Metro Bank FY Results 2019

26 February 2019

Dan Frumkin (CEO) and David Arden (CFO)

Presentation

Dan Frumkin

Well, good morning, everyone. Before I flip through, I know everybody has a deck and the tendency is just to want to start flipping through the slides so if I could ask just bear with me for a minute as we get through the process. I just want to do a bit of an introduction so that you know bit more about me and a bit more. And I want to start with thanking our investors and analysts in America. So, it's early here, but much earlier for them. We did really make a decision to prioritise colleagues and customers. So, we moved it back to the morning, so our colleagues can be more engaged and be with their customers during the day than doing it at night. I fully accept for some of our US investors that I've had a few emails already this morning. I would say a couple of them were expletive-laden, if I was honest. But that's fine. I'm a big boy, I can take that. So, I just want to thank them and just let them know that we really prioritise colleagues and customers.

I guess I'll start with a bit more about me so I'm him. At the end of the day, the reality is that I'm an old -- and old is the keyword -- community banker from the US so I grew up in community banking and really made my career in banks that are dedicated to making the communities they operated in better and in banks that focus on SME lending, retail banking, unsecured personal lending, credit cards. All what I would call basic community banking. We had good private banks. We had everything you would expect to have. We had a good asset base function. I was an asset-based lender for a long time. What you would call asset finance and invoice finance. So, I grew up as a community banker.

I just want to also be really clear because everybody thinks every American knows every American. I met Vernon for the first time in June. So, while I am a community banker, I was raised as a community banker by different people than Vernon and Vernon's group, so that's it. Beyond being a community banker from the US I've worked all over the globe. I've done stints in Eastern Europe. I was just in Bermuda for a handful of years. I worked here in the noughts for RBS and then I helped restructure Northern Rock and then I went to Latvia and restructured a bank in Latvia, then I went to Bermuda. Carlyle, the private equity house had just recapitalised the bank in Bermuda. So, I went there to try to help fix and get a bank that was loss-making back to generating good returns. When I left Bermuda was trading, well, it traded as high as 3.6 times book. And when I left it was trading about 2.3 times book, so it was a pretty good success story.

I guess a bit more about me, so why am I here. The reality is I guess I fix things. So, I was asked one time to say what I do in less than a sentence and I think simply that's who I am. So, I quite like the challenge of change. I quite like the challenge of transformation. I quite like the challenge of putting banks back on a firm footing and giving them a future. So, that's who I am.

Let's talk about the journey I've been on since I arrived. So, I came on September 2nd. I arrived in the country, so I haven't had my six-month anniversary yet. It's been quite a journey for six months. Let's talk about the past. So, when I first arrived, for probably the first six or eight weeks, I was unsure whether there was a path forward as an independent company for Metro Bank. Getting the math to work was hard and getting the math to work was hard for a couple of reasons. One is, if you're a restructuring guy, if you're a fixer, the reality really becomes is you tend to focus on costs. It's the most believable part of a plan. It's the easiest thing to do. You tend to shrink the business to a point of break-even and then you grow it from there, yeah?

Metro doesn't really have a cost problem. We're going to come on to that in a little bit. So, we can nibble around the edges. So, it became sort of a conundrum. So how do we actually get the math to work? So, then I started spending some time with colleagues in the store, started digging through our customer penetration numbers, started understanding our business model and how it resonates and spending a lot of time digging into the service proposition that we've built. That unique service proposition really is a differentiator and it gives us a real opportunity to grow the bank out of its current situation. So, this is a J curve turnaround, as most are. But it's really based off of revenue. So, what you need to believe to believe in the Metro story is that we can deliver more revenue from our existing customer base and grow more customers and we'll get into that and I'll give you proof points and we can talk about what it looks like. But there is a path forward that gets us to a really adequate return for shareholders over the medium term and I'll walk you through that math. So that's the history, so that was the beginning, so let's fast forward to today.

I was lucky enough to be offered the CEO job both on the interim basis and then there was a process we went through to determine whether I'd be offered the job on a permanent basis. And I was lucky enough to be offered it, and I feel truly blessed because actually there is a huge opportunity to take something great and Metro is genuinely great, number one for in-store service, number one for online and digital service. It is a great franchise that has kind of lost its way, and has a business model issue.

But at the core it's a great franchise and it's full of great colleagues. So, the people who work throughout the bank, be it in the AMAZE central, be it in the stores, in AMAZE direct, in any one of our businesses, they're genuinely focused on doing the right thing for the customer and again as I said, I'm old. So that is, I think, maybe one of the things that's good actually, because you only have one choice, right? So being old is much better than not being old. There's only one other outcome. So, the reality is that I'm old and that experience, I worked in lots of places that have generally talked about being customer-focused, have generally talked about putting the customer at the heart of what we do. I've worked at big banks. At one time I worked at the largest bank in the world.

It just didn't filter through into the ethos of the underlying culture. We were target-driven, we cared about the number of units you were shifting. We were product pushers for all intents and purposes and to be in a place where we actually we live and breathe the ethos of being customer-focused is great, so that's today and I'm thrilled by the opportunity to lead such a customer-focused organisation and then we talk about tomorrow. So, let me paint a picture of where I think we are.

So, this business starts to become profitable over time. We start to generate really good returns and we do that by meeting more customer needs so as much as we're surprisingly delighting customers today and creating more fans, the reality is, is that we do more and more of that. And that is just lovely for a CEO to be a part of because it allows our colleagues to grow. It allows them to continue to advance their careers. We create opportunities for our people that they just wouldn't have without us righting the ship and getting it going forward. So, the future is quite bright, yeah? And so, I'm really quite excited to be a part of it. So that's me. That's who we are. Let's get into the deck.

So, what have I done? So, when I arrived on September 2nd, nothing was off limits. There were no sacred cows. I looked at everything. As we go through the deck, you'll see that we looked at everything from stores, to C&I, to everything. So, what works? I spent a bit of time on this in my preamble, but we do generally have a differentiated customer proposition. Retail deposits grew 33% in 2019. So, pause on that for a second. 2019 wasn't the best year for Metro. We might have been in the paper just a little bit. We might have had a bit of negative press and we still grew customer deposits by 33%. Now, for the clever analysts in the room and everything else, we're going to have a conversation about cost of deposits, and we'll get into all that, but the reality is, is customers chose us to increase their deposits with us by 33%. It's quite a statement.

SME deposits were up year-on-year as well. Only 3% but honestly, SME deposit growth of 3% a year is pretty good off the back of the year we had. We grew accounts by almost 400,000 accounts in 2019. With all the headwinds we grew accounts by almost 25%. Yeah?

And one of the things that gets lost and seems to become a story and I don't understand how we got there, our balance sheet is almost a fortress. So, we have LCR ratio that's almost 200%. We've got capital ratios that are in the 20s. The reality is it's a pretty robust balance sheet. So fine, those are the good bits. Those are the good bits you can leverage across. Then we get into what I would call external headwinds, which everybody knows. Ring fencing's been a unique challenge. The rate environment has been lower than anybody would have expected for longer than anybody would have expected.

So, it's difficult running a liability-led business and making money in an environment where interest rates are damn near zero, but that doesn't matter so the plan assumes that we have flat rates going forward. We're not telling you we get the adequate returns because we're expecting rates to rise. No, we need to do the hard yards to actually make sure that we can deliver the right returns. So, some of the internal challenges and honestly, all you've got to do is read the analyst reports. They're all really good. So, the reality is that we spend a lot of capital on stores. So, we'll come back to the store proposition.

We're growing costs faster than revenue. Not clever for any business, whether you're bank. It doesn't matter what you do. If you're growing cost faster than revenue, you have a problem. There are some bits missing. So, our shelves are broadly empty. We run a retailer, yeah, so if you walked into a Next and you walked into the store and half of the racks were empty, you would know that store was going to have a hard time generating revenue because they had nothing to sell. Well, you walk into our stores and we're not really very good in unsecured personal lending. We're not very good at credit cards. We're not very good at overdrafts. We're not very good at SME lending. We can't open up business accounts online as we sit here today. There is a lot missing.

And it's not that our colleagues in stores don't want to have those conversations. It's not that our colleagues in stores aren't up for meeting more customer needs. We have just created impediments for them doing it. And my job fundamentally is to be an impediment blocker. I need to rip up impediments. I need to make sure no more get created and we need to allow and unleash our colleagues to look after their customers.

And that's why we'll spend some more money on investment in people processes. Then you start to look at, OK, so if that was the set that I walked into, what did I do? And I would say, again, I'm old so one of the things that happens with age is you lose the desire for fancy names and a bit of BS. So, as I laid it out. It's costs, revenues, infrastructure, OK, balance sheet optimisation, I'll give you that's a little tricky, right, and not to mention I needed to do the S instead of the Z, which was a little confusing for an American slash Brit.

And then you know internal and external comms I'm going to spend some time on because I don't think it's something we've covered itself in glory, and what does that mean? That means if we do all of that we will become the UK's best community bank. I think we probably already are, so I would think we stay the best community bank in the UK.

So, let's go through a little bit more. So, these are the core foundations. What isn't changing. So, in one of my first, I think in my October presentation to the board, I did a paper that was what was going to change, what wasn't going to change, what we keep, what we lose, that kind of pretty simple. And we're going to be open 362 days a year. We're staying open seven days a week. We're keeping extended banking hours. All of that is staying. We're going to keep the magic money machines, we're going to keep the free lollies, we're going to keep the free dog biscuits. We are a dog-friendly place, there will be dog bowls. That's part of who we are. We're completely staying at the heart of our communities.

So, I've been to every store. I've been to every Amaze Direct site; I've done all that in my first handful of weeks. It was great. All the stores are lovely. I had an interaction with somebody who was a local business manager in one of our stores. And he's like well, we were talking about today. We're talking about today and we're talking about how we communicate today and what we do, and how I was going to prioritise colleagues over, really, investors and analysts. I started with colleagues last night. I was on the phone with colleagues this morning at 6:30 in the morning, so even before we've gotten to today, this moment, I have spent time with colleagues because honestly, I think it's important to bring them on the journey and we were talking about how he would cascade the message to his customers.

And I just left another store and the LBM was like well, we have a calling tree. We're ready to make calls. We're going to be out there front-footed. All that is great. It's lovely. And he's like well, we don't want to do that. We don't want to do the calling tree thing because our customer base is different. We know them better. Actually, they'll stop in and all that and it was a moment for me. So, at RBS I can tell you exactly what would happen because I was in the centre and I ran products and commercials and the P&L for the retail bank. We would have had a dictate that every business manager in the stores had to call their top 20 customers and then report back to the centre about the percentage of customers they actually talked to and give us feedback. It would not have been optional. It would not have been local. It would have absolutely been dictated from the centre.

The reality is for that local business manager who said that to me, it's fine. It's your business. So, the stores are theirs to run because they're closest to the community and they know what it takes to be successful in the community.

We've taught 45,000 children this year about money. We've run 1500 money zone events. It might not be on TV like some others, but the reality is, we're actually doing it. And it's a huge part of how we help the community grow and prosper over time. We're only as good as the communities we operate in. They grow, we grow.

Colleagues. So, this only works through our colleagues. I can talk to you till I'm blue in the face. We can have lots of conversations. Doesn't matter. It's the colleagues and the interactions with customers that will make a difference for the organisation going forward and you know, we have colleagues who believe in Metro. And the bit I'm most proud of and one of the reasons I really, really wanted the job is because 80% of our store managers and 75% of our assistant store managers were promoted from within. We grow our own.

We have a young kid who joined us as an apprentice. He's on the cusp of becoming a local director. That means he's been promoted about seven times already and he's been with us for a handful of years. He's exceptional. He didn't know what a job was when he joined as an apprentice. It was his first proper job. He didn't know about making time, he didn't know about tying a tie. He didn't know about anything. And he is on the cusp of actually becoming quite important in the organisation and we're thrilled by that. It is those moments that actually give me heart and make me want to make the business successful.

So, all of that in terms of customer proposition. You say “OK, that's great. Why are you wasting the money? You shouldn't be doing it”, fine. It's not a waste of money because actually people value it. So, we're number one for in-store service. We're number one for online and mobile banking and you say “OK, well, that's great you’re in the stores. But are you getting any value out of it? Are you monetising the stores?” OK well. We grew accounts by 385,000. Actually, you can see the personal current account and business current account growth in a very difficult year. We kept momentum in both of those. And as I said, we grew retail deposits by 33% in the year and the CAGR for the last five years, including 2019, which you know, we had a bit of deposits go backwards thanks to some of our corporate depositors. The CAGR for deposits is 30% over the last five years. I don't know there's not too many banks in the world doing that.

Again, relatively simple, simple words, but what does it mean? So, we need to focus in cost. We need to focus on some back-office efficiencies. We don't have the level of automation and straight through processing you would expect for a ten-year old bank. It's a little clunkier than I would have imagined so we need to put some time and energy into getting that fixed. Our organisation can get a bit unwieldy, and then property. And we'll come on to property in a little bit, but everybody knows London relatively well. Everybody knows we have 20 Old Bailey. We rented three floors in 20 Old Bailey and we're paying, I don't know, 65 a square foot, plus or minus a little for three floors.

And we've put operation centres there. We've put call centres there, we put IT there. We put change there. It's unusual for any business in a bank to choose one of the three or four most expensive cities in the world and then choose property that is probably some of the most expensive property you could find in that city in the world and put those types of functions in London. So over time we need to figure out a way to right-size that. I don't know what that means yet and I apologise for the lack of specific detail and I know I will get follow-up questions. I've been here less than six months. We're still doing the work to determine what that means, but we're working through how we could actually get the property portfolios to be more appropriate.

Revenue. So, I told you it's a J curve turnaround, relatively straightforward and then it's not cost-driven. It's a revenue story. And I'm confident in the revenue story because to be honest, there's lots of customer needs we're not meeting today, and we'll just meet more of them. And there's some new capabilities we need to deliver partly through C&I and elsewhere.

Then infrastructure. So, we need to spend money to make costs and revenue happen. We need to fix some things, so at the end of the day, the business investment was broadly focused on creating new stores. The capital spend was on building out the store franchise, very much the front end of the business and maybe the investment in some of the backend functions and support functions wasn't what it needed to be so part of what you'll see in the infrastructure spend is things like some risk remediation stuff, some additional investment into the risk function, additional investment into the finance function, building up our control environment so that it's a more robust infrastructure as we go forward.

Balance sheet optimization, everyone expects to be part of the plan. Nothing fancy in it. The bank has not been focused on risk adjusted return on regulatory capital the way I would expect a bank to be focused on risk adjusted return on regulatory capital. It should drive all the decisioning we do. We should be about optimising shareholder value and we do that by building a sustainable business that can survive. And again, while it's a J curve so tangible book value in a J curve, we can argue what it looks like in the early years, but once we're through that J and out the other side, this place will become fanatical about growing tangible book value. Because it's really all that matters.

So, we will focus on it in a way that the place hasn't focused on it in the past. Internal, external comms, I'll come back to. But we weren't really great internally. So, we had store colleagues in the start of the year who were having customers walk in and having conversations with the customer and they could only brief them based off of what they read in the newspaper themselves or online. We weren't necessarily valuing our colleagues in that process. We were so reactionary. And we've spent a lot of time and energy now to kind of frontload that colleague communication and I think our external communications, if I'm honest. And we'll come back to it, but our guidance hasn't been very good. So, you go back through and you look at what we've guided and how we helped you build models and think about the business going forward. We've not really been very good at it.

So, all of that will lead us to becoming the best UK Community Bank and then to not want to bury the lead. This business can be an upper single-digit return on tangible equity business by 2024 by just doing that on the top. And the key to the whole thing isn't actually one through five. It's the last three words on the top slide. So, we just have to execute getting the place fixed.

And that's really what all that's about. And I'll come back, and we'll spend some more time on that and give you some proof points and walk through. With that, I will turn it over to David to walk through the 2019 financials. Thank you.

David Arden

Thank you, Dan. I'll just get a bit more water because I've got a bit of a cold, so you'll have to bear with me. Good morning everybody. Turning first to our full year KPIs. Clearly, financial performance reflects the challenging year for the bank. We've been impacted by heightened competition, increased regulation, and firm-specific headwinds.

The underlying loss before tax of £11.7 million was primarily driven by margin pressure caused by mortgage competition, asset sales, higher deposit costs, higher interest charges from debt issuance. Our statutory profit, which I'll talk about in a bit more detail, was further impacted by a write-down of intangible assets and the derecognition of the deferred tax assets. Both of these items, neither of them have any impact on regulatory capital, as I'm sure you know.

Our capital and liquidity was further strengthened through the year with our total capital plus MREL up to 22.1% and our LCR up to 197%. Despite the headwinds, as Dan said, the core franchise has continued to work. It has momentum. We've had strong growth in customer accounts up to 2 million and we've delivered exceptional customer service, which is reflected in the CMA survey results. So, in short, we have a strong balance sheet. We have a core franchise with underlying momentum. We clearly need now to focus on profitability going forward.

Turning to our statutory loss after tax in more detail. It's principally driven by the write-down in intangible assets. This relates to the discontinuation of IT projects that do not form part of our strategy going forward. There's a number of items in there. We've done a thorough review. To give you one example of the IT projects will be that the commercial lending origination platform has been written down. It doesn't mean we're not using it but given the slower pace of growth we can't justify keeping it on the balance sheet.

Going forward, we will be capitalising much less in the future than we have done in the past. Broadly, the business was 80/20 capex/opex in terms of intangibles. We're going to flip that round going forward simply because we think it provides more transparency for our stakeholders and our readers of our accounts, and it also provides greater accountability within the business.

The £53 million derecognition of the DTA reflects the short-term profitability outlook, particularly given the level of investment we're going to put through the business over the next 24 months. Of course, we will retain the economic benefit of brought forward tax losses going forward. In practical terms that means that our effective tax rate in the future will be less than if we haven't written it off. Quite an important point for your models.

Also, below the line are the remediation costs. There's a number of items in there, principally though it was the RWA remediation programme and associated investigations. It's also the previously disclosed and self-identified work we're doing on sanctions procedures within the bank.

Looking forward it's difficult to guide on below the line items for obvious reasons. However, I would expect that remediation costs will continue into 2020, albeit a lower level of absolute cost than you see in 2019.

Turning to capital. Our capital and MREL position has been materially strengthened through the year. We obviously have the equity raise. We sold some treasure assets. We sold a mortgage portfolio and we completed our MREL issuance in Q4. We are well capitalised. Total capital is 18.3%. Total capital plus MREL is 22.1%. We are very focused on the delivery of our plan without further equity. The plan assumes no further equity injections.

We're also focused on minimising the requirement for further MREL by increasing our focus on balance sheet optimisation and RWA efficiency. Initiatives could include asset disposals, secured wholesale funding options or other initiatives. We're actively working on those today, but we'll only do the right thing at the right time for the bank. We do though recognise that MREL is the binding constraint on the bank in terms of growth and we are guiding up to £500 million of MREL issuance by 2022, when full MREL takes please.

Turning to deposits. The reduction in larger commercial deposits has obviously been well documented. But we're really pleased with the growth we've seen in both personal and SME deposits, which in total are up 21% year-on-year. These core deposits now make up 70% of the base, up from 53% prior year. Our cost of deposits increased to 78 bits for the full year, reflecting the increase in retail fixed-term deposits in the second half. Our normal price position for retail fixed is Best Buy on the High Street.

In the second half of last year, we stepped up into the online space. We're now firmly back into our Best Buy position, which is Best Buy on the High Street. That's probably a 40 to 50 basis point decrease in retail fixed term in terms of where we are today.

Going forward, we expect our cost of deposits to reduce. Firstly, from an increasing mix of current accounts, and secondly from lower fixed-term pricing. And again, so just to reiterate the point on this slide, the core franchise has continued to deliver. Total accounts are up to two million and we've now got nearly 1.1 million current accounts.

Going forward we're targeting further growth in low cost current accounts as a percentage of total deposits. Current accounts going forward will be the key driver of growth for us.

In terms of the balance sheet, it's highly liquid. Our funding and liquidity position has remained strong and well diversified. You can see the trajectory there on the bottom right in our loan to deposit ratio. As we stand here today our LTD is 99%. We elevated our LCR closing the year at 197% by improving the quality of our liquidity resources. We think it prudent to hold excess liquidity right now, both for the external environment and also as a buffer for TFS repayment. Over time the bank will revert to its typical LCR, which is between 130% and 150%. The strength of both capital and liquidity stands us in good stead as we start to execute our strategy going forward.

Our underwriting and asset quality remains strong. Customer loans in total were up 3% to £14.7 billion. Residential mortgage lending is now 58% of the total book, where credit quality remains particularly strong. We've actively managed down our exposure to commercial real estate through redemptions and managed originations. We do see opportunities going forward to drive unsecured lending at levels that are more appropriate for a full-service retail bank and Dan will pick it up in terms of the proof points and the opportunities in that space for us.

In terms of Q4 increase in the cost of risk and NPLs. It's principally due to loan seasoning and a couple of single name exposures. Collateral coverage on the bottom left of the slide there is very strong, with collateral covering loan balances by 195%. We are a predominantly secured lending book, which results in minimal write-offs, and that's reflected in our cost of risk 8 bps for the full year.

We've seen pressure on interest income, which has been mitigated by significant growth in fees. Our NIM contracted 30 basis points in the year, primarily reflecting the sale of assets, which I've alluded to. High deposit costs, which we've talked about. Higher interest charges from debt expense, which you understand, and competitive trends in the marketplace.

Q4 NIM, which you'll notice was 1.3%, the movement here quarter-on-quarter was primarily due to MREL costs in Q4 and I would expect NIM in 2020 to be broadly in line with Q4 NIM at 1.3%.

The pressure on NIM was partially mitigated by a 43% growth in fees to £90 million. We've seen strong growth in customer numbers, a lot that's volume driven. We've addressed some fee leakage. You can see that there in the interchange line, where we've made some tweaks and we've taken some opportunities to drive more fees and we've been developing new services.

You'll notice that in Q4 fee growth slowed. That was solely reflecting a £4.6 million reallocation of costs to fee and commission expense, where these costs are directly attributable to the fees. So, it's just a geography on the P&L. It does not impact the trend going forward and it does not impact the broad target fee expansion as a percentage of total revenue.

Containing cost growth has been a key focus for us. Cost growth in H2 materially slowed, driven by restructuring our commercial lending teams, right-sizing our lending operations, centralising procurement and frankly, increasing cost accountability across the business. The business though continues to progress. We have opened new stores. We have driven new volume and we have invested in solid core capabilities and we will continue to do that.

On the slide I've broken out run the bank opex and investment opex and will talk to you much more about this going forward. We're going to be really transparent in the investment opex were putting into the bank.

New investment spend is key to the delivery of the strategy and you'll see that we are forecasting between now and 2024, between £250 million and £300 million of change opex in the plan. This will be front end loaded. The first two years will probably account for just over 50% of that spend and every year will be lower than the last. It's just the way you need to think about how that change opex is going to come through the plan.

So, I think that's it from me, bit of a whistle stop tour. Not been a great year financially but Dan's going to talk about how we take this business forward and how we get to a high single-digit RoTE by 2024. Dan.

Dan Frumkin

Thank you, David. I know you've been sitting for a while already, so I'll see if we can't just pick up the pace a bit and get you through it, but I don't want to miss some of the bits. We talked about this already, so it is the foundation that get us to the high single-digit RoTE by 2024 so let's start just unpicking it a little bit. Let's talk about costs.

Don't take out your rulers and try to figure out the cost base by splitting it up. I know everybody has a tendency to want to do that. We intentionally kind of made it a little amorphous so you couldn't quite get there, but the point fundamentally of Metro is we have a high fixed cost base. So, BNP Paribas published an analyst report, I think in July, maybe July 15th of this year where it used a line that 'due to the store investment, Metro had a structurally high fixed cost component' -- the word structurally, I quite liked it, actually.

And they're right. So, everybody's picked up on it. We've put a ton of money into the stores. That gives us a high fixed cost base. So, we've done everything we can to try to optimise the stores and will continue to try to optimise the store and we need to make sure we're putting a ton of energy into the bottom box and make sure that we're doing everything we can to try to level off, if not shrink the controllable costs. The other bit in the middle, which is kind of unique to being a challenger bank, I think more than anything else, is we have a fair amount of contractual but variable costs. So, we do have a fair amount of razor blade contracts. Yes, TSYS for credit cards. We do it a bit of Barclays processing. There's a bit of that stuff that just as we grow volume kicks in. We've ripped apart every one of those contracts. We're going through them in great detail but it's probably closer to fixed than it is controllable.

So, if the stores were the fixed cost problem, could you -- I said there were no sacred cows -- could you close stores? So, could you actually go through the process of backing off from the store estate and go through the analysis and make sure that we understood the underlying store profitability. For the first time, I'm told in a long time and maybe ever, we got the underlying store profitability. Strip out corporate activity that gets dumped in there. What does the store do? The good bit of this graph basically says there's four stores that if you use an NPV going forward and actually look at the cost to close, so you net off the cost to close, that actually are better off closed today than open. And you say OK, why aren't you closing those four stores?

I think there's a few reasons. The reality is that every store is more profitable tomorrow than it is today. So, they're all still growing, they're all maturing. Different growth rates, different maturity profiles. Some of them are quite new so you'll see two of the four below the parallel lines are light blue. That means they opened in 2018. I'm not sure it's completely fair to judge a store that opened in 2018, given the kind of 2019 Metro had. It's probably unfair to assume that the negativity around the brand didn't have some effect, so we're going to continue to do the work every quarter. We're going to continue to review stores on an ongoing basis, but the message to take away from today is we're not closing any stores. So, we have done the analysis and we are comfortable with the store estate. It is the foundation of our exemplary service. It is the fact that it is a foundation of our bricks and clicks.

I fundamentally believe, I know it's old fashioned now, to be clear, I started in banking well before there was such a thing as clicks. So, the reality becomes, I know it sounds old-fashioned but today, we're a really good bricks and clicks organisation for retail customers. We're investing heavily to become a really good bricks and clicks entity for SME customers. I think that's how you win. So, I think at the end of the day, there is a reason why Amazon bought Whole Foods. I think there is a reason why having a physical estate combined with a digital offering is hugely valuable. There is a reason why JPMorgan shut down its digital-only bank in the US. Because Chase was already offering it and the bricks and clicks was more powerful, so I actually think it's a great model and will continue to be.

There are some constraints on the current store model. So, we might as well own up to them because I think some of you already know and have highlighted or guessed that. They're expensive to close and they're expensive to close because we have really, really long leases and for some reason, the phrase 'break clause' wasn't something that people knew when they were executing the leases. So, they are long leases without break clauses in retail developments, so they are tough to get out of. That being said, I'd still keep them all.

And so, what are we doing? We clearly need to figure out a way to generate more revenue from our fixed cost base, so the reality is, it's like we're a-- I don't know, a printing company, or a plastic injection moulding company, and I just went and bought three or four plastic extrusion pieces of equipment. Huge, spent a ton of money, more than I had. Borrowed to do it, put all my capital into it. And they're sitting on my shop floor and they're running four hours a day. If they're running four hours a day, you would know that business is losing money. Yeah? Well, the reality is as those pieces of equipment start to run eight hours a day, it gets a bit better. They start running 12 hours a day. It gets a bit better. When they're running three shifts, eight hours each, running 24 hours a day that business is printing money, and at the end of the day its kind of the Metro story.

We have a high fixed cost that we need to figure out a way to generate more revenue out of. You'd say, 'Oh, well, reduce the hours. It will save you some money', honestly, it's the lighting bill. It's all that stuff. The incremental marginal cost of running a store, my staff costs. Actually aren't all that big, so it's not the staff costs, that's actually not what gets you. It's the lease cost. It's the amortisation of the investment spend. It's the fact that we have to light the thing and heat the thing. And all of that, actually, if it is your fixed cost actually you better be open as much as you can be open as long as you're meeting customer needs and then we just need to do more with it. Unsecured personal lending, overdrafts, all sort of basic banking products.

We're going to slow new store openings. So, I haven't really done the math and I should have at the bottom chart, but let me be clear, we're going to open I think that is 20. What is that 24 new stores? So, we're opening 24 new stores, down from I think that the above numbers in the 70s. And we're basically opening over 50 fewer stores over the next handful of years. And it's not because we don't like stores. We love stores. I love stores. The issue really becomes is if we need to fix things and I have to live within my capital constraints, I have to choose between spending capital on stores or spending capital to fix infrastructure and we've made the conscious decision to spend the money to fix infrastructure over building new stores. Get the plumbing right before you actually start building more bathrooms, yeah? So that is the fundamental message and what we're doing.

In addition, we also need to figure out a way to come up with new store design. It's not a shot at the-the Metro brand was built off the fact that they're big box stores and they stick out and they have neon and all that kind of good stuff. It's memorable. But we need to get to a point where we have a papa bear store, a mama bear store, and a baby bear store. We need to get the store size to be fit for purpose in the market we are. So, there's a bunch of that work that is ongoing and I think that's the plan forward is to not walk away from stores, to still open. To be clear, that store opening profile is 24, it's £75 to £100 million of capital in the plan to open these stores. We're not walking away from it. We're just taking a breath to redo the store design and format and to allow us to free up some capital to fix the place.

And then you start talking about cost and why do I think this isn't a cost story? Why do I think? And again we had a couple of conversations with our largest shareholders last night. We wall crossed a few of our investors as you would expect we would, and there's one in particular, who's just 'can't you get more cost out?' When you actually look at Metro's cost structure versus its asset size and you compare it to the peer group that you see on the table, we're about spot on.

It's actually not that the costs are out of line, it's that the costs are fixed. It's the fact that you can't rip out of the 400 million cost base, plus or minus, you can't get 100 million out of it. So, your only way to fix it going forward is to actually grow revenue. Now, that doesn't mean we're not doing anything. We're spending a lot of time on automation and digitisation. This does not mean, by the way, any of our stores are going to look like any of the other High Street stores. That's freaking ridiculous. You walk in and all you see is kit. You don't see people. That's just nonsense.

So that's not what I mean by that. I actually mean in Aisling world, who runs ops for us. We just don't have enough straight through processing. We have manual intervention in places where you could actually build a small program to do it. We just need to get better at it. Some of the capacity we're freeing up by opening fewer stores, there are some really great people who have dedicated their time and energy to becoming really slick at opening stores. If we unleash them on fixing processes and making it easier for the colleagues to work and we're going to huge progress on changing the fundamental way we do business. And again, we are already really good in digital and certain spaces. We'll continue to invest in digital because we actually think actually allowing people to self-serve and do some of that stuff reduces our cost base.

We've talked about London already and that's what that means, spans and layers. You wouldn't expect me to say anything else. I'm not sure everybody goes on the journey with us for the next leg of the journey and nobody should be surprised by that. However, there are no fundamental redundancy programmes in the plan. There's no effort to lose a lot of people but I think some of the leadership team over the course of the piece, whether they're up for the next leg of the journey will be a conversation we have.

And this migrate away from consultants and contractors. It drives me crazy. This place spends money like a drunken sailor with people who don't work here. So, they turn up and they spend a little bit of time and then they flit off to the next thing it. Drives me crazy. That is tens of millions of pounds. It might be nine figures. We're still trying to dig into it. It is a big number that we're spending on consultants and contractors. Just actually hiring permanent staff would save us a lot of money. Now, we've had to do it because we needed their help. We had to get through it. They're all great. They work hard. They all try to help to make the place better, but they are 40 to 80% more expensive than a full-time colleague. They have to go.

So that's where it's going to be. So, I think to David's point. We're going to really focus on the run the bank costs versus build the bank costs. We're going to create that transparency for you a little bit today. But more as we get into the reporting cycle going forward because I do think our cost base has been quite opaque. We have historically capitalised a lot of our costs. It ended up in intangible assets. It was really hard for you to get a good sense of what the actual run the bank costs were. We're going to try to give you a bit more clarity. I think that's only fair.

So, then you get into revenue. Why do I think revenue will work? I think revenue will work for a few reasons. I'm going to tell you a couple of stories. I know a little long-winded, I apologise but you need to believe the story and I think to believe the story you need to hear some bits. So, I open my account, September. I put a fair amount of money in it. When I opened my account, I was not offered an overdraft. Fine. I was not offered a credit card. Fine again. I think our store colleagues aren't comfortable having those conversations, not because they're not capable and not because they probably don't know I would like an overdraft or would like a credit card, it's because the processes sitting behind delivering those products aren't very good. So, they shy away from it, because they know it's going to be painful for me and they don't want to upset the customer relationship. Fine.

So, I get this job, I get the interim gig in December and I'm standing up in front of the leadership team in the top 60 and I tell this story. So, you're all bright, capable, some of them actually work for the bank so they were in the room when I said it. The reality is I would have expected by the time I got back to my desk to have about eight credit cards standing on my desk as everybody tries to kiss up to the new boss, right? Honestly, I was a young guy one time, that's what I would have done. I think I would have printed it myself. Whatever it would've looked like, I would have done whatever I needed to do to have credit cards waiting for me. It took nine days for me to get the credit card. Nine days. And the first time they walked into my office and I mean no disrespect. I have kids in America. It's a lot of money to live my life. I apologise for it in advance. But they offered me a credit card limit that was ridiculously low, like ridiculously low. Like I'm sorry, that's not going to really fit my lifestyle and they go to me, they go 'well, I'm sorry, but we don't know your salary.' And I swore which I do a little bit, it's an American thing I think, although the Brits.

So, I said, honestly '---- off'. It was in the press release. So, my salary is actually in the press release. It was embarrassing that it was in the press release and it's there. I'm like you know my salary, it's there. Fine. So, they scurry away. They come back and it's not the person dealing with me. The person dealing with me was great, unbelievable actually, and doing everything they could. It's the processes behind the scenes that have become ridiculous. So, they then go away. They scurry around, they come back. They come back with a better limit. Still, at that point I was just polite. I said yes, I mean, it's kind of still. It's fine. But they say to me, I'm sorry, you don't have a National Insurance number.

So again, I am British. I did have a National Insurance number at one time. I've been gone for a decade. I don't know what happened. I've got to get a new National Insurance number, but because you don't have a National Insurance number, we can't actually give you a credit card because we're not sure you're creditworthy. Swear to God, I'm CEO. Not sure you're creditworthy so you need to pay your credit card off at the end of every month.

So fine. If that happens to me, can you imagine somebody sitting in the store in Slough. No CSR who's 21 years old is ever going to have a conversation with you about a credit card because they don't want to put their customer through that dilemma, that drama, all of that. It is a shocking story. Okay, so that's the story. The bit that made me happy through all of that and really made me genuinely joyful is, God that's an opportunity.

So, we'll come onto the proof points when we come into it, but 3% of our personal current account customers have a credit card with us, 3%. It's a joke.

Unsecured personal lending. At the moment, it takes us three hours, plus or minus, and people argue, but I've been told by some store colleagues that it can take up to three hours for an unsecured personal loan. Three hours. Other institutions you push a freaking button on your mobile and the money is in your account within 20 minutes. We don't have the mobile app. We have processes that are really difficult to actually extend the money, and not only does it take three hours, we say no over half the time. So again, if you're a 21, 22-year old CSR sitting in the store, why would you ever talk to somebody about unsecured personal lending because what you're going to do is waste three hours of time and most likely say no.

We've just gotten the model a bit wrong, so again. Terrible story, get that. We'll come back to it. It's a huge opportunity.

So, the enablers for us are things like improved credit scoring. We need a credit decisioning engine. You would expect we would have one. We don't have one. We don't do risk-based pricing. We have single pricing for credit, which was an ethos here and then I went out to the stores. I'm like okay. I'll give you two options. You can say no 50% of the time or we can do risk-based pricing. So, the reality is that everybody would agree to do risk-based pricing.

So, we need to invest in our store colleagues. I'm a huge believer that our store colleagues are the secret sauce. They are people-people. And that's Amaze Direct, so when I say store I don't mean just store. I mean, Amaze Direct. I mean our private bankers our corporate bankers. It is our customer-facing staff that are truly the secret sauce.

We need to do some more in digital. We don't open accounts for businesses online. We will soon enough. And when we do, we'll be able to offer the same bricks and clicks service that you would expect.

So, the bit of this slide that should make you confident that the J curve is possible with revenue as the foundation is actually, the things we need to do aren't overly unique. I don't need to build all sorts of fancy whizbangy products, I can just be a better community bank.

So, let's talk about C&I for a minute. I know it's going to garner a lot of attention. I just want to be really clear about a couple of bits. So, we approached C&I for the first time in November. So, as we started to do the strategies you would expect, as I said there were no sacred cows. We looked at everything we looked at our C&I commitments. And we initially put in every model the Board saw, the financial profile that allowed us to meet all of our public commitments.

So, at the end of the day, had BCR not agreed to the renegotiation, we could have chosen to meet all of our public commitments. It would have created a slightly different profile than what you're seeing today. But the reality is, we have the capacity and ability to do it, but we, as we worked through the math realised that there was a better solution for us to still get 6% business current account market share, which by the way makes us a real player in the SME space.

There was a better way for us to get there and so we put together what I thought was a really good business case. We went back to BCR, who were great. I cannot say enough good things about them. They completely understood that the key for us being successful was aligning this with our strategy. And to be clear, if BCR didn't exist, if C&I didn't exist, we'd be doing the majority of this anyway. Almost all of it, actually. Because we want to be a dominant SME bank. We think our service model appeals to SME customers. We think it's a place that we will be very successful and have been very successful over time. So, we would be doing it anyway. So, the revised business case mentioned with a business plan. Paul and his team did a great job. The reality is, we went. I turned up. We pitched a little bit. They took it away, we went back and forth, and we were lucky enough to hear last night that they have now approved the revised business case. It means we open 15 less stores in the North. Honestly, we think that gets us into the conurbations we want to be in from an SME perspective. We built most of the kit we wanted to build anyway. We obviously spend less money because we're opening fewer stores so that means we spend less money and they give us less money. So, we give them some of the money back. Our choice to give it back based off of the new business case, and we still get to 6% business current account market share, so a really good outcome.

So, let's talk a little bit about investment spend. So, you'll see, and David mentioned it, there is a quarter of a billion to 300 million pounds of opex spend on infrastructure and then there's probably another 50 to 100 million that we'll capitalise. So we're going to spend somewhere between 300 and 400 million pounds on infrastructure that's in the plan, that still gets us to the RoTE you've seen. So, we're not shying away from the spend necessary and we're doing what we need to do it. Let's just talk about investments trying to bring physical and digital together. What does that mean? So, start in one channel, finish in another.

So why do I think that Amazon bought Whole Foods? For that reason. So, the reality is that when business account opening online launches, you will be able to open your business account online quickly and we think competitively quickly. I don't want to quote stats, but competitively quickly and if you need a card right away, you can stop into any store and we'll print you a card. So, the ability to actually be able to combine the clicks with the bricks is hugely, hugely important. This sort of new and improved digital journeys across. Again, some of those people we're freeing up who've been focused on store opening can really help us with process redesign and again, as we redesign the digital journeys, we'll replicate that in the stores and actually it's kind of funny.

So again, one of the things that's true and somebody said it and I was probably a bit direct, maybe a bit aggressive, which I can occasionally. So, they said, “Well, we'll just take the digital journeys and we'll put them in stores.” and I'm like “No. No, you won't”, because actually a face-to-face interaction is very different to a non-face to face interaction. So, you need to build in points where you can personally connect with the person. You need to build in an empathetic sales model so they can start to understand the customer needs. It's a lot different than sitting at home, relaxing and doing it on your iPad than it is actually sitting with somebody and interacting, so the journeys have to be different. But we can use the foundations and the infrastructure to actually make those journeys better. And you say new customer authentication. So, one of the things that we did, and we deserve credit for, well before Apple did the face thing where you could unlock your phone. If any of you have a Metro account, you know we asked if we could take a picture, right? So, you can walk into a Metro store and we know you’re you and you can actually get access to your account without your debit card. You walk in and we know you're you because we have your picture.

So, we've been doing face ID longer than most. So, our in-store authentication thing is pretty slick. It's actually not shared across channels. We have different authentication methods, depending upon if you're on digital or if you're online or in the store. It's a bit of a dog's breakfast. That makes it really hard for us to allow you to do certain things, so it makes it really hard for us to allow you to, like, change your password online. So, 13% of our calls into Amaze Direct are password reset because you either need to walk into a store or call us to reset your password.

Now that's a bit of a shocking statistic but the reality is it's a huge opportunity, but to do that we need to rebuild the authentication layer. So, I think that's a big chunk of the investment spend. The next slide, again, for those in the room and on the phone and online who are looking at it. The reality is, I know this is lack of specificity that's going to drive you a bit crazy. I don't really want you to be able to hold me accountable for anything on this slide yet. That's really for the Board to do. We have a bit more work to do and we'll share bits of it as we go forward. But what I want to tell you is that we've actually developed the underlying plan. So, I told you this is about execution. This isn't about whizbangy new products, this is about executing day in and day out.

So, what have I been doing since I've been here? The strategy was broadly in line by October. It's not really rocket science about what we need to do. We have basically spent the last three months with people locked in the basement of our Piccadilly store, literally badge in, badge out. We would feed them occasionally. We had about 25 to 30 colleagues down there and we supplemented with a bit of Deloitte resource for subject matter experts because as you talk about new call centre technology and everything else. Yes, our guys are really good in that space, but they haven't seen the broader universe, so you bring in some subject matter experts and that's what we use Deloitte for, and we have underlying project plans for everything we need to do. So, when I talk to you about growing revenue and launching a better unsecured lending product, I'm not just using the words. We have detailed project plans sitting behind it.

We have detailed project plans about what we need to do: asset finance, invoice finance to make it better. We now know what risk engine we want and how we want to build it. The 300 to 400 million pounds of investment spend is actually allocated across all of those projects. So, we're still arguing about sequencing. We're still arguing about who gets money when and what order it occurs in and we're making those decisions, but we actually have the underlying plans to execute.

And you'll see over on the right. We've made a lot of changes. So, one of the things that I don't think was as clear as it needs to be is there is real accountability. So, every one of those work streams will have one of my direct reports on ELT responsible for it. And they will be personally accountable for delivering it. There is really a higher level of personal accountability than maybe the organisation had in the past.

We now have a Transformation Delivery Group, so we had a fair amount of train wrecks occurring in Cheryl's world. Cheryl is our new CIO and we're really glad to have her, but, so they get to testing. So, everything needs to be tested before we take it live and they get to the testing thing and there'd be so many competing priorities that things would just stop at testing because we didn't sequence it right going in. So again, the reason we set up the Transformation Delivery Group is to try to sort out some of the mechanisms. So, we're already on track and already mobilised to start to deliver against the plan.

So, this, I'm not going to spend a lot of time on. You would expect nothing less of us. I don't understand why the culture in the organisation got to you. But I grew up managing balance sheets. So, when I was at Citizens Financial in the 90s and the turn of the century before I moved over to RBS, the reality is I made my career at being really good at managing balance sheets. I can squeeze the pips as well as anybody to make sure that we get as good a risk-adjusted return out of a set of assets as anybody. We will be much more disciplined about making sure we do what we need to do to increase shareholder return.

So, this is the internal external comm parts. I hope people have seen the people to people banking, have you seen any of them walking around? They're really amazing. Honestly, Jess has done a great job and deserves a ton of credit for it. It's funny. All of them I've met. But Jass, I was in Staines, he works in Staines and the bit he didn't understand. So, they all signed up where we had people apply so I think we had like 80 or 90 colleagues send in videos of themselves and we chose and there was a selection process, but they didn't choose me. I was a little hurt. As they say, I have a face for radio, so he didn't understand that he'd become a celebrity in Staines. So, he's a little shocked by what happened, so actually his face is literally all over Staines and now his friends, his family, everybody's taking the p---. It's been a bit of a thing. So, we've really worked on our internal comms and I told you in terms of KPIs, and external stuff we haven't been good enough.

You go back and look at all the promises we made to the market and I've had somebody do the work for me, so every promise we made before we went public and every promise we made since we've gone public and I looked at the percentage we've actually met. It is pretty poor. So that's got to stop. So, what we say we do, and what we do, we say. Yeah? So, it just needs to stop.

So that leads us pretty nicely into the guidance. We think this guidance and I'm not going to spend a lot of time going through each box. But we've actually had one of our bankers, unrelated to helping us build this together, another banker reverse engineer based off of this guidance and came up with a number of pretty close to 8.5% RoTE so we're pretty confident that guidance will allow you to model going forward. Maybe, maybe not. I'll come onto why I think it's not overly aspirational and I'm happy to take questions on it as we go forward. But David did mention the MREL. We do have the investment spend in there. You look at the cost income ratio: 70-75%. I've worked in places that if my cost income ratio was 70-75%, I would have been fired. So, it's not overly aspirational. Cost of risk of 15 to 30 basis points, we can argue about through the cycle until we're blue in the face, but the reality is, is that that's twice what we're currently running at, so pretty conservative. You look at the growth in deposits, again, pretty conservative compared to historic run rates.

So, let's talk about why I believe that's believable because all that really matters to you now, is OK you've heard me talk. I got this weird accent, it's kind of a blend. I use words that are a mix between America and Britain. It's all a bit confusing. Why the hell should you believe me? Because if you don't believe me, you don't believe that and if you don't believe that then you don't believe the J curve and if you don't believe the J curve then you don't believe the story. So, let's get into why you should believe that.

The first thing in a revenue story is you've got to believe that we have a proposition that our customers love. So, it's a slide you've kind of seen before but repurposed. So, we clearly have customers who love us, and you say yeah, yeah, sure anybody could pick out three or four nice comments. No matter who you are, you get those, fine great. Hear you. But our service scores: number one in store, number one in mobile banking, so fine. We're already getting scores that are great. Not only that, we're winning awards.

We have a 90% NPS score for new accounts. So fine. They say nice things about us, not only to our face or online. They say nice things about us when asked independently and oh, by the way, we are winning awards and everything else and more importantly than that, the way we do all of those three things is by having award-winning colleagues who are just amazing. And the reality is, we have a great engagement score, 92% that think it's a great place to work. And 91% say it's an inclusive environment and you're like, Oh, "you know why you put the 90% inclusive. That's just you being modern" No, it's actually not. Our colleagues need to look like our customers. So, our colleagues, to be a community bank and to be local means that our colleagues look like our customers. Our colleagues behave like our customers. Our colleagues are our customers, so actually being an inclusive employer, feeling like you're welcoming and open to everybody, which for the record we are, is important.

And then you say, "OK well if you have all that, how do you monetise it?" Well, you monetise it by being a deposit-generating machine. Now I know and I know full well, that there are some clever people who've done the work who say "yeah, yeah, yeah, but actually your cost to deposit isn't that number because you have your investment in stores and if you adjust for your investment in stores your cost to deposits would look a lot more like Aldermore, so you should take the blue dot for Metro and drive up the cost of deposits because you're not accounting for your stores". I'm not going to argue.

The one thing that is true. My marginal cost of acquiring the next pound of deposits is a whole hell of a lot lower. And all I get paid to do is drive down the marginal cost of acquiring the next pound of deposits because if we can keep growing like that and drive down our marginal cost of deposits we will win. And we will make a lot of money because on the asset side, honestly, I can run a successful leveraged bond fund. I've done it in prior organisations, so even if the asset generation capacity doesn't work I can go buy a bunch of covered bonds at 10% risk weightings earning me 120, 125 and I can actually if I get my marginal cost of acquiring deposits down, I can actually make a RoTE that's above the eight and a half with my eyes closed.

So, the reality is what I need to be is a liability generating machine and I am, I just need to bring my marginal cost down. The beauty of it is I got my plastic extrusion equipment that I already paid for that's sitting on the floor. As I start to sweat it a bit harder, magically, my marginal cost of deposits comes down. The story is a liability-led story and that's where we end up. So why should you believe it?

So, the deposit growth is less than 10% CGAR over the five years, including 2019 our CGAR was 30%. So, I need to grow deposit one third of what I've done for the last five years. I will have more stores too, by the way, and I still need to grow at one-third less. Our loan to deposit ratio drops to below 100. So, I don't even need to sweat the balance sheet to any great extent to get the returns.

OK NIM expands. Why does NIM expand? NIM expands pretty simply. Our costs of deposits drop, because again everybody knows we bought in deposits to kind of get through last year; fine. We reprice those as we go forward. We grow BCAs and PCAs, so business current accounts and personal current accounts, which means we end up with more non-interest- bearing liabilities. Pretty straightforward. So, my cost of deposits drop. I pick up a bit of growth in lending yield. I pick up lending yield because I'm doing more unsecured personal lending, a bit more credit card. Nothing overly sophisticated and again we've already talked through how bad we are. On average we do two unsecured personal loans per month per store, so that means they're doing one loan every two weeks in store.

So not aspirational to get a bit better than that. We continue to grow fee income. Fee income for us is driven off activity base, so if we grow PCAs and BCAs that activity generates fee income. No great surprise. We do have investment spending in the plan, so we're not hiding from the fact that it costs money to do stuff, which maybe historically we've done. We're actually telling you and we're opexing it instead of capexing it. So, the plan has opex spend front-loaded to make sure it's believable. And the cost income ratio again, as I've said 70 to 75% is not overly aspirational. And that gets us to a RoTE greater than 8.5% by 2024 and one more thing.

There's a few upsides in this plan. One of the biggest one is I didn't put AIRB in the plan. Because I think it was inappropriate for us to put a plan together that we couldn't deliver. And I can't promise you I can deliver AIRB. I'm doing all the work and for those who've done the research, I was at RBS and I worked in group risk when we did all the work to get RBS group approved for AIRB at a group level. So, I kind of know it. The reality is I think the work we're doing is good work. But I don't know, it's up to the regulators. It's within the regulators' gift whether they give it to us or not. So, this plan assumes that it doesn't have it in it. For the record, if we get AIRB, which we're working towards, it's worth 200 to 300 basis points on the RoTE so your RoTE goes from 8.5 to 10.5 to 11.5. It's a lot.

The other thing that's not on here is that deposit growth number so let's assume I grow deposits at 30% a year instead of that instead of 10. I end up with another 10 or 15 billion pounds of deposits and before somebody says, “Oh, you run out of capital”. Can we be really clear that capital isn't driven by liabilities. Capital usage is driven by assets, so I can take those liabilities and I can invest in low risk-weighted assets, 10% covered bonds and I can generate a return that is accretive to RoTE, accretive to NII but is destroying NIM a little bit because you're actually earning less. But, what I care about is RoTE, right? At the end of the day, I care about going tangible book value in RoTE. So, if we grow deposits quicker, that's actually worth another 200 to 300 basis points on the RoTE by 2024. So I've got AIRB. I've got that and everybody knows, and every bank in the world, I'm a liability-led franchise. Please God, let rates go up because if rates go up, we make a lot more money. Not in the plan, but there are a couple of drivers in here that are beyond the plan that give you further upside.

And with that I feel like I've talked you to death. So, what we're going to do now is we're going to just open it up to take questions so thank you for the time. I think we're going to do questions in the room first and then we're going to go on to the folks on the phone and on the Internet. So, thank you very much.

Q&A

Benjamin Toms

Morning, Ben Toms from RBC. So, your deposit growth guidance is quite clear, and you don't include AIRB in the plan, which is also quite clear. You also mentioned asset sales and the potential securitisations. Your CET1 target of greater than 12%, does that include asset sales and securitisations? Or can you get there without those two levers? Or to put it another way, what do you assume in terms of RWA growth throughout the plan? Because I don't think there's any guidance in there about loan growth or RWA growth.

And then secondly on the point about interest rates. If you do get a 25 bps increase in interest rates, what's your sensitivity to that, please?

Dan Frumkin

OK, so let me start and then I'll have David come in a little bit. So again, we're going to make decisions about how we handle the capital stack in the way that generate the best return for shareholders. So, if selling a half a billion of loans makes more sense than not, then we'll do it, but we're going to do it with that lens.

So again, we assume that we're going to run the balance sheet as is, so all of that activity would be accretive to what you've seen, and we're committed to holding the 12%. In terms of the RWA growth, I think it's actually been discussed on a few occasions by more than a few of the analysts. The reality is that it's not a surprise that RWA growth over the course of the five years is up less than 20% over the five years because we just need to be careful about how we grow RWAs because again, we're trying to manage within our capital stack and go forward. So, as you sit here today, you're looking at an RWA growth that is just under 20%, probably plus or minus from 19 through 24. So pretty muted.

And then in terms of- what was the second question? Sorry, I'll take it. So, at the moment we run a balanced. We run balanced. In the first year it wouldn't actually mean all that much to us because we try to actually take interest rate risk out of the balance sheet, which is a conversation John and I'll have a bit more over time because I come from a place where it wasn't always the case. But we run it pretty neutral. I think by the time you get a year out, it's really very accretive and then you go forward, and it becomes really profitable for us. I'm not going to give you a number, but you can run the math. But broadly we're balanced as we sit here today.

David Arden

So, year one flat but then it compounds year two, three and beyond.

Ian Gordon

Just a couple of points of clarification, please. On the investment plan spend chart on slide 23, I notice you haven't got anything in for 2020 spend on unsecured lending. Is that simply because you think you can up your penetration levels on card and unsecured loans from near zero just by changing behaviour rather than spending money? And then secondly when I look at your store opening plan, which I've lost but is it a fair interpretation that the limited numbers of business as usual for store openings you've got in 19 and 20 are essentially a roll-out of the ones where you're already committed?

Dan Frumkin

It's a great question. It's actually on slide 18, is the stores. So, let's start with slide, sorry I'm old, glasses. So, let's start with slide 23. You're spot on the unsecured lending. So we started to look at what we prioritised in the early year, we realised there's a lot more we can do with a bit of training, a bit of revising our existing processes. A little bit of change in risk appetite ourselves. So, we decided that this is sort of transformation spend, we could do a lot without spending money, actually. So that's what we're going to do in the first year to free up capacity investments of other things, so spot on. And then I think in terms of stores, you're absolutely right. So, the stores in the early years are the ones, other than the C&I stores, they're the stores I'm legally obligated to do. That actually, it would be more expensive to back out of the legal agreements than it would to build the store and faced with that as a decision, might as well build the store. So, I think that's where we ended up, but both spot on. Really good.

John Cronin

Thank you, it's John Cronin from Goodbody. Firstly, thanks for the refreshed strategy. It's good to see the vision that the founders set out a few years ago continue merged with some risk-adjusted returns, focus and efficiencies. Just on the strategy, particularly, the first question I have is around the percentage or proportion of current accounts you expect. The mix of deposits and the evolution of that in terms of how high a percentage of the deposit base do you anticipate will be represented by current accounts over the course of the five-year plan. And secondly just what kind of assumptions, if you can give us any colour on what you're assuming in terms of asset yield inflation as you tilt further towards unsecured and, I suppose part B of that question is whether there are any inorganic opportunities that you see that could be could provide incremental asset yield uplift opportunities. Another question I have is just how you think about the competitive landscape with JPMorgan reported to be entering the consumer market here. Lots of new challengers. How that will play out in the context of your deposit gathering strategy and then finally, you've obviously come in fresh to the business, Dan. Keen to understand any insights you might have, having taken a fresh look perhaps at asset quality as well. Thanks.

Dan Frumkin

OK so let's talk about NIBL growth, non-interest-bearing liabilities. So, we've proven our ability to grow them and you can look in there pretty significantly, and they do continue to grow. So, the mix as it sits here today, I think what you would see is fixed term is about a third of our deposit book as we sit here today, plus or minus a little and then we have this interest-bearing account, which is just a little shy under half and then the remainder is non-interest bearing liabilities. I think as you start to roll forward and we end up growing deposits at a compound annual growth rate a little less than 10%, everybody can do that math. The reality is, you end up with deposits at £22-£23 billion. That's not hard math to do. Of that £22 or £23 billion, a third is still in interest-bearing demand accounts. You're well over a third now and NIBL's well over a third, and then the remainder is in fixed term. So fixed term basically broadly stays flat over the five years. And you really get growth in NIBL and you get growth in interest-bearing demand, so we have proven the ability to open personal current accounts and business current accounts and that's what we need to continue to do. It's a big part of the driver.

David Arden

Because John, current accounts grow at 20% a year. As we bring down the overall deposit growth, the mix is naturally going to skew towards non-interest bearing.

Dan Frumkin

And to be clear, we think that's conservative from a fixed term deposit. In the first two months of the year, we put a plan in place to try to look at retention of the fixed-term money we did last year at lower rates, obviously. But for the first few months our retention rate's almost 100%. Meaningfully at lower rates. So, if we can keep fixed-term money at the right price, John, we'll keep the fixed-term money, but this assumes we actually have it sort of flat to stabilise. In terms of acquisitions, sort of inorganic growth, I don't think I yet have the credibility to be able to stand in front of my Board and/or you and convince you that that's the right thing for this organisation to do. I hope to build that credibility pretty quickly by showing you we can deliver and do all those kinds of good things and there is no doubt as we build that credibility there may be some opportunities to allocate capital into inorganic opportunities and we'll consider it. Again, it's all about driving a risk-adjusted return and driving RoTE, so if there's a way to do it and actually shrink time and pull it forward, then you know the reality is, we'll do that. But at the moment we need to focus on ourselves, right? So, we need to get better at what we do, so I think that's right. JPMorgan, on they come, Marcus. I think if I was a digital-only player in this market and I was going to have my second Marcus open up with a bit better brand than some of the digital-only players we have now, I would be genuinely worried because nobody should underestimate--I don't know if people spent time in America looking at the American banks. Chase is a really good bank. So, Jamie Dimon is a good retail banker, so the reality is that their online offering will be good, but it will only be online.

So, at the end of the day our differentiator is the bricks and clicks; it's the bricks part of it. I'm not overly nervous about it. I think they'll end up having to pay up for deposits like Marcus does, I think their cost of deposits will be a bit high, but again for them, they can use those deposits in different ways. You've seen that Marcus is talking about slowing growth because they're worried about ring fencing and all that, because Marcus's nightmare is that those deposits can't be used to fund their wholesale banking activities. So, if JPMorgan can generate the liquidity to fund their wholesale banking activities in Europe, which we all know are extensive, then great, it's hugely accretive to them. They're not really my competitor, if that makes sense. But if I was a digital-only bank, I'd be nervous. I've never known, and I've been a competitor in the US for a long time, I've never known Jamie not to do anything well and I've never seen him not really compete to win. So, if I was a digital-only player I would think he's coming for me. But I'm not.

And then last, in terms of the fresh look. I would say the bit that surprised me the most is that I couldn't get at costs. I should have read all the analyst notes before I turned up, apologies, because the reality is, you guys were really clear on the fact that you are putting all this capital in the stores, it's creating this fixed cost that you couldn't really lever up and I just, I didn't catch it. So, I thought the turnaround plan would be relatively straightforward and it'd be a cost-led turnaround plan, and actually I was a bit nervous.

So, it was the moment where I realised that we had so many opportunities on the revenue side that gave me confidence we could actually execute the J curve, but it was the cost bit. I would say that was the bit. The second surprise, it was a little bit surprising, was, I wasn't aware of all the dynamic between some of the senior executives and some of the Board and it was a unique cultural moment that I walked into.

Christopher Cant

Good morning, it's Chris Cant from Autonomous. If I could just ask about cost development, please. If I look at slide 14 in your deck when you talk about the split of investment opex and run the bank opex. Obviously, you've reallocated this £4.6 million of cost into other income in 4Q but you haven't restated full year 19 on that basis. If I annualise your £358, adjusting for that £4.6, I think your sort of starting point going into 2020 for that is more like £344 implicitly, and you're talking about mid-high-single digit cost growth on that £358. So, I think that's more like 11% underlying cost growth year-over-year, adjusted for this theory classification.

David Arden

In the £400 there, Chris, is the reallocation of the £4.6. And the way to think about it, going forward, you should be thinking about mid-single-digit in 2020 of that £400 and then you've got the change the bank opex on top.

Christopher Cant

The 400 is not…you've got investment opex.

David Arden

I think broadly the run the bank opex will be flat next year. You've then got the amortisation coming through of the previous capitalisation. You've got C&I which is, you know we are operationalising C&I which will be a new cost coming through. So I think the way to think about just being really clear, that £400 million you should think about that being mid-single-digit growth in 2020, thereafter being broadly inflation.

Dan Frumkin

Can I just try to be…Sorry, Chris going to try to just follow that up a little bit. So, the bit that will grow, the £358 that you see, which is the run the bank cost. If you focus on the £358 in terms of run the bank cost, that actually over the life of the plan will trend down slightly because the run the bank will sort of be in that space. The part where costs will increase, the £400 million will increase somewhat meaningfully, is this opex thing. So, when you get to total cost for 20 and even 21, that total cost number, you're right, grows much more dramatically in the early years because of the opex spend.

Christopher Cant

And in terms of where you then get to on cost to income ratio, I think I probably need to take it offline because I'm a bit confused as to which bits are growing relative to what you've put in your deck. It looks like your cost to income ratio is going to be well, well north of 100% next year given that you're talking about limited balance sheet growth and flat NIM. Is that…

Dan Frumkin

I can't disagree with that.

David Arden

I think that's a reasonable statement, Chris.

Christopher Cant

And so, when in your plan to 2024 do you expect that to actually get below 100%.

Dan Frumkin

Listen, I think if you go away and run the model and you take the guidance that the opex that we have in the plan, that £250-300 million, 50% of it's in the first couple of years, maybe a little bit more. And that every year it's a little bit less and you start building it through I think you'll come up with the number yourself and we're happy to circle back offline and spend some time if you like.

David Arden

The 70 to 75% cost to income ratio by the end of the plan includes the change the bank opex.

Christopher Cant

Understood. If I could ask one follow up. Well not a follow-up, a separate question. If I look at your balance sheet, I see you've taken some decisions to write down deferred tax assets, write down intangible assets, but your PP&E balance is large, reflecting this store investment that you've done. I mean, it's quite outsized relative to peer banks versus your TNAV. It's 60% of TNAV. So, have you taken any view on whether you need to impair that at all, in terms of your store assets.

Dan Frumkin

This is a great question. So we've gone through store-by-store and looked at the analysis. We've reviewed that and actually, while it is a large percentage of it and it does create the fixed cost knot. The reality is all the stores are broadly of a value, because they're all really in good locations and all of that and they continue to operate well so we did go through that impairment analysis and came to the conclusion that we couldn't and shouldn't impair any of those assets, but it is a unique part of the balance sheet. Because we're a new bank. So, we're a new bank, that put it all in. Most of the older banks like a TSB even or a Lloyds, RBS where I worked. I think up, up until recently the most recent store we'd opened was like 40 years ago, or something. So, the reality is that they are all fully amortised down and appreciated down. It's just a different model. So, we just need to digest that, but we did go through the impairment analysis and there was nothing to impair.

Anything else in the room?

Benjamin Toms

You talked a little bit about decentralising branches and giving them a bit more autonomy. How far does that go? Are you decentralising any cost decisions to branches? And this pricing where you talk about risk pricing, does any of that get handed to branches and you start looking a bit more like a Handelsbanken?

Dan Frumkin

It's a really good question, and yet to be determined because we're still working it through. And I'll be really clear I think it's not that we're changing, they already feel pretty empowered. So, I think if you talk to the store manager in Bristol, they run Bristol slightly different than they do in Birmingham and all that, as they should, to make sure they're engaged with the local community. But as we start to introduce risk pricing inevitably, there'll be discretion that's rolled out in the stores because I kind of quite think that's right. They know the customer better than I do so they should have some flexibility to do what they need to do, so it's a conversation Ian, who runs distribution for us, and I will be having as we start to roll out some of that, but my inclination is to empower them more. They're all bright, capable people who know the market well and are good bankers. There's no reason why they shouldn't be treated as such.

Michael Perito

Hey, good morning. A couple of clarification questions. Appreciate all the info you guys are provided already but I'm just kind of looking through the model here and so am I understanding it correctly that the fee run rate going forward should grow, but off of kind of the 4Q starting point, given the kind of accounting geography that occurred? Is that the correct way to think about it?

David Arden

I think of it either pre or post. But the general point we're making, Mike, is that we would expect fee progression. The Q4 trend where it stepped down because of the geography on the P&L is not reflective of the trend. Adjust for that with the £4.6 million. The trend will continue, and we are guiding that we will continue to grow fees, but also grow fees as a percentage of total revenue.

Michael Perito

Got it, OK. As you think about net interest income, I realise that the plan is more longer term in nature, but do you think it's fair to assume that the fourth quarter here, given that the flat NIM and maybe some modest balance sheet growth is kind of a low point on the net interest income side moving forward? Is that kind of the hope that you guys are looking to achieve as we're starting 2020 here?

Dan Frumkin

Do you want to take that David?

David Arden

As I've articulated, Mike, you should expect that NIM is broadly flat on Q4 to 1.3%. We're not going to be driving assets in 2020.

Dan Frumkin

So, I think, Mike, the thing you need to think about a little bit is that because we have the TFS repayment and so while we're growing liabilities and I know you've already been all over this, Chris, the reality is we paid TFS and everything else. I don't think it would be appropriate for you to model balance sheet growth in 20. I think the balance sheet will be probably slightly down in total asset size between 19 and 20 so you just need to keep that mind because as we paid TFS obviously it drives the balance sheet down so actually, if NIM stays flat and the balance sheet's lower, I don't think this is a low point for NII for the cycle.

Michael Perito

Yeah, that makes sense and then just lastly, I was wondering if you could comment on kind of the, I think with rates where they are, can you talk a little bit about how you're going to market deposit rate in the stores moving forward? I know conceptually the hope is to grow the lower cost deposits with not a lot of net balance sheet growth, but obviously there was some higher cost deposit growth in 2019 and I'm just curious how has there been a change in kind of the cost of deposits that are being marketed as over the last six months in the stores or has that not really occurred yet?

Dan Frumkin

So, Mike it's a really good question, so the answer to that is yes. There has been a change, and I think the way David describes this is the right way to describe it, which is we tend to price sort of at the upper fringes of what we would call High Street banks. That tends to be where we position our pricing normally. I think we got into position last year where we ended up having to price up to the point where we are competing with the digital folks and the folks who are a bit more aggressive online.

I think we're now back to pricing as we've always historically done, which is on the upper fringes of High Street banks, so what does that mean? So, one year money for us now it's like a one year CD in US speak, one year term deposit here. I think our current rates are like 140-145bps might even be 135 now. 140. So we're now priced at a level that we're comfortable with, and actually we're seeing really good retention rates at the lower price. So, we're having stuff roll off of the higher one-year fixed into the lower. We've assumed in the plan that most of that attrite. We assume that they would go away, but the first couple of months, which aren't the big months. So, it's not huge volume, but the retention has been really good, and Ian and the team and Paul's product team have done a really good job and in-store we're outbound calling. We're doing everything we can to try to retain that money but at much more appropriate pricing, which will help which will help the NIM.

Michael Perito

Yeah, got it. Thank you.

Aman Rakkar

Morning, gents, welcome Dan. Thanks for taking my questions. I've got three, if I may. Dan, first one for you if possible, please. Just regarding you've been clear about MREL being a current constraint on the balance sheet. We can't really expect much asset growth next year. I'm going to return to this idea of asset sales. I basically really struggle to see how asset sales aren't actually a fundamental part of the plan in terms of lifting the revenue returns on the asset balance sheet without kind of growing it.

I was just hoping if I could kind of inquire as to your appetite for asset sales. Is that really something we can expect you guys to do really very soon? If I'm being honest, I would have thought Metro probably should have done this a year ago and kind of as part of that question could I just inquire about the loans that are now risk-weighted at 100% that you uncovered last year? I think you typically talked about that being about 2 billion pounds in quantum. I know you're kind of actively running that book down. Can you give us an idea of how big that book is today?

The second question would be just regarding the J curve that you guys have alluded to regarding profitability. I appreciate this year essentially is going to be loss-making. But the idea that you lay out that you're kind of aiming for a CET1 ratio above 12% in 2020. That in and of itself would imply quite a very material loss in 2020. But I'm actually struggling to reconcile that with MREL. I think if you got to a CET1 ratio anywhere near 12 you would actually pretty substantially breach your MREL ratio so am I overanalysing that kind of above 12% CET1 in 2020 or actually is the regulator potentially giving you some forbearance on MREL and allowing you to breach your interim MREL?

And the final question was on AIRB. I totally understand your comments and it's very sensible regarding your guidance and on AIRB, but have you had any additional kind of conversations with the regulator, any guidance for that actually maybe coming a bit later than we thought? Before I think you previously indicated not before 2021. Thank you.

Dan Frumkin

OK, that is a laundry list. So, I'm going to do them in a slightly different order. But let's just try to get through them at some pace. So, your J curve comment. We don't get close to a 12% CET1 in 2020. We just don't, OK. So, we're using 12% as our constraint for the plan throughout, so you're right. We would have to lose a shed load of money to get close to it in 2020. So that's that.

Second thing is part of that. We've got no dispensation to breach any MREL. We've got no dispensation to do anything other than what the regulators already told us so that's not part of the plan because we don't need that. I think the asset sale thing is an interesting debate and we're having it right now and those are live conversations. It's not like we're having, 'Oh we should think about asset sales'. We've crawled all over the balance sheet to figure out what we might sell, what we might not sell, what it looks like, what it does for the business going forward what it does - the whole thing and what bids we can get and the bids versus what we can actually earn off the assets and the math isn't hard, right?

At the end of the day holding it requires you to generate a certain risk-adjusted return on capital and selling it means that you free up capital that you can reinvest, it's a simple corp dev kind of a conversation and we're having that now and we're having lots of conversations as you should expect and we'll see. Do I think you could have run the balance sheet more effectively over the last couple of years at Metro? Honestly, I think every analyst in the room would tell you yes, so that's not a huge surprise and we'll just try to be more disciplined, but I'm not telling you now that we will sell stuff because honestly, if somebody wants to bid 101, all day long. If somebody is going to bid 93, maybe not so much. So, we've got to work through the process and figure out because there's no right answer until I know actually what I can sell it for, so I think that's the asset sale piece.

You are right about asset growth being somewhat constrained. But again, and I know one analyst in particular has used some language that means there's no future. I don't agree with that, actually. I think the reality is we're in a cul-de-sac at the moment but there is a footpath out and I think if we're diligent the footpath turns into a horse trail and the horse trail turns into a two-lane road and before you know it, we're on a superhighway. We just need to be careful in the first year to just be careful we stay on the footpath, but this business has a bright future and can generate adequate returns. It just needs discipline in the early years.

In terms of AIRB. We've not had any conversations with the regulator to any great extent. I've gone over the programme to some extent, it's actually in pretty good shape and I don't want to comment on timing because it's no longer part of the plan and I think it would be inappropriate for us to go down that rabbit hole again. The whole reason of pulling it out of the plan was so that we could be respectful of the regulator and actually have a plan that we could deliver. Answering your question would be kind of disrespectful to the regulator and letting you model into your plan something that I can't deliver, so I don't want to really get drawn into it.

So, I think that's asset growth. I think that's 100% risk weighted is less than £2 billion and that's more than I'm going to tell you. I'm not going to give you a specific number. But some of it’s run off, some of it we got rid of. If you cut that number in half and added a little bit, maybe you're in that neck of the woods, but I'm not going to give you a specific number. And I answered the J curve question and we talked about AIRB. Is there anything else before we move on or no?

No, I don't think so. Okay, next question.

Guy Stebbings

Morning everyone. Can I come back to asset mix and growth in unsecured and a few strands of the question. Firstly, picking up on an earlier question. How much of a benefit to NIM do you expect this to be? It looks like high single-digit basis points over next few years versus holding the blend constant. Is that fair? The second question is, you've not changed the guidance on longer term cost of risk despite the asset mix changes. Is this a reflection of the underlying credit fundamentals that you're seeing or the longer rate environment because given the trends, I would have thought you'd be assuming a higher long-term cost of risk based of this plan versus the last plan. And then thirdly just back to AIRB. Does that impact your decision to grow in higher margin products? I would presume it encourages target higher LTV lending or asset classes where standardised risk weights are not necessarily more punitive than AIRB. So how do you factor in not assuming AIRB in the plan but still aiming to get it when you set a strategy? Thanks.

Dan Frumkin

They're great questions, I'm going to do it in reverse order if that's okay. So, you're right about AIRB. We had this dilemma. So, this is the dilemma. So, what do I tell you versus what do I tell the leadership team, and the Board and how we hold ourselves accountable? It's a moment, right? So, if we really didn't believe we were going to get AIRB, the balance sheet I laid out for you is not the balance sheet I would build. Fundamentally you're all bright enough to know that actually I would build a different balance sheet if I wasn't going to get AIRB.

However, we're growing a big resi book, and we're growing a big resi because one could assume we kind of believe we're going to get it, right? Because that's the balance sheet we put together, so it is kind of a conundrum. I'm telling you that we're not building in the plan, but yet I'm building a balance sheet that would definitely be better off if we did get it.

I get that conundrum and I don't know another way to square the circle for you, other than that I'm afraid the circle's square and you're just going to have to live with that. But I fully understand. So, if it became very clear that we were not going to get AIRB over the next year, by the time we stand up again in July, which we might not have confidence. But by the time we stand up next year around this time again we would be talking to you about a different asset strategy, which I accept.

Then your cost of risk plan versus plan? Nothing's really changed. I don't know what I would have done with the cost of risk. I think I think we're guiding, what, 15 to 30 bps or something like that?

David Arden

I think it's the same but to be honest the asset mix was broadly the same in the plan. Nothing much has changed.

Dan Frumkin

Exactly. And I think we were at seven, now we're at eight basis points. It's a pretty conservative estimate so we left it unchanged. In terms of the asset mix, you're right. So lending yield goes up in the plan and it goes up somewhat meaningfully, but it doesn't really start going up meaningfully until after kind of 21, so for the next couple of years we're kind of building out, getting ready starting to inch our way into unsecured personal lending, starting to get into niche mortgages a little bit, but it doesn't really start to bleed through and in terms of overall NIM, it does have a positive effect on NIM. NIM throughout the course of the plan does grow. David's guidance is right so use the fourth quarter NIM from 2019 for 2020. I wouldn't have NIM expanding much even in 21, but beyond that it starts to ramp up and grows relatively meaningfully through a mix of really three big drivers and that is fundamentally the lending mix and then the CoD dropping and then we do have a bit of MREL and a couple other bits in there that creep in.

Joseph Dickerson

Hi, good morning. Most of the questions that I had have been fairly exhausted. I guess the key question I have would be given the proportion of mortgages that you have and that you'll retain through the plan, you reference a niche strategy, quote unquote, in your financial report. Can you clarify what you mean by that? So, is this a more jumbo type of mortgage or is it more the lower end? Can you just talk about what the strategy is there because it seems like part of the problem with Metro is that the asset side of the balance sheet has basically made you hamstrung both in terms of yield and return. So any help there would be great and then I guess just on the investment spend, and this slide is helpful but I was a little surprised when you said that some of the IT investment hadn't been quite what you thought it might have been, because my impression of prior management is that they were fairly luxurious with costs so was it more around the systems to create and link up product capabilities or was it more fundamental? Just a little help there would be useful for context. Thanks.

Dan Frumkin

Yeah, sure so let's start on mortgages. So listen, the mortgage market's really difficult right, so the effect of ring fencing and lots of liquidity trapped in small banks that have very little options to put it to work. I fully support the decision to ring fence, I get why for the broader economy in the UK it makes perfect sense. I was at RBS when it went through the cycle, so I understand from a regulatory perspective why it makes sense. It just creates a dislocation in the market. So, when we say niche places, we think there's some places where we have a bit of a competitive advantage.

So, we can do a bit of jumbo stuff through Julie's folks in private banking that we've not really unleashed that would be helpful and could actually be margin accretive. We have a bit in Mark's world in the corporate space where we've done some but-to-let stuff that was pretty good that we can unleash a bit. We're not going to grow much in the next 12 to 18 months, but there are areas where we can start to stretch our legs, and I think set us up to generate more yield out of a market that's pretty difficult.

In terms of investment spend, I think luxurious is not a bad word about some of the money that got spent around here and actually spending money doesn't actually mean you get value, right, so at the end of the day, actually, the trick that you try to teach your kids is actually spending money for value. So, it's actually the money zones. We try to teach kids about saving and spending money for value. So it should start at a young age, so at the end of the day we simply didn't get value for what we spent money on and we were, for a tiny place we were very susceptible to pitches from what I would call the top quadrant IT supplier folks. So, we would buy really fancy kit for a very tiny place and actually the difficulty with any kit you buy is plumbing it in. So, it's not the whizbang nature of the kit. Everybody has that. It's actually getting it plumbed into your core architecture and being able to leverage it up so I would have expected to walk in and see some more stuff we built ourselves. To have a group of developers sitting in Poland or Czechoslovakia or who knows where so I would have expected to just have a mix of near shore or offshore developers building our own kit that was already sort of set to be plumbed in and instead I found a lot of, and Cheryl in particular found a lot of sort of fancy stuff still in the box because we haven't been able to take it out and plumb it in. Some of it we might not take out of the box and plumb in because what the heck, we own it, but there was a fair amount of spend in that regard.

Joseph Dickerson

It makes sense, thanks.

Daniel Crowe

Thank you for the call. I just had a quick question circling back around on your MREL issuance where you say up to £500 million and it's kind of been suggested before. That implies a pretty big drop in capital, but could you just talk around that number? What you expect to see this year as well as next year and your assumed cost on that.

Dan Frumkin

So, I don't know that we're going to give you the split between the years, just because we don't think that would be overly prudent, but I think we've been pretty clear that, and I don't think it takes a rocket scientist to realise that we're going to have to do some MREL this year. I think and I get yelled at for this phrase, Joe's in the room, he'll yell at me again. So, there is kind of an American phrase, so I think we now have some debt holders, some debt investors as well as our equity holders who understand, let’s put it this way, who better understand the consequence of the last MREL raise, right? So I think the last MREL raise didn't quite go as we would have liked and I think the consequence of it not going as well as we would have liked was really felt by equity holders and some others so I am somewhat hopeful that as we would go to approach the market, we would have more success and having grown-up conversations about what's right for all stakeholders and as we move forward and will approach our fixed income investors as well as our equity investors.

I think in terms of planning. I think we're trading at 7.30% at the moment, I think that's where we were, 7.30%. So again, for modelling purposes in the first year, maybe in the first two years, using the yield to maturity, I think it's 7.30% at the moment, is what I would do. Maybe a little less than that because we're pretty confident with mature conversations, we could probably get it away there or thereabouts. As the plan matures and we demonstrate that we can actually run a bank, I would hope that the rates we would have to pay for that would be significantly less. You know, the reality is that other competitors are raising it below three and a lot of competitors are raising it with a three handle, so I think that's the plan going forward. But we need to work better with our existing bond holders as well as our equity holders to manage through the process together and I'm pretty confident, given the interesting circumstances of the last raise, that everybody now understands why that should go well.

Joseph Dickerson

OK, thank you.

John Cronin

It’s John Cronin from Goodbody. Just a quick follow-up again on the niche mortgage lending. Just trying to get to this 8.5% or thereabouts RoTE and I'm struggling on a number of fronts, I have to say, but try to understand what percentage of mortgage lending would be represented in the final year of your plan by niche and what kind of yields you're assuming. Any colour you can give us in broad terms there would be helpful. Thanks.

Dan Frumkin

So, some of that I'll probably come back with the specifics as we go through it, but I think broadly you need to get to a point where revenue off of the 19 numbers grows by half again by 24, right, plus or minus. And the way to think about that revenue number is that a big chunk of it is in the other incomes and fees. So, you can't miss that. So, if it needs to double, if it needs to go up by half again, the reality is that a big chunk of that comes from other income fees. A chunk of it comes from total loan income and then the reality is your interest expense basically doesn't change much. But there is an increase in debt expense, so the increase in debt expense because of the MREL and stuff goes up somewhat meaningfully, it's offset by other income and fees sort of growing, more than doubling over the life of the plan, I think if you run David's guidance through, and loan income goes up by a similar amount. The total revenue goes up and you get that loan income growth. You get that loan income growth really off the back of the unsecured piece at a reasonable yield and the mortgage yield increasing by a handful of basis points from where it is today, and you run that through, and you actually get a meaningful loan income growth. We do a bit of corporate in the tail end, which is helpful for the loan yield and all of that, so it's a bit of a mix. The loan mix isn't just resi. Sorry I can't, if I get much more in this setting, I've got to struggle with the guidance a bit. Chris, do you want to?

Christopher Cant

Thanks, it's Chris Cant again from Autonomous. If I could just ask two more on your conversations with the regulator, please. Looking at your tier one capital requirement. The 10.6% that hasn't changed simply, your pillar two hasn't changed its still 1.5%. How confident are you that that is now set? I think there was a period of time where you were sort of pointing back to a historical setting of that. But you mention in the footnote this current capital requirement, so has the regulator reconfirmed your pillar two is 1.5% or are you still looking back at sort of an old assessment and waiting for an update? And secondly on your balance sheet again, I've just noticed you've got a small provision number on there. You have this remediation charge in the fourth quarter. You're building up for a potential regulatory fine, or was all of that charge in the fourth quarter actually more opex relating to the process?

David Arden

I'll take the second bit, actually I can do both, Chris. The provision was not related to the remediation programme, the remediation you see in the below line is all opex. The provision, there's a few odds and sods, dilapidations, but nothing related to any remediation activity. We're still not able to even give a view on where the outcome of that might be because it's all still ongoing and we are all being very cooperative and working with our regulator in a very cooperative way. Regarding pillar 2A. We go through an annual ICAAP process. It is entirely at the PRA's discretion what the pillar 2A is and I couldn't comment whether it will go up or down because that's entirely the PRA's discretion.

Dan Frumkin

But I would say, as you know they've increased the capital conservation buffer by 100 bps and they did make noises that they would be cognisant of the increase in capital conservation buffer when they were looking at other capital measures so I don't know what the outcome will be, but one would hope they would be measured.

David Arden

That would be for the market as a whole.

Dan Frumkin

Exactly.

Aditiya Bhagat

Thank you. Just one from me on capital. Assuming capital requirements remain what they are, just a clarification on your core equity tier one ratio. What should be a, what is the steady state core equity tier one ratio you're thinking of? I know you've already mentioned that the greater than 12% is just a minimum bar, but how should we think of what a steady state should look like?

David Arden

I guess it would be good to get to a steady state. The way to think about it is through the life of life plan, our minimum CET one, the binding constraint we've run through the plan is 12%. Beyond that, as profits grow and et cetera, that's a conversation that Dan and I will have at the right time.

Dan Frumkin

And I agree and I would just say that 12% is a pretty robust number so I don't know that even in a steady state we would let it fluctuate much above that. So, we would take whatever capital actions were necessary to kind of hold it. And when we get to that day, I will be thrilled, but I don't want to hoard your capital, so as investors if we have capital that we can't get you an adequate return and continue grow TBV at a level that you find acceptable we will give it back. At this moment I'm a long way from that point.

Aditiya Bhagat

Ok. Would issuing MREL to free up some of that core equity tier one, is that a good assumption to make as being part of your plans?

Dan Frumkin

I think actually you're right. The balance sheet gets more levered because unfortunately as you model it forward, you'll see the J curve part, the losses. Everybody's got to come to their own conclusion. But the losses eat up some of the Tier 1 and it's basically replaced partially through MREL, so the balance sheet does become slightly more levered, i.e. less common and more debt, so that just naturally happens.

Aditiya Bhagat

Thank you.

Dan Frumkin

I just want to thank everybody for the time. I fully understand that it might be slightly different than you're expecting to hear. I fully believe in the plan, I think the plan gets us to upper single digits return on tangible equity and that puts us in a point where we'll continue to grow beyond that, and there's some genuine upside in the plan.

There's no AIRB, which is worth 200 to 300 basis points. We grow deposit as we have historically grown them. That's worth another couple 300 basis points. There is genuine upside in the plan over and above what we're showing you, but we have stuck to what I consider to be a basic, simple, deliverable plan that's all within our gift and it's all about execution risk. So, at this point hopefully it starts to restore some of the credibility because I fully understand the reason that we're trading at 0.2 of book or slightly below 0.2 of book is not because actually the financials warrant it, it's not actually because the balance sheet warrants it, it’s because we have fundamentally lost credibility with the market and we need to let you know and be fully transparent with where we're headed, so that we can start to restore that credibility because this business actually can make a lot of money and it can make a lot of money going forward because it's broadly a fixed cost model that will eventually lever up.

So, I thank you for the time today and I look forward to seeing the pieces and most of you we'll end up talking to again and again and again and anything we can do to help you get the models right, we're happy to do. Thank you very much.