can see we're saying today we're 0.46 with one of the banks out at a 0.72 and we believe there's real opportunity for Metro Bank with the advent of the technology with the winning of the £120 million to significantly improve that 0.46 and you can see the opportunity ahead of us and how far we could grow. So, I think, on slide 18 which set out the – where we expect our lending to be and I think, of that, you can pivot to work out the NIM and we can definitely talk more about that as we go forward and here I would expect to see a progression in the fee income over time, over the medium-term with bank one, evidencing what they can do with 72 bps. And I would expect us to be moving significantly towards that.

Is that okay, Chris?

Christopher Cant

Okay, thanks. Yes, thank you. If I can ask one follow-up possibly on the C&I funding and the use of funds there? My understanding was that the funding was meant to be used for plans which were incremental to what was already planned but I think you previously targeted 100 stores by 2020 and 140 to 160 by 2023, it looks like you're now targeting about 90 to 95 by 2020 and 135 by 2023 inclusive of the Capability and Innovation funded stores. So, how does that work relative to the C&I funding mandate? Perhaps, I've misunderstood the nature of the funding allocation process there, but I thought it was supposed to be additive to existing plans. Thank you.

Craig Donaldson

Chris, that's a very good question. So, we are very pleased that we won £120 million and won the top award. It is a real feather in our cap. But we were already planning this part of our evolution. You know, we didn't know we were going to win £120 million until Friday when it was announced to much fanfare and we were already planning the evolution to slow down the store growth and to pivot into more digital. Now we'll be able to do more of that. We'll be able to do more of those fee services we spoke about and we'll do more lending platforms we've spoken about or we would have been slowing down the store growth, whether we won the C&I or not. That was part of our evolving strategy to deal with the challenges that we're facing in 2019.

John Cronin

Hi, guys, thanks for taking my questions. Just a few from me. One is on, look I hear you on the current accounts growth strategy but I mean, stepping back here looking at the numbers, I think we computed you're at £4.7 billion current accounts at end FY18, you know, to support the strong growth ambitions which are still pretty strong and it does – I suppose, can you share with us some more depth around how you expect to expand growth in that domain very quickly?

The second question I have is just around your conviction the in 15 to 30 bps cost of risk. When I look at some of the granularity in the disclosures, in particular, we notice that there's been a significant uptake in the high LTV mortgages in the 80% to 90% range, as well as more than 10% of the commercial books sitting out a debt value above 100%. Just strikes us in this environment that that cost of risk could look a little light. So, any comments around that would be helpful, appreciating that you don't have a crystal ball on it to be fair.

And then, finally, look you've got – look, Craig. I hear you when you say you're not guiding to specific timing on AIRB at this juncture except to say that you won't get it through until at least 2021. Can you just give us some more colour around why you don't expect it to come through prior to then? Look you had been pretty vocal about it potentially coming through at the back end of this year and everyone obviously knows about the recent RWA inflation point but I guess in a sense it is a project in its own right and I just want to understand have there been any issues in terms of that you've identified with the PRA, as you work through the various stages of the process? Or is there anything you can say about that at this point? Thank you.

David Arden

Okay, let me go first. John, if I can just take us back on cost of risk? We are very, very comfortable in the quality of our book right now. We are seeing reducing cost of risk over time. We have built in through the length of the plan an expanding cost of risk because who knows where the economy is going but right now given where we are, we don't see any pressure on our impairments or indeed in the quality of the customer base which we're very, very proud of.

Craig Donaldson

John, if I may as well just to add that? I'm very proud of our 7 bps cost of risk, and actually I was getting a challenge on how you can say 15 to 30 across the medium term when you're down at 7. I would say that we take personal guarantees. We also take things like, you know, a lot of the 10% you were talking about unsecured, actually would be sitting on things like dental practices with national health service contracts, we'd be sitting with personal guarantees, sitting behind it and that's what we do. We take personal guarantees. We always take three outs we'd expect cash flow, debentures, and security where we can get it, and personal guarantees, debentures and security together. So, that 10% will have personal guarantees with it. Well –

I would also say on the unsecured, some of that will undoubtedly be to a very large organisation where we will be doing part of their lending into it, where we would bank some of their wider customers. So, professional partner loans for large professional services companies. So, there's some specifics in there that mean we are very comfortable with those numbers in the commercial books that we were talking about.

And then in consumer, in the mortgage book, we don't lend organically above 90% and when we lend between 80% and 90%, we make sure that we lend on very high credit scores, very low loan to incomes and we make sure that the loan is smaller as well, you're doing it on smaller units that turn faster. And by taking those actions, you protect yourself into any downturns scenario and I don't have a crystal ball, but it just seems sensible to me that you use a triangle of higher LTI, higher credit score if you got a higher LTV to protect yourself, and do a lower loan size. And that's – it's quite old fashioned but by goodness me it's worked through to the two recessions that I managed quite large mortgage books through.

And AIRB I really don't want to give any forecast forward. When we said that we thought we would get AIRB in the second half of the year, we said that because we genuinely thought we would and I'm looking at Aileen here and I say that, who's nodding. We now don't believe we will – the PRA have continued to work with us and continue to work with us and we think as we go forward, that with the guidance of getting it, it won't be pre-2021 and I don't want to give a date on it, John, because I don't think that would be appropriate. It will be when it will be, but we'll continue to work on it. We'll get to a successful completion of it, I'm sure but it will be at a time that suits ourselves and the regulator. So, forgive me for being a little bit obtuse but my day of giving guidance on that are over.

Shailesh Raikundlia

How about three questions, actually? Two of them are tied. Just on – start off with targets. I mean, I'm just wondering, obviously, these new targets are based on the medium-term to 2023 target, so I was just wondering where this leaves year 2020 targets. Can you give us a sense of where you think returns of that are going to be, particularly?

Secondly, back onto the medium-term targets. I'm just wondering whether your targets, especially, with the return on equity of low double digit, does that include any further capital in addition to the one you've announced, potential one that you announced this evening?

And, finally, just on slide 18 I'm just trying – which you are focusing on. You say that you're focusing on commercial and SME and yet on slide 18 you are showing a significant increase in the proportion of mortgages. Understand why you are doing so, but I was just wondering whether – because previously your aim was to increase your SMEs in proportion of your total business mix. So, are you going the reverse direction? I was wondering whether you could explain them in more detail given the fact that you are focusing more on the SME market. Thanks.

Craig Donaldson

On the first question I'll hand over to David. I'm enjoying being up here and being able to pass it across to you, David. On the first – on your last question around our evolving strategy and how we want to balance our high growth with profitability and capital efficiency. When we've looked at that, there are – we want to be lending, we want to be banking, trading businesses both SME and commercial. That's what we want to do. We want to win the trading current account businesses and we want to do their lending through the platforms we've talked about and the platforms we already have. However, what we've been doing is a lot – well, not a lot but enough CRE, enough commercial real estate and commercial real estate is very important. It's a very good part of UK commercial economy but what we'd like to do is to lower that proportion because it is much higher on capital allocations. And therefore, it's lower on the return on equity. And what we're doing is we're taking our knowledge around the ROEs and we're applying that into the mix of business with our growth rates to make that we optimise that growth with our profitability and that's why we are focusing on the ROE of those sectors. And that's what's driven the change in our thinking because we're focusing on the trading businesses and trading commercial businesses and we're focusing on the mortgages which are very cost efficient and high ROE. And that's what will drive the profitability over the medium-term.

David Arden

Regarding our 2020 targets, I think, Craig has alluded to very fully in terms of the near-term macro challenges we face and the specific Metro Bank challenges we face. So, I think we are not giving specific guidance on 2020. We'll see where the markets gets to in terms of consensus for 2020, but we're not going to – given the challenge we face right now, we're not going to talk about 2020.

Craig Donaldson

What we are going to do is talk much more, as we go forward, around the evolution of the strategy that we're doing, bringing to life the cost-efficiencies that we're driving, showing you what we're doing there and showing you how we are driving the business forward in the three evolutions that we talked about to deliver the overarching. This is what we're focused on. We're going to be focused on driving that balance of the growth, the profitability and capital efficiency whilst making sure we create FANS. And the three pillars underneath will be how we focused on building that and delivering that over the short, medium-term.

Shailesh Raikundlia

Okay. So – and then just to follow up quickly on that 2023 targets. I mean, you do feel that you can – you get to 2023 without raising additional capital and the CET1 ratio of 12% based on your current plans?

Craig Donaldson

We don't have a capital raise in the short-term. And at the moment, we have the opportunity of AIRB at some point between now and 2023. And if we feel the need to raise capital because it's the right thing for the growth of the organisation, we would. But at the moment, with how we're moderating our growth and how we're moderating our capital efficiency, I certainly am not focused on a capital raise post the standby underwriting to a capital raise that we just announced.

Shailesh Raikundlia

Great. That's very clear. Thanks.

Alexia Lucasdof

On MREL, I think you previously have guided towards £700 million issuance this year and in your current presentation, it's £500 million. So, what changed, and do you have a plan for 2020, please?

David Arden

Clearly we've got a £350 million equity raised in 2019 and we've moderated our growth so you can bring down the £700 million to £500 million. We'll talk more about our 2020 MREL plans as we progress through the year.

Alexia Lucasdof

Okay. And one more question, please. On the rating side, do you have a timeline when potentially you get rated?

David Arden

Not currently. It's under active consideration by management. But we'll update more when we can.

Alexia Lucasdof
Okay. Thank you very much.

David Arden
Thank you.

Tom Leidtke
Vernon, what is the debate as to whether it's better to issue capital at today's higher cost versus taking a pause and let the accomplishments of the previous capital come to fruition and reward the stock price and balance sheet? And the pause would also give us the further benefit of giving the team time to regroup and strengthen controls and such. Thank you.

Vernon Hill
An interesting question. And it's a balancing act we've been working on here. I think it has to do with risk weighted assets primarily and the MREL requirement that we have to do this year. And we thought the balance sheet would get all out of proportion if it was too much MREL debt and not enough equity. So, it's a balance of those two things.

Tom Leidtke
Thank you.

Craig Donaldson
If I may as well. One of the things obviously we've spoken about a few times now, AIRB moving back. We could have made the decision to manage within the capital we have today and manage the growth and manage the levers that we have to pull. But we believe that that would mean we would raise money in 2020 and that we'd have the overhang of the discussions going on, that have been going on publicly over the last few days and weeks. By raising this money, we ensure that we have the runway with the moderated growth for a period of time. We ensure that we take the discussion on capital off the table. And by raising the equity, we also hopefully will impact on the MREL debt cost. If you put these things together, and also wanting to make sure that we are always prudent in how we manage our capital ahead of the growth, we decided that was the right decision to take.

Tom Leidtke
Okay, thank you.

Andre Semmler
Hi, Andrew from CRC. Thanks for taking our question and congratulations on winning the Capability and Innovation Fund. We see our bonds still trading at very high yields, but at a 17% post-raise CET1 ratio, you're going to be one of the better capitalised banks in the UK again. So just interested in knowing your thoughts on what this equity raise means for subordinated debt, capital plans, and possibly your cost of issuance.

David Arden
We would hope and expect that yields on the Tier 2 bond improve post equity, and that should to clear our way into MREL. We don't plan to issue MREL before the equity we plan to do it post equity. It's difficult to say right now what the market is going to look like in H219. If I knew that I'd be a rich man, but we're going to need to be nimble, fleet of foot and take advantage of market opportunities as they arise.

Vernon Hill
You have made a great point. Our debt, as far as the whole stock of capital, is one of the lowest banks probably in the world.

Andre Semmler
Thank you.

Michael Perito

Yeah, thanks guys. So I have just one additional question, thanks for taking it. Just on the low double-digit ROE 2023 target, I appreciate that you guys aren't looking to give NIM plus fees guidance at this point, but obviously it's a very big variable as to where the ROE tracks from here.

And so, I'm just curious, maybe, you just give us a little bit more colour about the assumption that you're assuming in providing that low double-digit ROE target. Is it just a steady state NIM, and then improvement in other parts of the income statement? Or any other clarity that you can provide us there will be helpful. Thank you.

David Arden

Well, Michael, we're not anticipating any improvement in NIM from where it is today. But the increments will come from the fees that Craig has talked about. So we're taking a very, very prudent view on NIM progression from here.

Vernon Hill

And Michael, you've heard me before talk about, as these stores mature and their deposits per store gets so much higher, the flow through effect to the bottom line of the store goes up dramatically.

Craig Donaldson

Michael, we said as well, one of the challenges to face into is the competitive environment. Largely, we believe due to the ring fencing, the unintended consequence of ring fencing and the trapped liquidity that's created. We've taken a prudent – we're not anticipating that reversing in the short-term, and therefore taking a much more prudent approach to our yield expectations on how that moves forward. And we just believe that's the right to do, because it's what we foresee going forward.

We do not foresee that the mortgage market will suddenly increase its yield. But because of what we've been talking about with the cost efficiency, delivering mortgages, and the high ROE on the mortgages, we would rather play in that margin area because of what we've built and the engines we've got that will allow us to genuinely drive forward in a balanced way across growth, profitability, and capital efficiency.

Michael Perito

And then I guess one last quick one, just on those points that you guys just raised. Just as I think about the pace of the ROE improvement, you mentioned in the slide that you're going to focus on the mortgage business, which is high, that's high ROE for you. Vernon, your point is well taken, that the stores, as they mature, the ROE realises. But we really – it really hasn't manifested in any material ROE improvement, at least, over the last year and a half, I think, as some were expecting. And I guess, my questions is, is how do you balance – what, on the one hand, I think everyone on the call could appreciate, which is wanting to be the best-positioned bank in the UK to service customers, and the investments that require that. But also, what clearly has become, you know, a little bit of self-fulfilling prophecy with the low ROE and the constant capital need, and trying to pull forward some of that improvement and really monetise the customers that you already have?

Craig Donaldson

So I think that's a great question. I think we have some generic things going on in the market, some challenges and we have some specific challenges. Generically, I think that we have what I would describe as a cliff face to climb up over the next couple of years with MREL. And we'll be raising that MREL debt and that will be put on the balance sheet. And then we'll grow it as we grow. But in the interim, we've got to raise £0.5 billion of MREL this year. And therefore that will be adding that debt cost on to the balance sheet, and we've got to grow through that.

And we will grow through that in the medium term that we're talking about. But in the short-term, that will take time to grow through. And that's a generic issue for the UK, for banks such as Metro Bank who are growing. We've just gone through £15 billion in deposits at the end of last year and therefore, we have tripped into the MREL requirements from a deposit basis. And that's what we need to do. And all organisations, as they grow, will have to go through this in the future.

Now, so it's going to take a couple of years to grow through this; we will grow through this, we'll grow through this in the appropriate way. But it is a specific issue with MREL and raising the debt to fulfil the MREL requirement as we go through and enter into it. As a growth organisation is right that we grow through it though.

On the specifics, on the ROE – so you got the debt costs impacting on one side of the ROE. You also have that margin I spoke about for ourselves. But also you've got AIRB. AIRB, we do not expect pre-2021. And therefore what that would do is it drives your efficiency on your mortgage book significantly. And therefore, as we work towards AIRB, we know we should get it, and we're working through it with our colleagues. But it's a timing issue. But you know that you will get a benefit of your return on equity against mortgages when you get the benefits of the AIRB.

So we have generic issues within the market and we have specific things. However, we will grow through them and what we have is, we have an evolution over the next couple of years and that transition through that growth, which will then drive on through the ROE, as we've discussed.

Michael Perito

Thank you for taking my follow-up.

Ian Gordon

So I have two questions please. Firstly, just coming back to your ambitions within the commercial space, I'm assuming that your ambitions under the assisted switching – the incentivised switching scheme will be undiminished, in fact probably the opposite. So should I think about not just a change in mix of new business, but some perhaps material churn within your existing commercial portfolio? You've already referenced your reduced appetite within the CRE space.

Then, secondly, obviously you've spoken about the attractiveness of ROEs on your residential mortgage business. Clearly, the return is dependent on how quickly I think the cost efficiency of that business will improve. But how do you think of that whilst you remain a standardised bank in terms of the broad range of ROEs you expect to achieve on front book business?

Craig Donaldson

Thank you, Ian. On your first question, we are a relationship bank, we want to build relationships with our customers, and we are going to continue to grow, we've set our deposits to c.20%. So we continue to be a growth retail bank. And therefore what we're saying is a proportion of our book will change. We want to build relationships – continue to build relationships with our customers, but the proportion of our book will change. And therefore, I wouldn't want you to consider that we would let our customer base down, because that's not what we would want to.

But looking forward, we are definitely very focused on winning more trading businesses, more trading commercial businesses and doing the lending that trading businesses require, rather than say the commercial real estate. But we build relationships for the long-term.

On the mortgages and the cost efficiency of mortgages, we continue to invest and we have something called Project Falcon at the moment which is delivering during this year to drive further cost efficiencies. And I think it can drive further cost efficiencies, but actually, I think we've built a pretty good efficient mortgage business the way it is. And I think there are more opportunities across our operations areas, our loan operations areas and how we think about the back office and the stores of how we can drive more cost efficiencies. I actually think there's more opportunities in those areas than there is somewhere like mortgages where we've already got Project Falcon that we'll deliver this year and put us in a very, very good place.

So I don't want you to think when we're talking about cost efficiency that we're talking about all areas of the organisation. We are picking on specific areas where we know, with concrete plans, we can drive out the benefits. And that's what we're focused on.

Ian Gordon

Okay, great, thank you.

David Arden
Mortgages is a very scalable platform for us and it's right that we leverage that as we move forward.

Ian Gordon
That's great, thanks.

Craig Donaldson
Thanks, Ian.

John Cronin
Thank you. Look, a follow-up question coming back to the question I had on current accounts. Going back to your prospectus, you called out current accounts as a key growth channel in 2015 and had been as such since the establishment of the bank in 2010. You're at £4.7 billion at end FY18. We saw the pace of current account growth lag that of other deposit growth through the course of 2018, and every quarter, with the exception of the second quarter. What gives you the confidence now to say that that can become the key growth channel to fund the growth ambitions? Is there not already evidence of difficulty in terms of keeping up the growth pace on that front?

Craig Donaldson
I think the current account has always been the core of what we do. And there's no doubt at times you invest in different parts and you look to broaden the offering out. But the current account is at the heart of what we do. And we continue to win customers, and we continue to win customers today, we had a very good start of the year on accounts, that's for sure.

Now, what we have done is we've launched current account online. We now are number one for service across the CMA, number one for personal current accounts. We've now got our switching and we've now had two days since the Williams & Glyn switching. And the data has been, I think it's fair to say, very encouraging in the first few days of the switching. So I look at being number one in the personal current account space. I look at winning the top fund of £120 million from Williams & Glyn. And I accept I've only got two days of trading. I look at how our personal current account online is developing and I also look at the ability now with the money that we've got from the Williams & Glyn money to build out our business current account online.

Also, we're looking at things like driving added-value accounts where we'll be able to offer broader services to win more customers into the current account. And what we want to do is to continue to invest into that current account area to drive more. There's no doubt we have invested a little less as we've invested in other areas. But you come back to them. And the current account will always be the heart of the organisation. It will always be what we focus on.

And if you think about what we've talked about today, it's absolutely the core of the next phase of the growth and that's what gives me the confidence.

Vernon Hill
Even without the growth rate, we'll still be the fastest growing bank in the world probably. It's just going to be more of low-cost current accounts.

Craig Donaldson
I just would stress the word probably there as well but we are definitely growing strongly and that's the key.

Thank you, John

James Invine
Hi, good evening. I've got two, please. The first is you're signaling some quite rapid growth in consumer credit, so I was just wondering if you could give us a bit of colour on the mix there, are you going to favour, continue to favour, loans over credit cards or is it going to be more even going forward? And then the second question is, Craig, at the time of the trading update, you

mentioned that your customers were back on the pitch. I was just wondering if you could update us on that and if they are still on the pitch. Thanks.

Craig Donaldson

Thank you. So on the first point, I think we said that we are doing 2% consumer finance on the consumer and secured lending of the entire book. And we said by 2023 we will grow that to between 3% and 5%. So yes, from 2% to 3% to 7% could look like we're trebbling or doubling the number, but actually it's from a very low base, and if you look at our book overall. And what we've always said is, two years ago we announced we weren't happy with the risk reward on unsecured lending and we pulled back. We're starting to see the market normalise. And I would suggest for a bank like Metro Bank, in the long-term, running around the 3-7% is the right place to be. And I think I've always said that when we've been talking.

So my view is, we will be investing in lending platform in this space because now we can see the normalisation occurring, and it's time to move the organisation into its right long-term position, which is the 3% to 7%. 2% is being too low in my view. And that is simply because the risk return was not there. And therefore, we wouldn't do the lending. So, I just think that you're seeing a right sizing occur. And as for doing it quickly. We're talking about out to 2023 here, which gives us – we'll do it in the right stages. And I don't think you'll see a fundamental change this year or into the middle of next year.

David Arden

Can I caveat that by saying only if the risk reward dynamics are right for Metro Bank.

Craig Donaldson

That is absolutely correct.

On your second one, we definitely saw a number of customers take pause in quarter four. I'm talking commercial customers, pausing on certain things, talking with Gabs and Roger and the team. I think that pauses can only last so long and we have started to see a business started to move again. Obviously, it's to do with the uncertain environments we're in at the moment, but it does feel as though there's been a normalisation. I don't know why that is, possibly just because you can only pause for so long.

James Invine

Okay. Thank you.

Christopher Cant

Thanks for taking a further question. Could I just ask a couple of points of detail on the capital raise please? Because I was unfamiliar with some of the language in your RNS. First, could I just confirm that given the size of the raise, this will be a fully underwritten rights issue and that you will be issuing a prospectus and likely issuing at a discount to market? And second, given that you're being investigated by the PRA and FCA or rather that you have announced you face investigations, are there any conditions under which the three underwriters could back out of underwriting the offer? Thank you.

David Arden

In terms of the structure of the equity raise, we are about to go into a process of consulting with our shareholders. So that's – we need to go through that before we determine what the structure looks like. In terms of your follow-on question, our underwriting banks are fully aware of the news that we've announced today and they're happy to underwrite the equity.

Christopher Cant

Thank you.

Craig Donaldson

Thank you, it's 7 o'clock, we've gone on for an hour and a half. I apologise to those of you who thought we would finish within the hour. However, I wanted to let the questions run. Can I just say on behalf of all of Metro Bank, thank you for your support.

Apologies for the short notice, but we wanted to ensure that people on both sides of the Atlantic could get the information at the same time. And we thought it was very important that we heard that and acted on it.

2018 was a strong year, 2019 is an evolution year, but based on the strength of what we've built, we'll continue to grow this business for the long-term. So, thank you very much for your support. Good night.