Metro Bank Q3 Results 2019

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Craig Donaldson (CEO) and David Arden (CFO)

Presentation

Craig Donaldson

Thank you operator and many thanks to everyone for joining the call. I'm with David Arden, our CFO, and we will provide a summary of the third quarter before taking any questions.

Clearly, it's been a difficult nine months for the bank and our Q3 financial results reflect the challenges we faced. Despite this, we've made good progress in reducing costs, increasing fees and further strengthening our capital and liquidity position, as well as retaining our top position for overall quality of service for personal customers.

However, balance sheet actions taken in Q2 and Q3 have impacted underlying profitability in the third quarter. These actions include the sale of a loan portfolio in Q3 and the sale of non-LCR eligible treasury assets, which were primarily driven by prudent management of our liquidity position below the deposit outflows in half one.

With deposits, we saw return to customer deposit growth of £528 million of growth in the third quarter with total deposits now at £14.2 billion. Deposits through the month of September, however, were impacted by negative sentiment following the postponed MREL transaction with £213 million of outflows, but we are returning to business as usual.

Having issued £350 million of senior non-preferred notes at the start of October, we will now meet our interim MREL requirement and have headroom as we move into 2020. Importantly, key parts of our customer franchise have continued to grow and demonstrate real resilience in Q3. Customer accounts were up over 100,000 to 1.9 million including continued growth in personal and business current accounts. We were very pleased to maintain our number one position for personal customers and number two position for business customers in the August 2019 CMA survey.

We've also made further progress on our key priorities as we continue to focus on optimising our capital allocation and returns. First, Q3 over Q2 shows an absolute reduction in operating costs, despite continued opening of new stores and the winning of new customers, reflecting our focus on restructuring and cost take-out to deliver more efficient operating model.

Second, we are reporting further growth in fees and other non-interest income as we continue to grow our customer accounts and benefit from the recent further roll-out of value-added services. And finally, we continue to deliver on our organic capital efficiency focus as we re-balance our lending mix out of more capital intensive lending segments.

Alongside the three new store openings in the Midlands in the last quarter, we've also secured and are developing C&I funded sites in Liverpool and Manchester. We're also expanding digitally, having recently announced the launch of our new AI in-app Business Insights tool and a trio of fintech and SME partnerships to enhance our business banking offering, which will help drive fee income and cost efficiency as we move forward.

And finally, we've separately announced this morning that Sir Michael has been appointed as Interim Chairman with immediate effect, following Vernon's decision yesterday to step down from his role as Chairman. Vernon will continue as a non-exec director until the end of the year but will then step down from the Board. First, we would like to thank Vernon for his vision which was what created Metro Bank ten years ago and continued to drive us forward and on behalf of myself and all of our colleagues, to say how grateful we are for everything he's done and wish him well on his next journey.

I will now hand over to David to talk you through the numbers in more detail.

David Arden

Thank you, Craig. Good afternoon, everybody. I will walk you through our key metrics.

At the half year, we guided towards a lower NIM in the second half. Headline NIM has actually reduced to 1.5% in Q3 due to the actions that we've taken to prudently manage the balance sheet. The actions were taken primarily through the sale of a £1.5 billion interest bearing non-LCR eligible investment securities book, an increase in funding costs for which fixed-term front-book pricing has now normalised, the execution of the £520 million loan portfolio disposal, and lower lending volumes. The loan portfolio disposal also incurred a one-off charge of £2.5 million in the quarter, which is reflected in the underlying loss before tax of £2.2 million for the third quarter.

Total customer loans are broadly flat as we have managed new originations and redemptions. Our prudent low-risk lending approach means we continue to see no sign of credit stress in the book. Cost of risk remained very low in the quarter at just 5 bps and our NPL ratio is just 20 basis points. Asset quality therefore has remained robust.

A slow-down in the pace of loan growth and the £528 million of net deposit inflows in the third quarter led to a reduction in the loan to deposit ratio to 105% from 109% at the half. We expect our loan to deposit ratio to continue to be managed downwards towards 100% in a controlled way. However, we do expect deposit growth to moderate in Q4 as we strike the balance between growth, the cost of deposits and ongoing capital efficiency.

In line with expectations, the cost of deposits increased to 84 basis points in the third quarter and 75 basis points year to date. The increase in the third quarter is primarily due to competitive pricing on our fixed term retail savings accounts as we consciously elevated pricing to support the brand and deposit momentum. As the quarter progressed, we gradually normalised pricing and we’re currently operating at business as usual levels, supporting our continued expectation for full year deposits marginally above base rate by the end of the year.

The reduction in NIM plus fees in the quarter was partially offset by continued strong fee growth. Fees grew 5% quarter on quarter and 56% year on year, supported by continued customer acquisition and further digital investments. We expect positive fee growth to continue to partially offset the further NIM pressure that will arise from the costs of MREL debt issued in Q4.

Reflecting all these trends the underlying cost:income ratio for the third quarter increased to 100%, and 94% for the first nine months of the year. The move in the third quarter cost:income ratio primarily reflects the income challenges I’ve already outlined, and more positively, the absolute reduction in operating costs quarter on quarter, albeit on a marginal basis. This is evidence of the focus on cost efficiency and the progress we’ve made on the portfolio actions that we outlined in the previous results.

Moving on to liquidity, our balance sheet remains highly liquid with an LCR ratio that is above the 163% that we outlined at the half year, following cash inflows from deposit growth, the loan portfolio disposal and the £350 million debt issuance that we undertook in October.

Finally, on capital, our CET1 ratio of 16.2% continues to materially exceed our Tier one minimum requirement of 10.6% and is well above our management target of 12%. Following the bank’s inaugural senior non-preferred issuance in October, our pro-forma total capital ratio plus MREL is 22.6% as at the 30th of September, which exceeds our interim MREL requirements of 18% plus buffers.

I will now hand back to Craig.

Craig Donaldson

Thank you, David.

So given all the challenges we faced this year, we're going to further and fully evaluate the balanced future growth plans to maximise returns. We need to be very clear that we are focusing on the maximising of returns.

This review will look closely at how we balance any future expansion, cost initiatives and optimising capital efficiency. Our plans regarding our C&I commitments remain unchanged. An update on revised plans, targets and KPIs will be communicated in conjunction with our full year results.

In the meantime, we will be focusing on capital optimisation, continuing to make progress with our cost efficiency program and targeting further income diversification.

David and I are both now happy to take any questions. Thank you.

Q&A

Benjamin Toms

Hi both and thank you for taking my questions. Two from me please. First question is in relation to NIM and your guidance for Q4, where you guide the margin trends are expected to continue. My understanding of this is that NIM excluding cost of MREL is flat and NIM including the cost of MREL goes down. Should we expect the NIM including the cost of MREL to go down by about 11 bps quarter on quarter in line with this quarter?

And the second question is in relation to the outlook statement where you say you'll be performing an evaluation of future plans in the quarter, the result of which we communicated at full year. What options are on the table here? Are you talking about further loan sales, securitisations and further slowing down of growth or all of the above? Thank you.

David Arden

Hi, Ben. It’s David here. I’ll take the first part then I’ll pass onto Craig for the second. So, quarter on quarter, Q3 into Q4 I would expect headline NIM to be broadly flat, excluding MREL. MREL, as you know is a £33 million charge. So, when you feed that into a flat NIM in the quarter, you should be able to articulate what we think NIM will be in Q4 and it's not a million miles away from what you suggested. So, Craig?

Craig Donaldson

Thanks, Ben. So, we've had a challenging year, as we've said so far, and post the MREL the board has taken the decision that we should be fully evaluating the plans we have in place. What that means is we are looking at how we manage ourselves going forward within our equity to manage the cost, growth and capital efficiency, whilst remaining within the equity that we have in the business today.

What it doesn't mean is that we're challenging creating FANS and that we won't be absolutely 100% focused on delivering amazing service because that's the core to the organisation. But how we deliver that amazing service and how we create FANS and how we do it in the most capital and revenue efficient way is what will be focused on as part of the evaluation that we’re undertaking. Thank you, Ben.

Benjamin Toms

Thank you, both.

Christopher Cant

Good evening. Thank you for taking my question. I appreciate you may have more to say at the strategy update, but if I look at what you've printed for the quarter and I strip out the asset sale loss you mentioned which I think is the negative in revenues within the asset sale line, if I take that out, but I put in the cost of MREL, I think your cost income rate would be around 106%. Obviously, you're currently above target on loan to deposit so if I was to adjust your 3Q balance sheet structure for a loan to deposit ratio in the middle of your 85 to 90% target range, displacing loan assets and assuming they're replaced with treasury assets based on the average yields you disclosed on those two books during the first half, I think that would take your cost income run rate to about 122%.

If I look at consensus and I know you don't compile an official company consensus but looking at Bloomberg consensus the market's expecting you to be profitable next year and in 2021. Given that it looks like you're going to be unprofitable at a pre-provision level for some time do you think consensus is realistic in expecting you to be profitable either next year or in 2021 please? Thank you.

Craig Donaldson

Chris, hi. Thank you for the question. Obviously, I can't comment on where people have put their positioning on the forward look. We don't comment on that. What I would say is we were very clear at the half year what we expected to happen with NIM. That has happened and we've been, I hope, very clear on what we expect to happen in Q4. I think David set it out very clearly. I think it is set out in the RNS that went out a little while ago. And I think if you carry that through, I think your maths on the NIM and how that plays through is spot on. However, I think there is part of the evaluation that is around where we would look to manage our loan to deposit ratio, how we would look to have that loan to deposit ratio made up. And also we'll be looking at cost and how we manage our costs, both in the existing business and as we move forward.

So, I think that you're taking your guidance or your thoughts on looking forward, but not thinking about the other parts that could move to manage the balance sheet and the business in a slightly different way. So, I would suggest to you that the whole point of the evaluation that we're doing is for exactly the reason that we are reviewing our costs, our capital make-up, our balance sheet, having where we lend driving capital efficiency, and what things like our loan to deposit ratio, our LCR, etc. would be at. And that's why we want to take the time to work that through properly. But I would agree with you. If you want to draw lots of lines, take lots of scenarios, you can come up with a number of different scenarios.

That's why we want to take the time to do it properly.

Christopher Cant

Okay, thank you.

Craig Donaldson

Thanks, Chris.

Joseph Dickerson

Hi, good evening. You already answered most of my questions. Just a couple of things. What was the store count as at the end of Q3 please? And then the other question I had is the consumer finance or consumer lending loans were down - I know it's a small number - were down 8% Q3 on Q2. I thought this was an area that you were looking to grow in the future. Any comments on that trajectory?

Craig Donaldson

So, Joe it's Craig here and thanks for the questions. The store count - a slightly different ways of answering it. The store count I believe was around 70 at the end of Q3, but I think we'd opened around about five stores during the first nine months of the year. We actually opened in Birmingham, Solihull and Merry Hill during the quarter and prior to that we opened in Moorgate and in Enfield in the first half.

Joseph Dickerson

So, three stores in Q3?

Craig Donaldson

Three stores in Q3 as we entered Midlands and we opened up a new market there, which is very exciting for us. So, hopefully that answers that one.

On consumer lending, we currently as part of our development, we're building out our new business lending platform and we've also entered into a partnership with Funding Options for lending as well, done through the store for customers who we may not be able to support within our risk appetite.

So, these are the type of things that will help drive forward our consumer lending at a cost efficient level. So, yes, we have seen some reduction as you said in consumer lending as we've had some loans paid back and as we've managed our capital efficiency over the last few months but what we've done is just implemented a new fintech partnership and what we are doing is building out a new consumer finance business lending platform that will launch next year that will help drive that forward and that was always the plan.

Joseph Dickerson

Thanks.

Robert Sage

Yes, thank you very much. I've got a couple of quick questions. Again some of mine have been answered and I think that goes back to the first one to your comment that there's going to be this strategy update and I heard your commentary around a number of things that you're going to be revisiting and I guess my question is in two parts.

Firstly, looking at Vernon's departure, it's easy to think that he's gone therefore you're going to be completely reigning back in terms of your ambitions and I was wondering, presumably you're pressing on with plans now and that you don't really need a new chairman in before you actually go live with where the new strategy might fall out. And I guess the other aspect of this question is this – and this I think came out perhaps from your answer to Chris Cant's question - presumably, when we're sort of looking at trying to take a view of where this business goes forward, then we should really jettison a lot of, or pretty much all of the growth numbers that you put out. You know, deposit growth of 20% per annum, all that type of stuff etc. Is that correct or is that slightly over egging it and is there going to be much more fine-tuning of it?

And the second question was could you just give a quick comment in terms of anything happening on the incentivised switching scheme (ISS). I see SME balances on the loan side are fairly flat, but whether there's any movement there or not? I'd just be interested.

Craig Donaldson

Robert let us try and answer that and if we miss something, please shout out and ask us again. So, on your first point about the evaluation of the plan and re-evaluating the plan, my view is very simple. It's with the macroeconomic environment we're in, with what's happened and the challenges during this year, it is the right time to review the plan of how we take the organisation forward. As I said absolutely the core of us will be delivering the service that you would expect but exactly how we do that and with growth, I think it will be driven by the equity that we have because what we need to do is grow within our equity stack and what we need to do is prove return on that equity stack to a point at which the markets and our shareholders are comfortable before we would ever consider stepping out and talking to people again about more equity.

So, for me it is really simple. We work within our equity stack. We build the plan to work within that and deliver the returns that our shareholders would expect of us. By doing that, then we can look at growth plans, but at the moment I think it's far more important that we manage that equity and that we manage our growth within that equity and we manage our capital efficiency to help us to deliver more within that equity and that's what I think the plan will be very much focused on.

So, I don't think growth is thrown away. I think it's all about timing and in the macroeconomic environment we're in with what we're dealing with, and with the equity stack that we have, I think that we have to adapt ourselves to prove out where the challenges are. Whether that will wait for the chairman, I think we're being very clear in the last bullet point in the RNS. In the intervening time we're going to continue to optimise capital, we're going to continue to progress on the cost efficiency, and we're going to continue to target further income diversification.

I think that most people would agree they were the right things to focus on as well as delivering the service that we are renowned for and I think that that will continue, the evaluation of the plan will continue and I would suggest that we are working with the board on this and I would hope we'll have the chairman on board, but I'm not involved in that, forgive me. That's being led by Sir Michael Snyder and Roger Farah. My job is to work with the board to get the evaluation in the right place and get it ready for us to announce in new year.

And then, sorry I can't remember. Your second question again? My apologies, good sir

Robert Sage

Just on the incentivised switching scheme.

David Arden

I think it's fair to say, Robert, that it's continued to be quite slow. We're not seeing any material increase from the ISS and I think that's true of all players in the scheme. I just think it's been disappointingly slow so far.

Craig Donaldson

I think we're taking our share of the numbers but that's just our share.

Robert Sage

Thank you very much.

Michael Perito

Good afternoon, thanks for taking my questions. I have a couple of them. I wanted to start just on the fee growth. Craig, I wondered if you could maybe split that out a little bit for us and tell us where the success this year has been, and then also just trying to get a sense of how far along we are from a penetration standpoint. How much more growth potential there is embedded in your customer base that really wouldn't require dramatic further investment to drive future fee income growth?

Craig Donaldson

Certainly, Mike. Thank you. So, your first point about the split out. Really, it's been driven by three core things, actually. One is we have increased some fees. We've increased those at the end of last year, things like safe deposit boxes, some interchange on some card transactions and the fact that we've been announced as number two in the business market and number one for personal, I think shows that we rightsizing the fees because it hasn't damaged the metrics around the service that we're delivering, but part of it is rightsizing fees and making sure we sit in the right competitive set.

A part of it then has been the new services that we've launched. Launching AI into the mobile app again helps as that impacts on the services that we can charge for with Mastercard, launching our trade finance offering that we just launched. We already had a number of customers who wanted trade finance from us but previously we've had to introduce them to third parties as we've not being able to fulfil what the customers wanted from us. By being able to fulfil for those customers, we've just taken more of the value chain.

And therefore, we absolutely were clear about how big that value chain could be and there's a lot more to go. And then the third one is about winning more customers. As we said earlier, as we spoke, we've won over 100,000 new accounts over the quarter and that genuinely helps drive the fee income. Now, how much penetration there is? I think there's a lot more to go. We've just launched trade services and we can definitely drive into that. There are number of opportunities we have, both on the existing book and as we launch new services and as we win new customers to drive fee income through adding value to our customers significantly more.

And that's why when we talk about fee income growth, we are confident about the continued growth quarter on quarter in our fee income because we know we've got the growth in the customers and we've got the growth in the value added services that we're launching and that customers want to buy from us.

David Arden

And if I may Mike. I think the bulk of it is driven by increased volumes and those increased volumes we expect to continue into Q4.

Michael Perito

Cool. And secondly if I look at the makeup of your deposit portfolio after some of the outflows you guys have had over the last six or seven months or so, it's much more heavily tilted towards retail customers than corporate than, at least in last two years, I think it was the other way around.

Do you anticipate that to be the case moving forward now, noticing more outflows at the tail end of the third quarter, are you noticing more opportunities on the retail side than corporate. Do you expect that to have any longer term impact on your overall cost of deposits? Is there a noticeable difference between how the commercial deposit accounts are priced and the retail deposit accounts are priced?

Craig Donaldson

Thank you, Mike. So, I think the question was around how do we believe the deposit book will change overtime and obviously we're doing the work as we evaluate the plan. But our view is simple. As we manage the organisation to fit within the equity that the organisation has, the absolute first focus would be on winning more personal and business current accounts and the trading and the fee opportunities that go with those personal business current accounts and they would come to us as NIBLs, as non- interest bearing liabilities, which would be at 0%.

Now, if we could fill up the whole hopper with those customers, we absolutely would love to do that. What we would then do with those, we would look to bring the deposits close to those customers in with them. And so what you're going to see is we look to manage within the equity that we have. We will manage the growth in deposits and focus on the highest returning and the most capital and liquidity efficient deposits that we want to win first, and I think that will drive the things that you suggested, definitely.

But we need to work that through in detail. I think that's something we would definitely talking about in February. But to my view, as we manage within our equity, we will absolutely manage to win the best liquidity and the best return on that liquidity.

Michael Perito

And is there a noticeable? Do you guys have the information available in terms where deposit pricing is for the retail customers versus the corporate customers as of the third quarter?

Craig Donaldson

Trying to figure it out in my head Mike. Let’s come back to that because I think at the moment, there's been a few moving feats within that. There's no doubt that when the personal customers, the commercial customers, you hold more liquidity against those, so we've always, the commercial deposits, if you look on page two in the RNS, you will see the movements. Where you've seen more movement of liquidity, we would have been holding more liquidity against that anyway, so therefore it may have been liquidity, but it was less profitable liquidity and what I was talking to you about is we will be holding more profitable liquidity as we manage the growth within the equity.

So, I think your assertions and your assumptions will prove out correct. I just think we’re in that migration as we speak.

Michael Perito

Okay, thank you guys. Appreciate it.

Robin Down

Good evening. Thanks for taking the questions. Just a couple really on deposit pricing. You give us this target for the full year of being perhaps slightly above base rate of 75 basis points but clearly, given it’s Q4 and you're looking at a full year number there, that gives us quite a wide range of outcomes for Q4. I just wondered if you could still slightly narrow it down for the quarter?

And then just second question, just looking again, it’s actually the same question. Looking slightly further ahead into next year, given your MREL position and the lack of capital generation, it’s clearly difficult to grow the loan book from here and obviously loan to deposit ratio is well above your target level. Should we expect to see you looking to try and reduce that average deposit cost through 2020 as you have less demand to attract in new funding? And I would guess the mix moves more towards current accounts.

David Arden

Hi there, David here. For Q4 cost of deposits, as we've articulated, we did elevate fixed term retail deposits in Q3. We re-priced down twice in August and once again in September, and we are now very much BAU. We do not anticipate going back into what I would describe as on-line pricing levels in Q4 and that will be a driver of Q4 cost of deposits.

So, I would expect it should be marginally down in Q4. You're absolutely right. As we look forward into 2020 and we look at determining what the growth levels are for the bank and the evaluation of all the options in front of us, a lower growth rate will imply, on the asset side lower deposit growth and as we lower that down, we should be able to, as Craig somewhat eloquently describes it, fill the hopper with lower cost funding and particularly NIBLs through PCAs and BCAs which continued, even given all the headwinds that we've experienced in 2019. The underlying franchise in terms of PCAs and BCAs continues to progress week in week out.

Craig Donaldson

If I may say, we would expect to continue to lend as we move forward, but within, as we said, the equity stack and as we look to take opportunities to drive capital efficiency and release RWAs, we would look to lend that to the right customers, giving us the right return on that equity. And so it is about that rebalancing of the book, allowing us to grow the organisation within our RWAs, within our equity, by being very, very efficient with how we use that equity as we go forward. And that's why we're talking about- we talked about at the half year about a number of different options that we will pursue as part of the evaluation process.

Robin Down

Sorry, I don't want to pre-empt what you might say at year end, but on an ex-MREL basis then, would you be looking to raise margins overall for the group running into next year then as you optimise both on the loan book and the deposit base?

Craig Donaldson

I think it would be very hard to say within the very short term, but absolutely if you look at what we've been looking to do as we work through the evaluation, or the re-evaluation, of the plan is to make sure that we are driving return, the EVA for the business, absolutely in the right way. And if we're going to drive that return, that EVA, then we have to do what you've just said.

Robin Down

Okay, great. Thank you.

John Cronin

Hi guys, thanks for taking my questions. First one is on back to the NIM point in terms of the point you made around accretion on an ex-MREL basis in Q4. Just if you could confirm is that strong growth in consumer driving that because clearly you have further deposit yield headwinds coming into the fourth quarter.

Second question then is-

David Arden

John, forgive me. I didn’t say we’d see NIM accretion in Q4 ex-MREL. I said we would expect NIM to be broadly flat Q4 ex-MREL. And then when you overlay the cost of MREL into that, clearly that's going to create somewhat of a headwind on NIM and NII in Q4.

John Cronin

Okay. Apologies, but on this same question in terms of the flat on an ex-MREL basis, so presumably there's something coming through from an asset perspective given the expected further uptick in deposit funding costs in fourth quarter and my question is, is that a re-balancing of the loan mix marginally towards consumer?

David Arden

No, as I have explained we've now re-priced back down the front book fixed term which we would not expect to feed through an accretion or higher cost of deposits into Q4. Thereafter, we very careful about the lending mix and the assets that we’re putting on given the capital constraints and, as Craig describes, the equity based that we're operating under.

Craig Donaldson

And John, you also have some back book things that will play through as well.

John Cronin

Okay. Yes. Understood and then on the deposit balance. Just the comment around returning to business as normal. You've given a few updates in all of your questions. I haven't picked up all your answers actually but just want to make sure- I'm just trying to understand that in terms of the commercial book when do you think things can stabilise there particularly?

Craig Donaldson

It’s all stabilising I think that within the commercial book we have a number of good customers that we have transaction banking with. We want to keep that trading business and transaction banking. We’re actually more focused on the deposit book around the PCAs and the BCAs. So, I'm not sure that it is isn’t returning to or there. It's just the expectation going forward is we’ve obviously focused on commercial customers, we want their trading business, we want to do their lending. I'm not quite sure we’ll have the same mix in deposits going forward, though, so what will become the new norm is what we need to work through now, as part of the evaluation of the plan, because I don't think it will look the same mix as you would consider BAU as today.

John Cronin

Okay and finally is there an acceptance at board level now that the weighting towards mortgage business, I think you've previously guided to mortgages growing to approximately 75% of your loan book, is there an admission that that strategy is not conducive to your ROTE ambitions and that is feeding into your thoughts around the strategy update in February?

Craig Donaldson

I think challenging the asset mix to drive the right return on equity and the right returns for our shareholders is absolutely part of all of that. So, the mix is absolutely being re-evaluated as we've seen what happened through this year as we continue to develop our functionality and ability to fulfil for different customer needs. And also, as we continue to see the strength in our cost of risk which allows us to the opportunity to take other opportunities. So I think your question is: are those things going to be reviewed as part of the evaluation of the plan? And the answer is absolutely yes.

John Cronin

Okay, thank you very much.

Aman Rakkar

Hi, Craig. Hi, David. Thanks for the questions and the call. Two questions actually. One was, so you've indicated you’ve been managing the balance sheet in the quarter and if I look at your risk density as a proportion of loans actually came down quite a lot in the quarter. It came down significantly to what I was expecting particularly given that you sold the low-risk rate mortgages in Q2.

Is that you managing the corporate and buy-to-let loans that are now risk rated at 100%, is that you actively managing that book down? I know there was some reports about removal of exit fees to try- is that part of an effort to accelerate exit of those relationships?

And I guess tied to that, could you give us an indication of what the duration is on that 100% risk weighted loan book? Basically if it was to just naturally roll off, what time period would come through? And the second part of the question and related as well, is if I look at your MREL, I estimate given your total capital ratio plus MREL, you've got capacity to grow your balance sheet about 5% from here which to me, I know you're looking to manage your balance sheet, but to me it does looks like loan sales are a really sensible part of that and probably something that should be coming quite soon.

Is that something that we can expect to happen, potentially before year end and basically is that something that you are really quite actively considering now perhaps more so than you were before?

David Arden

On the risk density point. So, it has reduced in the quarter to 44% from 45%. The primary move was the sale of the loan book because it was held for sale in the half year accounts. But we have been, as you quite rightly point out, we have been actively managing lending volumes and the mix, which is something that we articulated back in February this year and that's all starting to play through.

With regarding asset sale options, I've been consistent in saying that we do retain optionality over loan sales. It is something that we will consider at the right time. You should consider that as the evaluation that we're going to take over the next two to three months of options for Metro Bank going forward, potential asset sales will be part of that evaluation.

Craig Donaldson

Sorry, you asked on the portfolio buy-to-let, professional buy-to-let. Most of it was written over five years. So, no I wouldn't suggest it is the run off on that book

Aman Rakkar

Thank you.

Jim McCormick

My questions have been dealt with. Thank you.

Daniel Crowe

Hi, there and thanks for taking the questions. I just had a question on your issuance of MREL and why you did it at the level that you did it at and the timing. So, I understand you had to meet MREL requirements for the end of this year, but the issue is senior debt at 9.5% kind of hamstrings you a little bit. So, were you told to issue that no matter what the cost?

David Arden

No, we weren't told to issue no matter the cost. We clearly had an unfortunate event late September. The board, as you would expect, considered the options and concluded that executing the deal as quickly as possible was the right thing for Metro Bank, particularly when you consider the ongoing market dislocation, or potential market dislocation, that could be caused by Brexit and the broader macro environment, so we saw an opportunity in front of us. I fully accept that the cost was somewhat elevated, but I think it was the right thing to do for the long term of the bank.

Daniel Crowe

Okay and then just a follow up question. You talk about managing the growth in the bank to your equity, but are you really not managing effectively to your MREL requirement?

David Arden

Yeah, we're very focused on our total capital ratios and our total capital requirements, so that's implicit but absolutely that is the case.

Craig Donaldson

All I would say is I imagine that, or I would expect that as we deliver on the foundations of the organisation on the evaluation of the plan and move forward, there will be opportunities to consider MREL at different points. I would not expect to be doing that with equity in the same time frame.

David Arden

But for the avoidance of doubt we wouldn't expect to be back to the market in the near term.

Craig Donaldson

Absolutely 100%.

Daniel Crowe

So, I guess we assume then that we're not going to see RWA growth effectively but this cost means that you need to grow into your new cost base?

Craig Donaldson

If you look at our- we are sitting today, and I think the pro forma in the RNS said 22.6% and we have a number of opportunities that we will be pursuing or looking to evaluate around driving capital efficiencies, looking at the capital efficiencies, looking at the buffer we have over MREL minimum requirements at the moment. There are opportunities. But we will take those opportunities in a controlled way to drive the right return to the organisation. Thank you, Daniel.

Daniel Crowe

All right. Thank you.

Shailesh Raikundlia

Thank you. Good evening, guys. Just a couple of related questions actually. I just want to get back on the deposit growth guidance that you've given for the fourth quarter. Are you saying that the growth is to moderate - obviously quarter on quarter we saw just under 4% growth, year on year it was down 4%. So, I'm just trying to get a sense of where you see deposits at the end of the year. Are you thinking flat to maybe even down? And related to that, just coming back to the liquidity requirements and the LCR you're saying in greater than 162% now.

I'm just trying to ascertain that if the deposits don't grow much does that mean that you might have to make further treasury asset sales or is that pretty much done? So, are we going to see some more drag on NIM because of the sale of the treasury assets? Thanks.

David Arden

On deposit growth as we've clearly articulated we would expect deposits to moderate in Q4. Q3 growth was half a billion pounds. Given the postponed MREL and the fact that the stability is stabilising rather than stabilised, it is something that we need to just be very mindful of. I would expect to be somewhere between 2-250 of growth for Q4.

Thereafter- what was the second part of the question?

Craig Donaldson

On liquidity requirement, I think that our LCR is very high as it is today. I think that we also have the option of treasury asset sales, but I wouldn't anticipate requirement for treasury asset sales and as David said, if you have a look at the deposits, I would expect it to moderate below the half a billion we did in Q4 to fit with the lending we want to do as we move forward. To me, as we've discussed on several of the different calls, it'll be managing our deposits within our equity and the lending that we want to do to make sure that we balance that revenue return for the long term.

David Arden

Our liquidity is very strong today.

Shailesh Raikundlia

Okay. Thank you.

Otto Dichtl

Hello. I was wondering about the process that I think you still have with the PRA regarding potentially higher charges for operational risks etc. I was just wondering if that has concluded yet or if that's still ongoing. If you could comment on that. Also if there was a higher charge would that impact your MREL requirements or is the interim MREL independent of that? Thank you.

Craig Donaldson

Our pillar 2A remains the same at 1.52% and there's no update to give there I'm afraid.

Otto Dichtl

Okay, thank you.

Brad Golding

Hi, it's Brad Golding. Thank you for taking my call this time. Really a follow up to Otto's question. There are a lot of constraints that are being imposed on the bank in terms of the dramatically higher costs from the senior issue, potential fines, potential increase in the operational cost. In February, will one of the options be that the bank cannot operate profitably given the constraints and it may be time to sell the bank? I understand that's a board level decision, but this seems like the 800 pound gorilla that no one has addressed.

David Arden

The board are very focused on undertaking the evaluation over the next two to three months and we've been clear that we will come back to market with the output from that with revised targets and KPIs. We can't obviously comment on any speculation around take over, but just to be clear, the board is very mindful of its fiduciary duties.

Craig Donaldson

But I would say, Brad, to be clear, we are very clear we have a resilient and strong business here that continues to deliver great service and win customers and absolutely we are building a plan that will deliver what you said. And so we are very focused on our organic way forward and focusing on the organic way forward but, of course, as David said, should something occur, we will treat it with the right respect because that's the fiduciary duty of the board. We are very focused on the organic way forward.

Brad Golding

Thank you very much.

Christopher Cant

Thank you for taking a follow-up question. I just wanted to come back to you on your comments around deposit growth into the fourth quarter. First of all, you've talked about returning to business as usual on deposits. Are deposits today lower than end September? That would be the first question.

And secondly in terms of driving the loan to deposit ratio down to close to 100 by the year end, your comment about 200 to 250 million of deposit growth would suggest limited progress in that direction unless you're either selling loans or expecting the loan book to contract in the fourth quarter. Are we now into a world where you're expecting the loan book to be contracting, please? Thank you.

Craig Donaldson

So, Chris. It's Craig here and thank you. So, on the loan book. I would expect it to be pretty flat. I'm not sure it will contract, but I would expect it to be pretty flat and very similar to around what happened in Q3. With regard to deposits, we're really not going to get into giving monthly updates on deposits. As we said, we saw some outflows on the back of the speculation around the postponement of MREL.

MREL was postponed until early October and therefore the tail did move through into October. But the business is returning to BAU and that will continue and we will win customers as we continue to do and grow deposits. So, I'm not going to go into on a month by month blow now because we need to move away from that. I hasten to add the postponement MREL was not the best thing we've ever done, and we're very clear on that as David said. And it did have an impact and that's documented in the RNS. It's back on with managing the business to grow in the right way within the equity and the total capital, including our MREL that we have today. Thank you, Chris.

David Arden

We'll bring the LTD down to 100% in a controlled way. We're not going to increase deposit rates or do anything silly. We're just going to manage the business in a very considered way over the next few months, while we fully evaluate the options in front of us.

Christopher Cant

Okay, thank you very much.

Craig Donaldson

That, I believe, was the last question. Can I just say thank you to everybody joining the call. Thank you for your continued support and questions and challenge. Obviously, we are very focused on delivering the things that we said. We are very focused on delivering to continued service metrics that we have and we're very proud of that. But we're going to do is by optimising our capital, continue to focus on delivering cost efficient progress and also targeting through further income diversification, which is very important for us.

All of this, obviously, we'll be doing whilst we are also re-evaluating their plans for our way forward. What won't change is focusing on our customers. Thank you very, very much for your time everybody.